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LPLA.OQ - Q4 2024 LPL Financial Holdings Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good afternoon and thank you for joining the Fourth Quarter 2024 Earnings Conference Call for LPL Financial Holdings Inc. Joining the call today are our 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. (Operator Instructions)

The company has posted its earnings press release and supplementary information on the Investor Relations section of the company's website, investor.lpl.com. Today's call will include forward-looking statements, including statements about LPL Financial's future financial and operating results, outlook, business strategies and plans as well as other opportunities and potential risks that management foresees.

Such forward-looking statements reflect management's current estimates or beliefs that 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. Steinmeier.

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

Thanks so much, operator, and thank you to everyone for joining our call. It's a pleasure to speak with you again.

Before touching on our fourth quarter results, I'd like to reflect on a few of our key accomplishments during 2024. Against an evolving market backdrop, we remained focused on serving our advisors and institutions growing our business and delivering shareholder value. We delivered industry-leading organic asset growth of 10%, with contributions from both our traditional and new markets, including the onboarding of one of our largest institutional partners, Prudential Advisors. We set recruiting records in both our independent advisor and institutional channels. As a complement to that strong organic growth, we closed on the acquisition of Atria and entered into an agreement to acquire The Investment Center.

In addition, we continued to advance our pioneering Liquidity & Succession program, where we closed 22 deals, including 5 with external practices. Finally, we delivered impressive financial results with record adjusted earnings per share of \$16.51.

Now let's turn to our Q4 results. In the quarter, total assets increased to a new high of \$1.7 trillion as we attracted record organic net new assets of \$68 billion, representing a 17% annualized growth rate. Our fourth quarter business results led to strong financial performance with adjusted EPS of \$4.25.

Next, let's turn to our strategic plan and growth across our organic and inorganic initiatives. As a reminder, our long-term vision is to become the leader across the advisor-centered marketplace. To do that, our strategy is to invest back into the platform, provide unmatched flexibility in how advisors can affiliate with us, and to deliver capabilities and services to help maximize advisor' success throughout the lifecycle of their businesses. Doing this well gives us a path to sustainable industry leadership, not just in the independent and institutional markets, but across all of wealth management. It's a bold aspiration, but one I'm confident that we can achieve.

Over the near-term, we are amplifying our focus on three key priorities: one, to maintain the client-centricity that this firm was built on; two, to empower our employees to deliver exceptionally for our advisors and their clients; and three, to deliver improved operating leverage.

To help us achieve this, during the fourth quarter, we shifted our organizational structure and leadership to better align our teams, sharpened our focus on key priorities and increase accountability. As part of these changes, we recognized outstanding individual contributions with the largest class of internal senior promotions in our history. Together, these actions strengthen our ability to leverage our tremendous talent to execute on our long-term vision.

With that as context, let's review a few highlights of our business growth. In the fourth quarter, Recruited Assets were \$79 billion, bringing our total for the year to \$149 billion, both of which represent records.

In our traditional independent market, we added approximately \$13 billion in assets during the quarter, which contributed to record full year recruited assets of \$71 billion, exceeding our prior high by more than 40%.

This improves on our already industry-leading capture rates of advisors in motion, while also expanding the breadth and depth of our pipeline. With respect to our new affiliation models, Strategic Wealth, Independent Employee, and our Enhanced RIA offering, we delivered another solid quarter, recruiting roughly \$2 billion in assets. And as we look ahead, we expect that the increasing awareness of these models in the marketplace and the ongoing enhancements to our capabilities will drive sustainable growth.

We also continued to make progress within the large institutional marketplace, where during the fourth quarter, we onboarded the retail wealth management business of Prudential. It's only been a couple of months, but there are already signs that the integrated experience and enhanced capabilities we delivered are improving their attractiveness in the market place for advisors.

Our momentum continues in Q1, where earlier this week, we onboarded Wintrust Financial's wealth management business to our Institutional Services platform.

As a complement to our organic growth, we closed the acquisition of Atria Wealth Solutions, welcoming their approximately 2,200 advisors, 160 institutions, and home office staff to the LPL family. The transaction is progressing well, and we remain on track to meet our 80% retention target.

As for our broader business, asset retention remains industry-leading at 98% for 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.

In closing, the fourth quarter was a capstone on another outstanding year. We are well positioned to serve as an indispensable partner to our advisors and institutions, to continue delivering industry-leading organic growth, and to maximize long-term value for shareholders. All of this is driven by the dedication and hard work of our fantastic team. So, above all, I want to thank them for their efforts.

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

Matthew Audette - LPL Financial Holdings Inc - Chief Financial Officer, Principal Accounting Officer

All right. Thanks, Rich, and I'm glad to speak with everyone on today's call. As Rich mentioned, 2024 was a strong year for the firm as we delivered meaningful growth and progressed our capabilities, leaving us well positioned to continue to serve and support our nearly 29,000 advisors, grow our business, deliver shareholder value and advance our key strategic priorities.

Turning to our fourth quarter business results. Total advisory and brokerage assets were \$1.7 trillion, up 9% from Q3, as continued organic growth was complemented by our acquisition of Atria, which added \$88 billion of assets in Q4.

Total organic net new assets were \$68 billion and approximately 17% annualized growth rate. Prior to the onboarding of Prudential Advisors, our annualized growth rate was approximately 7%. A strong result both on an absolute and relative basis. For the full year, total organic net new assets were \$141 billion or an approximately 10% growth rate.

On the recruiting front, Q4 recruited assets were a record \$79 billion, which included \$63 billion from Prudential. Looking ahead, given our strong pipelines, we expect our recruiting momentum to continue into 2025. However, I would note the natural seasonal headwinds to advisor movement in the back half of December typically carry into Jan. So we expect recruiting to ramp throughout Q1.

As for our Q4 financial results, a combination of organic growth and expense discipline led to adjusted EPS of \$4.25.

Gross profit was \$1.228 billion, up \$100 million sequentially. As for the components, commission and advisory fees net of payout were \$313 million, up \$39 million from Q3. Our payout rate was 87.8%, up 30 basis points from Q3 due to the seasonal build in the production bonus and the onboarding of Prudential.

With respect to client cash revenue, it was \$397 million, up \$25 million from Q3, as the sequential growth in balances more than offset the impact of lower short-term interest rates. Overall client cash balances ended the quarter at \$55 billion, up \$9 billion sequentially, which included approximately \$4 billion from Atria and Prudential. The remaining \$5 billion of cash balance growth was our largest sequential increase since the second quarter of 2022, a strong result even when considering the natural seasonal build in Q4.

Within our ICA portfolio, the mix of fixed rate balances was roughly 55% within our target range of 50% to 75%. Looking more closely at our ICA yield, it was 335 basis points in Q4, up 3 basis points from Q3, driven by higher yields on our fixed rate contract renewals. As we look ahead to Q1, we expect continued tailwinds from the yields on our new fixed rate contracts to be partially offset by the full quarter impact of the November and December rate cuts. And as a result, we expect our ICA yield to increase by a few basis points.

As for Service and Fee revenue, it was \$139 million in Q4, down \$7 million from Q3 due to lower conference revenue and IRA fees.

Looking ahead to Q1, we expect Service and Fee revenue to be roughly flat as the full quarter contribution from Prudential is offset by lower conference revenue and OSJ termination fees.

Moving on to Q4 transaction revenue, it was \$62 million, up \$3 million from Q3. As we look ahead to Q1, trading activity levels remain roughly in line with Q4. However, I would note there are 3 fewer trading days in Q1, so we expect transaction revenue to decline by a few million sequentially.

Now let's move on to Atria and Prudential, starting with Atria. Overall, the transaction is progressing well, and we remain on track to onboard our Atria advisors this year. As for Prudential, we onboarded \$40 billion of assets in Q4 and expect the remaining \$23 billion to onboard in Q1.

Now let's turn to expenses, starting with Core G&A. It was \$422 million in Q4, bringing our full year Core G&A to \$1.515 billion, which was within our outlook range. For the full year, prior to the impact of Atria and Prudential, we grew 2024 core G&A by approximately 8%, roughly half the rate we grew in 2023.

As we look ahead to 2025, we remain focused on delivering operating leverage in the business. In recent years, we have ramped investments to scale our business and drive greater efficiencies.

So, while we will continue to invest to drive and support growth, the benefits of our ongoing efficiency efforts are slowing core G&A growth in 2025. As a result, we plan to grow our Core G&A in a range of 6% to 8%. In addition, we'll have the full year impact of expenses related to Atria and Prudential, which adds \$170 million to \$180 million. This brings our overall expectation for 2025 Core G&A to be in the range of \$1.730 billion to \$1.780 billion. To give you a sense of the near-term timing of the spend, as we look ahead to Q1, we expect Core G&A to be in a range of \$420 million to \$430 million.

Moving on to Q4 promotional expense. It was \$173 million, down \$3 million from Q3, as lower conference expense was partially offset by seasonal increases in marketing spend, as well as transition assistance related to our strong recruiting and the acquisition of Atria. Looking ahead to Q1, we expect promotional expense to decrease to approximately \$160 million, driven by lower Prudential related onboarding costs.

Looking at share-based compensation expense, it was \$26 million in Q4, which included a \$12 million impact related to the departure of our former CEO.

As we look ahead to Q1, we expect this to return to a more normalized level, or roughly \$20 million.

Turning to depreciation and amortization, it was \$92 million in Q4, up \$14 million sequentially. In addition to technology development related to Prudential, as we noted last quarter, we recently went live with two new internal data centers, which was the main driver of the increase in Q4. Looking ahead to Q1, we expect depreciation and amortization to return to more typical levels of growth as we expect an increase of a few million.

As for interest expense, it was \$82 million in Q4, up \$14 million sequentially, driven by higher revolver balances following the close of the Atria transaction. I would also note that during the quarter, we completed a leverage-neutral refinancing of our existing \$1 billion Term Loan B into a new Term Loan A, and as a result, expect roughly \$5 million of annual interest expense savings.

Regarding capital management, we ended Q4 with corporate cash of \$479 million, down \$229 million from Q3. As for our leverage ratio, at the end of Q4, it was 1.9 times, just below the midpoint of our target range.

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 Q4, we deployed capital across our entire framework, as we continued to invest to drive and support organic growth, allocated capital to M&A, both within our Liquidity & Succession program, as well as the acquisition of Atria, and lastly, return capital to our shareholders, restarting share repurchases, buying back \$100 million of our shares.

As we look ahead to Q1, we expect to repurchase another \$100 million shares.

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)

Steven Chubak, Wolfe Research.

Steven Chubak - Wolfe Research - Analyst

Thanks so much. Rich Matt, good afternoon and hope you're both. Well, Rich, I wanted to start off with a question on organic growth. In '24, you achieved a 10% NNA in a backdrop where many of your peers actually saw a pretty marked deceleration in organic flows. Just given the further widening of the NNA gap between you and your peers, as we look ahead to 2025, how do your backlogs compare today versus year ago levels? And is the 7% to 13% M&A target still achievable just given a much larger asset base today?

Rich Steinmeier - LPL Financial Holdings Inc - Chief Executive Officer

Stephen, you're playing the role of Ricky Henderson for us here, the lead off hitters. So I appreciate it. I appreciate the question thanks for the well wishes regarding Matt and I. So regarding the question, so we're really proud of the results that we were able to deliver not only in the fourth quarter but throughout the entire year in recruiting. And as you kind of alluded to, the market itself, the advisor movement remains below historical norms.

And we've even discussed this at points now internally to say I think maybe this is where the norm is in that 5% kind of churn rate versus historical 6% to 6.5%. So in spite of that market environment where you see that movement being lower, we actually continue to win in that market because we're growing our win rates.

We're growing our market share of advisors that are moving between firms and not just only independent advisors, but also advisors at wires and regional firms as well. And that's what you see inside of our Q4 results. And as those advisors move, I think they've prioritized capability delivery, technology and service experiences as the number one priority as they think through firms.

And in that regard, what I think you're seeing is the payoff in the marketplace of our value exchange to advisors being unparalleled. You see an increasing amount of advisors recognizing that our capability sets, our technology, and the way we orient serving our clients is differentiated. And so the conversations are actually getting easier, not harder for us as we enter into recruiting conversations.

Second, those advisors are going to look at ongoing economics. And again, here, as we take a look at how we compete in the marketplace, we feel really competitive as to how we can help advisors grow and achieve success, which isn't just financial payouts, but also the ability to grow and sustain their practices.

And then last, the priority is usually going to be around TA rates, which have been stable in the marketplace and for which we're consistently competitive on those. But to say how I think -- how do we think about our ability to win ongoing and sustain that performance over a longer arc, I do think it represents a demonstration of the payoff of the investments we've made in our model and our capabilities, expanding advisors choice in affiliating with our firm, and building greater capabilities not only for advisors, but institutions to choose to join us.

One of the things that's probably a little bit understated is actually the dedication and the performance of our world-class business development team. This is a team that is made up of individuals who come to work every day to reflect to advisors how they could join this firm to improve their performance of their practice. And I am just blown away.

I had the privilege of leading that team for a number of years and feel that they are the best team by far in the marketplace and demonstrate that quarter-in and quarter-out. But you asked specifically about whether we can keep up that momentum. And I think the answer, in short, Stephen is yes. We continue to strengthen that value proposition. We continue to out invest competitors in the ability to build new capabilities and service new markets.

We continue to get demonstrated wins that actually validate us in new markets, not only in the private wealth market and are the large institutional markets, but a continuing progress in the momentum in serving wirehouse and regional advisors through our new models as well. In addition to that, we plugged in a new capability over the last 1.5 years around Liquidity & Succession.

And as you're aware, one-third of advisors are going to retire over the next 10-year arc, a distinctive Liquidity & Succession solution that allows advisors to monetize their life work without having to have it homogenized and move that to the next generation of advisors is differentiated in the marketplace and quite honestly, resonating.

And so as I take that all together, in spite of the fact that, obviously, we're happy to have a stronger kind of denominator in that mathematical equation you asked about, I think we feel confident in our ability to sustain our performance in the range of organic growth that you had articulated and that we've articulated over the last couple of years.

Matthew Audette - LPL Financial Holdings Inc - Chief Financial Officer, Principal Accounting Officer

And if I could add, Stephen, some -- Rich and I play our roles well here. I think you hear the passion and excitement there. I'll just throw in some empirical data that I'm sure you know, but that 7% to 13% was the growth rates we had in 2020 and 2021, which I think were good bookend years of a challenging year in a year kind of where things were right in the tailwind. And then if you look at 2022, we grew at 8% with our AUM at \$1.1 trillion. If you look at 2023, we were at 9% with AUM at \$1.4 trillion, and we grew at 10% this year with AUM ending at \$1.7 trillion.

So up to you if you extrapolate or not, but I think the trends, I think, are pretty telling. Yes, I'm not extrapolating just to make sure you know, but Rich has given me a thumbs up here. I don't know what that means. So jokes aside, hopefully, that data was helpful.

Steven Chubak - Wolfe Research - Analyst

No, it was extremely helpful. And that's it for me, unless no one asks about January cash levels, in which case, I'll certainly get back in the queue. Thanks so much.

Matthew Audette - LPL Financial Holdings Inc - Chief Financial Officer, Principal Accounting Officer

All right. Well, I'll just blurt it out if no one does Stephen, so you don't have to get back in.

Steven Chubak - Wolfe Research - Analyst

Thanks, Matt.

Operator

Alex Blostein, Goldman Sachs.

Alexander Blostein - *Goldman Sachs & Company, Inc. - Analyst*

Hey, good afternoon guys. Thank you for the question as well. Another one for you around organic growth, but maybe more from an organic revenue side of things. One of the sort of pillars of your growth algorithm has been to improve kind of revenues on assets over time.

And part of that has been growth in the centrally managed accounts, centrally managed assets. If we look at the results this quarter, obviously, a very meaningful step up. It's likely due to Pru, but I was hoping you could unpack what the organic growth has been in that part of the business, where you're seeing the most uptake, and when you zoom out a little bit more. What are some of the most needle-moving areas where you see improving return on client assets over the next couple of years?

Matthew Audette - *LPL Financial Holdings Inc - Chief Financial Officer, Principal Accounting Officer*

Yes, I'll start on centrally managed, and Rich, if you want to take the longer-term point. I think you're right, Alex. There's definitely a lot of Prudential in that number, centrally managed NNA was \$25 billion in the quarter. \$18 billion of that was from Prudential where other advisory assets went in there. So outside of that, you have, call it, \$6.5 billion of -- think of that as core growth during the quarter.

And that was a record by far. But our prior record was \$4.4 billion and that was set this year in last quarter. So I think what you see in centrally managed is really our focus on making sure we're building tools, capabilities, services that are supportive of our advisors. And then I think centrally managed is a great example of that. We continue to invest in making sure it's priced right, capabilities are correct.

And it can support advisors in their asset management, asset allocation part of their roles and jobs so they can spend more time on what's most valuable for them, which is with their clients. So I think that's just a key part of our value proposition and investment. And I think that's why you're starting to see that those NNA numbers continue to improve. Rich over to you?

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

Yes. So maybe, Alex, just to follow up on one thing that be of import as we think about that centrally managed as well. I think it's critically important to recognize that we actually have our own advisory platform. And so as advisors evolve and grow their business over time, as they look at that brokerage to advisory mix and when it's appropriate for their clients, it is deeply integrated and easy for them to actually move from one account type structure to another.

And I think us owning and understanding and having that direct feedback from nearly 29,000 advisors on what's best to deliver capabilities in advisory, is incredibly important because then we can go and build those capabilities directly.

But if you think about -- you asked about some other areas where we may continue to see a positive mix shift, I would double down not just on centrally managed, but we still think there's a pretty sizable opportunity as advisors look at their books in the way they choose to serve their clients to move from brokerage to advisory. And so I think you'll see continued movement from brokerage to advisory in time -- as well, we look at the ability to expand our suite of offerings.

And there, for us, that's a meaningful opportunity. If we think about banking and lending for our advisors to continue their progression in serving their clients on both sides of the balance sheet with integrated capabilities that we would have on the banking and lending side around cash management as well as lending capabilities against their portfolios. Maybe last couple of things I would think about is, as we think about the continued progression, I think you'd look at our scale, and Matt impromptu came up with that growth in our AUM, But as we continue to grow scale, that means that our product and platform sponsorship partnerships are more important. We become an incredibly important component of distribution. And so thinking about how we monetize the business in our partnerships on the asset management side, I think is one area where we think there's good opportunity.

And lastly, as we kind of draw our arms around this value exchange that I alluded to, at some point in time, you continue to think about potentially the ability to price our services aligned with the value that we deliver to advisors and their end investors.

And I think there's an opportunity there to continue progression in that velocity that you alluded to.

Steven Chubak - *Wolfe Research - Analyst*

Great. Awesome. Thanks very much guys.

Operator

Devin Ryan, JMP Securities.

Devin Ryan - *JMP Securities - Analyst*

Thanks so much. Hi, Rich, hi Matt. Want to ask a question on Prudential. Clearly, early days of the integration, but it sounds like it's going really well. And so, with that said, just it would be great to hear about more of the capabilities that you kind of integrated there that are resonating the most? And then how you expect those advisors to grow their books of business relative to the average LPL advisor. And then just more broadly, how Prudential is perhaps a catalyst for more conversations in either insurance or enterprise more broadly, assuming it has been. Thanks.

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

Yes. Thanks, Devin. I'll start out, Matt, if you have any impromptu things you want to scribble on that note pad and add to. Happy to create that space. So let's talk about coming out.

I think look, in all honesty, we're incredibly proud. I am so proud of the team and what we delivered to be able to deliver on time on point for Prudential, their advisors and their clients. It's a fantastic organization. They took a tremendous leap of faith with us that we could build those capabilities and deliver them. And I am just so proud that we were able to deliver for them.

In regards to the capabilities, I think Devin, this is one of those things that you think about, those insurance-based advisors who are both doing insurance business as well as wealth business, in so many firms, that's a swivel chair type of arrangement that you're working through. You're working on one platform to think about your insurance assets, another platform and in many cases, multiple platforms.

So think about a brokerage platform and an advisory platform, and you may even have additional add-on tools. We have a page that we put together, we call it the Kirby Haram page shout out to Kirby, and on that page, it actually goes through when we talk to our institutional partners we end up being the counterparty and the partner, whereas to replace up to 15 to 16 vendors that they're pulling together on the technology, compliance, supervision, CRM, et cetera. And so there's a simplified operating environment that is easier to understand.

There is a singularity of the client experience where an advisor can actually see their clients see their 360 view of that client all in one place, open accounts in one place, sell annuities in one place, and it just makes it a lot easier for them to do their business instead of having to have a swivel chair where they are logging into multiple systems, that simplicity married with, and I will tell you, it's not just the integration of those capabilities, it is also that we have leading experiences in terms of our NIGO rate which is best-in-class. Matt runs the operations group and gotten the NIGO rate below 2%. That's "Not In Good Order."

And you'll see that a lot of different firms will have that number in 20% to 30% NIGO rates. So what happens is these advisors will come over, they'll get better capabilities, it's easier for them to do their business as well, and more of their business doesn't get bounced back.

You have that, you get half your advisors. That leads to the ability to attract more advisors in the marketplace, and that's where we feel pretty confident Prudential has a fantastic brand name in the marketplace. They actually have a tremendous offering to advisors.

And so we're hopeful that us coming together in that partnership will allow them to accelerate their growth. The second question or the second part of the question that you'd asked was how do you think about the growth of the Prudential advisors relative to other advisors on our platform.

Now it's not been long enough and not a demonstrated long enough time for us to say, okay, we see absolutely that they will grow at a higher or lower rate advisors on the platform. So I will use some intuition and maybe historical experience to share with you.

Prudential actually has lead generation outside of -- from Prudential into their advisors into their wealth advisors. And so having a lead generation source, not unlike banks, gives the advisors an advantage in their ability to grow because they're growing likely more new client relationships than another advisor might grow. In addition, I think you see Prudential bringing more new-to-the-industry advisors in.

And so as now they'll start with lower denominators, but on average, you would see a new-to-industry advisor that is actually being presented the opportunities for leads. We would expect that they might grow faster in time than a more mature advisor in the ecosystem.

Third part of your question in the one question format was. In regards to Prudential, how do we think about that presenting an opportunity for other financial institutions similar to Prudential to engage in conversations with us, to potentially win. I would tell you that our team was out in New York, technically in New Jersey, just two nights ago and went to dinner with some of the Prudential leadership team, and they were incredibly bullish on our partnership on how we delivered and have indicated that they are, of course, getting calls from their compatriots across the industry around what is that opportunity? How has it gone? And I don't think I'm embellishing when I say that I feel like this team collectively, and Prudential had a lot to do with that delivery, there was a lot in their place, too, this team pulled off an exceptional delivery. It doesn't surprise me because we've been building those capabilities to do it. And I would imagine that, Devin, in time, that will result in more firms in the industry, considering us as a potential partner for them as well.

Devin Ryan - JPM Securities - Analyst

That was Fantastic. Thanks Rich and appreciate you answering my three questions in one. Thanks so much.

Operator

Bill Katz, TD Cowen.

Bill Katz - TD Cowen - Analyst

Great. Thank you very much. Just thinking through the sort of modest shift of interest rate expectations -- how are you thinking about, if any, kind of refinement to your sort of management of the fixed versus floating? Very good disclosure in your supplements around your reinvestment rates and sort of the pickup from what you pick up, variable versus fixed. But just given the potential for higher for longer backdrop, how do you think about maybe that range? Does that shift a little bit? Does duration shift a little bit in your mind? Just trying to think about that over the longer term.

And secondarily, thank you for the tighter opening remarks, not lost on me. Thank you.

Matthew Audette - LPL Financial Holdings Inc - Chief Financial Officer, Principal Accounting Officer

All right, you're welcome, Bill. I think on the fixed target, I think the headline is our plans won't change, meaning we like being in that 50% to 75% range. We're at the low end of that range now. And I think that's more about the building cash balances in Q4.

We'll move back up into the midpoint of that range. But I think the environment itself Bill, other than on the extremes, I don't think it's going to have us move really beyond trying to be in that range in the midpoint. We like to target a rolling portfolio, not to try and be clairvoyant on where rates are going to go because tomorrow, we could have a completely different view of where they're going to go. We just want to be steady and

consistent in that. And that usually means 3- to 5-year rolling portfolio in the midpoint of that range, and you'll likely see us move back up to that in Q1.

Operator

Brennan Hawken, UBS.

Brennan Hawken - *UBS Securities LLC - Analyst*

Good afternoon. Thanks for taking my questions. I'm curious a little bit on D&A. There's been some really strong growth there. I know that you guys have been investing in the tech platform, and I'm guessing that, that has had something to do with some of that, but also some of the capabilities on the enterprise side. When we're thinking about a more normal potential growth rate, though, it seems like we're back to that few million per quarter sequential that you referenced. And so -- is that the right way to think about as we progress through 2025?

And is the X factor for the progression if you guys continue to have wins in enterprise and adding capabilities and that could put some upward pressure there. Is that the right way to think about it? Or would you adjust me?

Matthew Audette - *LPL Financial Holdings Inc - Chief Financial Officer, Principal Accounting Officer*

I think you're in the right ballpark. I mean, I think the big increase, sounds like you paid very well attention in the prepared remarks, which is nice. The big increase this quarter was pretty unique to Prudential and rolling out a couple of new data centers, which you're not going to do every quarter. So that's why going forward, we're getting back to that more normalized a few million.

I do think on the institution side and the technology necessary, that -- outside of Prudential, that hasn't been a huge driver. I mean, I think as Rich articulated very well, Prudential was a very big technology build with a lot of capabilities, and that was, from an integration standpoint, \$325 million. \$200 million of that was technology that drives and goes into that depreciation over time. That was a little bit unique. I think if you're thinking about just institution growth overall, it certainly could be a driver. It wouldn't be something at the level of a Prudential typically, because that was about building the capabilities not only for that new platform, but also to get Prudential onto that platform with the tools and capabilities they need.

So that one is a little bit of an outlier.

Brennan Hawken - *UBS Securities LLC - Analyst*

Great, thanks for that clarity.

Operator

Michael Cho, JPMorgan.

Michael Cho - *JP Morgan - Analyst*

Hi, good afternoon guys. Thanks for taking my question here. I just wanted to touch on expenses and the efficiencies. I mean, Matt, you talked through kind of slowing Core G&A growth kind of given the efficiencies that you're experiencing, and I think you touched on a few areas in the prepared remarks. I was hoping you can unpack kind of operationally where you've actually been able to extract a lot of these efficiencies and where might there be more ahead? And just more broadly, on this journey for outside or more operating leverage in the years ahead.

I mean how would you characterize maybe the 2025 expense profile and margin profile on this journey to drive more leverage ahead? Thanks.

Matthew Audette - LPL Financial Holdings Inc - Chief Financial Officer, Principal Accounting Officer

Yes. I'll give some perspective there. And I think maybe a broad point is not only about efficiencies on the expense side. There's opportunity on the revenue and the monetization side. So I'll start more on the expense side and maybe, Rich, you can jump in on the revenue side.

I think -- and maybe the key thing is if we're really continuing the things that we've been doing for the past few years and especially in 2024, and it's really about us dialing up the efforts and focus on that. And specific to your question, these are investments to really drive efficiencies and they don't sound like they're exciting things, but they're very effective in driving operating leverage, which is automating manual processes in large groups like operations, like service.

We talked a fair bit about on this call that on bringing large institutions on board and just getting more efficient and effective at doing that not only in a cost-effective way, but in a more -- actually, the lower the cost is actually the faster we get them on as well. So it's not only lower cost, it's a benefit to those clients as well.

So I think when we may be getting specific to your point as we look ahead to 2025 and maybe with some context in 2024, right, where we delivered double-digit organic growth, 10% and with a Core G&A growth rate in the 8% range or around 8%. And I think you're starting to see that operating leverage benefit continue into 2025 where if you look at our guidance in the 6% to 8% range prior to the full year impact of Prudential and Atria.

And I think shorthand down the middle, which I think many of you were at 7%, right? That's the second year in a row of expense growth coming down, while I think you've heard us have confidence that we're going to continue to invest and continue to drive organic growth. So there's some real power in that.

And I think our confidence on the opportunities for us to continue to make those investments continue to drive those opportunities as high, especially when you couple it with, I think, a new focus and perspective on the revenue side as well.

Rich Steinmeier - LPL Financial Holdings Inc - Chief Executive Officer

I will jump in on the revenue, but I actually wanted to embellish just one small thing there. I think it's important that you all, as a community, have gotten to know Matt Audette pretty well over the last couple of years, certainly, as a CFO. But for the last couple of years, he's run our operations our risk functions, our compliance function and now more recently, our service and supervisory functions.

And as you think about the discipline required not only to kind of think through where you can have efficiency gains, it actually also requires the operating rigor to stay on top of it, set targets, act against those targets and then hold ourselves accountable to achieve those outcomes.

And so that rigor and discipline that you've maybe come to experience from the CFO side, we get to experience as well as an operator on the other side. And so, it's not just the plans. It's actually the oversight and talent to execute against the plan. And we've made -- I alluded to some of the organizational changes that we made in the fourth quarter.

One of those notably to me, is that we introduced an operating committee that is led by Matt as President and CFO, to continue to make sure that we're actually progressing against that operating margin improvement.

Matthew Audette - LPL Financial Holdings Inc - Chief Financial Officer, Principal Accounting Officer

I had stepped out for minute. Do you mind repeating that?

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

Yes, yes. I think Bill Katz would not appreciate me repeating remarks given that you gave us a complement on the succinct nature of the opening remarks. Yet every one of my answers is incredibly long. So I apologize, Bill. I will say -- I alluded to it a little bit earlier, though.

It's not just the expense side. It also is the monetization side. So when you think about the monetization side, you do want to look at those assets, you want to look at your ability to monetize those assets differently. We want to look at your ability to expand your participation in other and other components of the wealth spectrum that we're not participating in, I mentioned banking. And there's a lot of things that we're looking there to continue to expand our monetization of the assets. I mentioned as well, partnerships on the asset management side and then pricing.

And so we are looking at this in a balanced picture and recognize that there are opportunities on both sides of that equation. For us to sustainably work towards growing operating leverage and margin.

Michael Cho - *JP Morgan - Analyst*

Wonderful, thanks guys.

Operator

Dan Fannon, Jefferies.

Daniel Fannon - *Jefferies - Analyst*

Thanks, good evening. Wanted to follow up on just the cash discussion. And December, obviously, a very nice build, some of that's seasonal. Curious if there's anything underneath that in terms of behavior outside of the onboarding of some of the transactions. And then maybe, as we mentioned earlier, just update us on kind of the January trends, both, I guess, maybe on cash or anything on NNA that's worth highlighting.

Matthew Audette - *LPL Financial Holdings Inc - Chief Financial Officer, Principal Accounting Officer*

Yes, you got it. And I'll start with organic growth first. And just a couple of seasonal items. As a reminder, I know you know, but just to hit them, January is a lower NNA month by nature. Two things driving that, the lower recruiting that we talked about a little bit earlier in December, that kind of flows into the first month of the quarter, usually the first half of January and it ramps up in the second half. And then second is advisory fees, the biggest month of the quarter for advisory piece is the first month. So those two things make January a lower NNA month.

Now specific to this January for us, there's two items that will drive it the other way, which is we have \$23 billion of Prudential assets that haven't onboarded yet. I think a decent amount of those will come on in January as well as Wintrust onboarded in January with \$15 billion, \$16 billion of assets coming on board.

So when you pull all that together and just looking prior to Prudential and Wintrust, we'd expect January to finish somewhere in the 3% to 4% range, which is similar to what we've seen in prior quarters and then building from there in February and March, usually in the mid- to high single digits in those months.

So that would typically bring the quarter to around 6% which would be a good outcome for Q1. And then when you layer on top of that, the assets coming from Prudential and Wintrust, I think we could be in a Q1 organic growth that's probably more in the mid-teens.

So I think a really compelling result and a strong setup for Q1 on the growth side.

On the client cash side. So January, as you noticed, we've got some seasonal as well. Two things to note there. First, same factor on fees, same item on fees. Those come out primarily in the first month of the quarter.

That is about \$1.6 billion of impact. And then second, that December cash build that we typically see due to things like tax loss harvesting, other repositioning. As I'm sure you saw this -- the build this year was larger than most, and it was just a just under \$5 billion. And those balances start to go back into the market in January. We've already started to see that.

So far, just over \$2 billion of that, \$5 billion has been deployed back in the market. So you put all those factors together and January cash balances are sitting just under \$51.5 billion. And maybe just a little -- another perspective that I think could be helpful just to look at the overall flows of Q4 and January together, right?

Because that eliminates that noise of that December and January -- December buildup and then that January redeployment. So if you just look at that and look at it prior to the \$4 billion of cash that came on from Pru and Atria, if we just look at those 4 months, meaning Q4 and January, cash sweep is up around \$1.5 billion over that 4-month period. So I think if you go back to the stability we started seeing earlier in the year and then you look at that 4-month trend, I think we're really starting to see some stability in cash.

Daniel Fannon - *Jefferies - Analyst*

Great. Thank you.

Operator

Chris Allen, Citi.

Christopher Allen - *Citigroup - Analyst*

Yeah, evening everyone. Thanks for taking the question. I wanted to talk a little bit about the high net worth channel, increasing area of focus and the alts platform. Maybe you could talk about where you are in terms of currently expanding your selling agreements on the alts platform. And any color just around how you think about the revenue monetization opportunity longer term there?

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

Yes, Chris, it's Rich. Thank you so much for the question. So let's start with the high net worth channel. I think it's probably a better place to start. So for us, I think you've seen us be pretty systematic over the course of the last several years.

and expanding our affiliation models. Part of that with intentionality was as we were able to build in capabilities to continue to serve more sophisticated advisors who are servicing larger and more complex and investors, we felt increasingly comfortable that we could then launch sequential models into the marketplace that not only allow our existing advisors to affiliate in that way, but allowed us to be attractive externally in the marketplace.

So when we think about the high net worth segment, that is a segment that we would as we size that is a \$5 trillion market opportunity. And I mentioned we've been building those capabilities, and I'll talk about Alts, but it also has to do with you've heard us allude to banking in development capabilities and some complex financial planning in addition.

But one of the things we've been really confident in, and I hope you've seen this is that as we've built new offerings in the marketplace, we feel that they're really differentiated in the way that we package capabilities and our high net worth offering or our private wealth offering is no different.

We actually Unlike many other firms, in our high net worth space, we give the advisors the autonomy to run their own business. They keep the ownership of their practice. They get enhanced ongoing economics paired with all of the capabilities you would expect to see at a competitor's private wealth shop as well.

And so for us, we feel that, that has led to an incredibly differentiated offering in the marketplace and feel really good about the first full year in 2024 that we were in the market. It already had 4 teams joined serving approximately \$2 billion in assets as they come over.

I've met with several of those teams. And as they've come over, we've heard them say they're actually overwhelmingly positive around our capabilities and their experiences with LTL, and that's a great way to start out and bring out an offering.

So I think we are looking forward to continuing to mature that offering, and so much of this is -- now for us, less about the capabilities because I think we're solidly there. It's about getting more consideration in the marketplace by winning more large and sophisticated teams. But specifically, on the capabilities I alluded to banking, I alluded to enhanced ability to deliver financial planning.

We have a trust company that is incredibly sophisticated as well to help serve. But you mentioned alts, alts is an incredibly important component of a high net worth advisors ability to serve her or his clients be recognized a couple of years ago that we did not have the platform and capabilities that we needed to be competitive. And as such, we began a multiyear journey to deliver capabilities in that -- around all.

The first for us was last year, which we delivered in midyear, was building a custody and operational capability on our platform. And that ability to custody ultimate that we now had the ability to onboard 2,500 products available to transfer and hold inside of our custody, which is really important to advisors as they change firms.

The second leg on that journey that we've been building over the latter half of the year, and we're already in pilot, which we'll deploy over the first half of this year, is actually launching an enhanced selling experience for advisors who are looking to buy at on behalf of their clients that is fully digitized with e-signature capabilities to significantly simplify the subscription process.

So now you've got those two core capabilities and maybe to that last point that you asked about then, you have to expand your shelf of alternative investments. And for us, we recognize we need private equity and private credit products from reputable sponsors to be credible in that space. And so over the course of 2024, our alternatives with selling agreements that are available for sale in our platform more than doubled as we exited the year with greater than 80 selling agreements.

Our intention over the course of 2025 is to continue to grow that dramatically so that we sit in a fully competitive best-in-class position in regards to our inventory available for sale, with a custody platform that is second to none and with a selling process that we think is incredibly strong in the marketplace.

You put those three together, we think that advisors will get more comfortable on our platform positioning alternatives as a credible and important component of as portfolios for their clients. I won't speak exactly to what we think that would mean in terms of the monetization improvement, but back to maybe that operating margin question. That's another one that I would put in there, which is a full set of capabilities to continue to grow the monetization on the platform. So it works in a number of different dimensions.

Operator

Kyle Voigt, KBW.

Kyle Voigt - Keefe, Bruyette & Woods - Analyst

Hi, good evening everyone. Maybe just a question on the pacing of Atria synergy realization as we move through '25 and towards that \$150 million EBITDA run rate. What should we expect as the rough split between revenue and cost driving those synergies? And on the cost side, how much

synergy realization is baked into that \$170 million to \$180 million of core G&A, just so we can think about the trajectory of that part of the core G&A base as we move into 2026.

Matthew Audette - LPL Financial Holdings Inc - Chief Financial Officer, Principal Accounting Officer

Yes. Kyle, I think the -- I mean, you got some click downs there that we don't really have on those specific components. But I think the core part of the question on where we're going to revise those synergies, they're both on the revenue and expense side. It's largely around when the onboarding occurs, right? So I think you got the numbers right on they're at \$40 million of run rate now.

They will build up to \$150 million. And it really is just around the onboarding. So if you think about kind of mid this year, and as we start to onboard those, we'll give clarity as that happens, but that's really the event. So it's not a kind of a slow build throughout the year. It really is centered around the online.

Operator

Michael Cyprus, Morgan Stanley.

Michael Cyprys - Morgan Stanley & Co. LLC - Analyst

Hey, good evening. Thanks for taking the question. Wanted to circle back to your comments around enhanced monetization of assets. you spoke at length about the alts opportunity. I was hoping maybe you could double-click on banking, lending and other asset management opportunities there. Maybe you could elaborate on that. What we might see from LPL here in '25.

How meaningful could this be over time? And maybe you could talk about your aspirations here.

Rich Steinmeier - LPL Financial Holdings Inc - Chief Executive Officer

Yes, you want to lead off? Okay. It's Rich. Thank you so much, Michael. So let's start when you think about that banking set of capabilities.

I think the first, as we think about it, is -- and we're not going into kind of break any tremendous news here, but cash management accounts and the ability to actually handle transactional capabilities inside of brokerage construct is incredibly important. And so we are building in partnership with third-party banks and cash management account that we will bring out in the first half of this year to allow our advisors to have a more extensive relationship with their clients.

And you could imagine there's -- can you achieve the direct deposit there? Where they're helping bill pay integrated. And so a cash management account would be a foundational element as you would think about standing beyond traditional investments to move -- more moving on to that other side of the balance.

Beyond that, you're talking about security based line of credit. So that would be securities-based lending. We currently have margin lending. But in addition to that, today, we use third parties to position securities base line of credit loans and lines that can be drawn upon by generally high net worth investors. We're building that capability internal to ourselves.

That means that the ability to open the account, to service the account, to establish the line, to draw the line, to close the line, all of that operational engagement that goes on will make it easier for advisors actually established those lines of credit as well as to manage the lines of credit that will be integrated into our ClientWorks platform as well as be integrated into our account view platform for the end investors.

And so we think making it easier simpler and more integrated will be an incredibly important component as we move forward into cash and then into lending as well. So I think if you think about both of those, we draw out and look at other competitors in the marketplace and look at their penetration of their clients into those opportunities, and we view that as the opportunity set.

And so you guys are probably as deep as we are in looking at some of the better competitors there. So that's how we look about it and then say, okay, we want to achieve industry-leading penetration of those solutions over an arc of multiple years.

And you probably can figure out the monetization that's attached to those solutions as well. We do the same math and then it drives our conviction and it drives our investment of capital, again, something that is a good solution for our advisors, good solutions for their clients and ultimately good for LPL as well.

Michael Cyprys - *Morgan Stanley & Co. LLC - Analyst*

Great. Thanks so much.

Operator

Jeff Schmitt, William Blair.

Jeff Schmitt - *William Blair & Co LLC - Analyst*

Hi, Rich Matt. One more question on Core G&A and just following up on Matt's answer earlier, but you kind of pointed to growth being below your organic growth target next year. I guess my question is, should we expect that to be the new norm going forward or at least over the medium term to keep that lower than organic? And are there any cuts to get to the bottom end of that range? Or is that all efficiency-driven?

Matthew Audette - *LPL Financial Holdings Inc - Chief Financial Officer, Principal Accounting Officer*

Yes, Jeff. I definitely didn't give a target for next year. But I think the key is continuing to drive down our core G&A growth will continue to drive organic growth. However, that may play out. I think the dialogue back with Steven a little bit earlier at the start of the call, I think, is probably a good way to think about that.

I think to what gets us there. I think 6% to 8%, we just look at the size of our growth, the size of our activity, the variable expenses that can come along with the growth rates that we have, that's why we typically have a range. I think when we think about the efficiencies embedded in there, I think, the core part of your question, I think we've got really good line of sight on what we need to go do, the investments we need to make, the actions we need to take that will deliver those efficiencies, and it's just all about executing and getting it done. So I think the range is more about uncertainty on things -- they're usually pretty positive, which is the levels of organic growth because that comes with a lot of upfront variable expenses. And so it's more -- the range is usually more about that.

Jeff Schmitt - *William Blair & Co LLC - Analyst*

Okay, great. Thanks.

Operator

Steven Chubak, Wolfe Research.

Matthew Audette - LPL Financial Holdings Inc - Chief Financial Officer, Principal Accounting Officer

Oh, we already talked about January.

Steven Chubak - Wolfe Research - Analyst

Ready hearing rumblings, Yes, I know you already talked about January. But Matt, what wasn't touched on, and it's come up in -- at least I've read a number of press reports is the changes that you've implemented to pay out at pricing across the platform in recent months, whether it's a DCA, something out to production bonuses I was hoping you could just speak to your philosophy around how you're implementing these pricing changes and how we should think about the financial benefits as we look out to '25 and beyond.

Matthew Audette - LPL Financial Holdings Inc - Chief Financial Officer, Principal Accounting Officer

Sure. So I'll start with DCA and Rich I don't know if you want to jump in on the production (inaudible). I think on DCA, that's just a little bit of the nuances of the account and how it works, Steven. It's priced as a fee per account as opposed to based on balances. So when you have balanced growth, I'm sure you can see like we did on average DCA balances, really, the only way to eventually affect that is to periodically change the feet on that account.

So that's why we changed that fee. Just numbers for you. We've got about 1.5 million of those accounts. And based on the fee changes that we make that may that will be a quarterly run rate benefit of about \$4 million to \$5 million beginning when that fee change takes effect on February 1. She'll get partial benefit in Q1 and then ramping up there.

That one is really about just the nuances of that product. And when balances move around, eventually, you have to move the fee up or down, and it can go either way just depending on where balances go. Maybe, Rich, on the production bonus change.

Rich Steinmeier - LPL Financial Holdings Inc - Chief Executive Officer

Yes. So thanks, Stephen. I think if you look at the production bonus change, I think you could maybe draw a conclusion here. Historically, we want to make sure that we have been pricing our offering in the appropriate value exchange to our clients. That has meant for several years, we've taken pricing reductions so that we can have incredibly competitive advisory platforms and be positioned well in the marketplace.

Make sure that our advisors think that we're the best partner for them. But if you look over the last several years, we've made tremendous investments in capabilities. We have made tremendous investments in supporting advisors through business solutions capabilities through technology investments, through enhancements to the way that we've built our affiliation models as well as how our field management team goes to market in support of advisors, advisory support teams as well. And we feel that there is an incredibly strong value proposition here. And as you go to market, it is a responsible approach to look at the value exchange and the value delivery and price for value delivered.

We believe that we are an incredibly high-quality firm with an incredibly high-quality offering to our clients and believe that there is an appropriate price for that in the marketplace. And so as we continue to look at that, that's one of the levers we will look at to identify making sure that we are competitive and making sure that they are successful, but also making sure that we are pricing for value, and that would be a reflection of our intention to price for value.

Steven Chubak - Wolfe Research - Analyst

Well said and thanks so much for accommodating the follow up.

Operator

Thank you. I would now like to turn the call back over to Mr. Steinmeier for any closing remarks.

Rich Steinmeier - LPL Financial Holdings Inc - Chief Executive Officer

Everybody, thank you so much for joining us. As many of you may know, yesterday was Lunar New Year. And today at LPL, I got to celebrate the year of the snake with a lion dance celebration hosted by our Asian employee resource group, and I can tell you it was absolutely pure joy. And so for you, we appreciate you spending the time with us, and I wish you joy and prosperity for the year ahead, and we look forward to speaking with you again in May. Thank you.

Operator

Thank you. This concludes the conference. Thank you for your participation. You may now disconnect.

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