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LPLA.OQ - Q2 2026 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 second-quarter 2026 earnings conference call for LPL Financial Holdings Inc. Joining the call today are Chief Executive Officer, Rich Steinmeier; 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 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 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 comparable GAAP figures, please refer to the company's earnings release, which can be found at investor.lpl.com.

With that, I'll now turn the call over to Mr. Steinmeier.

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

Thanks, Operator, and thank you to everyone for joining our call. It's a pleasure to speak with you again. After a strong start to the year, we continued our momentum in Q2. We delivered improved organic growth during the quarter, while driving recruiting pipelines to record levels.

We made meaningful progress in preparing to onboard Commonwealth Financial Network, and we drove material improvements in our operating leverage. We achieved this in a rapidly evolving environment as elevated macroeconomic uncertainty, and market volatility at the start of the quarter gave way to a sharp market recovery during the quarter, serving as the latest reminder of the value of professional advice and the resilience of our business model.

Underlying this consistent performance was the exceptional work and dedication of our teams including the talented colleagues who joined us from Commonwealth. In recognition of these efforts, J.D. Power ranked Commonwealth and LPL number one and number two for Independent Advisor Satisfaction. Commonwealth’s award is its 13th straight number one ranking. This is a remarkable achievement and a meaningful validation of the complementary nature of our organization and the culture we are building together.

Now to highlight some of our Q2 results. In the quarter, total client assets were $2.6 trillion, up 10% from Q1 as organic growth was complemented by higher equity markets. We attracted organic net new assets of $23 billion, representing a 4% annualized growth rate. Our second quarter business results translated into another quarter of strong financial performance with record adjusted EPS of $5.84.

Turning to our strategic plan. We remain unwavering in our strategy and our aspiration to be the best firm in wealth management.

To that end, we remain focused on three key priorities: one, preserving the client centricity the firm was built on; two, empowering our employees to deliver exceptional outcomes for our advisors and institutions and their clients; and three, delivering improved operating leverage. Continued execution across these priorities will help us sustain our industry-leading growth while advancing the effectiveness and efficiency of our model.

With that as context, let's review a few business highlights from the quarter. In Q2, recruited assets improved to $25 billion. Prior to large institutional wins, this was our strongest quarter of recruiting in nearly two years.

During Q2, we continued to advance opportunities into the later stages of our recruiting pipeline. And despite the strong pull-through, the overall pipeline reached a new record. This positions us well for improved organic growth in the second half of the year. In our traditional markets, we added approximately $23 billion in assets during Q2, maintaining our industry-leading capture of advisors in motion while continuing to expand the depth and breadth of our recruiting pipeline.

With respect to our expanded affiliation models, we delivered another solid quarter, recruiting roughly $2 billion in assets. Turning to overall asset retention. It was 97% for both the second quarter and over the last 12 months. This is a testament to our continued efforts to enhance the advisor experience through the delivery of new capabilities and technology and the ongoing evolution of our service and operations functions.

Now let's turn to Commonwealth. The integration is progressing well, and we remain on track to onboard Commonwealth advisors in the fourth quarter. In terms of asset retention, we are in the mid-80s today, and we continue to work towards our target of 90% retention of client assets.

From an operational standpoint, we are nearing the completion of the technology and capability builds needed to help facilitate a seamless conversion. Key initiatives include advancing our householding capabilities and modernizing our case management platform to support a more connected end-to-end service experience for existing Commonwealth advisors. When combined with the introduction of a single relationship agreement, this creates a more flexible relationship-centric model that improves the client experience and enhances advisor productivity. These capabilities not only enable the Commonwealth conversion, but also accelerate the delivery of core functionality for the benefit of all LPL advisors and institutions.

In parallel, we are ramping up our training efforts to ensure that our Commonwealth teammates are positioned to continue delivering exceptional service to existing Commonwealth advisors, and that Commonwealth advisors and their support staff are ready to hit the ground running following the conversion to the LPL platform.

In closing, the second quarter was another strong quarter for LPL. I want to take a moment to thank our entire team, both at LPL and Commonwealth for the dedication and hard work that drove these results and contributed to the recognition from J.D. Power. We are building something special, and I am incredibly proud of the passion and dedication our teams bring to supporting our advisors.

As we look ahead, we remain well positioned to serve as a critical partner to our advisors and institutions to continue delivering industry-leading organic growth and to maximize long-term value for shareholders.

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

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

Thanks, Rich. I couldn't agree more. It was a tremendous quarter as the team continues to deliver remarkable results. To reiterate some of these highlights, we delivered solid improvement in organic growth, continued to advance our advisor experience, drove improved operating leverage through ongoing efficiency gains and better monetization of the value we deliver to clients, progressed our preparation to onboard Commonwealth and executed on our capital allocation strategy, where we closed the acquisition of Mariner Advisor Network, remained active with our liquidity and succession capability. And given the dislocation in our stock price, accelerated share repurchases. These efforts resulted in strong second quarter business and financial performance and position us well for the second half of the year.

Now turning to a few highlights from our Q2 business results. Total client assets were $2.6 trillion, up 10% from Q1 as continued organic growth was complemented by higher equity markets. Total organic net new assets were $23 billion, an approximately 4% annualized growth rate.

As for our Q2 financial results, the combination of organic growth and expense discipline led to an adjusted pretax margin of approximately 39.3% and record adjusted EPS of $5.84.

Gross profit was $1.618 billion, up $26 million sequentially. As for the key drivers, commission and advisory fees net of payout were $486 million, down $1 million from Q1. Our payout rate was 87.4%, up 22 basis points from Q1, largely due to the typical seasonal build in the production bonus. Looking ahead, we expect our payout rate will increase by approximately 80 basis points in Q3, driven by typical seasonality, as well as the previously announced reductions to our corporate advisory pricing that went into effect on July 1.

With respect to client cash revenue, it was $457 million, down $3 million from Q1, primarily reflecting lower average cash balances. Overall client cash balances ended the quarter at $56.9 billion, down $2.2 billion.

Within our ICA portfolio, the mix of fixed rate balances ended the quarter at roughly 60%, within our target range of 50% to 75%. Looking more closely at our ICA yield, it was 336 basis points in Q2, unchanged sequentially. One item of note is that we are shifting our client suite rate methodology from an asset-based tiering structure to a cash balance based tiering structure. As a result, as we look ahead to Q3, we expect our ICA yield to increase by 10 basis points.

As for service and fee revenue, it was $209 million in Q2, down $2 million from Q1. Looking ahead to Q3, we expect service and fee revenue to increase by approximately $5 million, driven by revenues from our annual Focus conference.

Moving on to Q2 transaction revenue. It was $83 million, up $2 million from Q1, driven by record trading volumes and one additional trading day during the quarter. As we look ahead to Q3, we expect transaction revenue to decline by roughly $5 million.

Now turning to our acquisition of Commonwealth. As Rich mentioned, the transaction continues to progress well, and we remain on track to onboard Commonwealth advisors in the fourth quarter. As for the financials, accounting for current market level, we now estimate run rate EBITDA of approximately $435 million once fully integrated.

Now let's move on to expenses, starting with core G&A. It was $519 million in Q2, down $13 million sequentially and below the low end of our outlook range, reflecting our continued progress in driving greater efficiency and reducing our cost to serve.

For the full year, given our progress to date, we are lowering our core G&A outlook range. We now anticipate 2026 for G&A to be in a range of $2.140 billion to $2.165 billion. To give you a sense of the near-term timing of the spend, we expect Q3 core G&A to be in the range of $540 million to $560 million.

Turning to TA loan amortization. It was $142 million in Q2, up $6 million from Q1. As we look ahead to the third quarter, we expect TA loan amortization to increase to approximately $150 million, reflecting strengthening advisor recruiting.

As for promotional expense, it totaled $79 million in the second quarter, up $3 million from Q1, driven by increased conference spending. Looking ahead to Q3, we expect promotional expense to increase to approximately $95 million, driven by conference spend.

Turning to depreciation and amortization. It was $110 million in Q2, up $4 million sequentially. Looking ahead, we continue to invest in technology and expect depreciation and amortization to increase by roughly $8 million in Q3.

Moving to our tax rate. It was approximately 26.4% in Q2, and we expect a similar level in Q3. Regarding capital management. We ended Q2 with corporate cash of $430 million, down $137 million from Q1. As for our leverage ratio, it was 1.9x at the end of Q2, near the midpoint of our target range.

Moving on to capital deployment. Our framework remains the same, 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 Q2, we deployed capital across our entire framework as we continue to invest to drive and support organic growth, closed the acquisition of Mariner Advisor Network, remained active with our liquidity and succession capability, and returned capital to shareholders.

Specific to share repurchases, while our initial plan was to repurchase $125 million of our stock in Q2, the dislocation in our share price presented an attractive opportunity to deploy additional capital. So we accelerated repurchases to $309 million. Additionally, in July, our Board approved a new $2.5 billion repurchase authorization with $300 million planned for the third quarter.

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, we are finally ready to open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Alexander Blostein, Goldman Sachs.

Alexander Blostein - *Goldman Sachs Group Inc - Analyst*

Hi, good afternoon, thank you for taking the question. So I was hoping to start with the outlook on organic growth. Obviously, June saw a nice pickup, and you talked about recruiting pipeline looking pretty robust. So maybe spend a minute on how you view organic growth for the second half of the year, whether or not NNA can sustain above 5%. And also coupled with that, we continue to hear a pretty competitive landscape for recruiting? Curious how that squares away with your -- with the outlook you've seen for the back half of the year?

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

Yes. Hey, Alex. It's Rich. Thanks for the question, and nice to hear from you. So maybe let's talk about the recruiting -- well, let's talk about organic growth through the balance of the year.

I think we saw that we've got a rebound this quarter up to the 4%. Look, there's a couple of things that drove that. First is that we saw advisor movement move back in line with historical norms. That's important for us.

As we capture a disproportionate share of the advisors in motion, any movement to that overall advisor movement, we're going to be one of the winners who benefit in that movement. And so I'd say there's a macro movement improvement that helped us aligned with our long-term share capture of advisors in motion.

Second, and this continues, and you heard in prepared remarks, Commonwealth is largely coming towards the end of the recruiting and education event. We still have advisors out to continue to progress with them to problem solve with them, get to solutioning with them. And so it's not completely over. But as we have continued on that journey, we've seen more and more of our capacity to go back into the marketplace engaged directly with advisors.

And so when you think about that second half of the year, we should be able to return to more normalized levels, not only of recruiting but continuing to build pipeline. And so that makes us confident in our ability to deliver mid- to high single-digit growth over time.

If you extend even further out and look at our long-term outlook, I think this is where we've strengthened our conviction even further. We continue to be the disproportionate winner in our traditional markets. We have an unmatched value proposition and it actually continues to strengthen.

When we look at the wirehouse and regional advisor movement, largely, we have been continuing to gain consideration, which is really important for us because as we speak to those advisors, we, more often than not, are one of the winners in those conversations, but we have to get into more conversations. So we do that by closing our capability gap, which we continue to do in quarter and throughout the balance of the year.

I alluded to some of those even in prepared remarks, and continuing more importantly, to actually position our brand actively in the marketplace. So you saw us do that a year ago with our brand campaign. Additionally, we've announced a partnership with the PGA of America that we think will continue to progress our representation not only to advisors, but to their high net worth end investors, which is critically important as they consider firms they're going to consider moving to.

And maybe lastly, in the institutional channel, this is one where we had to pause a little bit in our consideration of large opportunities to bring on to the platform because of the Commonwealth transition was so expensive and the build was so comprehensive. And now as we move towards being on the other side of that and finishing our capability builds, it opens up our ability to continue to progress pipeline in the institutional channel with opportunities to onboard them.

You marry that with low attrition and steady contribution from same-store sales. And again, I look at that longer outlook and say, okay, I think we have a strong ability to sustain mid- to high single-digit growth.

Maybe lastly to that competitive environment, I think it's a completely fair representation. It remains spirited. We saw -- about a year ago, we saw a move in market TA levels. They have continued to persist at higher elevated levels. And from our perspective, we stay disciplined on returns.

TA is part of our conversation with advisors, but it's not the driver and to repeat this pretty regularly, but advisorswho are changing firms think first about capabilities, technology, and service. They then think about ongoing economics.

And third, they think about upfront economics. So you put that all together, we feel incredibly strong in our ability to not only sustain our performance to improve it over the latter half of the year.

Operator

Steven Chubak, Wolfe Research.

Steven Chubak - *Wolfe Research LLC - Equity Analyst*

Hi, good afternoon, Rich and Matt, and thanks for taking my question.I was hoping to get an update on the pricing review.

Just now that you're further along with the diligence process, what has been some of the early feedback from advisors as you've explored potential pricing changes? And what are some of the key milestones that need to be met as part of the review to get you and the Board comfortable with adopting or implementing any such pricing changes to minimize the reliance on cash economics?

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

Thanks, Steven. So like we said last quarter, we're actually doing that work. And I think we need to make sure we take that time, as you probed properly, to think and ensure that any potential solutions that we come up with, one, that they're well considered that we are looking at it from all angles, thatit's aligned with our long-term strategy and that it creates value for our advisors, for our institutions, and for the clients that they serve. And so I'll give you a little bit of color why this may take us a little more time.

We've exploded the types of advisors and institutions that we serve, if you think about the two business models that we have. In our advisor business, we've grown our affiliation models pretty dramatically, and that looks like different profiles of advisors who have different compositions of their book. And similarly, on the institution side, we no longer just serve banks and credit unions. We serve large regional banks, national banks, these are product manufacturers.

And so the complexity of the type of clients that we serve is comprehensive, maybe extensive. We've got to make sure, and we're engaged with those clients to ensure as we build any solution and evaluate those solutions across 32,000 advisors, 1,000-plus institutions, and 8 million end investors that they work, the solutions work across those clients and their operating models.

The levers are very clear to us. But as we go through the work, we have to make sure that it works for those constituents, and that's the update that we have on the work. We're doing that work. We don't have any precise updates on the completed work to date, but we'll make sure to update you when there's more to share.

Operator

Daniel Fannon, Jefferies.

Daniel Fannon - *Jefferies LLC - Equity Analyst*

Great, thanks. Matt, I was hoping you could expand upon the G&A outlook and the numbers continue to come in better than you have forecast as you think about the back half of the year? Are there -- are you still implementing some of these efficiencies to think about the ongoing benefits? Or is -- obviously what you're putting in the numbers today, is that realistic based upon what you guys have done so far?

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

Yeah, Dan. I mean, I think if you look at the trends, like I think the headline answer is this is, I think, an evergreen thing. I mean the continued investments whether it be automation, efficiency, AI-driven things that do two things. They not only improve our efficiency and drive down our costs. They also improve our value proposition with our advisors. So I think that's something we're going to consistently do.

And I think what you're seeing so far this year is some outperformance on the pace at which we're able to do those things. So I think it's been a couple of quarters in a row, we've been able to deliver more efficiencies than we expected and we're able to lower the guidance for the year. So to underscore the guidance for the year includes everything that we have worked on and everything that we expect to work on.

And I think you've seen us. There's been periods where we've met that. There's been periods we've done better than we expected. So I think that now core G&A growth of 4% to 5.5% prior to Commonwealth is our best estimate right now.

But I think if you broaden that out, I think there is -- each and every year, I think we're going to be able to continue to drive investments. And again, underscore, it's not only about efficiencies, but it's improving the value proposition in our experience with our clients.

Daniel Fannon - *Jefferies LLC - Equity Analyst*

Thank you.

Operator

Devin Ryan, Citizens Bank.

Devin Ryan - *Citizens JMP Securities LLC - Analyst*

Great. Hi, Rich. Hi, Matt. A lot of good stuff in here. I want to ask about Rich a point you made, advisors care about capabilities in tech when they're thinking about moving firms. And so with that said, it would be good to get some color on this AI platform latitude. I saw you just launched that or announced it a couple of days ago.

And so just be good to hear about kind of functionally, what are the capabilities for advisors? Are there ways you can think about framing how it can help the productivity? And then how differentiated is it versus just table stakes that I know that may connect back to your recruiting pitch or just making the firm more attractive for institutions to think about partnering with you? Thank you.

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

Yeah. Thanks, Devin. So I think, one, technology has always been important for advisors who are considering moving firms -- it's usually one of the first things we go through. In fact, recently, we continue to accelerate in our home office visits, our tech demos earlier in the sales process. The reason being that what feedback we get from advisors is that there is a material differentiation in our capabilities and technology than the competitors that they're looking at.

And I would tell you, as we get through a tech demo, what we see is we win in head-to-head more often than we did even a year ago because through the last couple of years, you've seen us continue to enhance our investments made in technology. And I think the Latitude announcement is a reflection of that. We reflected that we've invested nearly $2 billion over the last few years in building the core foundational capabilities in our data, security, advisor technology and AI.

Latitude is the reflection of our unified tech experience that ties all of that together. It's a crisper way to reflect the integrated nature of our technology ecosystem that we think is a really good reflection to advisors. And as they get in, they see the connectivity across all of that. It's no longer a separation of the advisor workstation and the end investor capabilities and the workflows and the cyber environment.

And now the introduction for us of Cyan, our AI agent, it helps us actually operate across all of the advisor workflows and deliver contextual real-time intelligence. And so specific to your question, when we look at just Cyan and we look at how does that improve the operational effectiveness of an advisor's practice, well, a couple of our high-impact use cases that we're launching with include the ability to identify growth opportunities for advisors in their practice, as they probe into it, natural language processing to identify ways that they can grow, actions they can take. And actually, one of the things that's really impressive is a button that simplifies the next actions they should take to prioritize, improving their growth against the verticals that they choose to grow.

Second, there's other things that we've done there to make them more efficient in their practice. We introduced Jump as a way to record and then get actions coming out of meetings. But now we're introducing through Cyan, the ability to take financial plans that they've already developed to synthesize those plans for insights to the end investor as well as ways to deliver that to the advisor that are much more efficient than they're doing today.

And one other high-value use case is automating routine maintenance tasks. So instead of having to go into the system to make address changes, you actually just go into the agent, say you're making an address change. You indicate the change of address. And then it's automatically propagated across the entire ecosystem of Latitude. I think these are good examples of a firm that is positioning itself to lead in technology, making investments, enabling -- being enabled through AI that further differentiate us from our competitive set.

And as we've not only shown our capabilities, Devin, but as actually we've demonstrated our road map for AI to advisors who are considering the firm, it usually is a significant point of differentiation between us and the other firms they're evaluating.

Devin Ryan - *Citizens JMP Securities LLC - Analyst*

Excellent. Thanks, Rich.

Operator

Michael Cho, JPMorgan.

Michael Cho - *JPMorgan Chase & Co - Analyst*

Hi, good evening. Thanks for taking my question. I just wanted to touch on pricing as well, not so much the work that you're doing now, Rich. But the pricing adjustments that you announced last year and you implemented some earlier this year.

And Matt, you called out the other parts starting in July as well. So just given some time has passed, have you seen any adjustments in advisor behaviors since announcement and implementation. And any key takeaways here from an LPL perspective? And do you see other opportunities to potentially mark-to-market maybe some of LPL's more enhanced offerings, maybe in light of Latitude and Cyan as well?

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

Yeah, Michael, I'll just re-summarize them for you. I think the headline is things have played out as we expected. So I think when we announced those, we walked through the three, I'll take you through the components. But we had expected net improvement in margins, kind of incorporating everything that you had just walked through of about 1 percentage point. And that's largely what's played out.

So just as a reminder, there was one in each of the quarters-- in Q1, Q2 and Q3. So Q1 was the new fees on brokerage accounts. In Q2, it was fees on the direct mutual fund business. And those two things together led to an increase in service and fee revenue by about $40 million per quarter.

And then the last change coming, what I talked about in prepared remarks that's coming in Q3 was reductions on pricing in our advisory platforms, really, to make them, even though they're already competitive, even more competitive. And that, those pricing reductions will show up as an increase in payout of about $20 million a quarter.

So the net of all of that is around $20 million a quarter, $80 million annualized, right in line with where we thought. And so the broad point, I think it just positions, as we talked about when we announced them, the first two fee increases were really to bring fees in those two areas in line with market. And then the third area in advisory, I think, is making a platform that was already competitive, competitively and value prop wise even more competitive. So I think it's really played out how we thought.

Operator

Craig Siegenthaler, Bank of America.

Craig Siegenthaler - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Thanks, good evening, everyone. So similar question, but I want to see if you could potentially change your revenue share arrangements with asset managers. And I wonder if you view this as a future earnings lever given that your size increase and your scale retail distribution partner. So -- and what I'm getting at is could LPL increase its underlying economics on ETFs, mutual funds, and SMAs.

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

Hi, Craig, this is Matt. I'll just underscore kind of what Rich went through in detail as far as what we're looking at on economics and things we have changed. That's where our energy is. I think that there is other things that once we're done with concluding is there something to do there or not, if there was other things to look at, we take that up. But I think when you look at our overall economics, the thing that we're staring at is cash sweep that I just underscore everything that Rich said.

Operator

Mike Brown, UBS.

Michael Brown - *UBS AG - Analyst*

Great, good afternoon. Thanks for taking my question. You've observed that your advisors when they adopt your business solutions, they tend to grow 2x faster than advisors that do not. As you think about the Commonwealth cohort and the transition there, what are your expectations for their adoption of your subscription-based services like your CFO and Marketing Solutions? And do you think that there's kind of a similar opportunity set for the Commonwealth advisors?

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

Hey, Mike. It's Rich. Thanks. So First, you're right. We observed that as advisors actually begin to outsource more of the work that they do themselves, they put themselves in a position to go to the core advice delivery and you see that not only through marketing and CFO, you see it also through OCIO solutions, paraplanning solutions. And so any time when an advisor is thoughtfully reorganizing the structure of their office to drive productivity and drive deeper engagement with clients, we see accelerated growth.

We also see that inside of our managed models that have a lot of those offerings embedded inside of that. So when you look at our Strategic Wealth services as well as our Linsco offering, we see faster growth there as well because of the support system that's provided and the solutions that are embedded in those offerings.

Commonwealth actually has a subset of the business solutions capabilities and services. In fact, they have some that are differentiated from us around practice management, and some growth support as well. And so there are elements already. We see that Commonwealth advisors are faster-growing advisors, more productive advisors, and so they have been embedding those capabilities and driven outsized same-store sales growth.

We would anticipate as we get into conversations, further conversations, with Commonwealth advisors, there's a lot of our solutions that are attractive to them. I think the CFO and marketing solutions are attractive. I think one to maybe put on your radar screen is Liquidity and Succession solution, which we find also accelerates growth in advisors' practices as they go through liquidity and succession.

We find that there's a pretty strong demand from Commonwealth advisors, as Commonwealth was building a solution that was similar, but wasn't as robust and wasn't as far along in its deployment as our Liquidity and Succession solutions are. So I'd say, across a cadre of solutions, there is an appetite from Commonwealth advisors, I would say it skews more heavily towards Liquidity and Succession, because they had some of the solutions that we have already available inside of Commonwealth Financial now.

Michael Brown - *UBS AG - Analyst*

Great color. Thank you for all that, Rich.

Operator

Brennan Hawken, BMO.

Brennan Hawken - *Bank of Montreal - Analyst*

Hi, thanks for taking my question, and this is a little bit more of an abstract question. But among some investors, there's some debate about whether or not AI tools could eventually lead to some hybrid solutions, which marry AI with advisors, and potentially come at a lower price point.

You talked to a lot of advisors. What's the advisor view on that? Is that considered a real risk? And is there anything that could be done to insulate from this risk if it does end up emerging? Thanks.

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

Hey, Brian, it's Rich. Thanks for the question. I think when you look into AI solutions, what you see is kind of either look at it as a glass half full or glass half empty. Let me give you the glass half full case.

What you're going to see is a pretty significant enhancement in the workflows that exist. Certainly, first inside of our ecosystem, our ability to process work, our ability to drive straight through processing, our ability to make it just easier to do business. And when you look at the workflows that exist inside of an advisor's practice scheduling, preparing for meetings, running alternative investment solutions, actually running the solution set, you see there is material opportunity to improve the efficiency of an advisor's practice.

When you take those two things together, we stare into what we think will be a pretty significant enhancement in the availability of capacity at an advisor's practice level. In fact, many of the folks that sit inside of an advisor's practice think of the CFAs. We think there's a potential for them to get much more productive and move to much more interesting and challenging work of beginning themselves to deliver advice.

And so as we look at the automation of an advisor's practice of the workflows inside of the practice, we think that there's going to be capacity to serve more end investors. And so we haven't seen a material reduction over the last several decades in spite of many new innovations that the advisory fee is driven down in any material way.

But I would tell you the offset to that would be, we think even if that were to occur, the advisors inside of their practice would have the ability to grow the practice and grow the number of clients and the assets they serve and serve them in ways that they serve their best clients today. And so we view delivering the automation and AI as enhancing the advisor's practice. We think it will strengthen their ability to go to market and it will actually allow them to spend more time in advice delivery in context setting and helping take decisions with end investors.

So that's the theory to our case. I think we believe strongly in it. And that is largely what we hear from our advisors. They are more excited about the adoption of AI than they are scared of the impact of AI, and we support that perspective as well.

Brennan Hawken - *Bank of Montreal - Analyst*

That's interesting color, thanks, Rich.

Operator

Michael Cyprys, Morgan Stanley.

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

Hey, good evening. Thanks for taking the question. Just wanted to ask about expense growth. Just curious how you would characterize that underlying pace of 4% to 5.5% core G&A growth that you referenced relative to a multi-year profile.

And then when you layer in AI initiatives, I guess how meaningful could that be on a multi-year profile when you look out? And as you think about AI, I guess, where do you see some of the biggest opportunities to change processes and workflows that could be the most meaningful, and really drive the needle on the bottom line as you look out over the next couple of years?

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

Yeah, Michael. I think, I mean, the opportunity is huge. I mean, I think like most folks, I think you're going to be balanced in how much you're investing to improve an experience, give you more capacity to invest and drive your value proposition versus expand your op margin. And I think you see us balancing that.

I think just looking at just this year, I think you're starting to see a good taste of what we can do and deliver, I think, relatively reasonable expense growth, especially when you look at the last few years, while at the same time, delivering an increased capability set, starting to reinvigorate organic growth. In doing that all, I think, at that 4% to 5.5%, where we estimate now to be is quite a good balance.

When you think about like AI, so just kind of the end of your question there on the areas, and I think for us, I'd put it in three broad categories where first is directly serving the advisor. And Rich hit on this a little bit in talking about Latitude, talking about Cyan. But those are things where I'm just underscoring what he said, like the benefits of that are not only on the value proposition for advisors, but they lead directly to efficiencies on our side, things that would typically have been a phone call or an e-mail. And multiple steps and processes in both sides can just be completely processed through by that agent.

I think the second one is just pointing all of that right at our internal infrastructure or back office, meaning service and operations that can just -- that's where it can materially improve the cost structure and the efficiency.

And then the last one would just be in our technology development, right, the coding and the tech builds itself where we're already seeing the ability to, not only build things much cheaper than they were historically, but build them at a faster pace. And I think you put those things together, and I think it goes back to a little bit of my headline point in the answer that, not only can we drive efficiencies in the cost side, but we're going to be in a position to be able to improve and deliver a value prop, I think, better and faster than most.

So I think it's an exciting view over the next several years of being able to do that. But hopefully that helps with color on how we think about it.

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

Great, thank you.

Operator

Benjamin Budish, Barclays.

Benjamin Budish - *Barclays Services Corp - Analyst*

Hi, good evening and thanks for taking my question. In the prepared remarks, you talked about a pricing change in the ICA that's going to benefit a little bit in Q3. I wonder if you could explain the mechanics of that change a little bit more? How does it work? What's the rationale for doing it? Is there any particular behavior that you're looking to incent? How should we be thinking about that going forward? Thank you.

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

Yeah, you bet, Ben. I mean, I think it's primarily driven by the Commonwealth integration. So when you look, at as we prepare to onboard Commonwealth, how we, LPL, have priced cash-based tiering has been based on the level of AUM that the household has with us. Commonwealth prices are based on the actual level of cash balances that they have.

So what we're doing going forward is just shifting to an integrated approach that is cash-based balanced tiering. And that also aligns us with our independent peers, so it's got a benefit there.

Now, as to why that leads to an increase in returns, when you look at the price tiering, right, to perhaps state the obvious, you pay less on smaller balances and more on the larger balances. And as we've talked a bit about, I think, for a long time, our advisors have their clients in cash and relatively small levels. We're probably at about two years now where the average amount of cash per account at LPL has been around $5,000. It really hasn't moved below that for two years.

So the net result of that is more cash at those lower tiers. And that will lead to an increase in the ICA yield on a run rate basis of about 20 basis points. And those changes that are referred to are going to go effect in August, so kind of in the middle of the quarter. So you can view that as half of it coming in Q3 and then the second half coming in Q4.

Benjamin Budish - *Barclays Services Corp - Analyst*

Okay, great. Thank you.

Operator

Jeff Schmitt, William Blair.

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

Hi, thank you. Question on the institutional channel. You've sort of taken a pause, it sounds like due to the Commonwealth deal. How would you characterize your pipeline today? Has that been building? And are you seeing demand for outsourcing increase versus a year ago? Or has it been fairly stable?

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

Hey Jeff, thanks for the question. So first, you're right. I mean, we had to take an intentional pause not necessarily in our engagement in the marketplace, but around our ability to onboard. We just, put first and foremost, making sure that we got the Commonwealth onboarding capability build ahead of everything else. And so it did put a pause on how we progressed opportunities in the pipeline.

If I reflect on maybe just for a second, kind of our positioning in the marketplace, so first, in that institutional market, we are the absolute leader in the institutional space and have been as such for years. And the institutions we serve support $590 billion of client assets in their wealth businesses. And that's multiples greater than those of our next closest competitor as we position in our conversations and actually with folks who have onboarded with us, we have a really compelling value proposition.

We accelerate the growth of the firm as they come on. We actually improved their margins, and we reduced regulatory and compliance risk. And maybe, most importantly, across that, especially when you think about us relative to competitors, we've proven our ability time, and again, to actually transition very complex, large-scale organizations in their wealth businesses seamlessly.

And so maybe lastly in that, we also have signature clients. And two, I would say most -- two of our more recent joins in Prudential and First Horizon, two clients that I think are thriving on our platform. And reflect the ability, that have demonstrated that improves efficiency as well as accelerated growth. So you put that all together, I think what we have is a building of our reputation in the marketplace to serve large institutions we're more engaged now certainly than we were a year ago with large institutions, not only with the number of institutions, but actually the size and complexity of some of those institutions continues to grow.

That's probably emphasized more even on the product manufacturer side. The bank market is a tried and true market as you'll see us continuing to talk to larger and larger banks. And maybe let's talk just about banks for a second. So much of the focus on banks is on efficiency, and driving greater efficiency. And in the wealth business, that's no exception.

So the conversations we're in are with larger institutions on the bank side who are looking at efficiencies and looking at ways for which they can compete and be competitive across the board and largely, that includes outsourcing wealth. So we continue to see a building in the pipeline there, and we actually now have cleared the decks for us to have the ability to have more material conversations. So feeling better about where we are there than we were certainly a year ago.

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

Great, thank you.

Operator

Bill Katz, TD Cowen.

Bill Katz - *Cowen and Company LLC - Analyst*

Great, thank you very much. Good evening, everybody. Just maybe a two-part, if I could squeeze it in. On CFN, can you let me know what the cash is as a percentage of client AUA?

And then, Matt, I'd be curious if you could give us an update on how things have been trending into July on both flows and client cash. Thank you.

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

All right. Very aggressive, Bill. Operator said, one. I'll do two. Don't worry about it.

Look, on Commonwealth, their cash balances have -- the whole time they've been with us are a little bit below ours. So we've been -- we're at a little above -- they're a little bit above 1%. So they just have much, much lower cash balances, and it's always been that way.

With respect to how the third quarter is going so far. So for July, on the cash side, a couple of days remaining, but it's shaping up as you would expect in the first month of the quarter, which is primarily the impact of advisory fees. So those hit in the first month, that reduced cash by $2.8 billion.

Outside of that, cash balances have been flat. So if you put those two things together, July cash has decreased by only the impact of fees, and that puts cash at around $54.1 billion.

On the organic growth side, similar impact. Month one is usually the lowest month of the quarter because advisory fees hit that in the first month. Outside of that, we are seeing organic growth continuing to pull through, as we've noted on the recruiting picking up. And you put those two things together, that would put July organic growth in the zone of around 3%.

Bill Katz - *Cowen and Company LLC - Analyst*

Thank you for accommodating the two-parter.

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

You're welcome.

Operator

Mike Brown, UBS.

Michael Brown - *UBS AG - Analyst*

Okay, thanks for taking my follow up. I wanted to just follow up on Stephen's question at the beginning. And I guess, as you evaluate the potential transition towards platform fees, can you clarify should investors view that work you're doing today as primarily developing a playbook that would only be implemented if the competitive dynamics or client behavior created meaningful pressure on cash sweep economics? Or is management increasingly inclined to make that shift proactively kind of regardless of whether those pressures materialize?

And then if it's the latter, what gives you confidence that moving first creates value rather than a disadvantage, particularly if competitors are slower to follow, or really choose not to make a similar change at all?

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

Yeah, Mike, thanks a lot. And I think, Bill, look at what Mike did. He actually reentered the queue and got a second question. So learning events too, for all of us.

So look, the question is whether we are going to be a leader or a follower. I think the most important thing is we actually need to get the right answer. And that's actually the work that we're doing. It's why the evaluation is so comprehensive in nature.

As I mentioned before, well, with 32,000 advisors, with 1,000 institutions, we are a market leader. We're already in that position and we're comfortable making decisions that lead the market, if that's where things land.

Michael Brown - *UBS AG - Analyst*

Yeah, thank you.

Operator

This does conclude the question-and-answer session of today's program. I'd like to hand the program back to Rich Steinmeier for any further remarks.

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

Thank you, Operator, and thank you all for joining. We look forward to speaking to you again in October and have a great night.

Operator

Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.