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LPLA - Q1 2020 LPL Financial Holdings Inc Earnings Call

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PRESENTATION

Operator

Good afternoon, and thank you for joining the First Quarter 2020 Earnings Conference Call for LPL Financial Holdings Inc.

Joining the call today are our President and Chief Executive Officer, Dan Arnold; and Chief Financial Officer, Matt Audette. Dan and Matt will offer introductory remarks and then the call will be open for questions. The company would appreciate if analysts would limit themselves to one question and one follow-up each.

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 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.

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, for more information about such risks and uncertainties.

During the call, the company will also discuss certain non-GAAP financial measures. For a reconciliation of such non-GAAP financial measures to the comparable GAAP figures, please refer to the company's earnings release, which can be found at investor.lpl.com.

With that, I will now turn the call over to Mr. Arnold.

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

Thank you, Josh, and thanks to everyone for joining our call. Over the past quarter, the COVID-19 virus has altered both the economy and our daily lives. Given this, I first want to thank our employees for their remarkable hard work and commitment to supporting our advisors over the past few months. And I also want to thank our advisors for continuing to provide financial guidance to millions of Americans at a time when it is needed most.

More broadly, after executing on our strategy over the past several years, we have built an organization that not only performs well in good environments, but also excels in challenging times to provide strength for advisors and their clients.

As we look ahead, we envision an even greater number of advisors and their clients, seeking not only advice, but also the capabilities and stability LPL can provide. We are well positioned to meet this growing need and increase our market leadership.

In that spirit, today, I'm going to focus our discussion on 3 areas: first, our position and momentum entering this climate; second, how we are executing our COVID-19 contingency plans; and finally, how we are driving the business forward from here.

Now over the past several years, with a focus on serving our advisors and their clients, we have built a robust and resilient operating platform, innovated on differentiated capabilities and enhanced our service experience. At the same time, we increased our balance sheet capacity and stability, which positions us to continue investing in a broad range of macro environments. This combination of business and financial strength has made our model more appealing in the marketplace and led to positive momentum and higher levels of growth. We saw all of this reflected in our first quarter results.

Organic growth continued to increase in the first quarter as net new assets totaled $12.5 billion, which translates to a 6.5% annualized growth rate. This is the highest level we have recorded and up from 4.9% in the prior quarter as new store sales, same-store sales and retention all increased on a sequential basis. Looking more closely at new store sales, recruited assets were $8.4 billion in the first quarter and $36 billion over the past year.

Turning to our financial results. First quarter EPS prior to intangibles was $2.06, which was up 7% from a year ago. With respect to results around the advisor experience, I want to highlight 2 key indicators of our progress in this area. First, our advisor Net Promoter Scores increased by another 9 points in Q1 for a total increase of roughly 55 points in just over 2 years. Second, annualized production retention was a new high of 99% in the first quarter. As we look ahead, we will continue to work to drive favorable outcomes like these by investing in capabilities and technology, transforming our service model and attracting and developing extraordinary talent with our mission-driven culture.

Now let's move to how we are executing our contingency plans for COVID-19. We first identified the principles that mattered most to guide our efforts, taking care of our advisors so they can take care of their clients and protecting the health of our employees. We then used the data-driven, agile approach to work through this effort. Our management committee met daily to assess the changing dynamics, iterated on our plan and took a series of actions guided by our principles. These actions included quickly stopping employee travel and changing our approach to advisor conferences to avoid large group gatherings.

We also effectively moved over 90% of our staff to work from home, while maintaining the high levels of service our advisors expect. To provide additional support for our employees through this period, we paid a cash bonus to those required to come to the office; and for family members of employees who lost their jobs at other companies, we offered temporary roles in placement services.

Remaining responsive to evolving conditions, we extended service hours to give our advisors more flexibility in their own workday. Our research team also increased their level of support by providing around-the-clock updates, insights and forums to enrich our advisors guidance and communications as they work to keep their clients informed. And to help advisors lower trading costs, we added 2 more sponsors to our no transaction fee ETF platform. Through all of this, our systems were stable and resilient, handling up to 7x the average daily trading volumes with no interruptions.

We are pleased with how our organization quickly and nimbly solved problems and worked through challenges, so our advisors could continue to focus on serving their clients. Advisor feedback indicates they appreciate we have maintained continuity in our business and the assistance we provided to help them manage their own transition into working in these new ways. More broadly, we also see the emergence of new ways of thinking that will come out of this period, such as a more distributed workforce model and the increased utilization of automation and artificial intelligence. These structural trends are creating opportunities to evolve certain aspects of how we work and serve our advisors, which we are incorporating into our plans.

As we look ahead, regardless of the shape of the recovery, we see an even greater need for our solutions and are better positioned than ever to serve our existing advisors and compete for additional market share. Given this, we remain focused on our 3 strategic plays. And I thought it might be helpful to share some color on our progress.

Now as a reminder, our first strategic play involves winning in our traditional independent and institutional markets, while also expanding our affiliation models to compete in new markets. With respect to our traditional markets, we continue to bring advisors onto our platform and grow our pipeline. Our differentiated capabilities, resilient platform and stable balance sheet are an even greater competitive advantage in this environment, which in turn is leading to increased interest from prospective advisors.

To capitalize on this interest, our business development team has created alternative digital approaches in order to continue recruiting and onboarding prospective advisors. These capabilities also provide an interesting leverage point to increase our business development reach and efficiency going forward.

Looking more closely at recent recruiting activity, January and February were some of our highest months of pipeline growth. Then, in March, activity slowed as advisors focused on serving their clients through the market volatility and transitioning to work from home.

As the climate stabilized in April, advisors had more time to work on the strategic elements of their business and our pipeline growth returned to levels similar to January and February. As a result, April recruited assets are slightly above the monthly average in the first quarter, and our pipeline is now at the largest in its history.

Our work on expanding our affiliation models in the advisory-oriented and employee markets is progressing and starting to deliver results. In April, we officially launched our Premium offering as LPL Strategic Wealth Services. And our first team joined and is now operating and serving clients on our platform. Later this quarter, we have additional advisors scheduled to join, and our pipeline continues to expand. As for our Independent Employee offering, we are still on track with our plans to go-to-market at the end of this quarter. Across both the employee and independent channels, we are hearing solid interest from prospective advisors.

We also continue to use M&A to complement organic growth. Earlier this week, we announced our acquisition of Lucia Securities, a San Diego-based firm with 20 advisors and $1.5 billion in client assets. This transaction will give Lucia's advisors access to our differentiated capabilities, technology and service, and we look forward to them joining our platform later this year.

Our second strategic play involves creating an industry-leading service experience that increases our ability to attract and retain advisors. The main components of this strategic play are investing to enhance and differentiate ClientWorks, transforming our service model into a client care model and delivering instantaneous processing driven by robotics and artificial intelligence. As part of our service model transformation, we are now providing omni-channel capabilities to over 3,000 of our advisors. This approach combines interactive voice recognition with skills-based routing to ensure our advisors can easily connect with a service professional who is trained and certified to answer their specific question. Given the positive feedback we have heard from advisors, we plan to roll out these capabilities to the rest of our advisors over the next quarter.

Our third strategic play is focused on helping advisors run the best businesses in the independent marketplace using innovations, such as outsourced business solutions, digitized workflows, advisor-focused capital solutions and lead generation. The last few months have reinforced the importance of this strategic play and the value we can bring to advisors as their business partners. We remain focused on digitizing the 6 primary advisor workflows and are about halfway through this effort.

In the first quarter, we completed the end-to-end integration of the first workflow, which is turning prospects into clients. As a result, when an advisor generates a proposal and then a prospective client accepts it, a click of a button now populates all proposal information into our new account system. This integration makes it much more efficient for advisors to turn prospects into clients as they grow their business.

As we move forward, we continue to focus on innovative solutions that make it easier for advisors to run successful businesses through any market conditions.

In summary, the focused execution of our strategy over the past few years has enabled us to be a source of strength and support for advisors and their clients during a time of unique need. As we all look ahead and try to envision what the future may look like, we believe our continued execution of our strategy, combined with the learnings and insights we've gained in this climate, position us to shape new opportunities for even more advisors and their clients and to continue creating long-term shareholder value.

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

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

All right. Thank you, Dan, and I'm glad to speak with everyone on today's call.

Before I review our first quarter results, I'd like to highlight some of our progress over the past few years to enhance both our business and financial strength. We invested in capabilities, technology and service with a focus on improving the support and experience of our advisors and their clients. These investments are some of the key factors that led to our record growth and more than doubling of our EBITDA to over $1 billion last year.

Additionally, our growth, combined with disciplined expense management, increased our operating margins from the low 30% range to nearly 50%. During the same period, we increased the stability and flexibility of our balance sheet through several debt refinancings, which resulted in lower interest expense, greater corporate liquidity and longer-term maturities, all while cutting our leverage ratio nearly in half.

And perhaps most important of all, these steps positioned us to have an unwavering focus on supporting our advisors and their clients, which in turn, drove the highest level of organic growth in our history. And as we look ahead, while taking into account the impact of COVID-19 on the environment, we are even better positioned to drive long-term growth.

With that, let's now turn to our first quarter results. At a high level, our Q1 results are another example of the resiliency of our business and financial model during volatile times. The combination of strong organic growth, natural hedges from client cash balances and trading and disciplined expense management led to EPS prior to intangibles of $2.06. This was up 7% from a year ago and is the highest result in our history.

Looking at our business results, we finished Q1 with total brokerage and advisory assets of $670 billion, down 12% from Q4, driven by the decline in equity markets, partially offset by organic growth. Total net new assets were $12.5 billion at Q1 or a 6.5% annualized growth rate. And within the quarter, as we look at the impact of COVID-19 on our growth, I would highlight that net new assets in March were $4.3 billion, our second best month ever. And as for the month of April, we have continued to see strength in net new assets, which are trending to levels similar to the monthly average we saw in Q4.

Now looking at our business mix. We continue to see positive trends this quarter. Advisory assets increased to over 48% of total assets, primarily driven by advisory inflows of $12.5 billion or a 14% annualized growth rate. Within our advisory platforms, centrally managed net new assets were $2.2 billion, or a 17% annualized growth rate.

Before moving on, I'd like to share one final item on net new assets. As you know, organic net new assets is a key metric in our industry, both to evaluate individual company performance and to compare growth rates across our space. So it is important that our net new asset definition reflects both the full organic growth we are generating and be comparable across companies.

With that perspective, we evaluated our definition as well as the prevalent practice of our peers. We found that while we do not include the combined contribution of dividends, interest and advisory fees, most firms do. In our business, these sources generate approximately 1.5% of asset growth per year. So beginning in Q2, we will include these factors in our net new asset reporting. This update will more fully reflect our organic growth and make our results more comparable across the industry. We have provided historical data in our key metrics presentation, so you can see the net new assets generated from these sources.

Now let's turn to our Q1 financial results. Our top line growth continued as gross profit was $576 million, up $37 million or 7% sequentially. Looking at the components, commission advisory fees net of payout were $162 million, up $28 million from Q4. The increase was mostly driven by seasonally lower production bonus expense as well as higher advisory fees and sales commissions. Looking ahead to Q2, I would highlight that advisory fees are primarily priced off of prior quarter balances. So the impact of the decline we saw in equity markets in the first quarter will be fully reflected in our Q2 results.

Moving on to asset-based revenues. Sponsor revenues were $134 million in Q1, up $1 million sequentially, driven by greater usage of our mutual fund and ETF no transaction fee platforms, partially offset by lower average assets.

Turning to client cash revenues. They were $151 million, down $4 million or 3% from Q4. The decrease was driven by lower short-term interest rates, mostly offset by higher client cash balances. Looking more closely at cash balances, they were $48 billion at the end of Q1, up $14 billion sequentially, with nearly all or $13.6 billion of that increase coming in the month of March.

When we look at April, cash balances have remained steady and have only declined slightly from the impact of advisory fee billings. As for client cash yields, our Q1 ICA yield was 195 basis points, down 27 basis points from Q4, mostly driven by the decline in short-term interest rates in March.

Looking ahead to Q2, we thought it would be helpful to provide some additional disclosure in light of the dynamic environment. So we have shared new insight into our fixed, variable and overflow balances as part of our key metrics presentation. We hope you find this helpful when thinking through how our ICA yield will vary in different environments. So given where balances and rates were at the end of Q1, we expect our Q2 ICA yield to be around 120 basis points. This assumes no further changes in interest rates, client rates or cash balances.

Moving on to Q1 transaction and fee revenues. They were $137 million, up $19 million sequentially, primarily driven by the increase in trading activity in March. As we look ahead, while transaction volumes were somewhat elevated in early April, they have now returned to levels similar to Q4. Given this, April transaction revenue was about $5 million higher than our Q4 monthly average.

Now let's turn to expenses, starting with core G&A. It was $223 million in Q1 or an annualized run rate of about $890 million. As we look ahead to the full year, I wanted to share some context on our spending plans. We remain focused on balancing expense discipline with growth investments, especially as environments like this can provide some of the best opportunities to drive organic growth. And as a reminder, we started the year with a core G&A outlook range of $915 million to $940 million or a 5.5% to 8% growth rate from our 2019 levels. The increased investment is almost entirely dedicated to driving organic growth, both in our traditional markets like we saw in Q1 as well as in new markets.

We have also sequenced our spending plans to build gradually through the year, which positions us to be flexible and dynamic depending on how the year plays out. In our Q1 expenses, with a run rate below the low end of our full year outlook range further strengthens that position.

So as we think about the environment we are in right now, as well as the organic growth results our investments are generating, we believe the best way to drive long-term shareholder value is by continuing to invest, though at a more modest level. Given that, we are now planning for our full year core G&A to be in the lower half of our outlook range. That said, we will remain flexible and are prepared to adjust our spending up or down depending on how our growth opportunities and the macro evolve from here.

Now turning back to Q1 promotional expenses. They were $57 million, up $6 million sequentially, primarily driven by higher advisor conference expense. Looking ahead, we have no large conferences in Q2. So we anticipate conference expenses will decrease by approximately $10 million sequentially.

Moving on to capital management. While the current macro environment has been volatile, we continue to generate strong cash flow. Even if we look at scenarios where the macro deteriorates meaningfully from here, our cash flow would still be well in excess of our needs, including serving our advisors, investing for growth and paying regular dividends. This positions us well to continue to deploy capital while maintaining a strong balance sheet.

As for our approach to capital allocation, our framework is unchanged. We invest for organic growth, first and foremost, then pursue M&A opportunities where appropriate, and finally, return excess capital to shareholders. And as we have discussed, we think this environment can provide us with even more opportunity to deploy capital for organic growth, given the strength of our business and value proposition.

This climate may also create more M&A opportunities, and our approach here remains the same. We are interested in firms that are aligned strategically, financially and operationally. And we are starting to see opportunities materialize, like the acquisition of Lucia Securities we announced earlier this week. They are a firm with 20 advisors and $1.5 billion of client assets. The transaction has an anticipated EBITDA purchase multiple of approximately 6x, and we expect it to close in the second half of this year. We are excited to welcome Lucia's advisors to the LPL family.

As for capital returns to shareholders. In Q1, we repurchased 150 million of our shares and paid $20 million of regular dividends. Given the uncertainty in the macro environment, and our increasing opportunity to deploy capital for growth, we paused our share repurchase program towards the end of Q1. We will revisit our plans as the macro stabilizes, and we have more clarity on the path from here.

In closing, we delivered another quarter of strong results in Q1, including the best organic growth and earnings in our history. And as we look forward, we are excited about our opportunities to continue driving growth in creating long-term shareholder value.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Steven Chubak with Wolfe Research.

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

Matt, wanted to start off with just a question on the ICA. I really appreciate the enhanced disclosure on Slide 16, including the maturity schedule for the ICA contracts. This quarter, it's a bit unique, although I would say that there was a broader industry trend, and that you saw a material uplift in cash. Given cash has remained elevated in April, as you noted, and just some of the pressures at the long end, you still have you're saying 50% to 75% fixed target, but what's your appetite to deploy some of those floating balances today into fixed rate just given some of the pressures on the curve?

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

Yes. So I think there's a few factors at play there. I mean, I think, first, with our approach to the long term, I think, our target of 50% to 75% over time still holds and still makes sense. I think the key here is really about reducing our sensitivity to short-term movements in interest rates. And while we're subject, of course, to the interest rate environment, having that flow through our financials over a much longer period of time and it helps us focus on our advisors and what makes most sense for them, from an investment standpoint.

I think when you look at the market today, Steve, to your point on the amount of cash that is on balance sheets right now, things are much, much different than for an understatement of the call, I suspect, than just a few months ago. With short-term rates at 0 and the 10-year, to your point, at about 50 basis points. And I think that, combined with the amount of cash that's out there. I think that just the demand in market for fixed rate contracts now, I think, is pretty light. There is some demand in the kind of the short end of the fixed rate part of the curve, meaning in the 1 to 2 years out. So I think there might be tactical opportunities there.

But I think broadly, we're -- for right now, we're focused on really -- putting those balances more in floating contracts, but contracts with a spread. And on the -- I'm sure you saw it on the disclosure that you referred to towards the end of the quarter, we put in place another $5 billion variable contract at a spread in the -- that 20 to 25 basis point range versus the kind of those overflow contracts that are kind of flat. So hopefully, that gives you a little bit of color about the environment right now, but I think the long-term strategy is really unchanged.

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

And maybe just switching over to a question for Dan. I was hoping, Dan, that you could provide us with some updated thoughts or color on the M&A backdrop. You recently executed a deal, at the same time, we're also hearing, just across the industry, that a lot of the private players that employ much more leverage are feeling, just increasing levels of stress. And I was hoping you could give some context as to what -- how the M&A opportunity is evolving for maybe some more transformational deals? And also how the perception of weaker balance sheet to your competitors is maybe enhancing your ability to recruit given some of the strong numbers that you saw in April?

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

Yes. Steven, so there's a lot there. If I don't hit it all on the first try, you can just redirect me. But let's start with the M&A piece, perhaps. And I'll start from a strategic place, which is, as you guys know, M&A continues to stay on our strategic radar. As a reminder, first priority is the use of our capital to drive organic growth, and then we use M&A as a complement. One of those opportunities we do see is with M&A across the small BDs and RIA segment of the marketplace.

As you said, the Lucia transaction is a great example of that opportunity where we can create value for both the principals and advisors of those practices as we transition their business onto our platform. So we do continue to see an opportunity there.

In environments like this or coming out of them, we would anticipate, based on what history would tell us, is that there would be demand and opportunity for continued consolidation within that segment of the marketplace. And so as we said in our remarks, we continue to look at that segment of the marketplace for opportunity.

I think with respect to the broader question you asked around transformational opportunities. I think that, again, history would tell us that in times like this, where you've got a tougher macro conditions that potentially disrupt the overall economic drivers of firms. You add to that, perhaps, leverage that they have on their balance sheet creates tough conditions to have the capacity to continue to invest and thus drive those businesses in a meaningful way forward, generating organic types of growth.

And so I think we believe that with that as a backdrop, you will begin to see some potential conversations and dialogues about strategic pivots by those firms, absent some sort of V-shaped recovery. And so again, I think, we look at that in the same way, we do with the other segment from an M&A standpoint, is on our strategic radar. We look at it as a complement to organic growth. If it's aligned strategically, operationally and financially with our business, we would have an interest in having that type of dialogue. So hopefully, that gives you some perspective, at least on the M&A landscape.

I think if you flip over to the question that you were asking about value propositions relative to the competition. I alluded to the fact that it can be tough given the macro conditions with a highly leveraged balance sheet and some of the financial drivers of your top line growth challenged in this type of environment. I think for us, we look at our model and just continue to invest in it, to enrich the competitive appeal of that model through its capabilities, its services, its technology. We feel good about that baseline value that we offer today. I think when you come through an environment like this with our resiliency, stability and those capabilities, and you add to that the continued capacity to invest, we think that creates a pretty appealing scenario and an alternative for advisors to consider. And we'll continue then to take that position of strength and explore those possibilities across the independent space and the new markets that we've talked about in terms of attracting new advisors to our platform.

So we think that creates a pretty compelling alternative option. And if you don't have those opportunities associated with your model, then it makes us a pretty tough team to beat.

Operator

Your next question comes from Alex Blostein with Goldman Sachs.

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

First question, just around, I guess, organic growth. So in the past, we've seen a slowdown in net new asset growth during periods of market volatility. Obviously, your net new assets in March were really strong and comments about April also point to a much more different picture than what we've seen in the past. I guess can you talk about sustainability of that growth, ability to convert the robust pipeline that you talked about into net new assets over the coming months and quarters?

And I guess, to what extent do you see your investments in tech and digital solutions as kind of a key differentiating factor at times of social distancing?

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

Yes. It's a great question, Alex. Let me take a stab at that. And again, you're welcome to ask a follow-on if I don't cover all of that. I think the -- with respect to sustaining that type of NNA growth, I think, that is certainly our aspiration on one of our primary areas of focus. And I think coming into the quarter, we had a good trajectory on that organic growth. And in Q1, we continued that trend. So that's certainly a nice jumping off point. And I think as you look forward, we believe that capacity to invest, the investments we've made over the past 3 years, give us real strong positioning from a competitive appeal as we talked about.

And again, our ability to continue to invest, we think will continue to extend that differentiation and that competitive advantage. I think you also then match that with the resiliency of our platform and the ability we've had to serve and support our advisors through what is a challenging and tough environment. And you take that baseline, you add that to it. You add the ability to invest in it. And again, that combination creates an interesting opportunity for us as we think about sustaining that organic growth, both across new store sales, but also across same-store sales and retention.

And so I think we're pretty encouraged when we look at that package of options, alternatives and levers, that we can continue to drive that trajectory and trend with respect to our NNA over time. So short answer is, yes, we feel pretty good about our continued focus on sustaining that and our competitive advantages, options, alternatives and tools in order to do that.

You had a second part. I don't think I got you.

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

No, I think you covered it pretty well. I think my second question was for Matt, also around ICA. I guess, I was just hoping to get a little bit more color around if there's any opportunity to expand the variable contract capacity to accommodate some of those overflow balances in order to pick up the 20 to 30 basis point spread?

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

Sure. I mean, I think if you just look at the additional disclosure we put in for the quarter, I think we've got most of them in there with the contract that we put in place at the end of this quarter, of around $5 billion. So you've now got just under $3 billion in the overflow balances. And I think that -- of course, we'll always look for opportunities, but I think over the long term, those balances are probably not going to be in cash for an extended period of time. So I think we feel pretty good between the fixed portfolio and the increase of the variable capacity by $5 billion this quarter.

Again, there'll be tactical things that we're working on. I think might improve that a little bit from here, but I think the bulk of it, we were happy to get done at the end of March.

Operator

Our next question comes from Craig Siegenthaler with Credit Suisse.

Craig William Siegenthaler - *Crédit Suisse AG, Research Division - MD*

Hope you're all staying healthy. I had a call up to Alex's first question on the impressive April recruited assets. How are you actively recruiting new advisors without the ability to hold in-person meetings? And it sounds like your business can survive pretty much using Zoom and Skype, probably better than your competitors?

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

Yes. Well, I'll speak for us. Look, we obviously make a big investment in recruiting and see it as a nice lever of organic growth. And if you look at over the last year, we've recruited $36 billion in assets, and we feel good about the progress that we're making there and that ongoing trajectory. There's a couple of key drivers to that. It's certainly continuing to invest in the model and creating differentiated capabilities that create that competitive appeal that I talked about earlier. We feel good about that continued trend. And the opportunity with some of the new capabilities we're delivering to continue to create a distinction there.

And I think the second part is the efficacy of our business development team and their ability to continue to take what is a competitive differentiated solution and go effectively take that to the marketplace. And as you said, I think in the midst of March, where, I guess, the full force of the pandemic hit, it was quite disruptive to the typical and traditional recruiting processes that many of them are done in person. And I think some of the work that we had done to automate and digitize a lot of the processes in the past, were certainly leverage points. But I think that team's ability to really pull up and explore what were the options and alternatives and then be quite agile about different ways to solve where you couldn't travel or you couldn't have a home office visit or you couldn't go visit an office and bring them onboard and help them transition into the platform.

Then we created digitized tools to overcome those things so that we could continue our activities. And though, as we said, March had an impact in terms of the overall recruiting, we did see some deals get pushed back into second quarter because of some of that complexity. We were able to mitigate some of those challenges with these digitized capabilities, and we'll continue to leverage them going forward. And they accentuate our opportunity set in April as we're seeing, in some cases, where we use a digitized means to onboard someone creating a faster ramp-up in assets than we've seen traditionally.

So there's some cool possibilities there that we'll continue to work on. We'll refine. We still have things to learn, but it's all in the spirit of continuously getting better.

Craig William Siegenthaler - *Crédit Suisse AG, Research Division - MD*

If we split that strong March net new asset number into same-store sales and new store sales contribution, do you know the rough mix? And was there any change in composition in March versus what you saw in January and February?

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

Yes. Maybe I'll take a stab at that first, and then I'll let Matt give you some additional color. I think if you look interestingly at the trends, you would have seen some stronger new store sales at the beginning of the quarter that had some impact in March as the pandemic sort of took and created a bigger impact. I think contrary to that, same-store sales actually strengthened through the quarter as the value proposition of these advisors, providing insight and perspective, both when the engagement was good at the beginning of the quarter, but the sentiment was positive. As well as in March where sentiment had completely changed, but the engagement was still strong as they -- there was a lot to help clients with in terms of how they think about their financial futures and their life goals and dreams.

And so we actually saw same-store sales build throughout the quarter. You want to put a higher capstone on that?

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

No. I was going to say the same thing. So you summarized it well.

Operator

Our next question comes from Bill Katz with Citigroup.

William R. Katz - *Citigroup Inc, Research Division - MD*

I appreciate the extra disclosure. It's super helpful. I hope everyone is doing okay. Maybe, Dan, one for you perhaps, just structurally, maybe it's too soon. You and your peers have seen just a tremendous spike in cash. And like others, you're sort of seeing a relatively steady state in April despite the markets bouncing back.

Do you think we've reached some kind of point where cash becomes a higher percentage of client assets, all else being equal. What's your sense in your conversations in the field?

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

Yes. It's a really great question, Bill. And it is early. We can look to history as a way to -- as one source of data, as I think about that question. I think you can also look to human behavior and when you go through an impact like this, what sort of ongoing tail impact does it have on how people think about an allocation or even advisors' allocations?

My sense of it is this, I do believe you'll see cash in just more normalized market environments, i.e., less volatility, you'll see more money get put back to work. Do we return to those 4% cash as a percentage of our overall asset levels? I'm not sure. I think that's back on the backs of a long sustained bull market and probably have more risk-taking appetite than one normally might. So as you think about the 4% range in assets that we jumped off of to now, it's roughly 7% of total assets. I think, historically, says you live in a 5% to 6% range, and that may be a reasonable way to think about this over the long term, acknowledging that there's lots of data to collect and more time to play out, but that might be a framework, at least of which to enrich your thinking.

William R. Katz - *Citigroup Inc, Research Division - MD*

Okay. And my second question, I'm going to cheat too. A little bit of a 2-parter, a little bit disparate so I apologize.

Can you give us an update on business solutions and how those conversations may have been evolving, particularly with just sort of the acceleration of volatility in the second quarter -- in the first quarter, excuse me? And then Matt, maybe one for you. Just going back to your decision to sort of slow pause the buyback. How much of that is truly from the macro versus the building M&A pipeline?

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

Yes. So I'll take the business solutions first, Bill, and then I'll turn it over to Matt. So look, just for everyone, as a reminder, the business solutions is really about providing access to expertise in affordable way to help advisors operate their businesses. And in Q1, we had good momentum to start the quarter. The fundamental value proposition continues to resonate with our advisors. And we saw our subscriber base grow to around 700 in the first quarter, which was up roughly 50 over fourth quarter. So that's all a good solid baseline, and we feel good about that.

Certainly, when COVID arrived, we saw 2 things that maybe are worth noting. The first is advisors who were in the pipeline to potentially set up a subscription and begin to use one of those services, that progress slowed as they rightfully shifted their focus over to serving and supporting their clients and not as prioritizing sort of starting something new. And I think that creates some short-term headwind in terms of working through that.

We also canceled some conferences that we would have typically used as sales forums for business solutions. So we have to find other ways of which to consistently offer those types of solutions of which we do. But those are just sometimes centerpieces to how we offer those types of solutions in Q1. So that has a bit of a headwind as well.

I think more on the favorable side of it, though, the advisors that are using these services, given the complexity of the operating environment in the first quarter, the value of these solutions was magnified, whether it was the marketing solutions, not just helping them with lead generation, but helping them manage their client communications in a really intense time where the CFO solutions, helping them with business stress testing or cash flow analysis and evaluations, the tech solutions, where we actually came up with a really cool, creative turnkey remote office solution within, literally, 2 weeks within the quarter to, again, help advisors in working from home and making that simpler and easier.

So it really does reinforce the value these solutions offer to the advisors. So again, we're excited about the long-term opportunity set and the value they create. You just got some short-term headwinds that we got to work through.

Matt, do you want to take the second question?

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

Yes. I think, Bill, on the repurchase program pause. I mean, I think the thing I would emphasize most is when we look at our organic growth and our value proposition, having a strong balance sheet is just critical and supportive of that. So being able to manage through a downturn like this, while continuing to generate cash, to have low leverage ratios compared to others in the space. To not being a bank with the risks that come along with being a bank and needing capital to support it and having losses associated with loans, right? I could go on and on, right?

So I think those things are really, really important. So when you look at continuing to do share repurchases in an environment like this, we really balance that against being able to have that strong balance sheet and being able to support everything that we need.

So I think it's out of an abundance of caution. I think we'll kind of getting more clarity on where the macro goes from here, I think, will help on that front. So I think that's the primary thing. I think when you look at M&A, I think those opportunities are there and interesting. I think Dan described that well. The only thing I would add is just a reminder. M&A you've got a lot of clarity on the EBITDA that comes with that. And given our price discipline there, it's not -- unless you're talking large, large deals. That's not typically a big user leverage given our price discipline combined with EBITDA that come along.

So hopefully, that helps you give a little perspective or color on our perspective.

Operator

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

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

The centrally managed portfolio is, obviously, a very strong net -- NNA growth continues. Just trying to get a sense around sort of the adoption from advisors of this program and kind of where you might see it trending on a go-forward basis? Is it sort of wholly adopted by the advisors at this point? Is it sort of still in it's -- in an evolutionary stage? Or what is it that's continuing to drive this strong NNA growth going forward?

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

Yes. Let me give you a little color on that. And again, Matt, if you want to add anything behind that.

So look, if I took at a high level, I think you're in the earlier part of a 9-inning game in terms of the adoption and utilization of centrally managed solutions. And I think the continued investment we make in the capabilities, the flexibility, the optionality we give the advisors, the improvement in user interfaces, all will help support and drive the continued use of centrally managed platforms. I think we recognize there's more innovation out there for us to work on and add 2 of those centrally managed solutions such that you've got terrific investment options and strategies that help those advisors create and add value to their clients. You can do it in a highly simplified digitized way that gives access to the advisor to kind of take their hands on and off the wheel is a really interesting appealing package of value to those advisors. And as we continue to evolve our capabilities there, we think there's a correlation between the evolution of those capabilities and the utilization of the centrally-managed platforms.

What's driving it? Well, I think advisors more and more recognize and look for -- that it can be a great leverage point, their overall practice. And as they try to either lower their cost or create more flexibility to reallocate their time to more valuable activities, I think, this becomes a more and more appealing type of concept that they can use as a leverage point to their practices.

So we create a really appealing solution. Their need for it will only evolve and grow as they look for more leverage points in their practice. That's, we think, a nice combination to drive a long sustainable trend, which is why we say it's in the early parts of the game.

I don't know if -- Matt, you want to add anything to that?

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

No. I think that is well said.

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

That's helpful. And I guess one for Matt, specifically. And apologies if I missed this or if the read-through is perhaps somewhat clear, but I guess, intuitively, promotional expenses would likely come in, in the current coming quarters, assuming all else equal with the current backdrop.

But one, I guess, can you perhaps kind of confirm that statement? And then two, have you kind of thought about ways to perhaps, I don't -- I honestly don't know if it's even impossible, but digitize, if you will, this sort of activity? Or if there's sort of virtual capabilities that will enable you to kind of continue down the road of certain promotional activities?

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

Yes. Sure, Gerry. I think on both -- on both of those, the promotional expenses in Q2, we have very few, if any, conferences. So they'll come down specific to the conference piece of that by about $10 million. So there's definitely a decline there.

On the second part of your question, I'll just give a little bit of the financial ends, and then Dan, if you want to jump in. But our national conference, our largest conference of the year, is in Q3, and we have already decided to move that to a virtual conference.

So we are in the planning stages of that. So I think the answer to the question, it's definitely possible. We are in the middle of working on that. And obviously, Dan is in a better spot to give some color on that than me.

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

Yes. So obviously, pulling together 8,000 to 9,000 people in July, doesn't sound like a great risk to take given the backdrop. And so we announced that we would ship this to a virtual conference. A lot of folks are working on that same concept.

There's, again, some interesting technologies, and cool ways of which to share that content in a more digital platform. And so we're working through exactly how we would do that. The cost associated with doing that, working with sponsors to be a part of that overall program. So more to come on that, but I think Matt's right as we think about third quarter and that being our largest conference. As we get through the other side of that, I would expect you to see some shift or change in the overall economics around focus or our big conference.

Operator

Our next question comes from Devin Ryan with JMP Securities.

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

First question here just on upfront contracts in the industry. Obviously had seen kind of the scaling up in recent years just as there's quite a bit of competition. And also firms have the benefit of higher interest rates that was maybe supporting some of that spending or investment, if you will. With interest rates and equity markets abruptly moving lower, I guess, what are you guys seeing with upfront recruiting packages? Appreciate it's probably early and whether you guys expect to hold the line, which would maybe further accelerate organic growth? Or potentially, would you move that lower? Which would make the recruiting economics even more attractive, assuming the organic growth remains strong. Just trying to think about how that may affect things moving forward?

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

Yes, Devin. I mean I think on the way we approach that is really unchanged. We changed -- we adjusted our approach a couple of years ago just underwrite 2 returns. We're continuing to underwrite those returns. We've never put into those models, any -- saying what to view if you will, on the macro. So we'll update based on the environment we're in. That could bias things down a little bit, but I would -- as a general rule, but each deal is individually underwritten dependent on the mix of that firm and what products and services they use. But we'll continue to underwrite returns. So no change there.

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

Got it. Very helpful. And then just a follow-up on customer cash. Appreciate all the detail in the presentation and the commentary around the ICA portfolio. With respect to the DCA piece, you guys updated the fee schedule. And just trying to think about and whether there's more room to do that and kind of the inputs to do that. Just trying to think whether there might be some additional opportunity for that piece as well, kind of down the road here?

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

Yes. I mean, I think when you think about that product, I mean, it's one where it's a fee per account. So the balances in there kind of -- or the -- drive the overall economics. So I think the changes that we made that you referred to are based on where those balances are. And I think if that changes over the long term, that could impact things. But I think we feel like with the adjustments we've made, that product is in the right spot in a competitive spot for the clients that have investors in there.

Operator

And your next question comes from Ken Worthington with JPMorgan.

Kenneth Brooks Worthington - *JP Morgan Chase & Co, Research Division - MD*

Just curious to hear your thoughts if you think there might be a longer-term impact of COVID-19 on the wealth management business. Either the way that advisors manage their relationships or work from home or something else that really changes the efficiency of the advisor in their business?

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

Yes. So Ken, I think there's no doubt this will create some structural change across the market and the industry. And I think, probably, history, again, tells us the magnitude of that change will likely be driven by the desire of individual firms and how much they want to embrace and pull that change through.

We entered this environment with, as I said earlier, where we established some principals that drove how we think about this opportunity, and that starts with taking care of our advisors so they can take care of their clients.

And also at the same time, protecting the health and safety of our employees. So those principles drove our thinking, our decision-making through this and actually, given the significant change across both of those spectrums, there's a tremendous amount of learning opportunity that sits inside that change, right? Which took us to the next place we went to in managing through this was our culture and our values. And one of our values is a commitment to learning and applying that learning to drive innovation in an agile way.

And so in a climate like this, where we talked about this significant change, we believe it creates an incredible opportunity to learn and apply that learning going forward to drive real structural differences in the business. And I think you hit on in the spirit of brevity, one of those examples, which would be how people think about a distributed workforce. And what does that mean as you apply that to 4,500 employees in our case or nearly 17,000 advisors and how we support and engage with them or even, as you said, how they would engage in, in millions of their clients. And so we believe there's a real ripe opportunity that this creates an opening, of which to think about things in a different way and opens up the playing field, if you will, to experimentation to do things that you may never have done otherwise.

There could be jobs that you didn't think were possible to do remotely from home that all of a sudden by doing it you now have a different point of view on that, and that shapes how you think about managing your workforce, flexible schedules, how you access talent and even how you manage your real estate portfolio. And that's just one example, right, that sits inside that structural change you suggested.

We believe the whole use of robotics, AI and digital tools will be different going forward. People's thinking around outsourcing and supply chains will be changed forever by this, if they have a desire to pull that through. And I think we're looking at those things and more, really challenging ourselves to make sure we lean into the learning opportunities and how you may pull-through those changes to reshape your cost structure or to reshape how you engage with your employees all the way to how you position your advisors to deliver a different client experience to their clients.

So that's the spectrum of opportunity we kind of see coming out of this. There will be more to emerge. It's early. We've got a lot to learn, but we're trying to be purposeful about getting our arms around as much of that as we can so we can be thoughtful and have an informed view is the best way forward.

Operator

Our next question comes from Chris Shutler with William Blair.

Christopher Charles Shutler - *William Blair & Company L.L.C., Research Division - Research Analyst*

Hope you are all doing well. To follow-up on Devin's question from earlier. How does the change in the interest rate environment affect what you're willing to pay for advisory assets? Are you underwriting a much lower Fed funds rate today, given the environment? Or when you think about TA, did you -- do you kind of structure it in the hopes that rates bounce back?

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

Yes, Chris. So we -- I think I used my SAT word, we're not sanguine on the macro in the earlier answer. So we don't assume any improvement in macro. We underwrite returns in the current environment, that means the current interest rate environment. And then based on, again, each deal is individually underwritten. And we stay disciplined on that and then direct to returns.

Christopher Charles Shutler - *William Blair & Company L.L.C., Research Division - Research Analyst*

Okay. Fair enough. And then, just a second one, just a small question on the conferences. Since you're going to be doing those virtually this year, I think, you mentioned the $10 million reduction in conference expense from Q1 to Q2.

Anything you can say about the remainder of the year? And how both revenue and expenses will be impacted?

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

Yes. I think the Q2 reduction is really just based on the timing of conferences, which this year are planned primarily for Q1 and Q3. I think in Q3, where we have our Focus Conference that Dan talked about a little bit earlier going virtual, I think just to give you a sense, that conference is typically around $15 million in costs, and around $5 million or $6 million in sponsor revenues.

So I think as we approach moving that to a virtual conference, I think we'll think through how those expenses evolve. You'll have obvious things like travel expenses, there won't be any, right? So that will bring costs down. But at the same time, we're focused on investing in the virtual areas of the digital capabilities of that conference to make it something that's compelling and helpful, for the very reasons that we do that conference, right?

So we're in the planning stages now. We'll give you an update next quarter in Q2, so you have a sense as to our best estimate as to what's coming in Q3 then.

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

Yes. Thank you. And hey, thanks to everyone for taking the time to join us this afternoon. We look forward to speaking with you again next quarter. Stay healthy.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.
