REFINITIV STREETEVENTS

EDITED TRANSCRIPT

LPLA.OQ - Q3 2021 LPL Financial Holdings Inc Earnings Call

EVENT DATE/TIME: OCTOBER 28, 2021 / 9:00PM GMT

OVERVIEW:

LPLA reported 3Q21 gross profit of $631m and EPS, prior to intangibles and acquisition costs, of $1.77.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

CORPORATE PARTICIPANTS

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

Matthew Jon Audette *LPL Financial Holdings Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

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

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

Devin Patrick Ryan *JMP Securities LLC, Research Division - MD and Equity Research Analyst*

Gerald Edward O'Hara *Jefferies LLC, Research Division - Equity Analyst*

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

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

William Raymond Katz *Citigroup Inc., Research Division - MD & Global Head of Diversified Financials Sector*

PRESENTATION

Operator

Good afternoon, and thank you for joining the Third Quarter 2021 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, 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 financials, 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 a 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. Arnold.

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

Thank you, Latif, and thanks to everyone for joining our call today. Over the past quarter, our advisers continue to provide their clients with personalized financial guidance on the journey to help them achieve their life goals and dreams. And at the same time, we remain focused on our mission of taking care of our advisers, so they can take care of their clients. This combination positioned us to deliver another quarter of solid results while also continuing to make progress on our strategic plan. I'd like to review both of these areas, starting with our third quarter business results.

In the third quarter, total assets reached a new high of $1.13 trillion, up 40% from a year ago. This increase was primarily driven by continued organic growth and equity market appreciation. With respect to organic growth, third quarter net new assets were $27 billion, which translated to 10% annualized growth driven by continued strength across new store sales, same-store sales and retention.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Over the past year, net new assets totaled $110 billion or 14% organic growth. In the third quarter, recruited assets were $13 billion, which increased our total over the past year to $83 billion. Our continued growth in recruited assets reflects our ongoing progress with enhancing the appeal of our model and expanding our addressable markets.

During the quarter, we continue to drive solid recruiting results across each of our markets, including $10 billion in our traditional independent model and $2.5 billion in our new affiliation models. Multiple channels contributing to our growth better positions us to drive higher levels of recruiting over time.

Looking at same-store sales with the backdrop of continued strong retail engagement, our advisers remain focused on serving their clients and enhancing their offering. As a result, advisers are both winning new clients and expanding share of wallet with existing clients, a combination that drove same-store sales to new highs in the third quarter.

At the same time, we further enhanced the adviser experience through the continued delivery of new capabilities and technology as well as the ongoing modernization of our service and operations functions. As a result, asset retention was approximately 98% in the third quarter and over the past year.

In July, we onboarded the advisers from Waddell & Reed and the final asset retention rate for the deal was approximately 99%. Currently, we are focused on the integration work to help these advisers optimally leverage our platform and support the growth of their businesses.

Our third quarter business results led to solid financial outcomes with $1.77 of EPS prior to intangibles and acquisition costs, which is an increase of 23% from a year ago.

Let's now turn to the progress we made on our strategic plan. As a reminder, our long-term vision is to redefine the independent model over time and by doing so, become the leader across the entire adviser center marketplace. Our approach is to provide a platform that has the flexibility and personalization that make it simple and straightforward for advisers to design and run their perfect practice. We do this by providing advisers a breadth of affiliation models, advisory platforms, investment content, technology, custody and practice support that provides more flexibility in one place than anywhere else. Doing this well gives us a sustainable path to an industry-leading adviser experience, continued solid organic growth and increased market share.

Now to execute on our strategy, we have organized our work into 4 strategic plays, which I'd like to review in turn. Our first strategic play involves meeting advisers where they are in the evolution of their practice, by winning in our traditional markets where our leading market share is now over 15%, while also leveraging new affiliation models to expand our addressable markets.

In our traditional markets, in the third quarter, we continued to increase our recruiting results, gain market share, and expand the depth and breadth of our pipeline despite adviser movement remaining at lower levels. Looking at the large financial institutions marketplace, we onboarded BMO Harris and M&T earlier this year and are applying the insights from those experiences to make our institutional offering even more robust and differentiated. This innovation and marketplace momentum are helping drive a solid pipeline with a growing number of prospects.

As we look ahead, we are preparing to onboard CUNA Brokerage Services in the middle of next year and continue to see financial institutions as a sustainable multiyear contributor to organic growth.

With respect to the expansion of our addressable markets, the combination of a compelling value proposition and positive referrals from advisers using the new models are attracting more prospects and contributing to our growth. As a reminder, 1.5 years ago, we launched Strategic Wealth Services, and we have now added 17 practices, including 8 in the past quarter. We subsequently brought our employee model to market later in the year and 5 practices have joined, including 2 over the past 3 months.

And earlier this year, we relaunched our RIA custody offering and have been encouraged by the number of RIAs who quickly partnered with us. As we look ahead, we see these new affiliation models continuing to build momentum and becoming a larger contributor to our organic growth.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Our second strategic play is focused on providing capabilities that help our advisers differentiate in the marketplace and drive efficiency in their practices. One of the key components of this play is the breadth and flexibility of our advisory platforms from our turnkey centrally managed solutions to advisers managing portfolios themselves. This optionality has contributed to advisory now making up a majority of our total assets.

Specifically, within our centrally managed solutions with our ongoing investments and capabilities and pricing, our assets have increased to nearly $90 billion at an average annual organic growth rate of over 20% for the past 5 years. A key contributor to the growth of our centrally managed offerings is the increased personalization that enables advisers to use these solutions in a way that works best for them.

For example, earlier this year, we introduced our Firm Sleeve solution, which together with Advisor Sleeve enables advisers and institutions to personalize centrally managed portfolios with their own asset allocation models. We are now taking the next steps in this personalization journey by adding separately managed accounts while also integrating all centrally managed investment content into a single account for each client. These enhancements make it easier and more efficient for an adviser to expand the scope of their solutions while also providing a simpler and more unified experience, which in turn contributes to the appeal and future growth of our centrally managed advisory solutions.

Let's next move to our third strategic play, which involves creating an industry-leading service experience to delight advisers and their clients and, in turn, help drive adviser recruiting and retention. A key component of this strategic play is transforming our service model into an omnichannel client care model. As a reminder, over the past year, we rolled out voice, chat and digital help to our advisers, giving them access to differentiated service at a time and in a manner that works best for them. We are now focused on helping our advisers fully leverage these channels to better serve their clients and more efficiently run their businesses.

To further enhance our service model, we are also experimenting with specialized service pods, designed specifically for different types of adviser practices. These pods include integrated teams comprised of service, case management, compliance and relationship management. These experiments are helping us to tailor services based on advisers' affiliation models and practice attributes and are making positive contributions to the adviser experience.

Our fourth strategic play is focused on helping advisers run the most successful businesses in the independent marketplace. One of the key components of this play is our portfolio of business solutions, which helps advisers more effectively operate their businesses so they can focus on serving their clients and growing their practices.

Now as we discussed last quarter, we see multiple pathways for continued growth in business solutions, including delivering existing solutions to additional advisers and introducing new solutions to expand our services portfolio. In the third quarter, our subscription base continued to grow, more than doubling year-over-year to approximately 2,600 subscriptions, demonstrating increasing demand and appeal.

We continue to innovate on our business solutions portfolio to expand the variety of needs we can solve for and provide a wider range of price points to enable a broader set of advisers to engage. One of our sources of innovation comes from adviser feedback on our existing solutions, which we use as a catalyst to iterate on our core offerings like CFO solutions. As an example, over the last year, this approach helped us identify several additional finance-related needs for our advisers, which led to the development and launch of M&A solutions, assurance plan and our bookkeeping pilot. Going forward, we will continue to leverage adviser feedback as fuel to expand our solutions portfolio.

Now with the expansion and seasoning of our portfolio, the strategic value of Business Solutions also continues to expand and has become an important component of the value proposition and a contributor to growth in our new models such as strategic wealth services. As we look ahead, we are focused on continuing to innovate and expand the portfolio to increase the contribution to gross profit and organic growth.

In summary, in the third quarter, we continued to invest in the value proposition for advisers 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 advisers 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.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO*

All right. Thank you, Dan, and I'm glad to speak with everyone on today's call. In the third quarter, we remain focused on serving our advisers, growing our business and delivering shareholder value. This focus led to another quarter of double-digit organic growth. In addition, after onboarding what Waddell & Reed, BMO and M&T, we continue to work with these advisers to acclimate and leverage our platform and capabilities while also preparing to onboard CUNA in the middle of next year. As we look ahead, we are excited by the opportunities to help our advisers differentiate and win in the marketplace and grow our business.

Now let's turn to our third quarter business results. Total advisory and brokerage assets increased to a new high of $1.13 trillion, up 2% from Q2. A key driver of this increase was organic growth, which totaled $27 billion or a 10% annualized growth rate. This was driven by strength across all 3 channels of growth: recruiting, same-store sales and retention.

Looking more closely at recruiting. In Q3, recruited assets were $13 billion, which brought our 12-month total to a new high of $83 million.

Moving on to our business mix. We continue to see positive trends in Q3. Advisory net new assets were $21 billion or a 16% annualized growth rate. With this growth, our advisory assets are 52% of total assets as we continue to deliver differentiated advisory capabilities and benefit from the secular trend towards advisory.

Now let's turn to our Q3 financial results. Strong organic growth combined with expense discipline led to EPS prior to intangibles and acquisition costs of $1.77, up 23% from a year ago. Looking at our top line growth. Gross profit reached a new high of $631 million, up $29 million or 5% sequentially. Looking at the components, commission and advisory fees net of payout were $202 million, up $5 million from Q2, primarily driven by organic growth and a full quarter contribution from Waddell & Reed.

In Q3, our payout ratio was 87.1%, up 80 basis points from Q2 due to typical seasonality as well as the onboarding of Waddell & Reed, which earned a slightly lower payout on their platform. Looking ahead to Q4, a reminder that the production bonus increases throughout the year and is typically highest in Q4. So we anticipate our payout ratio will be up roughly 30 basis points sequentially to approximately 87.4%.

Moving on to asset-based revenues. Sponsor revenues were $210 million in Q3, up $21 million sequentially. This was driven by an increase in average assets due to organic growth and a full quarter contribution from Waddell & Reed.

Turning to client cash revenues. They were $91 million, up $1 million from Q2. Looking at overall client cash balances, they were $51 billion, up $2 billion from last quarter.

Looking more closely at our ICA yield, it was 101 basis points in Q3, up 3 basis points from Q2.

Now moving on to our fixed rate portfolio. In Q3, we added a new $1 billion fixed contract at the 3-year point of the curve, which was about 45 basis points at the time. And as a reminder, at the end of the third quarter, we also had a fixed-rate maturity of $2.3 billion, yielding approximately 160 basis points. As we look ahead to Q4, given these factors and where interest rates, client rates and cash balances are today, we expect our Q4 ICA yield to decline by approximately 5 basis points.

Moving on to Q3 transaction and fee revenues. They were $140 million, up $3 million sequentially. The increase was primarily driven by revenues from our National Adviser Conference and a full quarter contribution from Waddell & Reed. Looking ahead to Q4, based on the lower trading levels we've seen so far in October and the typical seasonal increase in IRA fees, we expect transaction and fee revenue to be relatively in line with Q3.

Turning to Business Solutions. We ended the quarter with approximately 2,600 subscriptions, which is up 500 from last quarter and more than double a year ago. These offerings now generate roughly $25 million of annual revenue, and more importantly, they contribute to organic growth by helping drive recruiting, same-store sales and retention.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Now let's turn to expenses, starting with core G&A. It was $271 million in Q3, up $19 million sequentially, driven by a full quarter of Waddell & Reed and continued investment to drive and support organic growth. Looking ahead, given our strong levels of organic growth and the variable costs associated with supporting that growth, we are tightening our 2021 core G&A outlook to a range of $990 million to $1 billion. And given our current rate of organic growth, we expect to be in the upper half of that range.

Additionally, now that we have onboarded Waddell & Reed and have a better sense as to the timing of those expenses, we will include those costs in our overall outlook going forward. As a result, we expect Waddell & Reed to add $55 million to $60 million to our outlook, which brings our total 2021 core G&A outlook to $1.045 billion to $1.060 billion.

Moving on to Q3 promotional expenses. They were $84 million, up $20 million sequentially, primarily driven by meeting expense as 2 of our largest adviser conferences took place in Q3. Turning to Q4, we anticipate promotional expense will increase by a couple of million dollars sequentially, driven by transition assistance, large financial institution onboarding expenses and adviser conferences that we rescheduled to Q4 from earlier in the year.

Now let's move to Waddell & Reed. In July, we completed the onboarding, which resulted in 99% of client assets joining our platform, up from 98% estimated last quarter. With respect to run rate EBITDA, it was roughly $50 million in Q3, and we anticipate it ramping to approximately $60 million in Q4 as we build toward an $85 million run rate by the middle of next year.

Moving on to capital management. Our balance sheet remained strong in Q3 with the leverage ratio at 2.2x and corporate cash of $266 million. 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 Q3, we allocated capital to both organic growth and M&A as well as restarted our share repurchase program, buying back $40 million of our shares to roughly offset dilution. We anticipate a similar level of share repurchases in Q4 while remaining flexible and dynamic should additional opportunities to deploy capital to drive growth emerge.

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 comes from the line of Bill Katz of Citigroup.

William Raymond Katz - *Citigroup Inc., Research Division - MD & Global Head of Diversified Financials Sector*

So just wanted to circle back to maybe some of the recruiting trends you spoke to. It sounds like you have a few more things in the hopper and the bank channel side. I was wondering if you maybe you could flesh that out a little bit. And then on the business solutions, sort of wondering a huge step-up sequentially. Where do you think you are in terms of your penetration rate of your base FAs? And maybe some update as it relates to the beta test outside of your core footprint.

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

Yes, Bill. So let me take those on the -- I think on the institution front, which may have been your first question in terms of and how we think about that opportunity and see that -- and how we see the opportunity going forward. So look, the short answer is we're excited about the opportunities

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

across both the traditional bank outsourcing market, so that's your banking credit even outsourcing market and then the new large institution market. And to pursue those opportunities, we continue to invest in our capabilities to make the model more appealing as a driver of growth across what is a collective $1 trillion market opportunity, as you know.

So again, I think we're well positioned to win today. And as we enhance our capabilities, we think that distinguishes our value proposition going forward. And we continue to be active in exploring those possibilities across that entire landscape. We see our pipeline continuing to grow, and without giving you specifics, we have good confidence that we can continue to see this financial institution space as an ongoing sustainable and multiyear contributor to our organic growth. So that's, I think, question #1.

With your second question on -- with respect to our business solutions, so look, we have lots of opportunity here, right? This is a new offering where we continue to both take our core offering and expand it. So you think about starting with 3 to 4 professional services. And how do you then broaden, if you will, the reach across multiple different solutions inside the LPL adviser base? And so for there, I think that's predominantly where that 1,200 subscriptions sit today. We do believe there's significant upside to continue to drive that penetration as we refine the value propositions of those offerings, and we expand the number of solutions that we offer at different price points. You really significantly increase the available market with inside that 20,000 advisers. And so we do believe that we're just in the logical normal early innings part of a 9-inning ball game around the existing advisers on the LPL platform.

So I think that -- hope that helps in terms of giving you that directional opportunity. I think when you explore outside the LPL platform. Our priority is focused on the LPL platform today, so the only place we've experimented outside is with M&A solutions, where I think it's very logical that you would -- we would be interested in getting both potential buyers and sellers outside of the LPL platform to enrich our M&A solutions, our offering and the breadth of that marketplace.

And so we continue to experiment there. We haven't done any deals outside of the LPL adviser family to date, but we continue to explore that possibility. So again, we're just very early into exploring offering that type of solution outside the LPL advisers. I hope that helps.

William Raymond Katz - *Citigroup Inc., Research Division - MD & Global Head of Diversified Financials Sector*

Okay. And maybe my follow-up for Matt would be just in terms of your new guidance. How much of that is sort of inflation pressures we're sort of hearing that across companies that are reporting versus just maybe a step up of recruitment? And then how do you think about the interplay for next year? I know it's obviously early days, but as we should think about maybe the relationship between growth and spend.

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO*

Sure, Bill. I think when you look at the updated guidance for this quarter, it's really our -- where we land on our expenses within that range is really driven by organic growth and the cost and specifically the variable costs associated with supporting it. So I think when you look at our growth this year, in the last 12 months, call it, in the 14% range, well into double digits. That's what's driving us up to the higher end of that range, but I'd just emphasize it's still within the range that we started for this year.

As we look ahead to next year, I mean, I think we're in the midst of planning for that right now, as you can imagine. And I think we'll talk a little bit about that and give you some guidance as we typically do on next quarter's call. The thing I'd emphasize now is we're approaching it the same way we typically do and focusing in on the same core principles, which are investing to drive and support organic growth and at the same time, really focusing on delivering operating leverage, right? So those principles will remain in our core to our planning, and we'll give you an update next quarter.

Operator

Our next question comes from Steven Chubak of Wolfe Research.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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

Maybe just starting off with a question on the ICA strategy. I was hoping you could provide, Matt, some perspective as to how demand is evolving with rate hike expectations getting pulled forward, whether there's any market differences in demand for floating versus fixed rate contracts. And given the increase in 3- to 5-year swap rates, I think they're now at about 90 to 120 bps. How is -- what's your appetite at least today to do additional extensions?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO*

Yes, Steven. I think when you look at the market today, right, it's both from a demand standpoint as well as pricing. The headline I give you is it's looking better, right, both on the floating side and the fixed side. I think to click down on that, on the floating rate side, and while emphasizing we haven't seen a broad-based return of demand, we are starting to have more conversations. And those conversations are about folks coming to market, fed funds plus 5 basis point zone versus if you go back the last few quarters, it's really been fed funds flat or basically, sure, I'll take your money, but it's 1 basis point. That's it.

So the dialogue there is certainly improving. And on the fixed rate side, just the same. We're starting to have dialogue there. And I think you hit it well in your question. As the yield curve starts to steepen, there's just economics in there that banks can own on their side. So the dialogue there is picking up. And you can see we've -- this is the second quarter in a row we've been able to put in a new fixed rate contract.

So the headline I'd give you is things are looking better just based on the dialogue that we're having. I think to the last part of your question on our appetite on how and when to fix out, our focus and philosophy there is really unchanged. And that's ultimately wanting to be at a place where the fixed component of the portfolio is in the 50% to 75% range. And in periods of low rates, I think we'd stay closer to the low end of that range. And in periods of high rates, especially with some steepness to the curve, we'd stay closer to 75%, right?

So we're sitting at 25% today. So I think as opportunities start to emerge and we're able to take advantage of that and deploy that in a fixed rate, I think we'd be interested in doing so once that demand comes back. So I think if what we're hearing this quarter continues, I think you'd start to see some more demand in future quarters.

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

And maybe for my follow-up, it's actually along the same lines of what Bill just asked on the expense side. Maybe taking a slightly different tack. Matt, I know when you had initially laid out the core G&A growth guidance last year, the 5.5% to 8% growth, you talked about half of that growth being allocated towards efforts to accelerate organic growth in your traditional markets, the other half allocated towards some newer initiatives, expanding the addressable TAM or market. And as organic growth has accelerated, I understand that there's some upward pressure, but I just want to get a sense as to whether that philosophy still holds in terms of what's going to drive core G&A growth from here. And I also wanted you to provide some context around the promotional side given that's the biggest area of upward expense pressure that we saw in the quarter, certainly higher than what we had been contemplating and how we should think about the growth in promotional from here given some of those upward pressures in the competitive environment.

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO*

Yes. I think, Steve, that's like a 4-part question. I think on the core G&A going forward, I think the -- if you build on the focus on investing in spending to drive organic growth, and it's tied really to that. So if you look at our plans for next year that we'll share next quarter that we're working through, whether it be growth in traditional markets. I think you heard a lot from Dan in the prepared remarks on how the new models are growing. We've talked a bit about on this call on how Business Solutions is growing. So I think it's going to all be tied to growth.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

I think the split that we talked about this year, we'll see if that same split plays out next year. But at its core, -- It's really investing to drive organic growth while at the same time, balancing delivering operating leverage to the bottom line.

On the promotional side, I think the headline I'd give you there, as we look ahead to 2022, is there's really 2 drivers of promotional: one, growth in the business overall; and then two, our conferences. And I think when you look at growth of the business overall, a little bit similar to what I was just talking about on core G&A. The drivers are really going to be the transition assistance associated with advisers joining our platform and the onboarding expenses for some of the larger ones associated with that.

So as you start to look at what we've delivered over the recent periods, right, hitting new highs for organic growth in our traditional markets, right; having a full year of the larger wins like BMO and M&T on the platform; onboarding CUNA in the middle of next year; and then, of course, beyond organic growth in Waddell having a full year effect of that, so that's going to be the big driver on the TA side.

On the conferences side, I think like most folks, we really pulled back on conferences last year, in 2020 given the, I think, the obvious COVID environment. This year, we phased those back in, but I'd say we're not at pre-COVID levels. So I think we're still working and planning on this for 2022, but I think we'll be looking to balance what I think we're quite confident is a positive return on conferences in person. Just a few we've done recently, I can tell you that the returns have been quite good just given the excitement and the interaction folks have, both us as employees in the home office as well as advisers getting to see each other. While at the same time, I think, taking advantage of the digital capabilities that we've deployed this year as well as managing costs and the safety of those attending. So that's something that will come together next quarter, but the headline for you on promotional is it's about growth overall and then really how the conference plans land.

Operator

Our next question comes from Alex Blostein of Goldman Sachs.

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

All right. So we'll continue with multipart questions, I guess, to keep everybody awake. So centrally managed, really nice growth, obviously, good organic growth, good asset growth. How do you see sort of the internal addressable market in this part of the model? Is that something that you see advisers sort of switching from somebody else like external TAMs or these are new folks that have not really used these services before? And maybe just remind us on the economics again, kind of how does LPL ultimately makes money on this? Does that show up in advisory or does this show up in other? So just a little bit more granularity there would be great.

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

I'll take the first part of that, Matt, and you take the second. So Alex, with respect to where the opportunity set is coming from, I think your question set it up well. For the most part, it's new advisers coming on to our platform that will move from some other solution that they had been using wherever they came from. So that's obviously one driver of growth. A second driver of growth is we're seeing more and more advisers utilize centrally managed solutions versus Rep as PM or constructing their own portfolios for the efficiency gains, for the opportunities of which to create some professional leverage points that allow them and free up time to do other things, I think, is a positive trade. So the more we add capability to this and lower the cost, the more and more that's a logical trade for them. So that is the second component.

And then I think the third is that you just continue to have this ongoing transition from brokerage to advisory, which is obviously a tailwind across the entire advisory platform, including centrally managed. So you might think about it through those 3 drivers.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO*

And then, Alex, just on the economics, I think that when you look at the long-term trends, where interest rates are, is going to impact the numbers overall. But just to give you a sense of the different platforms, I think we -- when you look at brokerage assets from an ROA standpoint or a gross profit ROA standpoint, they've been in the 15-plus or 15 to 20 zone depending on where interest rates are. When you move into the advisory platforms, it's about 10 basis points above that. And then within the advisory platforms, when you move into centrally managed, it's another 10 basis points on average above that. So I hope that helps on the economic side.

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

Yes. That's great. And then a follow-up on Waddell, so $85 million plus in EBITDA contribution in middle of next year. Can you help us frame the opportunity around the plus? How much of that would be sort of cross-selling? How much of that would be maybe accelerated growth for Waddell advisers? Or are there additional kind of cost-cutting measures that are maybe embedded in the plus piece? Just trying to frame what the opportunity could be.

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO*

Yes, definitely. I think future growth would be above and beyond that. I think when you look at our -- moving Waddell onto our platform, what we've done so far through the quarter is really getting the synergies on the revenue or the gross profit side as we move them on to our platform, move them off of their custodian. And I think from this point forward, it's really about the work on expense synergies, right, the natural things that you would do in a corporate integration that we plan to get done by the middle of next year.

So the plus on $85 million plus is really just that work. And if that goes better than estimated at this point, that's where the plus could come from.

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

Yes. I think, Alex, just to add to that beyond that, you would begin to factor in can we support and help their same-store sales growth, expand their utilization of advisory platforms, et cetera. So those are things that aren't necessarily contemplated that in the short run.

Operator

Our next question comes from Michael Cyprys of Morgan Stanley.

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

I was just hoping that you could update us on the digital offering, what that looks like today. And how do you expect that offering to evolve over the next 12, 24 months? Maybe you can give us a sense of what's next on the to-do list there.

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

Michael, just for purposes of a little bit of the distinction, are you talking about for the end client or the adviser or both?

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

Both, please.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

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

Yes. So for the adviser, we continue to see an important part of the overall value proposition being the operating platform on which we provide them with that digital platform. So anything that we can do that helps them operationally simplify what they do straight-through processing, easy user interfaces that make for simple clicks to ultimately kick off a series of integrated workflows, those are great outcomes. And so that's where we think about this digital platform, of which helping our advisers in terms of simplifying the overall day-to-day processing and drive efficiencies into their work.

I think the second place that we think about is how do we add and enhance robotics, AI into these overall systems to improve and enhance the efficacy of those systems. So think about improving or enhancing our overall collaborative risk management with them would be another place. So you streamline how you think about risk management. You have systems that are more efficient and effective at overall assessing some set risk and collaborating and working together with them as another opportunity.

And maybe a third one is how do we help them with respect to prospective insights or trends that are occurring within their client base and how to position, to better serve or support them or take a certain action. So that might be 3 places in a spectrum -- in a wide spectrum of areas that we see as big opportunities on the, what I would call the adviser platform. And that's what we sometimes refer to as client works as an operating platform or a client works connected where we're actually streamlining workflows.

With respect to the end investor, that's been a place of investment for us. That has not historically been a place that we necessarily played in to create great value. And in the last 4 years, we've pivoted pretty significantly and are trying to create what I would call a digital platform that we wrap around the advisers, not meant to replace the advisers, actually meant to enhance the adviser's value proposition to the client and enrich how they show up for that adviser.

So think about the combination of the adviser's professional IP together with a really modernized digital experience around that. And so we're investing in our digital capabilities in order to achieve that, so anything from your standard ability to initiate and kick off workflows by the end investor to having robust content that provides them insights on industry opportunities within their portfolios to just the standard data they may need to better manage their account when they want to, however they want to, sort of meeting them where they are.

So we see that as a really robust and ongoing place to invest as we think about transforming that over time into smarter, more intuitive AI-driven opportunities to make sure we're there when the client -- we're there with the adviser when the client needs us most.

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

Great. And just as a follow-up, I was hoping you could maybe elaborate a bit on the traction you were seeing in the RIA custody offering and the momentum there. Maybe you could comment on how many advisers have partnered with you since the relaunch of that, what the feedback has been. And what sort of actions are you taking here to enhance the growth and enhance the offering?

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

Yes. So in that case, we were -- as I had mentioned to you before, we were already a custodian, if you will, for RIAs. We just had done it in a more defensive posture. And so we've been investing to streamline and improve the efficiency and experience that we can deliver as a custodian for someone who's just focused on RIA business or advisory business.

So one, that's been a, I would call it, a year journey to improve that. We're still working on that, but we feel good about that journey and that trajectory. And then the second thing that we've done is we've added resources to focus on growing this business and hence, the combination of those intersection points launching this last spring. And we've had some -- what is -- what we expected was a trajectory very similar to our SWS model or our LPL employee model where you sort of build and ramp in. And I would say that we were pleased that the quick response we -- and the interest that we've had in that custodial side that exceeded a bit of the ramp that we saw in those other models. And so we still have some

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

iteration and work to do as we learn and get feedback from those advisers that have joined us, but it's been a small handful today, and the pipeline is interesting.

And again, we've got business development resources that are focused on going out and winning this business. So I think you should think about it as we've seen the trajectory of those other 2 models. We do think it will follow a similar pattern, albeit we got a faster start out of the gates, but we think it will follow a similar trajectory, if you will, of growing into that. So it's very, very early on, and we are establishing ourselves as a market player, a competitor who has a viable competitive offering and capability set that's competitively priced, and now we've got to go out and sell it and pull those deals through. So I think there's more to come on that. It's just really early and pleased at the quick response that we've had. We onboarded several advisers, and we've got a good solid pipeline building.

Operator

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 just was curious about squaring a couple of the comments on the ICA dynamics and how they've been changing. It looks like the money fund balances went up in the quarter a decent amount, but yet, I think you indicated that the floaters, the ICA floaters were now Fed funds plus 5. So maybe could you help me square why the money fund balances would have gone up if the floaters are looking more attractive? Or was it that that's now post 9/30, and that's the current environment? And so we should expect those money fund balances to move out and move into the floaters.

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO*

Yes. Sure, Brennan. So 2 different things going on. On floating rate dialogue in the Fed funds plus 5 zone, I was just giving some color on what the dialogue is in the current market, right? We've got no new contracts there. Just to try and give a sense, now that there's some steepness to the curve, that folks are starting to engage at a place that I think is constructive versus in the past it's been 1 basis point in a lot of cases.

So I think I would just look to future quarters where we'll update on how that's going. I was just giving you a sense as to the dialogue in the marketplace right now.

On the money fund side, that's a little bit different. I think what you see happening there is really the overflow capacity that we have, where there's really 2 types of overflow. It can be in ICA contracts or bank contracts or money markets. And the capacity in that part of the market is really primarily coming from money markets because you can imagine on that type of short-term money, the banks don't have a lot of economics and therefore don't have a lot of demand for it versus the money funds don't have the similar balance sheet constraints. So that's where you just see a lot more demand there.

Now those are overflows. So kind of to square that back with the first part of your question, when demand does return, those balances will naturally go back into whether it be floating rate contracts or fixed rate contracts whenever the capacity returns. So a little bit of 2 different things going on there.

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

Got it. Okay. And then on promotion, I know that you had referenced that there's a lot of flux going on in the conference world, which is totally understandable. Normally, if we go back to pre-2020, 3Q to 4Q, you guys typically have a pretty decent drop, about a $10 million or $12 million drop in conference expense quarter-over-quarter. Would that -- and trying to think about the promotional indication of up a few million quarter-over-quarter. Would that typical seasonal pattern of the conference expense decline in the fourth quarter, and therefore, the TA amortization

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

would continue to ramp? Or is this year going to look a little different on the conference end of things? I know it's a ticky tacky question. Just want to get it straight.

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO*

Yes. No worries. Yes, I think it's the last part you said there, but this year is a little bit different. And I think the key is when you look at last year for conferences, meaning Q4 of 2020, we really didn't have any conference spend just given COVID in the environment when typically you would have it spread throughout the year. And then when you look at our plans for this year, even though we haven't returned to pre-COVID levels, we've really scheduled the conferences almost entirely in the second half of the year.

So when you get into the Q4 '21 versus Q4 2020 comparison, it's just a little bit of an abnormal year where you've got basically half of our conference spend this year in Q4. When to your point, historically, you would typically see a decline. So it's just a little bit of a different year.

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

Got it. So more like a flat quarter-over-quarter conference dynamic than the typical drop.

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO*

Yes. And I think my comments in the prepared remarks were just promotional up a couple of million next quarter, which to your point, is likely driven by growth in TA.

Operator

Our next question comes from Gerry O'Hara of Jefferies.

Gerald Edward O'Hara - *Jefferies LLC, Research Division - Equity Analyst*

Great. Sorry about that. Long day. Anyway, Dan, I think in your prepared remarks, you mentioned something about the traditional markets continuing obviously to be strong for you all, despite lower assets in motion, if I kind of got that correctly. I was hoping you might be able to kind of flesh out that dynamic a little bit, whether that's just sort of a slowing in the breakaway broker trend, whether it's a little bit more near term or if it's just kind of of more secular in nature. That would be helpful.

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

Yes. And where I mean in the traditional markets or maybe the adviser movement, I don't actually mean to reflect those that are moving out of the warehouses. Actually are more reflecting the movement within the independent space. And I do think that's more timing than anything. I think you've had lots of folks that are already in the independent space with some of the success that they're having in the marketplace today and growing their practices and supporting their clients as well as you just add to the complexity of coming out of a significant amount of change in the prior year due to the COVID environment. I think it's much more circumstantial than it is some structural shift in terms of the adviser movement in the independent space.

But I do think that's probably reflective of the balance of this year and as we get to a place where we see, hopefully, the COVID environment more normalizing. I think you'll see people ramp back up, continuing to explore their strategic options versus just tactically managing their business. I hope that helps.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

Gerald Edward O'Hara - *Jefferies LLC, Research Division - Equity Analyst*

Yes, it does.

Operator

Our next question comes from Devin Ryan of JMP Securities.

Devin Patrick Ryan - *JMP Securities LLC, Research Division - MD and Equity Research Analyst*

Actually, just want to come back to the conversation we're just having now about kind of independent broker movement. And I guess the longer-term point of view, Dan, that you're just talking about, you think about the market, I mean, there's still huge fragmentation, smaller group of scale players. If you just think about the past 1.5 years or so, I mean, it just feels like the leaders are separating themselves and it's more obvious just around technology, some of the things you guys are talking about on service and just the evolution of the model.

And so I want to just kind of talk a little bit about how this plays out longer term and just the consolidation of the market to the larger firms. It's clearly been going on for years. You guys have been a winner of that. But at what point, if at all, does it really kind of accelerate? Because it feels like there may be some inertia right now, and to your point, there's some friction in trying to move after kind of a lot of change over the past year. But why aren't advisers kind of long term kind of going towards where there's just -- it feels like tremendous value relative to some of the smaller platforms that just aren't going to be able to keep up technology-wise or service-wise or with some of the innovation that the large firms are bringing? So it's kind of tailoring on, on the prior question, but would like a little more detail there.

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

Yes, sure. And so as you say, outside of the current environment, right, we do see that structural trend from moving from a, let's call it, a smaller provider to one that has more capabilities or higher quality capabilities that are going to help them better serve their clients. So that trend did exist today even in this environment, and we do expect it to continue.

Now as we are able to invest more robustly in new capabilities, new opportunities, new economics, I think that will only accelerate that trend, Devin. And then at some point, when it hits one of those firms hard enough, then you'll see, as you say, the capitulation point of the trading the franchise. And so we do expect that trend to continue. I think we -- that's why we lead with organic growth and why we're so committed to investing in our capabilities to further enhance the appeal of the model, because we do see the independent space as a robust opportunity to continue to fuel our organic growth.

Now the nice thing is you have the flexibility of the models that we offer now, right? We can take those investments and across these different models, create a much bigger opportunity set from that growing appeal in this broadened available market. And so much like we see that continued trend from the all captive to the independent model, we continue to expect that to accelerate and evolve. And obviously, we're playing -- are trying to in a significant way to be a participant in that.

So I think you've got it right. I think those structural trends continue. And at some point on an individual sort of basis, these companies will hit an inflection point where they feel like strategically it makes more sense to explore some sort of transaction. And certainly, we're positioned to participate in that market at right valuations. So I hope that helps.

Devin Patrick Ryan - *JMP Securities LLC, Research Division - MD and Equity Research Analyst*

Yes. I appreciate it. And a quick follow-up here. You may have hit this. But on commissions, just a little step back on -- particularly sales commissions is what I'm looking at here. We'll step back in the quarter. Is it seasonality? Or is this kind of the right level? Maybe last quarter was a little more

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

active above average. Just any color on how to think about the trajectory and whether it was just a lighter quarter because either you have some seasonality or people are just a little bit less engaged? Any color on how to think about the quarter for commissions but maybe modeling going forward as well?

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

Yes, yes. That makes sense. And not to be overly precise, I would, as you say, look at it over a broader set of data than just 1 quarter. Naturally speaking, you have some elements of seasonality inside the third quarter because of the July-August time frame or summer time frames, which sometimes reduces activity. And so that said, again, without trying to make that specific correlation here. I kind of look at it more broadly over the last 12 months. And you have seen some sustained elevated levels from where -- from our jumping off point in the prior 12 months, right? And I think you've got a couple of things going on to think about. Some are in -- market-driven.

You've got good solid equity performance in the market. You've got good liquidity in the market, which certainly drives some activity, coupled with, I think, ongoing rising interest rate environments will create more opportunities for certain brokerage solutions to be offered. Think about things like annuities. So those are some things to think about in the macro.

I think when you think about our structural opportunities, certainly the growing number of advisers we have will lead to more commission-based and sales-based business. And then on the sort of that same sort of structural concept, though, you've got the headwind of this ongoing transition from brokerage to advisory. And those are the sort of the drivers of the inputs that I would think about as you think about the opportunity set going forward.

But look, I think the last couple of quarters, if you look at those across that entire sort of spectrum, you've got a logical sort of level of activity that I think reflects the current market environment. I hope that helps.

Operator

And at this time, I'd like to turn the call back over to Dan Arnold for closing remarks. Sir?

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

So hey, thanks, everyone, for taking the time to join us this afternoon. We know it's a busy day for you. So we really appreciate the time, and we look forward to speaking with you again next quarter. Thanks.

Operator

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

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2021, Refinitiv. All Rights Reserved.

©2021 Refinitiv. All rights reserved. Republication or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV