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LPLA.OQ - Q3 2025 LPL Financial Holdings Inc Earnings Call

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OVERVIEW:

Company Summary

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Michael Cyprys *Morgan Stanley & Co Ltd - Equity Analyst*

Benjamin Budish *Barclays Services Corp - Analyst*

Bill Katz *Cowen and Company LLC - Analyst*

PRESENTATION

Operator

Good afternoon, and thank you for joining the third-quarter 2025 earnings conference call for LPL Financial Holdings, Inc. Joining the call today are Chief Executive Officer, Rich Steinmeier; and President and Chief Financial Officer, Matt Audette. Rich and Matt will offer introductory remarks, and then the call will be open for questions. The company would appreciate if analysts would limit themselves to only one question. 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 our LPL Financial 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 disclosure 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 to the Securities and Exchange Commission.

During the call, the company will also discuss certain non-GAAP financial measures. For reconciliation of such 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 will now turn the call over to Mr. Steinmeier.

Rich Steinmeier - *LPL Financial Holdings Inc - Chief Executive Officer*

Thanks, operator, and thank you to everyone for joining our call. It's a pleasure to speak with you again. It is hard to believe, but it's been a little over a year since I became the CEO of LPL Financial. In that time, we've advanced the firm, extending our privileged competitive position in the advisor-mediated marketplace, while driving efficiency in the business. So I'd like to spend some time today sharing an update on our progress against the key initiatives I outlined on my first earnings call.

But first, let's hit our Q3 results. In the quarter, total assets increased to a record \$2.3 trillion, driven by our acquisition of Commonwealth and complemented by solid organic growth and higher equity markets. We attracted organic net new assets of \$33 billion representing a 7% annualized growth rate. Our third quarter business results led to strong financial performance with a record adjusted EPS of \$5.20, an increase of 25% from a year ago.

With that as context, let's review a few highlights of our business growth. In the third quarter, recruited assets were \$33 billion, bringing our total for the trailing 12 months to a record \$168 billion. In our traditional independent market, we added approximately \$12 billion in assets during Q3, where despite depressed industry-wide advisor movement, we maintained our industry-leading capture rates of advisors in motion while also expanding the breadth and depth of our pipeline. With respect to our expanded affiliation models, Strategic Wealth, Independent Employee, and our enhanced RIA offering, we delivered another solid quarter, recruiting roughly \$3 billion in assets.

Our third quarter advisor recruiting underscores the evolution of our business and the appeal of our flexible affiliation models. During the quarter, we attracted four separate \$1 billion-plus practices, which joined us from a range of firms, including regional broker-dealers, insurance companies, and wirehouses. Our recruiting results this quarter underscore the extensibility of our offering across the entire advisor-mediated marketplace, where we have created the flexibility to serve any advisor where they are in the evolution of their practice. This breadth of affiliation models is key to the sustainability of our growth as we look ahead.

We also continued to make progress with large institutions onboarding the wealth management business of First Horizon. It's only been a couple of months, but there are already signs that the integrated experience and enhanced capabilities we are delivering are improving the efficiency of their advisor practice.

Turning to overall asset retention, prior to previously disclosed misaligned OSJ assets that off-boarded during the quarter, it was 98% for Q3 and over the last 12 months. This is a testament to our continued efforts to enhance the advisor experience through the delivery of new capabilities and technology and the evolution of our service and operations functions.

As a complement to our organic growth, we closed our acquisition of Commonwealth Financial, welcoming their approximately 3,000 advisors and home office staff to the LPL family. The transaction is progressing well, and we continue to track towards our 90% retention target. Thus far, advisors representing nearly 80% of assets have signed to stay with Commonwealth and LPL.

From an operational standpoint, following the close, we commenced work on the capability build and onboarding planning. To give you a sense of the scope of this work, we are ushering in a foundational shift in our advisor workstation, ClientWorks, establishing a householding-based architecture, compared to our historically account-based orientation, further bolstering this relationship-based logic with a single relationship agreement to vastly improve the client onboarding experience and simplify ease of movement between account types, and launching a mobile version of our ClientWorks workstation for ease of access for advisors on the go. These are key capabilities that not only enable Commonwealth conversion, but also accelerate the delivery of core functionality for the benefit of all LPL advisors.

Next, let's turn to our strategic plan. Our vision is clear: we aspire to be the best firm in wealth management. To connect this back to my first earnings call a year ago, in service of this goal, we've amplified our focus in three key areas: one, maintaining the client centricity the firm was built on; two, empowering our employees to deliver exceptionally for our advisors and their clients; and three, delivering improved operating leverage. Effectively executing on these focus areas will help us sustain our industry-leading growth while advancing the efficiency and effectiveness of our model.

In terms of our clients, we have been laser-focused on preparing for a seamless onboarding of Commonwealth, including the delivery of capabilities and implementation of systems and practices which will benefit all LPL advisors, new and existing. Separately, we continue to look for opportunities to strengthen our value proposition in the market, while ensuring that we are pricing our services aligned with the value that we deliver.

Earlier this year, we made adjustments to our production bonus, as well as within our Business Solutions group. And looking ahead, we plan to make additional adjustments as we evolve our offering, streamlining our services portfolio to focus on high-demand, high-impact services that deliver the greatest value to advisors, while simplifying pricing across our advisory platforms. And to ensure we maintain our competitive position, we're making a few targeted offsetting fee adjustments where we've been priced below the market.

As for our employees, we've been focused on elevating our benefits and better distributing decision-making authority to the teammates closest to our advisors. During the quarter, we also welcomed Emily Field, our new Chief People Officer, to help guide this critical work. And just last week, she kicked off our revamped manager learning program aimed at giving managers the necessary skills to build empowered teams and deliver exceptional employee and client experiences.

Finally, regarding our efforts to drive improved operating leverage, we've made meaningful progress reducing our cost to serve, and Matt will share some additional detail on that in a moment.

To summarize, we are pleased with the third quarter results, and we feel great about our position as a critical partner to our advisors and institutions, while we continue to create long-term value for our shareholders.

With that, I'll turn the call over to Matt, but before I do, I just wanted to preempt that first question that we're hearing from so many of you. You wanted an update on our favorite Halloween candy. Well, mine is 100 Grand bars, and Matt's is actually Muscle Milk.

So with that, Matt, take it away.

Matt Audette - LPL Financial Holdings Inc - President, Chief Financial Officer

Not on the script, Rich. You're very funny. I do like me a good protein shake, but it's not my favorite candy. Like, I do have a favorite candy. And I didn't want to tell you. I figured it'd be too triggering, given your high school football nickname, Butterfingers.

Rich Steinmeier - LPL Financial Holdings Inc - Chief Executive Officer

Oh, boo. I love those.

Matt Audette - LPL Financial Holdings Inc - President, Chief Financial Officer

Now I can eat them. Now I can eat them. All right, well, thank you for that intro. And I'm glad to speak with everyone on today's call.

It was another productive quarter as we advanced several strategic priorities, including another quarter of industry-leading organic growth, the onboarding of the wealth management business of First Horizon, closing of our acquisition of Commonwealth, and the continued advancement of our cost efficiency work, which is driving sustainable improvement in our margins.

Now turning to a few highlights from our Q3 business results. Total advisory and brokerage assets were \$2.3 trillion, up 21% from Q2, as continued organic growth and higher equity markets were complemented by our acquisition of Commonwealth, which added \$275 billion of assets in Q3.

Total organic net new assets were \$33 billion, an approximately 7% annualized growth rate, a strong result both on an absolute and relative basis. On the recruiting front, Q3 recruited assets were \$33 billion, contributing to a record \$168 billion over the trailing 12 months. With respect to large institutions, we successfully onboarded First Horizon with \$18 billion of AUM, of which \$17 billion transitioned onto our platform in Q3.

Looking at Q3 financial results, the combination of organic growth and expense discipline led to an adjusted pre-tax margin of approximately 38% and record adjusted EPS of \$5.20. Gross profit was \$1,479 million, up \$175 million sequentially.

As for the key drivers, commission and advisory fees, net of payout were \$426 million, up to \$77 million from Q2. Our payout rate was 87.5%, up approximately 14 basis points from Q2, driven by the typical seasonal build in the production, as well as our acquisition of column.

With respect to client cash revenue, it was \$442 million, up \$28 million from Q2. Overall client cash balances ended the quarter at \$56 billion, up \$5 billion, which included approximately \$4 billion from Commonwealth. The remaining \$1 billion of cash balance growth was a result of the organic growth for our business.

Within our ICA portfolio, the mix of fixed rate balances ended the quarter at roughly 60%, near the midpoint of our target range of 50% to 75%. Looking more closely at our ICA yield, it was 351 basis points in Q3, up 9 basis points from Q2, driven by benefits from the Atria conversion and our acquisition of Commonwealth. As we look ahead to Q4, based on where client cash balances and interest rates are today, we expect our ICA yield to decrease to roughly 345 basis points, driven by the impact of recent rate cuts.

As for service and fee revenue, it was \$175 million in Q3, up \$23 million from Q2, primarily driven by revenues from our annual Focus conference, as well as our acquisition of Commonwealth.

Looking ahead to Q4, we expect service and fee revenue to be roughly flat sequentially, as a full quarter of revenue from Commonwealth is offset by lower conference revenue and seasonally lower IRA fees.

Moving on to Q3 transaction revenue. It was \$67 million, up \$7 million sequentially, primarily driven by Commonwealth. As we look ahead to Q4, based on activity levels to date, we expect transaction revenue to be roughly \$70 million.

With respect to the monetization initiatives Rich mentioned earlier, we regularly evaluate how effectively we're delivering services, pricing, and an overall experience that aligns with advisor needs. Starting next year, we will streamline our Business Solutions portfolio to focus on those that deliver the greatest value to advisors, further reduce pricing across our advisory and make targeted offsetting fee increases, where we've been priced below the mark. These actions are designed to strengthen our competitive position, while ensuring we have the resources to continue investing in the platforms, tools, and services that enable advisors to grow and succeed.

To help frame the financial impact to our 2026 results, we estimate that these changes would increase our trailing 12-month adjusted pre-tax margin by approximately 1 percentage point.

Now let's move on to our recent acquisitions, starting with Commonwealth. Overall, the transaction is progressing well, and we are on track to onboard Commonwealth in the fourth quarter of 2026. We continue to track towards our 90% retention target, with advisors representing nearly 80% of assets already signed. In addition, factoring in current asset levels, our run rate EBITDA expectation has increased to approximately \$425 million once fully integrated. As for Atria, the onboarding is complete, and considering current assets, we are increasing our expected run rate EBITDA to approximately \$155 million.

Now, let's turn to expenses, starting with core G&A. It was \$477 million in Q3 below our outlook range for the quarter, as we continue to make progress driving incremental operating leverage in the business. To give you a sense of the work, we're automating manual processes in our operations and service groups, increasing straight-through processing and reducing friction in our services. In addition, these initiatives have the added benefit of improving the client experience.

With that as context, looking at the full year 2025, given our cost initiatives are tracking ahead of schedule, we are lowering our 2025 outlook to a range of \$1,860 million to \$1,880 million.

Moving on to Q3 promotional expense, it was \$202 million, up \$38 million from Q2, primarily driven by conference spend as we hosted our annual Focus conference in August, as well as transition assistance related to Commonwealth.

Turning to depreciation and amortization, it was \$100 million in Q3, up \$3 million sequentially. Looking ahead to Q4, we expect depreciation and amortization to increase by roughly \$5 million.

As for interest expense, it was \$106 million in Q3, up \$4 million sequentially, driven by increased usage of our revolver following the close of the Commonwealth transaction. Looking ahead to Q4, given current debt balances and interest rates, we expect interest expense to increase by approximately \$5 million from Q3.

Turning to capital management, we ended Q3 with corporate cash of \$568 million, down \$3 billion from Q2, as we deployed the proceeds from our capital raises to fund the acquisition of Commonwealth. While the majority of transition assistance was deployed in Q3, we expect a couple hundred million of additional payments in the fourth quarter, which will return corporate cash to more normalized levels. As a result, we anticipate Q4 interest income to decline to approximately 30 million. As for our leverage ratio, it was 2.04x at the end of Q3, below our initial expectations for roughly 2.25x following the close of Commonwealth.

Moving on to 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 Q3, the majority of our capital deployment was focused on supporting organic growth and M&A, where we closed Commonwealth and continued to allocate capital to our Liquidity & Succession solution. To uphold our commitment to maintaining a strong and flexible capital position, share repurchases remain paused, which we will revisit once we onboard Commonwealth.

In closing, we delivered another quarter of strong business and financial results. As we look forward, we remain excited about the opportunities we have to continue to drive growth, deliver operating leverage, and create long-term shareholder value.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Alex Blostein, Goldman Sachs.

Alexander Blostein - Goldman Sachs Group Inc - Analyst

Hey, guys. Good afternoon. Thank you for all the details, including the snack preferences. Just maybe starting with Commonwealth, obviously, it's a big topic; helpful update with the 80%.

Maybe help us frame how that's tracking at this point of integration relative to your original plan and given that 80% is already quite a sizable number, at what point do you find that your recruiting teams could start to focus more externally again to re-accelerate the pace of net organic growth? Thank you.

Rich Steinmeier - LPL Financial Holdings Inc - Chief Executive Officer

Thanks. Good question, Alex. Appreciate you asking. So let me start out.

So it's been around six months since we signed the deal and three months since we closed. And as we mentioned, the transaction continues to progress as planned. It's really been an ongoing engagement with Commonwealth advisors and home office staff, and it is incredibly productive as we jointly chart this course ahead together. And as we've said previously, the Commonwealth advisors are really thoughtful and they are a very diligent community, which really doesn't surprise us given that they include many of the best advisors in the industry. And so it stands to reason that they have been extremely thorough in their diligence.

And we have been dedicated to making sure that we can give them all the information they need to make their very best decision. And that includes thousands of interactions since the announcement to ensure the advisors understand the benefits of the combination. Most recently, last week, there were over 1,000 CFN advisors at their national conference in Washington, D.C. We had sessions from main stage, breakouts, as well as a number of individual sessions across both the Commonwealth leadership as well as the LPL leadership. And as well, we know that we have scheduled many more in-person home office visits and virtual meetings for the next coming months.

And so as we said earlier, we're at that kind of nearly 80% of assets having signed their agreements stay with Commonwealth, on track for the 90%. And putting all of that retention aside, we feel over the moon with this transaction. Cultural alignment and complementary capabilities are creating a combined firm that is far stronger than the sum of the parts. We feel great about the value that this will deliver to Commonwealth advisors, existing LPL advisors, and shareholders. And the work that we're doing here significantly advances our progress on creating the best firm in wealth management.

One last thing you did mention, as we begin to continue to progress towards higher and higher percentages of the advisors who have decisions, to stay with Commonwealth, that does present us the opportunity to bring back some of the recruiting and retention specialists that we had ring-fenced and allocated into educating Commonwealth advisors. And that's beginning throughout the second half of this year and will continue.

But Matt, is there more you'd like to add?

Matt Audette - LPL Financial Holdings Inc - President, Chief Financial Officer

Sure. I mean, I think maybe just to underscore what you said, I mean, I think we feel great about the transaction. We feel great about Commonwealth as a firm; high-quality advisors, they have high-quality leadership team, home office team, culture. So just all around, from an acquisition standpoint, before we even get to the economics, which I'll give a little more color on, we feel really great about it.

I think since there's been, let's just say, a little bit of focus on the retention targets and how those have been progressing, I think, Alex, to your question, it's always hard to predict exactly how things will trend. But I think as a general point, we are on track to where we thought we would be.

But if you just look at where we are right now at nearly 80% retention and the economics that come with that, where we are right now, I mean, you're just under a nine times multiple. So I think for a property of the quality that Commonwealth is, I think we'd be very happy with that.

And to Rich's point, as we progress to 90% retention, just to give a little bit of the sensitivities, every incremental percentage of retention that we have is about a reduction of a tenth of a turn on the multiple or an increase of \$5 million in run rate EBITDA, just so you have kind of the sensitivities on how that would work. But I think as you pull back up, I mean, we're incredibly excited to have the opportunity to engage with them, sign the transaction, to close the transaction. And now that we're much, much closer and involved with the teams, as Rich said, we're over the moon. We're really, really happy.

Operator

Steven Chubak, Wolfe Research.

Steven Chubak - Wolfe Research LLC - Equity Analyst

Hello, Rich. Hello, Matt. Good afternoon. I appreciate you guys taking my question.

So maybe to start, I was hoping to dive a bit deeper into the pricing changes you mentioned in the prepared remarks. It's certainly encouraging to hear the net impact will be a 100 bps benefit to the margin, but I wanted to clarify whether the 100 bps net benefit contemplates both efficiency

in addition to pricing changes and how these pricing adjustments could enhance the value prop, maybe drive some better organic growth outcomes going forward?

Matt Audette - LPL Financial Holdings Inc - President, Chief Financial Officer

Sure, Steven. So I think the 100 bps improvement was solely from the pricing changes. So any additional improvements on the cost side would be in addition to that.

I think to your second part of your question, I think when you look at the areas where the pricing changes are being made, in the core area where our advisors are bringing in assets on the advisory side, and I think our pricing there has been competitive and we're lowering the pricing there to make it even more competitive. So if you think about where advice is being delivered and where the flows are, I think that helps enhance our opportunity to grow.

And on the other side, on the brokerage side, you know, as we looked at the market, we were priced below the market. So I think what you see us doing on the brokerage side is bringing fees up into line where the market is currently. So broadly, brokerage is in line, and I think we positioned advisory to be a place that can grow even further.

Operator

Craig Siegenthaler, Bank of America.

Craig Siegenthaler - Bofa Merrill Lynch Asset Holdings Inc - Analyst

Thanks. Good evening, everyone. I have another follow-up on Commonwealth. And congrats on getting to the 80% retention. That fell faster than expected.

But on the 90% target, is the timeline there the 4Q26 onboarding target, or could that actually be sooner?

Matt Audette - LPL Financial Holdings Inc - President, Chief Financial Officer

Well, I think, Craig, maybe the answer could be yes to both. I think when you look at when we will finalize what the retention, is when they're onboarded. So that's when you snap the chalk. But whether we get from 80 to 90 before that certainly could occur. But ultimately, it's when they're onboarded is when we'll measure that. And our estimate is that that's the estimate of \$425 million when we'll start to begin to recognize synergies and building up to that \$425 million is when onboarding happens as well. So all a little bit over a year from now.

Operator

Brennan Hawken, BMO Capital Markets.

Brennan Hawken - Bank of Montreal - Analyst

Good afternoon. Thanks for taking my question, Rich and Matt. Good to hear from you.

So I know Commonwealth brings new capabilities to you. You've also been steadily investing in building out the service offering, particularly for high-net-worth investors. You know, really with the goal of pursuing larger teams and targeting to more wirehouse advisors. Could you speak to how that's progressing and what your updated expectations are on that front?

Rich Steinmeier - LPL Financial Holdings Inc - Chief Executive Officer

Yeah, hey, thanks, Brennan. And I would thank you for painting within the lines on that question. So I appreciate your sticking to the netting there. So let me try to hit it.

So first off, you're right. I mean, we have been pursuing a multi-year journey to become increasingly more relevant to wirehouse advisors. I think Commonwealth adds a tremendous amount, not only of capabilities, of brand credibility, capabilities, and a service orientation that is second to none in the independent channel, that is very attractive to wirehouse breakaways as well.

But when you take a couple of steps back and think about the way we've built towards methodically serving this market more expansively, it started with expanding our affiliation models several years ago, specifically as you think about our independent advisor channel around our W2 channel we call Linsco, as well as our Strategic Wealth supported independent channel, and progress with our introduction of a private wealth channel.

The three of those offerings plus a continued investment in capabilities around degrading the difference between ourselves and the wires, certainly now on alternative investments, high-net-worth capabilities, specifically advanced tax planning, long-term planning, investment solutions as well, and our ability to upgrade our service experience with the introduction of our field management organization oriented towards the success of those larger advisors.

Taken together with our pool of existing high-net-worth oriented advisors, you have a community that is building in capabilities. And kind of the capstone to those investments for us over the last year has been the introduction of and enhancement of the LPL brand in the marketplace. All of those things taken together have expanded consideration for us in that wirehouse W2 market.

And I believe now have begun to expand our consideration for those high-net-worth wire house advisors that represent an additional \$5 trillion market opportunity. So we continue to run into that space. We continue to build capabilities. We continue to build credible capabilities, and we've enhanced consideration.

Taken together, I would expect that that would continue to advance our capture of flow and movement out of the wires and the regionals across our affiliation models in a way that we have methodically seen, I would expect it to continue at pace.

Operator

Devin Ryan, Citizens Bank.

Devin Ryan - Citizens JMP Securities LLC - Analyst

Hey, thanks. Good afternoon, Rich and Matt. One asked a question just on expenses. Obviously, it's good to see the improvement on the 2025 G&A guide. So, just trying to think about bigger picture, there's been a lot of moving parts on expenses just with a couple big acquisitions coming into the system here in recent quarters, the same time you guys are taking actions to become more efficient.

So, I'd love to just think about, I guess, first off, some of the drivers that improve the guidance for the year, how much of that is structural, carries into 2026? And then just more broadly, how you're feeling about the expense trajectory of the firm is, you're probably finding more efficiencies with these transactions at the same time? There's still plenty of growth investment to do and some business inflation. So just trying to think about the guidance, but then also the trajectory. Thanks.

Matt Audette - *LPL Financial Holdings Inc - President, Chief Financial Officer*

Yeah, Devin. So I think when you look at the things that we're doing that are driving the savings, I mean, there are -- to the point of your question, there are things that are ongoing, right? There are things where we're making investments to automate things in our service areas and our operations groups.

There are process improvements, capability deployments. We're starting to use AI in a way that is practical and delivering. And you think about where and how that shows up as you're able to improve those things. Lower NIGO rates, which are things that have to be reworked back and forth between us and our clients, which is a frustration from a client standpoint. It has also incurred costs on our side.

Our advisors and their staff have to call us less because there's less to call about. We have less folks that have to spend time answering those calls. We have increased use of our digital tools. It goes on and on, and I think those are the things that really led to the improvements this year. And those are the things that I think we're going to continue to focus on from here going forward. Now, I think we do get into some things, even if you just look at next year.

We'll give our guidance for next year on the next call like we normally do. But to your point on some of the other deals coming on board, maybe there's two things I would highlight that are in addition to the efficiencies that we are driving.

One is maybe obvious, but just keeping in mind, you're going to have a full year impact of Commonwealth expenses next year. And as they onboard towards the end of the year, the synergies on the expense side largely won't show up until 2027. So you just want to keep that in mind.

And then second is a little bit building on what Rich was talking about earlier with respect to recruiting capacity. Another big driver of our expenses is the level of organic growth. So as recruiting frees up from Commonwealth pivots back to the marketplace in general to the extent that drives up organic growth, you would naturally have some incremental expenses coming on the core G&A side.

Now, at a more efficient level, given all the automation that we've done, but that's something that could drive it as well, which I think we'd all put in the category of a high-class problem on an expense side. So hope that helps frame it, but I think the headline I'd hit is I think we feel really good about what we're able to drive on the automation side, how that's dropping to the bottom line, but also how it improves our client experience and improves our employee experience. I mean, the things that we are removing are rote, monotonous things that allow people to focus on things that are more interesting.

So, I think it's exciting. The entire management team's aligned on it and, you know, hopefully the results show that we're able to deliver here.

Operator

Jeff Schmitt, William Blair.

Jeff Schmitt - *William Blair Capital Partners - Equity Analyst*

Hi, thank you. You had talked about how advisor movements are still depressed for the industry, I believe. And I was curious, how is your share of those movements trending? And do you still expect that to be kind of a temporary phenomenon and ultimately lead to higher organic growth in future quarters? Thanks.

Rich Steinmeier - *LPL Financial Holdings Inc - Chief Executive Officer*

Yeah, thanks for the question. We have seen that that movement continues to stay a little bit artificially low. The truth is that when you look at movement in the industry, you see overall movement but then you often see times where there are events in the marketplace that drive advisor churn.

And those two events that we're seeing right now in the marketplace that would drive churn are: one, the advisor compensation changes at the wirehouse. They just continue to get further and further away from market competitive, and so you see more and more advisors in increasing numbers picking up their heads to consider their alternatives. So I think that actually is a good trend for the independent segment where you could see continued movement and may move us back towards historical norms.

The other side of that is actually our Commonwealth acquisition as well, which drove activity in the marketplace, certainly from competitors, and drove more, I would say, even elevated TA rates that have extended more broadly, not only just at Commonwealth opportunities, but I think more broadly across the industry.

How do we think about that extending in time? I think we would be hopeful that we would return to historical norms as well. As for how our capture has been trending, our capture has stayed consistent. We are the number one capture of advisors in movement and in motion in the marketplace. That has persisted at historical levels. And in time, over the last five years, we have seen that we have continued to grow share capture of advisors in motion, and we would hope to believe that that would continue in time as well.

So as we head back towards more stable times, I think we would expect to see ourselves continue to participate in the way that we have in the marketplace. We feel as convicted, if not, more convicted that our relative value proposition is absolutely the strongest in the marketplace in support of advisors. And so I think we feel good at the forward-looking outlook.

Operator

Michael Cyprys, Morgan Stanley.

Michael Cyprys - *Morgan Stanley & Co Ltd - Equity Analyst*

Hi, good afternoon. Thanks for taking the question. Wanted to ask about alternatives. So something you could update us on the progress of building out your alternative investment capabilities, how that stands today, steps you're looking to take over the next 12, 24 months?

And if you could also touch upon digital assets, speaking of alts generally, what sort of access do your customers have today? How's that evolving? What sort of demand are you seeing, and how might both of these enhance your appeal to advisors in the marketplace as you build this out? And how might it also support revenue ROCA monetization? Thanks.

Rich Steinmeier - *LPL Financial Holdings Inc - Chief Executive Officer*

Yeah, I'll hit the developments of the - that's like a quadruple embedded question, which is pretty awesome. Thanks, Michael.

So on alternative investments, we have, and we've shared a couple of times on earnings, we've been on a multi-year journey to delivering a very compelling alternative investment offering. I would tell you, by the end of this calendar year, I think we're on par with any player in the marketplace around the breadth and quality of our offering.

That journey was, for us, one, building a core technology platform, which we have largely implemented; two, was expanding the offering and so those selling agreements across a broad set of alts that we've done diligence on and we're making really good progress there and expect to be our alternatives improved for sale have more than doubled to 80 by the end of, that was from the end of 2024 and we're moving towards 120 alts available for sale by the end of this year which I think puts us toe-to-toe with anybody in the industry.

And then the third thing for us is beginning to educate advisors and assisting them in how alternatives can help the needs of their clients. And so we've done a couple of things there. Not only introduced an Alts Connect last year, which is our e-signature and digital sign and simplifying the subscription process, but we also launched a learning hub in Q1, which is a one-stop shopping for educational resources designed to empower advisors. with the knowledge and tools necessary to incorporate alts into their practices.

And so I think on Alts, I think I can reflect and say we have made tremendous progress over the last 18 months. I'm incredibly proud of the team and the work that they've done. And I think we feel really good about not only the technology platform, because in addition to those for which we have helped selling agreements, we've actually enhanced our custodial and operational capabilities so that we can actually convert over 2,500 products that are held away to be brought onto our custodial platform.

And so the ability to move advisors, move those holdings, sell forward, give them a really good operating environment with technology, I think we feel strong about our position to compete in the marketplace. You asked about digital assets.

As for crypto, we'll always prioritize solutions that align with our advisors' needs. Today, we have five cryptocurrency ETFs on the platform. And we're hearing from advisors and making available the products they need to manage their business in a control environment that is responsible, not only for the advisors and the risk, but also for end investors. And so while we don't currently facilitate crypto trading, we are closely monitoring the competitive landscape, and so we'll keep you updated on that continued progress.

All in all, I think we feel good about continuing to extend those offerings. They make us more competitive in the marketplace. They make us an available landing spot for more sophisticated advisors. And they allow our advisors to have a range of offerings that are second to none in the industry.

Operator

Ben Budish, Barclays.

Benjamin Budish - Barclays Services Corp - Analyst

Hi. Good evening, and thanks for taking my question. Matt, a few questions ago you were talking about how the slowdown in advisors in motion has resulted in some elevated TA rates, not just that are impacting Commonwealth, but across the industry more broadly. I'm curious, you know, you guys have talked in the past about, you know, these sort of slowdowns being temporary.

Given where rates are -- you know, I think you've explained in the past that TA rates rose as somewhat reflecting a reinvestment of higher rates on cash balances. What would your expectation be or how do you think about the, you know, the progression of TA rates from here as rates come down? Would it be natural to expect that if advisors in motion, the turnover picks up, that rates come back down? Or what would your expectation be there? How should we be thinking about the oversight the next 12 months?

Matt Audette - LPL Financial Holdings Inc - President, Chief Financial Officer

Yeah, I mean, I think if history is a guide, the overall returns are going to guide where TA rates go, right? So as interest rates have gone up, you saw TA rates go up, and as it comes down, you would expect them to come down. I think the other dynamic you have or a couple of dynamics to your point of less advisors moving, so there's more demand for that. And when you have transactions in the marketplace, like we are currently engaging with Commonwealth, folks will bring more money to the table from a TA standpoint. And I think that's what we're seeing right now.

I think, for us, which you've heard us talk about before, we always underwrite to returns with a consistent framework and return hurdle. Which for us is usually deploying capital in the 3 to 4 times EBITDA range. I think when you have an environment like this, we'll just hedge towards the upper end of that, so being closer to four times than three times, but still going back to what really, really matters, which is really the environment that an advisor is going to land on, meaning the capabilities, technology, service, and their ongoing economics.

That's really what's going to carry the day. TA, of course, is important. I think where it trends over time is, you know, it's hard to predict, but it's going to be driven by the factors that you highlighted, the number of advisors moving, what's happening in the marketplace, and where rates are going. But I think from our standpoint, we've operated in all those environments, and ultimately, what matters is the value that we're bringing to

the table is going to carry the day, and I think that's why, to what Rich was just talking about, when advisors do decide to change firms, we're the number one place they come.

Operator

Steven Chubak, Wolfe Research.

Steven Chubak - *Wolfe Research LLC - Equity Analyst*

Hi, thanks so much for accommodating the follow-up. Given the NNA trajectory has been impacted by the repurposing of resources to support better or higher Commonwealth retention, has anything changed about your long-term NNA expectations and I was also hoping you can give an update, Matt, on October cash and NNA trends as well?

Matt Audette - *LPL Financial Holdings Inc - President, Chief Financial Officer*

Sure, I'll start with October and then I think Rich can jump in on the NNA.

So I think October has been a good month, similar to September. So if you look at client cash balances, reminders that you know well, Steven, but I'll hit them anyways, advisory fees primarily hit in the first month of the quarter. and now just given our size, right, including with Commonwealth at \$2.3 trillion of AUM, those fees get bigger and bigger.

So for October, they were at \$2.4 billion. Outside of that, though, client cash balances continue to grow and they're up so far \$700 million in the month. So you kind of net that out down at \$1.7 billion or just over \$54 billion of cash. So I think a good month on the cash.

On the organic growth side, those advisory fees hit there as well. So the first month of the quarter is typically lower. And then factoring in that advisory movement still remains low.

When you factor in those two factors, I think October's looked good. Where we sit today, we're around 4% organic growth for the month; keeping in mind, that's prior to the around \$1 billion of AUM left to go on those large OSJs that are off-boarding that we would expect to come out sometime in the fourth quarter.

So, overall, I think it's a good start to the quarter.

Rich Steinmeier - *LPL Financial Holdings Inc - Chief Executive Officer*

Hey, Steven, it's Rich. So, on that NNA trajectory, I think what we've seen would say that you should not think that our NNA trajectory is changing because of this. This is a temporary really ring-fencing of many of our most sophisticated recruiting and or retention resources to move them over to help educate Commonwealth advisors, some of which they've already been in discussions with.

And as such, our feeding has been quite good. It's the progression in the pipeline that was going to be most impacted as that team only has so many hours in the day. So as they begin to move back in to having, you know, enhancing the share of their time that's spent on external advisors to this firm, I think you would expect to see that we would continue to have the successes we've had in the past.

Operator

Bill Katz, Cowen.

Bill Katz - Cowen and Company LLC - Analyst

Great. Thanks very much for taking the questions, and congrats on the one year. I bet you can't believe how quick it's been. Maybe a two-part question, just embedded, a little bit disparate in nature, so I apologize for that.

Can you give us a sense of where you might stand on the enterprise side? Now that you're working your way through CFN and how you might be able to sort of multitask maybe some larger platforms to the extent that that pipeline is building. And then on the net new money that's coming in the door, can you tell us what kind of cash allocation it is relative to roughly 2.5%, that's the legacy book right now? Thank you.

Rich Steinmeier - LPL Financial Holdings Inc - Chief Executive Officer

You want to take the institution first? Oh, I was just --well, I was going to say thank you to Bill first because he said something really nice to me. Why don't you hit the last part and then I'll come back on it?

Matt Audette - LPL Financial Holdings Inc - President, Chief Financial Officer

Yeah, sure. So, Bill, make sure to just jump in. When you say the cash sweep that's coming in, when you say allocation, are you talking about the percent per account on the incremental versus the overall?

Bill Katz - Cowen and Company LLC - Analyst

I apologize for coughing on the call. Yes, like the cash allocation as a percentage of net new assets compared to roughly the 2.5%, that's the average for the quarter.

Matt Audette - LPL Financial Holdings Inc - President, Chief Financial Officer

Yeah, I think the cash that's coming in, it's not a material difference than where things are overall, if that's where you're getting? So, pretty similar.

Rich Steinmeier - LPL Financial Holdings Inc - Chief Executive Officer

So then on that institutional side, Bill, maybe I should acknowledge for us, getting Commonwealth right is the singular number one job right now. And so we're focusing a lot of our resources on delivering a seamless experience for the new advisors joining the platform, while ensuring to continue, we deliver a great experience for our existing advisors.

So we framed this a couple of times, but I'd just reiterate, I wouldn't expect too much, by the way, of other large announcements for the time being. But that being said, maybe in some broader context, we have been targeting historically large banks, and I think especially as you think about this market environment for large banks. We see the ability for the banks that we work with to be winners and net consolidators in the consolidation of that retail banking industry.

And so we feel really good about our ability to be a counterparty to large banks as they acquire in that market. And historically, we've had some fantastic partners like M&T, BMO, and where we've seen them be net acquirers and us help them with their wealth management business on some of those transactions.

As well, we continue to be in conversations around insurance broker-dealers and product manufacturers, and as an aside, those markets are similar size. Bank outsource model opportunity sits around \$1.5 trillion in the market, and in that insurance broker-dealers and product manufacturers, there's another \$1.5 trillion in market opportunity.

And post that onboarding of Prudential that we feel really good about, and we've seen great successes in partnership with them, I think that is a very validating event in the marketplace. But as we've said before, those are some long lead-time conversations.

And just to reiterate, at this moment in time, we are focusing all of our resources on ensuring that we get Commonwealth right and landed, and still progressing conversations, but I would expect less in the way of announcements to come in that large institutional segment.

Operator

Thank you. And I'm showing there are no further questions in the queue at this time. I will now turn the call back over to Mr. Steinmeier for any closing remarks.

Rich Steinmeier - LPL Financial Holdings Inc - Chief Executive Officer

Well, thank you, operator, and thank you to everyone for joining us tonight. We look forward to speaking with you all again in January. Have a great evening. Thanks.

Operator

This concludes today's conference call. Thank you for your participation, and you may now disconnect.

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