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OVERVIEW:

Company Summary

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PRESENTATION

Jeffrey Schmitt - *William Blair & Company LLC - Analyst*

Good morning, everyone. Why don't we start off here? My name is Jeff Schmitt. I cover wealth management and capital market stocks here at William Blair. And I'd like to introduce to you LPL Financial.

They're the largest independent broker-dealer in the US they have one of the best growth profiles in the wealth management industry, just a great track record of growth. So we're really excited to have them here. We have with us here the CEO, Rich Steinmeier, to discuss the business in a fireside chat format. So -- but before we get started, please go to williamblair.com for a complete list of disclosures.

So why don't we go ahead and get started, Rich, -- maybe just as a starting point for the audience, you can kind of walk through at a high level who LPL is and what you guys do.

Richard Steinmeier - *LPL Financial Holdings Inc - Chief Executive Officer, Director*

Yeah, thanks, Jeff. It's great to be here. So nice to see you all. So who is LPL? Well, we are one of the leading full-service wealth management firms in the industry. We provide middle, front and back-office support of advisers and institutions in the delivery of advice. And in that, we're largely a platform company. Think about us supporting the delivery of advice through those institutions or through largely independent financial advisers. We serve over 32,000 financial advisers and over 1,100 institutions in the delivery of advice, supporting -- they support clients with more than \$2.5 trillion in assets under management.

And that split is largely kind of 75% of the assets are through the independent channel and then 25% of the assets are through our institutional channel. How we win in the marketplace. We largely are the leader in the markets that we serve. And so when you think about that independent broker-dealer segment or the independent market itself more broadly, we are the leading firm in that segment.

We have leading market share we capture more advisers in motion than any other firm in the marketplace. In addition, on the institutional segment serving banks, product manufacturers, credit unions, insurance firms for outsourcing their wealth management, there again, where there's a full service outsourced.

We are the leading player in that market segment as well. We have strong back tailwinds. There is a strong movement to independents in the marketplace. So advisers are moving out of captive channels and to independents. In addition, institutions find it increasingly difficult to be able to deliver a wealth management experience as the requirements of scale continue to grow higher and higher. And so we are the beneficiaries of leading end markets for which there are strong tailwinds.

We have differentiated offerings in those marketplaces. We have the strongest value exchange in those markets. We do that through capabilities, which we've invested in over decades that are differentiated to serve both of those markets as well, we have a client centricity around oriented towards advice.

And that means in the independent market that advisers own their own clients and their free to serve with us or change firms at any given notice, which I think actually puts the impetus on us to be the best firm possible in delivering that experience. If you take that together, that independent ethos, that history of capabilities, leadership in the markets.

And recently, that has led to us being on balance the highest-growing firm in wealth management over a sustained period of time.

Jeffrey Schmitt - *William Blair & Company LLC - Analyst*

Okay. That's very helpful. And then on your organic growth, it has been a little weaker than normal over the last six months just because of some of your focus on common wealth. But what gives you confidence that, that can return to that sort of mid- to high single-digit level over the coming quarters.

Richard Steinmeier - *LPL Financial Holdings Inc - Chief Executive Officer, Director*

Yeah, And I think if you look over the last several years, what we've demonstrated is a consistent ability to be in that mid- to high single-digit organic growth range. And I'd reiterate that that's where we think this firm systemically lives over time. I will acknowledge it after your point. We made an acquisition of Commonwealth and at that point, the most important thing for us was to make sure that we solidified the advisers at Commonwealth made sure that we've redirected a lot of our sales and recruiting team to working with the 3,000 Commonwealth advisers and helping them understand the value proposition and so you can look and see over a nine month period, we largely redirected our recruiting team and feel very good about that decision that we made, but it had implications to our organic growth.

And so as we look at we've now been increasingly moving that team back into an external focus. I spent last week with the recruiting team. They had a national sales conference, huge energy in getting that team back into the external marketplace working directly to helping advisers move to LPL.

And hopefully, you guys have seen over the last month or so, maybe even two months, we've picked up the number of announcements that we've made externally of advisers in motion that are joining LPL. And so I think you'll see, as we brought more and more of those folks that were ring-fenced into the commonwealth retention, brought them back into the field. I see growing pipelines. We see growing joints.

And I think it reiterates we've never been anything other than the top capture of advisers, even as we took those recruiters off and move them into the Commonwealth retention, we still capture more advisers in motion than any other firm in the marketplace, in spite of the fact that we have moved the large proportion of our recruiting team into Commonwealth retention.

And I think that reiterates the point that we should be able to systemically deliver mid- to high single-digit growth, organic growth, married with strong retention, which persists. Our adviser retention is incredibly strong and same-store sales growth for and supporting our existing advisers. So feel like that's on our gravity where we've been over the last six or seven years, minus this kind of movement over to support Commonwealth is likely for us to return over the second half of this year.

Jeffrey Schmitt - *William Blair & Company LLC - Analyst*

So it sounds like, yes, a lot of them have transitioned back to the external opportunities. It's in pipeline building mode that will translate to recruit assets and ultimately organic. So that's good to hear. And then just on -- you've highlighted the wire house channel as a target for organic growth. Could you maybe talk about how the platform has evolved and what additional enhancements are needed to improve recruiting success in that channel?

Richard Steinmeier - *LPL Financial Holdings Inc - Chief Executive Officer, Director*

Yeah, I mean, I think historically, we have been the dominant capture of movement inside of the independent channel and recognized several years ago that there was an opportunity to expand our TAM. We went about that primarily first by expanding our affiliation models so that we had other different types of affiliation that Wirehouse advisers may want to come into. And so we introduced an employee channel, supported independent channel in addition to our already existing support of independent RIAs and then corporate RIAs in a 1099 model.

As you build out that plethora of affiliation models, we started to get higher consideration of Wirehouse visors because sometimes they don't want to take all of that work on their own as they move into independents. We then married that with building increasing capabilities around taking out friction to move to LPL from other firms, building our core foundational capabilities across our operating platform, introducing integrated lending capabilities that is increasingly critical to Wirehouse advisers, an incredibly robust alternative investment platform as well as selling agreements that I think are second to none in terms of the availability of product inside and then also build high net worth capabilities in support of sophisticated planning advisers who serve-high-net-worth and ultra-high-net-worth clients.

You take that together with our preexisting value proposition of unmatched economic sharing, flexibility in the way that you can run your business. and then expansive product availability, you marry that with those enhanced capabilities. And I think all of a sudden, you run into an opportunity where we are an incredibly relevant firm across any adviser who's looking to actually execute the business and want to be with an at-scale partner who have an integrated set of capabilities, a leading value proposition. And in fact, I think we have the leading value exchange in the marketplace. And what we see is the beginnings of consideration for us.

Now in addition, last year, we began to move our brand consideration up. So we made an investment in brand. And in fact, just this morning, we announced a partnership with PJ America. And so we will continue to extend our brand and make it more relevant in those places where Wirehouse advisers, regional advisers are looking. So we become the official wealth management and investment advisory firm of the PGA of America, and we'll be in support of many of their tournaments as well.

And this marks the first sports brand investment we've made as a firm. We take that brand relevance plus the capabilities plus our orientation to having the advisers still own the clients. I think increasingly, that positions us as the leading player across the entire wealth spectrum.

You add to that the Commonwealth level of service that we will integrate with the onboarding of Commonwealth to improve our overall ways that we support advisers. And I think we continue to strengthen our value proposition as a relevant value proposition across the entire wealth segment and feel good about that.

Jeffrey Schmitt - *William Blair & Company LLC - Analyst*

I didn't see that this morning. That's great news. So LPL is the leader in the institutional channel, and there really aren't many competitors certainly for large deals in that or large partnerships there. So -- what differentiates you in the institutional channel? And what does your pipeline look like for those partnerships?

Richard Steinmeier - *LPL Financial Holdings Inc - Chief Executive Officer, Director*

Yeah, I think First, we've been in the institutional segment for 30 years, right? We have been serving -- we started with credit unions, we moved to community banks. We now serve regional and national banks and then move that into product manufacturers, insurance firms. And so our capability set is without peer.

And in fact, when you look at it, we serve of our \$2.5 trillion in AUM, \$550 billion of that is in the institutional segment. That is multiples more than our next closest competitor that serves in the marketplace. Look, we have -- as firms are looking to their wealth business that think about who the best partner would be for their wealth business, they're looking to drive increased growth.

We do that through leading platforms, not only for advisers, but for end investors. They're looking to drive down their expenses to drive margin. And so we do that through the outsourcing of the brokerage operations, service, supervision, compliance, et cetera, and looking to derisk the business, both regulatorily and just inside business risk itself.

And so what you see there is we have an incredibly strong value proposition as an at-scale player who actually does do this business as a matter, of course, we demote our brand. And over time, we go to market behind the institution or behind the adviser. That gives us an incredible advantage relative to some of our peers who actually go to market with their brand first.

We've been able to invest in capabilities that are distinct to the segment. So you think about reporting and performance reporting back to the institution at a hierarchical level, so they've got to roll up either offices or regions, or the business reporting itself. You think about our ability to help them recruit advisers. And so we're the number one capture of advisers in motion in the marketplace. As we direct that in support of institutions, we help them fill their adviser needs.

We also have the ability to provide them business solutions as well. So some of the services that we provide. Keep in mind, the wealth management business is often writing sidecar to a core business -- and so the support services that we offer around advisory, consulting, growth consultants, practice management consultants, all of that wealth management expertise and specialization accrues to their businesses as we get in together and make growth plans collectively to drive their growth in that business.

And so for us, you take that with that tailwind, which is that the size and scale required to be drive and lead a competitive broker-dealer or wealth management business increases to raise. And so we've got those tailwinds that more and more institutional firms are going to be looking to outsource that business. And we are without peer in this segment. We are the best firm as demonstrated in our market share in that segment.

Jeffrey Schmitt - *William Blair & Company LLC - Analyst*

So the Commonwealth conversion, we're getting closer to this, you're targeting the end of this year. How confident are you that in addition to hitting your retention targets, I think you've said you're already at 85% of AUM, but in addition to hitting your retention targets, how confident are you that this will be kind of a smooth conversion with little to no client disruption.

Richard Steinmeier - *LPL Financial Holdings Inc - Chief Executive Officer, Director*

Jeff, I was thinking about it, since 2021, we've actually done nine major conversion events, three M&A events and then six large institutional onboarding. And so -- that is every time we do an institutional onboarding, we are learning more and more we're building more and more capabilities to seamlessly transition the advisers to drive the tape to tape, to do the bulk uploads and do the transfers that occur across the direct business as well.

And so every time we continue to refine our capabilities to onboard large swaths of advisers. And so as we look into it, we've -- we feel good about our continued engagement with the Commonwealth advisers. They are seeing our value proposition resonate. We're keeping Commonwealth intact. We're keeping their service experience; their community is staying in place.

Their conferences are staying in place and so I think they're growing increasingly comfortable that what we said almost over a year ago that we were keeping commonwealth as Commonwealth is in fact the case that's been demonstrated through our efforts. And so that's why I think we've been able to continue to make progress in those advisers and choosing to stay with Commonwealth.

On that integration, we've already begun the build -- we've already begun the builds, building capabilities so that we have a super set of capabilities across Commonwealth and the LPL capabilities. And we feel really good about that we will be in order through Q4 to deliver the onboarding of Commonwealth in a way that is differentiated and seamless and a lot of times, that's what an adviser is looking for.

They want continuity with their clients. They don't want a disruption event. Obviously, they're going to learn new systems, but those systems are going to be more robust with more capabilities. And we feel really well armed to have a very good transition event with Commonwealth.

Jeffrey Schmitt - *William Blair & Company LLC - Analyst*

So and then maybe moving to M&A, I mean once Commonwealth is onboarded, what is your appetite for the next large M&A transaction? Or could you accelerate your liquidity and succession planning? Or could you even just do may be some larger institutional channel deals?

Richard Steinmeier - *LPL Financial Holdings Inc - Chief Executive Officer, Director*

I think it's a good question because Commonwealth is kind of our center of gravity, and it has been our focus now for over a year. which is make sure that we get it right, make sure that we don't put too much into the pipeline or even too much into our consideration set that would blur the lines around what is the most important thing and the most important thing is to make sure we onboard that exceedingly well. And so we're -- as I said just a minute ago, we're feeling increasingly good about our ability to do that.

Maybe if I take a step back, our M&A has always been a complementary approach. What has always come first is driving organic growth. And so you see us coming back into the marketplace in a material way, both across the adviser recruiting as well as the institutional recruiting to reinvigorate our organic growth. But M&A plays a complementary role where we see fit that are opportunistic in nature and fit kind of our long-term objectives. I'd say the exception to that is probably liquidity and succession.

We view liquidity and succession as a core part of our offering in the marketplace to help advisers who have a need to sell their business to get that to the next generation. We have a distinctive offering in the marketplace that no one else seems to have followed where we actually provide the funding by the business and then transition that business to the next-generation entrepreneur. It really resonates well.

And so for us, we have stayed kind of foot on the gas to make sure that we have liquidity and succession available that we're supporting the advisers transitions. And I would call that kind of the centerpiece of our go-forward M&A program.

Now that as you look more broadly, you kind of asked about larger M&A opportunities. I would say we don't feel a burning need or desire to move on to another major M&A event. That will always be part of how we think about opportunistically where there are things that fit our needs. But at this moment in time, we feel good about completing Commonwealth doubling down on some of our liquidity and succession opportunities and then opportunistically looking at M&A, but it is not a critical need for us as we move forward.

Jeffrey Schmitt - *William Blair & Company LLC - Analyst*

Okay. And then moving on to AI. Can you maybe talk about how LPL is incorporating AI into the business both either to make advisers' lives easier or to just increase efficiencies across the organization.

Richard Steinmeier - *LPL Financial Holdings Inc - Chief Executive Officer, Director*

Yes, I think we come out very firmly on the side of that there are huge enhancements to the way that we deliver our business and the way that advisers deliver advice and run their practices that will be enabled through the application of AI and transformative technology. And so we view this as a very strong positive in support of the business and in support of the actual underlying business metrics.

Where we kind of go is we've categorized this into three different buckets. The first is supporting advisers, their practice, the efficiency of their practice and their ability to drive growth and deliver advice. And so there's a whole cadre of things from meeting preparation, plan design, financial plan implementation, capturing notes after a meeting to ultimately identifying the fulfillment of simple tasks and maybe even more complex tests that come out of those meetings. We see that as driving efficiency of an adviser's practice and facilitating their growth.

Second is in building our operations, leaning our workflows and enhancing our ability to go to market. I think of in support of service associates having the ability to deliver outstanding service experience into our clients. But more likely, automating our workflows to take work out of the system, make it more seamless experience, more straight-through processing at a lower cost while enhancing the client experience.

And then the third bucket for us because we have -- we are a fully integrated firm, so we own our own tech stack across the board actually using automation to modernize our tech capabilities deliver increasing capabilities at lower cost. And so think about that as AI through

largely writing code, redesigning code, modernizing code to deliver capabilities, enhance capabilities faster and more cheaply across all of that, we view this as a huge opportunity and don't think advisers will be intermediated by AI, but in fact, will be made and positioned more actively to deliver more holistic advice to more of their clients.

Jeffrey Schmitt - *William Blair & Company LLC - Analyst*

So maybe we can talk about the AI cash optimization tools kind of specifically and stocks have certainly kind of pulled back in recent months across the industry. So because of this, how do you assess both the potential opportunities and the risks to your business model that, that type of tool may create?

Richard Steinmeier - *LPL Financial Holdings Inc - Chief Executive Officer, Director*

So we don't see an imminent risk that cash is going to be disintermediated through the application of AI to look, there's a couple of reasons that we think about that. The first is that advisers have been cash sorting over the last couple of years. And as an active component of how they think about printer clients. We have given them an abundance of offerings and cash vehicles to manage cash inside the marketplace.

But having said that, we can't ignore the realities of what you've identified, which is there are market dynamics that cause us to look into the viability of cash going forward. And so we're looking at that. We're taking a look at what are the opportunities and risks associated with transitioning from cash yield into a more fee-like structure. Having said that, I mentioned at the beginning, we've got over 32,000 financial advisers.

We serve over 1,100 institutions who serve 8 million end investors in the US and so we have to make sure that whatever solution we might work through would work for our clients as well. And so we said it on earnings, but I would reiterate, we're actually doing that active evaluation of how to assess those risks and the opportunities associated with minimizing the role of cash.

Jeffrey Schmitt - *William Blair & Company LLC - Analyst*

Okay. And then maybe talking about efficiencies here. You've increased your focus on operating leverage. It's one of your key priorities, really starting when you took over, how should we be thinking about incremental efficiencies in the business?

Richard Steinmeier - *LPL Financial Holdings Inc - Chief Executive Officer, Director*

Yeah, I think I'd expanded just a little bit. It's operating margin. We look at operating margin, and we feel great about the progress we've made. It's been maybe 18 months since a reiterated focus that we've been working for years on the delivery of but when you think about op margin improvement, I think if you think about the revenue side as well.

So you think about pricing our offering appropriate to the value delivered in the marketplace. And constantly looking at that value exchange between ourselves and our clients. And as we continue to add value and deliver for them, the ability to price appropriately in the marketplace. You look at product shift mix as well.

Obviously, for years, we've been talking about brokerage to advisory, I think you can look at and talk about the inclusion of both sides of the balance sheet and banking becoming a more component -- a broader component of the offering that we think about in support of advisers.

And as we grow scale and we've grown tremendously, you look at that leverage that we have as we look at product manufacturers who really value that distribution on our platform and how do we make sure there's a fair value exchange with them as well.

And as we continue to grow at scale, we get leverage into that as well. that's on the revenue side, then, of course, right, there's a huge focus on the cost side, which is how do we drive efficiencies as much as possible. We just talked about AI.

We talked about leaning the service experience leaning the operations, building more straight-through processing, even thinking about the GCC, so for us, a global capability center and how do we think about the most efficient delivery of code as well as where we can access talent more broadly across the globe.

You add that together, and that should we've made great strides, and I think we believe we've made the investments, we planted the seeds for a sustained continued improvement in our operating leverage over the next couple of years. And as we continue to do that, we'll make a choice as to some of that's going to accrue to the bottom line, but also that's going to allow us to out-invest in capabilities. It will give us more capacity to continue to strengthen our value proposition.

We already think it's the strongest value proposition in the marketplace. I think that's a little bit of thumb on the neck against the competitive set to say, okay, try to keep up with us. And I think we think that this is a critical role. Operating margin improvement plays a critical role in the proper construction of our P&L so that we position ourselves systemically to outperform in the marketplace.

Jeffrey Schmitt - *William Blair & Company LLC - Analyst*

So we've covered a lot of ground today about your current positioning, the various growth initiatives that you have. So if you're successful in executing on your strategy, where do you see the company five years from today?

Richard Steinmeier - *LPL Financial Holdings Inc - Chief Executive Officer, Director*

I think you have to look at companies and companies have to make choices, and we have made a choice to be a leader in this marketplace. That is an active choice. It is sometimes harder, you sometimes take greater risk. But the truth is you'd much rather be the firm that is driving the boat and changing the industry versus the firms that are surfing in the wake and trying to figure out how to navigate in the exhaust side. And that is a choice that we actively made.

We demonstrated that through our position and our acquisition of Commonwealth. And so for us, we think that we are moving to become the leader in the wealth management business. an unparalleled value proposition that continues to be strengthened with financial discipline that demonstrates leading organic growth across not only the adviser segment, but the institutional segment where we continue to strengthen our offering in two markets, as we said earlier, that have tailwinds to them. You take that together.

As we've expanded our participation, more broadly just from originally that independent adviser and RIA segment into the wire and regional segment. As we've kind of raised our eyes and challenged who our competitors are, what we see is we have the unparalleled value proposition in the marketplace. But if I'm frank what you would say is, historically, you would choose to join a firm like LPL with the best economics, the best flexibility, client ownership and maybe or the best capabilities in the marketplace. We didn't always have the capabilities that were at par with the leading wire houses in the marketplace.

I think as you look five years forward or a couple of years forward, even into this firm, what you will see is that we will move from having the best economics the greatest flexibility, greatest product choice, and we will have the best capabilities in the marketplace that will be better than the firms that advisers are at today. And so that ore turns to an end. And I think that means we will ascend to a value proposition that will be unparalleled and really will be hard to catch.

And so I think in that scenario, you will see an acceleration of our share capture in not only in the institutional segment, but most probably in the adviser segment, that should drive us into that sustained high levels of organic growth that we've demonstrated over the last six to seven years.

Jeffrey Schmitt - *William Blair & Company LLC - Analyst*

Okay. We're coming up on time. We have a breakout in the Adler room shortly, but this has been really great, and I want to thank you, Rich, for joining us.

Richard Steinmeier - *LPL Financial Holdings Inc - Chief Executive Officer, Director*

Thanks, Jeff. Appreciate it.

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