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LPLA.OQ - Q1 2023 LPL Financial Holdings Inc Earnings Call

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OVERVIEW:

LPLA reported 1Q23 gross profit of $1,020m and adjusted EPS of $4.49.

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PRESENTATION

Operator

Good afternoon, and thank you for joining the First Quarter 2023 Earnings Conference Call for LPL Financial Holdings Inc. Joining the call today are our President and Chief Executive Officer, Dan Arnold; and Chief Financial Officer and Head of Business Operations, Matt Audette. Dan and Matt will offer introductory remarks, and then the call will be open for questions. (Operator Instructions)

The company has posted its earnings press release and supplementary information on the Investor Relations section of the company's website, investor.lpl.com. Today's call will include forward-looking statements, including statements about LPL Financial's future financial and operating results, outlook, business strategies and plans as well as other opportunities and potential risks that management foresees. Such forward-looking statements reflect management's current estimates or beliefs and are subject to known and unknown risks and uncertainties that may cause actual results or the timing of events to differ materially from those expressed or implied in such forward-looking statements.

For more information about such risks and uncertainties, the company refers listeners to the disclosures set forth under the caption forward-looking statements in the earnings press release as well as the risk factors and other disclosures contained in the company's recent filings with the Securities and Exchange Commission. During the call, the company will also discuss certain non-GAAP financial measures. For reconciliation of non-GAAP financial measures to the comparable GAAP figures, please refer to the company's earnings release, which can be found at investor.lpl.com.

With that, I would now turn the call over to Mr. Arnold.

Dan Hogan Arnold - *LPL Financial Holdings Inc. - President, CEO & Director*

Thank you, Latania, and thanks to everyone for joining our call today. Over the past quarter, our advisors continue to help their clients navigate through market volatility and macroeconomic uncertainty. In doing so, they reinforce the value of their advice and collectively helped millions of Americans continue to pursue their financial goals and aspirations. We thank them for the important work and remain focused on our mission taking care of our advisors, they can take care of their clients.

Now as we look at the marketplace, we continue to experience the growing appeal of our model due to the combination of our robust and feature-rich platform, stability and scale of our industry-leading model and capacity and commitment to invest. As a result, we continue to make solid progress toward our vision of becoming the leader across the advisor-mediated market.

In that spirit, we will continue to focus on helping advisors and enterprises, solve challenges and capitalize on opportunities better than anyone else and thereby serving as the most appealing player in the industry. With respect to our performance, we delivered another quarter of solid results, also continuing to make progress on the execution of our strategic plan. I'll review both of these areas, starting with our first quarter business results.

In the quarter, total assets increased to $1.2 trillion as continued solid organic growth was complemented by higher equity margins. With respect to organic growth, first quarter organic net new assets were $21 billion, representing 7.5% annualized growth. This contributed to organic net new assets over the past 12 months of $99 billion, representing approximately a 9% organic growth rate. Recruited assets were $13 billion in Q1, bringing our total for the trailing 12 months to $85 billion.

These results were driven by the ongoing enhancements to our model and our expanded addressable market. Looking at same-store sales, our advisors remain focused in serving their clients and delivering a differentiated experience. As a result, our advisors are both winning new clients and expanding wallet share with existing clients. A combination that drove a sequential improvement in same-store sales in Q1. This increase occurred across all of our affiliation models led by solid growth in our enterprise channel.

With respect to retention, we continue to enhance the advisor experience through the delivery of new capabilities and technology as well as the evolution of our service and operations functions.

As a result, asset retention for the first quarter was approximately 99% and 98% over the last 12 months. Our first quarter business results led to solid financial outcomes of $4.49 of adjusted EPS, which is more than double our level from a year ago.

Let's now turn to the progress we made on our strategic plan. Now as a reminder, our long-term vision is to become the leader across the advisor centered marketplace, which for us is being the best at empowering advisors and enterprises to deliver great advice to their clients and to be great operators of the business.

Now, to bring this vision to life, we are providing the capabilities and solutions that help our advisors deliver personalized advice and planning experiences to their clients. And at the same time, through human-driven technology-enabled solutions and expertise, we are supporting advisors in their efforts to be extraordinary business owners. Doing this well gives us a sustainable path to industry leadership across the advisor experience, organic growth and market share. As we look ahead, we continue to see both the growing demand for advice and increasing the appeal of receiving that advice from a financial professional, and we believe that our strategy positions us well to capitalize on these key structural trends.

Now to execute on our strategy, we organize our work around 2 primary categories, horizontal expansion, where we look to expand the ways that advisors and enterprises can affiliate such that we can compete for all 300,000 advisors in the marketplace. And vertical integration, where we focus on providing capabilities to solve for a broader spectrum of advisor needs and in doing so, create durable, differentiated value.

Now while our strategy has not changed, we will use the framework of horizontal expansion and vertical integration to review our strategic agenda. This structure is an evolution of our strategic plays framework, and you can see how the strategic plays map to this new orientation within our investor presentation.

With that as context, let's start with our efforts around horizontal expansion. This work involves meeting advisors and enterprises where they are in the evolution of the business by creating flexibility in our affiliation models, so they can design the perfect practice for themselves and clients. As a result, this component of our strategy helps contribute to solid growth in our traditional markets, while also expanding our addressable market through our new affiliation models.

Our recruiting in traditional markets continue to be a significant source of growth reaching a new first quarter high of approximately $9 billion in assets. In the quarter, we continued to increase our win rates and expand the depth and breadth of our pipeline despite advisor movement in the industry remaining at lower levels.

With respect to our new affiliation models, strategic wealth, employee and our enhanced RIA offering, we delivered our strongest quarter to date, recruiting roughly $3 billion in assets in Q1. In each of these models, we continue to realize growing demand and expanding pipelines, which position them for increased contribution to our organic growth. Looking ahead, we expect to carry this recruiting momentum into Q2 for both our traditional markets and our new affiliation models. And with respect to large enterprises, today, we announced that BMO will onboard the Wealth Management business of Bank of the West to our Enterprise platform.

In addition, we continue to prepare to onboard Commerce. Collectively, these 2 deals will add approximately $11 billion of brokerage and advisory assets in the second half of the year. Looking ahead, we continue to build our pipeline as demand for our model grows. Now in Q1, we also continued to have success in our traditional bank and credit union space, adding approximately $1 billion of recruited assets in this channel.

Now shifting to our vertical integration efforts. Here, we are focused on delivering value-added capabilities, services and technology that extend across an advisor's end-to-end business, all for the purpose of helping them differentiate and win in the marketplace and run thriving business. Now core to this part of our strategy is helping advisors deliver their differentiated wisdom, insight and advice wrapped in an easily accessible and highly personalized experience for the client. In that spirit, this quarter, we continued to enhance our advisor's value proposition for their clients by introducing new account aggregation capabilities to help advisors consider their clients' holistic financial picture, by enriching the end client digital portal through the expansion of customizable self-service capabilities and by evolving our research offerings to include increased market commentary, delivered how and where it works best for the advisor.

Now in a separate play within our vertical integration strategy, we continue to expand and enhance our services portfolio and are encouraged by the evolving appeal of our value proposition and the seasoning of this business.

As a result of solid demand in Q1, the number of advisors utilizing our service group continued to increase, and we ended the quarter at over 3,300 active users, up roughly 30% year-over-year. Now as we work with advisors to increase the utilization of existing services, we're also continuing to create new services such as our partial book sales solution, where we provide the flexibility for advisors to sell us their smaller accounts with clients that don't necessarily fit their practice, thus creating more capacity for them to focus on managing and growing their business more robustly. This service has been received well, and we are seeing solid early momentum, and a growing pipeline of demand. Now at the same time, we're seeing good success with our set of services that help solve the industry-wide challenge of up to 1/3 of advisors retiring over the next decade.

In that spirit, over the past year, we've facilitated approximately 150 acquisitions among advisors through our M&A solutions program. And since launching our liquidity and succession capability in Q4, we have completed more than 10 of these deals with LPL advisors and have growing interest, both inside and outside of the LPL ecosystem.

In summary, in the first quarter, we continued to invest in the value proposition for advisors and their clients while driving growth and increasing our market leadership. As we look ahead, we remain focused on executing our strategy to help our advisors further differentiate and win in the marketplace and as a result, drive long-term shareholder value.

With that, I'll turn the call over to Matt.

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO & Head of Business Operations*

All right. Thank you, Dan. And I'm glad to speak with everyone on today's call. As we move into 2023, we remain focused on serving our advisors, growing our business and delivering shareholder value.

Against the backdrop of market uncertainty, our business performed well as we continue to execute on our strategic priorities. In recent years, we've invested in capabilities, technology and service to enhance the experience of advisors, enterprises and their clients. At the same time, we've maintained a strong balance sheet with significant corporate liquidity and low leverage, positioning us to support our advisors and clients in a range of macro environments.

This is most recently recognized by S&P, who upgraded our credit rating earlier this month, establishing us as an investment-grade credit with both our rating agencies. By leveraging the investments in our platform and our financial strength, we continue to grow assets organically in both our traditional and new markets, closed 2 strategic acquisitions, continued our momentum with our liquidity and succession capability and are preparing to onboard Commerce Bank and Bank of the West in the second half of the year. We accomplished all of this while continuing to invest in our industry-leading value proposition and delivering record adjusted earnings per share. So as we look ahead, we continue to be excited by the opportunities we have to help our advisors differentiate and win in the marketplace.

Now let's turn to our first quarter business results. Total advisory and brokerage assets were $1.2 trillion, up 6% from Q4 as continued organic growth was complemented by higher equity markets. Total organic net new assets were $21 billion or a 7.5% annualized growth rate. Our Q1 recruited assets were $13 billion, which prior to large enterprises was a record first quarter of the year. This included $3 billion of recruited assets from our new affiliation models, the largest contribution since their launch a few years ago.

Looking ahead to Q2, our momentum continues across our traditional independent and new models, and we are on pace to deliver another strong quarter of recruiting.

As for our Q1 financial results, the combination of organic growth, rising interest rates and expense discipline led to adjusted EPS of $4.49, the highest in our history.

Looking at our top line growth, gross profit reached a new high of $1.02 billion, up $48 million or 5% sequentially. As for the components, commission and advisory fees net of payout were $215 million, up $43 million from Q4, primarily driven by higher advisory fees and a seasonally lower production.

In Q1, our payout rate was 86.2%, down about 220 basis points from Q4, largely due to the seasonal reset of the production bonus at the beginning of the year as well as a nonrecurring benefit of approximately 50 basis points realized during the quarter. Looking ahead to Q2, we anticipate our payout rate will increase to approximately 87.5% primarily driven by the typical seasonal build in the production bonus. With respect to client cash revenue, it was $439 million, flat to Q4 as the impact of higher short-term interest rates was offset by a sequential decline in balances. Looking at overall client cash balances, they ended the quarter at $55 billion, down $10 billion, driven by record net buying of $37 million. Within our ICA portfolio, we added $3 billion of new fixed rate contracts, bringing our fixed rate balances to roughly 55% of the ICA portfolio, within our target range of 50% to 75%.

Our ICA yield averaged 320 basis points in the quarter, up 29 basis points from Q4, primarily due to the increases in short-term rates. As for Q2, based on where interest rates are today and what we've seen with client cash balances so far in April, we expect our ICA yield to remain unchanged at approximately 320 basis points, as the full quarter benefit of the Q1 rate hikes is offset by the mix impact of lower floating rate balances.

As for service fee revenue, it was $119 million in Q1, down $1 million from Q4, primarily driven by lower conference revenues, offset by seasonal increases in IRA fees. Looking ahead to Q2, we expect service and fee revenue to be roughly flat sequentially.

Moving on to Q1 transaction revenue. It was $49 million, up $2 million sequentially as trading volume increased slightly. Looking ahead to Q2, we expect a seasonal decline of a couple million dollars.

Now let's turn to expenses, starting with core G&A. It was $326 million in Q1. For the full year 2023, we continue to we continue to anticipate core G&A to be in a range of $1.335 billion to $1.37 billion. As a reminder, this year, we are opportunistically accelerating our investments to support our core business growth, expand our addressable markets and scale our new services. We have also sequenced our spending plans to build gradually through the year, which positions us to be flexible and dynamic depending on how our growth opportunities and the macro evolve from here. To give you a sense of the near-term timing of the spend, in Q2, we expect core G&A to be in a range of $330 million to $340 million.

Moving on to Q1 promotional expense. It was $101 million, up $17 million sequentially, primarily driven by conference spend as we had 2 of our largest conferences of the year during the quarter. In Q2, we expect promotional expense to increase to a range of $105 million to $110 million due to increased transition assistance resulting from strong recruiting and large enterprise onboarding as we prepare for Commerce Bank and Bank of the West to join us in the second half of this year. Looking at share-based compensation expense, it was $18 million in Q1, up from $12 million in Q4. In Q2, we expect a similar level of expense as the majority of our grants occur in the first 2 quarters of the year.

Turning to depreciation and amortization. It was $56 million in Q1, up $2 million sequentially, and we expect it to increase to approximately $60 million next quarter.

Regarding capital management, our balance sheet remains strong. We ended Q1 with corporate cash of $234 million, down $225 million from Q4 as we closed on 2 acquisitions during the quarter. Our leverage ratio was 1.3x, down from 1.4x in Q4, driven by a combination of our continued growth and a higher interest rate environment, both of which have meaningfully improved our earnings power. As for capital deployment, our framework remains focused on allocating capital aligned with the returns we generate. Investing in organic growth first and foremost, pursuing M&A where appropriate and returning excess capital to shareholders.

In Q1, we allocated capital across our entire framework. We continue to invest to drive and support organic growth. On traditional M&A, we closed on 2 acquisitions for approximately $150 million. Within our liquidity and succession offering, we closed 7 deals for around $100 million, and we continue to have a solid pipeline. With regards to capital return, we increased our share repurchases to $275 million in Q1. We plan to further increase share repurchases in Q2 to approximately $300 million.

To summarize, our balance sheet is strong, and we are well positioned to drive value through our capital allocation framework. In closing, we delivered another quarter of strong business and financial results. As we look forward, we remain excited about the opportunities we see to continue investing to serve our advisers, grow our business and create long-term shareholder value.

With that, operator, please open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question will come from Steven Chubak of Wolfe Research.

Steven Joseph Chubak - *Wolfe Research, LLC - Director of Equity Research*

So maybe just kicking things off with a question for Matt on the enterprise channel. Recently, you've seen some really strong recruiting momentum within Enterprise. I was hoping to get your perspective on whether the recent stress in the banking space bolsters the case for banks to partner with LPL. And can you help quantify just where the enterprise backlog is today versus, say, the start of the year?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO & Head of Business Operations*

Yes. I know you said for me, Steven, I think Dan is chomping up a bit on this, so he's going to take it.

Dan Hogan Arnold - *LPL Financial Holdings Inc. - President, CEO & Director*

Yes. No, look, Steven, when you have circumstances of displacement in the marketplace as you were calling out, that can create challenges and/or opportunities and circle through some of the bank failures in Q1.

We think back to 2020 with the pandemic, a much more significant impact from that. I think in the case of the recent bank failures, we didn't necessarily see this disruption creating short-term opportunity because it was very short-lived and the impact somewhat muted. That said, I think at times like this, it does reinforce maybe some of the really important elements of this model.

So think about it this way, the value of human centered advice, which creates opportunity for advisors as they are providing guidance and folks need it most in times of uncertainty. It certainly helps reinforce the deal of us as a strategic partner to advisors given our strength and scale and robust capabilities, we sort of end up being a haven of quality. And then finally, I think right to your question or the point of your question, it does reinforce our value proposition for enterprises and in particular banks that type of disruption may be a catalyst for exploring different strategic options or alternatives for different business lines, as an example, wealth management.

And I think that certainly would create incremental demand as we go forward. Finally, our Capital-Light model allows us to play offense and continue to invest back in the platform in order to enhance and further differentiate our capabilities and others perhaps can't do that in these disruptive markets or displaced markets.

So I think we didn't see necessarily opportunity in the short run. I think it does reinforce the attributes of this model and it's quite helpful to our long-term growth and our positioning in the marketplace where we can kind of turn this change in the market into opportunity across most disruptive sort of marketplace changes. So I hope that helps.

Steven Joseph Chubak - *Wolfe Research, LLC - Director of Equity Research*

It's really helpful color, Dan. Matt, I was really just trying to share the wealth, but my follow-up is going to be for Dan here. Just on the traditional independent channel, there is some evidence that recent broker-dealer consolidation activity is driving increased advisor churn. And just given the strong NNA results that we saw in March, how does the recruiting backdrop in the traditional market compare to last year? And do you expect to see an acceleration in NNA given some evidence of higher advisor churn?

Dan Hogan Arnold - *LPL Financial Holdings Inc. - President, CEO & Director*

Yes. Well, look, I mean, if we look just glance at Q1 as perhaps a jumping off point to your question, Steven, you see the traditional recruiting markets in a solid place for us with $9 billion in assets. And that channel continues to continuously produce solid results and continues to increase over time as the differentiation of our model and our capabilities creates a real appealing alternative to these advisors. And quite frankly, the flexibility in our different affiliation models gives them different sets of sort of problems or challenges to potentially solve for by moving to our platform that they're in a place where they're trying to evolve their practice depending where they are in the life cycle of their model.

So we certainly think that just as a baseline, we continue to see that part of the market strengthening and its opportunity from a recruiting standpoint. As you look forward, to your point, around other changes that players in the marketplace and the independent space may be contemplating or considering that certainly would take the lower baseline of churn we've seen over the last couple of years.

And obviously create what should be a much bigger opportunity set any time we create change in the marketplace and their model that is going to trigger or be a catalyst for advisors to consider their sets of options and alternatives relative to how they practice this business going forward. And so we do believe that if those things occur, that does create more churn in the marketplace. And we take our appealing model. We take the growing capabilities out of our business development team to do a great job across all of these different affiliation models. And I think we aggressively go play offense and capitalize on that opportunity. So that's kind of how we see the traditional marketplace, both now and if things occur in the future, we'll be ready to explore those possibilities as they may unveil.

Operator

And our next question will come from Alexander Blostein of Goldman Sachs.

Alexander Blostein - *Goldman Sachs Group, Inc., Research Division - Lead Capital Markets Analyst*

Okay. So you guys announced a pretty sizable win in the RIA channel, I think, a couple of weeks ago. I think it's on the larger size from what we've seen in that kind of affiliation part of your model. So I was curious if you could speak to sort of the key attributes that maybe won the business for you guys and ultimately, what does the pipeline look like in that part of the market? And maybe just remind us on sort of the economics in that channel for LPL, either in the gross profit RIA terms or else?

Dan Hogan Arnold - *LPL Financial Holdings Inc. - President, CEO & Director*

Thanks, Alex. This is Dan. I'll take the first part of that and then I'll flip it to Matt for kind of the part two of that question. So first of all, yes, we had a nice win that you referenced a couple of weeks ago that we announced where the team did a great job of attracting CG Advisor Network, which is a new large RIA. And those assets will show up actually in second quarter or the current quarter that we're in.

And look, I think this win does a couple of things. First and foremost, reinforces the strong work the team is doing to create a really compelling and differentiated solution in this part of the market. A great example perhaps of that is how we're using our services portfolio to give these RIAs access to differentiated tools and resources, they hadn't always had availability to access to, which are really meant to help them better operate with businesses as they go forward once on our platform. So that's a great example of how we're building in what I might call a baseline of capability set and differentiation that we think is creating a more robust appeal for this part of the marketplace.

I think if you click down specifically on CG Advisor Network, and what were some of the attributes that may be attracted them, one, our very advisor-centered model I think coupled with innovative technology that they can create integrated workflows for driving efficiency in the practice and finally, in the flexibility of our solution to handle all of their assets in a more integrated way on 1 platform. And so at a high level, those were probably some of the bigger attributes that they were attracted to.

And so look, I think as we look forward, overall, we're really excited about the opportunity and the momentum that's building in this model. We have a number of new clients that have joined us so far this year as we referenced in the recruiting in Q1. And certainly, there's more opportunities that are progressing in the pipeline. So we'll continue to invest in the capabilities here as we see this as a very attractive market to create that differentiated model and continue to contribute and accelerate growth. So hopefully, that gives you a little color on both that particular affiliation model and then specifically with CG Advisor Network.

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO & Head of Business Operations*

And then Alexander, on the economics, I mean, it's not too dissimilar from the enterprise channel or the large financial institutions, where on the RIA side, it would typically have a lower gross profit ROA, but the cost and specifically, the acquisition costs are also lower. So we'll underwrite TA to returns. So you get to a bottom line margin and economics that are compelling and similar to the rest of the business, but you have that dynamic similar to what you have on the large enterprise side.

Alexander Blostein - *Goldman Sachs Group, Inc., Research Division - Lead Capital Markets Analyst*

Okay. Great. For my second, maybe I'll ask a less insightful question. Can we talk just about cash. I think you guys gave the ICA yield of 320 for second quarter, but maybe just an update on where cash stands today in the composition. And also just around the philosophy you guys kind of starting on this journey of putting extensions in a couple of years ago, you're north of 50% now. Clearly, the volatility in cash balances has been something we have to live with for the last 6 to 9 months. So as the environment continues to be sort of uncertain, do you guys anticipate to continue to extend and add more to fixed balances, or are you finding itself in a pretty good place here?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO & Head of Business Operations*

Yes. Alex, I think on April, and I'll give some color on cash balances and maybe just how we're seeing organic growth pull through in April as well. And I think when you look at cash on both of those things as a reminder, which I'm sure you know, but the -- I'll remind anyways, there's 2 key seasonal factors for April that I'll hit first and foremost is the tax impact. It's tax month and annual taxes for our clients usually impact cash as well as NNA by about $1.5 billion. And then in addition, given it's month 1 of the quarter, advisory fees primarily come out in that first month as well, which is around $1 billion. So those 2 seasonal factors would reduce cash by around $2.5 billion, everything else being equal. Then in addition to that, I think we've continued to see strong levels of investor engagement, but the pace of cash balance declines has continued to moderate.

So when you look at the incremental decline in April, beyond those seasonal factors, it's about $800 million. So if you look at the first 4 months of this year, the cash balance declines really peaked in January and have moderated each month since. And when you take those seasonal factors into account, the April decline is the smallest decline so far this year.

So you put all that together, that puts cash sweep balances just above around $51 billion where we sit today. On your point on fixing out the ICA balances, I think you -- I think the premise of the question summarized it well. We've got a target range of 50% to 75% with the $3 billion that we did put on this quarter. We're now within that range of 55%. And I think I like where we are. I think we feel well positioned. And of course, we'll monitor the environment from here. And if things evolve where we think it makes sense to put on more fixed the environment there has gotten quite constructive, and we feel good about our ability to do that if it makes sense. But where we sit today in this market, I think we feel well positioned where we are.

Operator

And our next question will come from Jeff Schmitt of William Blair.

Jeffrey Paul Schmitt - *William Blair & Company L.L.C., Research Division - Research Analyst*

Just another one on the cash balances. So I think they're around 4.6% of client assets in the quarter. I understand you were saying that the pace kind of slowed, but appears to be driven by really strong sort of buy-sell activity. Are we approaching a level that you think even if the markets remain strong, it won't move below? Like I think you bottomed at 4.3% in 2019. Is that sort of a good support level?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO & Head of Business Operations*

Yes. I think a few things. I think the headline answer is yes from a support level. I think the best -- the thing that we look at here, which I think you were referencing is really history is the best guide here and getting at, is there a natural amount of cash that sits in an account to manage it and to do things like facilitate rebalancing, facilitate paying advisory fees, customer withdrawals, all so you don't, so an advisor not forced to make a trade that they would otherwise not make a trade to facilitate those things.

So when you look at our history, as you highlighted, when we've gotten to a place where advisors have their clients fully deployed into the marketplace, which has happened several times in our history, usually see it get down to that around 4% level. So history tells us that's the zone. And we're not seeing anything in this environment that causes us to think anything different.

Jeffrey Paul Schmitt - *William Blair & Company L.L.C., Research Division - Research Analyst*

Okay. And then on core organic growth, I think you guided into the mid- to low teens kind of reiterated that view. What does that assume on interest rates? And would that change, I guess, if the Fed paused hikes or even started cutting in the back half of the year. How variable, I guess, is that assumption?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO & Head of Business Operations*

Yes. Well, I think as I commented on the prepared remarks, right, we have prepared our spending plans to build throughout the year. So if we think there is a reason to pause or adjust, we certainly have that ability. I think we'd be very deliberate about that. I think the investments that we're making, we think, drive long-term value of the firm.

We've got our balance sheet positioned quite well to be able to do that. But if we do get an environment where the investments don't make sense or it does mean we need to pause we would, but I think sitting here today, I think we still feel quite comfortable that the 12% to 15% this year makes sense given the investments that we're making and the results that we think that will follow.

Operator

And our next question will come from Kyle Voigt of KBW.

Kyle Kenneth Voigt - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

A couple of follow-ups for me. The first is on Alex's RIA question. I believe CG was previously using TDA for custody and with the Schwab and Ameritrade integration happening over the next year, I think, primarily in Q3. Just wondering, are you viewing that migration as a potential catalyst for putting more RIA assets in motion, and are you targeting that as an opportunity to continue to have success in that channel?

Dan Hogan Arnold - *LPL Financial Holdings Inc. - President, CEO & Director*

Much like we mentioned with regard to our traditional markets, that is certainly a change in the marketplace. It could be a catalyst for advisors looking for different options and alternatives. And certainly, we believe that, that is a contributor to ongoing potential demand as not only we lead up to that transition, but even post that transition.

I think in terms of step function change and significant change management efforts, sometimes on the other side of those, they don't always look at what the advisor would have expected or desired or wanted, and so I think that opportunity that extends both before the transition and potentially after it relative to that potential opportunity set. And I think what we're trying to do is just build a capable and feeling alternative that will structurally be attractive and create great opportunities for the advisors to see it on our platform.

To the extent we can do that, I think that differentiated value with the willingness and need to potentially look around at other options creates an interesting opportunity. That's what we're trying to play into.

Kyle Kenneth Voigt - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Great. And then a second follow-up is on the ICA. On the fixed rate side, I think a lot of the demand generally comes from larger banks that may have seen deposit inflows through the recent banking crisis. But in terms of that demand, I think you just noted that there were very constructive trends actually there. I guess, can you just provide a little bit more color on what you're seeing in terms of how constructive those trends are and maybe quantifying that?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO & Head of Business Operations*

Sure. I mean at a headline level, I think that the appetite or the demand for ICA balances overall, whether it be fixed or floating, is well in excess of what we have to deploy, right? So I think when we, our balances we're able to deploy on both sides. I think on the fixed rate side, we're just now positioned where we want to be, and we were able to do that during the quarter. I think maybe to put some data behind it and where you could probably see it move in the marketplace itself is really on the variable rate side. And I think that when we're placing those deposits, we're starting

-- if you look in the current quarter or the current market, those are now being placed at Fed funds plus 15 to 25 basis points. That was about a spread of 10 to 15 last quarter and compares to kind of flat to negative during pandemic. So maybe that's probably the best place to focus on where you can see that demand for these deposits really showing up.

Operator

Our next question will be coming from Michael Cyprys of Morgan Stanley.

Michael J. Cyprys - *Morgan Stanley, Research Division - Executive Director and Senior Research Analyst*

Maybe we could circle back to brokerage NNA strength there, quite robust, 5.5% or so, organic annualized. It's up meaningfully from a year ago. So I was hoping you might be able to elaborate on what's driving the strength there on the brokerage side and how you think about the persistency of that.

Dan Hogan Arnold - *LPL Financial Holdings Inc. - President, CEO & Director*

Let me take that. There's a couple of maybe primary drivers. As you say, you see some growth year-on-year [inaudible] as compared to basis. And I think one of the drivers would be we're in a rate environment that we hadn't seen for 15, 16, 17 years. And in some cases, advisors opportunity to serve their clients and meet their needs in this rate environment leads to products that have maybe a utilization that is more appealing or easier to use as a brokerage structure than an advisory.

So you see some of that occurring, a great example of that, that might be familiar to you or some type of bond treasury, et cetera. The other thing that I think that you see driving that growth is also the -- some of the mix in these larger enterprise wins that we've had. They have a higher mix of brokerage than advisory. And certainly different than our typical mix of roughly 52%, 53% advisory. So when we transition those folks in, obviously, that has a shorter-term influence in the mix we see that as an opportunity. Once they get to our platform, it's a much more appealing and robust advisory platform that has more interest in pricing to the end client. We do see those as opportunities for them as a catalyst to shift their mix over time more towards advisory. But that's what's causing that -- those are the primary drivers of that year-on-year shift.

Michael J. Cyprys - *Morgan Stanley, Research Division - Executive Director and Senior Research Analyst*

Great. Very helpful. And then just as a follow-up question. If we look at the gross profit ROA prior to the client cash, that also showed a very nice improvement year-on-year. It has been pretty steady in this 19 to 20 basis point range for some time.

So I guess what do you see as some of the biggest opportunities to expand that over time, the gross profit ROA prior to client cash? What might be the 2 to 3 biggest drivers of expansion over the next couple of years, where do you see some potential partial offsets? And ultimately, what level do you think this could ultimately achieve?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO & Head of Business Operations*

Yes, Michael. I mean, I think what I'd emphasize is really the overall growth opportunities that we have for gross profit itself, right, things that we've talked a lot about on this call, but our overall organic growth bringing in and recruiting larger advisers, the enterprise channel, which drives gross profit growth, but actually has a lower gross profit ROA. Like all of those things, adding in our service and fee revenues and services group, those things all drive growth there. And I think the key thing I would highlight from an ROA standpoint is as we become a larger and more diversified firm for both offerings and revenue drivers, they're just not all asset driven, especially in that service and fee revenue side, the growth that we've had in the large enterprise channel will show up as lower gross profit ROA, even though we're serving and supporting those clients in a way that can drive compelling margins.

So I think it's less about the ROA from a basis point standpoint, it's really about the key drivers of our model that can drive a gross profit growth over time.

Operator

And our next question comes from Brennan Hawken of UBS.

Brennan Hawken - *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst of Financials*

Matt, I would love to circle back to the comments that you made about thinking that the prior level of cash as a percent of client assets would work as a trough this cycle. We've seen other firms, you laid out a few of the reasons for that, the need to have advisors catching the dividends and need for some base line of cash. But we've seen in other wealth management firms that have very similar business models, cash as a percentage of client assets go below prior cycles' trough.

So I guess I'm just curious as to what gives you the confidence that, that trough is going to hold rather than a simple understanding that we're in a higher for longer, and therefore, prior trends might end up just being a bit different here and that fair too?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO & Head of Business Operations*

Yes. Well, I think, Brennan, there's always scenarios where things can play out differently. But I think from our standpoint, history is the best guide, right? And I think from our business model, which I know you've -- you've heard us talk through a bunch, but the cash balances as a starting point are relatively small and they are transactional or operational in nature.

We've got a long-term average of around 5% or $7,000 per account. And when you look at that history, the primary factor that has moved those balances up and down is really based on the markets and where, and how advisors have their clients deployed.

And to your point on when that -- when those balances come down, it's typically come down to that 4%. We've seen it several times, most recently in 2021, as the markets really recovered post the onset of the pandemic. So that's what we're looking at. And I think it's a combination of the size of the balances and the history that we've seen.

Brennan Hawken - *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst of Financials*

Okay. All right. That's fair. And just a ticky-tacky one to follow-up. Yield on the money market sweeps has sort of seemed to compress a bit from where it was about a year ago, I had always thought of those as more or less fixed.

Is there some sort of mix dynamic that's happening where something is causing that to compress? And how should we be thinking about that going forward? I know it's a small impact. Just kind of curious.

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO & Head of Business Operations*

Yes. I think -- well, in recent periods, it's come up a little bit. You're referring to perhaps a few years ago, is that what you're looking at?

Brennan Hawken - *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst of Financials*

No. The average yield in basis points on the money market sweep, it was 30 this quarter, it was 32 the prior quarter and then 38, in the third quarter...

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO & Head of Business Operations*

Yes. I just -- okay. So I'd put all those in a relatively similar zone, meaning not moving around a lot. Whenever you do see movement there, it's more about the mix as there at different firms with different payouts. There's nothing from a pricing standpoint going on there. And as you said, the balances there are really small. So it's usually a mix.

Operator

Our next question will come from Craig Siegenthaler of Bank of America.

Craig William Siegenthaler - *BofA Securities, Research Division - MD and Head of the North American Asset Managers, Brokers & Exchanges Team*

So we saw that annuity sales were up a lot. I think commissions were up 52% year-on-year. I'm curious what type annuities are the clients buying? And have you seen an increase in surrenders of older annuities, just given the wide gap between where current rates are compared to where annuities were offered over the last decade.

Dan Hogan Arnold - *LPL Financial Holdings Inc. - President, CEO & Director*

Yes. I think the short answer to your question is what I said earlier that in this rate environment that we haven't seen for an extended period of time, there's an opportunity to use fixed annuities as a way to help people with their desires around yield or yield that leads to lifetime income.

And that opportunity has largely been muted for an extended period of time. And so because of that, it's not surrenders or exchanges from prior annuities, I think you would have seen that coming are being forced to come out of variable annuities that were set up and created for a different focus. And so this is typically new money that has opportunity to find higher yields with the pent-up demand for those higher yields that are, I think, well positioned and suited to support their long-term income needs in retirement. So that's the primary driver of that.

Craig William Siegenthaler - *BofA Securities, Research Division - MD and Head of the North American Asset Managers, Brokers & Exchanges Team*

And just 1 question on your advisory relationships. But what percentage of LPL advisors with advisory relationships, charge fees on total client AUA versus net client AUA after backing out client cash?

Dan Hogan Arnold - *LPL Financial Holdings Inc. - President, CEO & Director*

Yes. Well, so first of all, there's limits to the amount of cash that someone can hold for a period of time within an advisory account or they're required to either put that money to work or move those assets out of that advisory account. So that's your control relative to high amounts of cash inside advisory accounts. That said, their cash that they use inside of the account at the appropriate levels as we talked about before is part of the fee that is charged.

Operator

And our next question will come from Michael Cho of JPMorgan.

Michael Cho - *JPMorgan Chase & Co, Research Division - Research Analyst*

I just wanted to follow up on capital allocation again. I mean you mentioned for the leverage continues to tick lower, and you've got $4 billion of firepower. If you think about the inorganic bucket, just given the changing backdrop and across macro and banking and I realize you just said nothing kind of near-term changes from recruiting or partnerships. But are there any segments or channels that you might be focused on more when you think about organic just as a LPL's firepower just continues to grow. And then just relatedly, just in terms of the new liquidity and succession offering, it looks like you're having some good success there with the growing pipeline.

I mean can you just remind us how much capital you're looking to allocate there? And maybe just the capacity for a number of deals annually or a dollar amount. But just -- yes, if you can just provide an update there.

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO & Head of Business Operations*

Sure. I'll start with liquidity and succession. I mean I think that if you look at what we did in the quarter, I think it's a good guide and the opportunity here to focus here from a capital standpoint is it's relatively small, right? We're deploying capital, using disciplined return thresholds, which usually leads to purchase multiples in the 6 to 8x EBITDA zone.

The size of the deals are usually relatively small in the $10 million to $20 million range. So it's less a big use of capital, and it's more about really the capability that we're that we've built there to help transition practices to the next generation, right? So that's the key for the offering.

I think on your main -- I think on your first question, make sure we got it as far as the opportunity set and the interest in -- from an M&A standpoint. I mean I think when you just look at where we have participated as a company, it's across several channels, but anything that would really accelerate our strategy, whether it be in our advancing in our traditional markets, expanding into newer markets, so the employee channel is an example that we did. And if we can do so in a way that just matches our strategy, that we've got the operational capacity to do it really well and that it meets our disciplined financial hurdles. I think that's how we'd be interested from an M&A standpoint. Dan, anything you want to add to that?

Dan Hogan Arnold - *LPL Financial Holdings Inc. - President, CEO & Director*

We also look always at capabilities, the interesting capabilities that will accelerate our strategy and create a better opportunity with interesting returns versus building them ourselves or renting them. We are always open for exploring that too. So that's just the only other element of M&A that I might add.

Michael Cho - *JPMorgan Chase & Co, Research Division - Research Analyst*

And then just a quick follow-up on the G&A. I mean, I know you talked about some flexibility throughout the year, just given how things kind of shake out in the big picture. But are there any certain projects or initiatives that you'd call out that again, you might call out in terms of the accelerated investments where you may pause if the environment changes later in the year?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO & Head of Business Operations*

Not particularly. I mean maybe just to emphasize the construct and how we built up to the 12% to 15%. I mean I think that from a prioritization standpoint, we're investing first and foremost to support the core business, right? And each of those categories is about a 4% to 5% growth in the year.

The second category is really about expanding our markets and scaling our new services. And then that third category is really being opportunistic given the environment to accelerate components of the strategy. So if we are pulling back, it would be more in that it would be first in that third category, which is less about a specific initiative and more about -- we're just doing some things that we would have otherwise have waited until 2024 or beyond.

Operator

And our last question will come from Bill Katz of Credit Suisse.

William Raymond Katz - *Crédit Suisse AG, Research Division - MD*

Just coming back to the opportunity to sort of fix out versus float. So it sounds like the 55% is about where you want to be. And sort understand that you've done a great job of managing through the rate cycle in the past. But to play devil's advocate for a moment, if you look at the forward curve, and its point is pretty sharp production, if you will. And you think that the sorting is sort of coming to a conclusion and the cash balances are starting to stabilize, why not try and fix out a bit more just to reduce some of the risk to earnings in '24 and '25?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO & Head of Business Operations*

Yes, Bill. I mean, I think when we form that target range of 50% to 75%, I mean, it was contemplated that would be the range we'd want to be in a range of interest rate environments. And it's not about being clairvoyant on rates and picking exactly when and how and what percentage to do. It's about increasing the stability of our earnings. And I think we like where we're positioned in that range. I'm not saying we're going to -- we're going to sit there forever. That's how we feel today but if the environment changes or the dynamic changes, we'll adjust. But I think we really like where we're positioned right now.

William Raymond Katz - *Crédit Suisse AG, Research Division - MD*

Okay. That's helpful. And then just coming back to capital for a moment. Thank you for the guidance on buyback into a new quarter. But if I take that and your dividend, it looks like the payout ratio on sort of consensus numbers for the quarter, plus or minus some updates from today is almost 80%, 90%. And when I look at your corporate cash, that number ex the $200 million bogey that you normally like to keep handy leaves very little incremental liquidity.

So as you think about inorganic opportunities, liquidity and succession, and other use of cash. How do you think about the interplay between free cash flow deployment and balance sheet leverage, particularly given the macro backdrop?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO & Head of Business Operations*

Yes. Well, I think the key thing there, Bill, is we'll manage liquidity based on our leverage ratio, right? So we're below the low end of our target range of 1.5 to 2.5. So we think about liquidity capacity across all 3 areas, right, investing for organic growth, M&A and returning capital to shareholders. I think we feel well positioned we're at that. We're below the low end of that range. So that's where we manage that and we feel good where we are.

Operator

And I'm showing no further questions. I would now like to turn the conference back to Dan for closing remarks.

Dan Hogan Arnold - *LPL Financial Holdings Inc. - President, CEO & Director*

Thanks. And I just want to thank everyone for taking the time to join us this afternoon. We certainly appreciate your investment and time. We look forward to speaking with you again next quarter.

Operator

And this concludes today's conference call. Thank you for participating. You may now disconnect.