

# LPL Financial

Investor Presentation  
Q1 2020

May 27, 2020

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# Notice to Investors: Safe Harbor Statement

Statements in this presentation regarding LPL Financial Holdings Inc.'s (together with its subsidiaries, the "Company") future financial and operating results, growth, opportunities, enhancements, priorities, business strategies and outlook, including forecasts, projections and statements relating to market and macroeconomic trends, future leverage, debt structure, liquidity, capital deployment, service offerings, models and capabilities, brokerage and advisory asset levels and mix, potential Gross Profit\* benefits, deposit betas, interest rate sensitivities, Core G&A\* and technology-related expenses (including outlooks for 2020), investments and capital returns, as well as any other statements that are not related to present facts or current conditions or that are not purely historical, constitute forward-looking statements. These forward-looking statements are based on the Company's historical performance and its plans, estimates, and expectations as of May 27, 2020. Forward-looking statements are not guarantees that the future results, plans, intentions, or expectations expressed or implied by the Company will be achieved. Matters subject to forward-looking statements involve known and unknown risks and uncertainties, including economic, legislative, regulatory, competitive, and other factors, which may cause actual financial or operating results, levels of activity, or the timing of events, to be materially different than those expressed or implied by forward-looking statements. Important factors that could cause or contribute to such differences include: the spread of COVID-19 and its direct and indirect effects on global economic and financial conditions; changes in interest rates and fees payable by banks participating in the Company's client cash programs, including those resulting from the Company's negotiations of agreements with current or additional counterparties; the Company's strategy and success in managing client cash program fees; fluctuations in the levels of brokerage and advisory assets, including net new assets, and the related impact on revenue; effects of competition in the financial services industry; the success of the Company in attracting and retaining financial advisors and institutions, and their ability to market effectively financial products and services; whether retail investors served by newly-recruited advisors choose to move their respective assets to new accounts at the Company; changes in growth and profitability of the Company's fee-based business, including the Company's centrally managed advisory platform; the effect of current, pending, and future legislation, regulation, and regulatory actions, including disciplinary actions imposed by federal and state regulators and self-regulatory organizations, and the implementation of Regulation BI (Best Interest); the cost of settling and remediating issues related to regulatory matters or legal proceedings, including actual costs of reimbursing customers for losses in excess of our reserves; changes made to the Company's services and pricing, including in response to competitive developments and current, pending, and future legislation, regulation, and regulatory actions, and the effect that such changes may have on the Company's Gross Profit\* streams and costs; execution of the Company's capital management plans, including its compliance with the terms of its credit agreement and the indentures governing its senior notes; the price, the availability of shares, and trading volumes of the Company's common stock, which will affect the timing and size of future share repurchases by the Company; execution of the Company's plans and its success in realizing the synergies, expense savings, service improvements or efficiencies expected to result from its investments, initiatives and programs, including its acquisitions of Allen & Company of Florida, LLC ("Allen & Company") and AdvisoryWorld and its expense plans and technology initiatives; the performance of third-party service providers to which business processes are transitioned; the Company's ability to control operating risks, information technology systems risks, cybersecurity risks, and sourcing risks; and the other factors set forth in Part I, "Item 1A. Risk Factors" in the Company's 2019 Annual Report on Form 10-K, as may be amended or updated in the Company's Quarterly Reports on Form 10-Q or other filings with the SEC. Except as required by law, the Company specifically disclaims any obligation to update any forward-looking statements as a result of developments occurring after May 27, 2020, even if its estimates change, and statements contained herein are not to be relied upon as representing the Company's views as of any date subsequent to May 27, 2020.

**THIS PRESENTATION PRESENTS DATA AS OF MARCH 31, 2020, UNLESS OTHERWISE INDICATED.**

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## \*Notice to Investors: Non-GAAP Financial Measures

Management believes that presenting certain non-GAAP financial measures by excluding or including certain items can be helpful to investors and analysts who may wish to use some or all of this information to analyze the Company's current performance, prospects, and valuation. Management uses this non-GAAP information internally to evaluate operating performance and in formulating the budget for future periods. Management believes that the non-GAAP financial measures and metrics discussed herein are appropriate for evaluating the performance of the Company. **Specific Non-GAAP financial measures have been marked with an \* (asterisk) within this presentation. Reconciliations and calculations of such measures can be found on page 33-36.**

Gross Profit is calculated as net revenues, which were \$1,463 million for the three months ended March 31, 2020, less commission and advisory expenses and brokerage, clearing, and exchange fees ("BC&E"), which were \$871 million and \$17 million, respectively, for the three months ended March 31, 2020. All other expense categories, including depreciation and amortization of fixed assets and amortization of intangible assets, are considered general and administrative in nature. Because the Company's Gross Profit amounts do not include any depreciation and amortization expense, the Company considers its Gross Profit amounts to be non-GAAP measures that may not be comparable to those of others in its industry. Management believes that Gross Profit amounts can provide investors with useful insight into the Company's core operating performance before indirect costs that are general and administrative in nature. For a calculation of Gross Profit, please see page 33 of this presentation.

Core G&A consists of total operating expenses, which were \$1,226 million for the three months ended March 31, 2020, excluding the following expenses: commission and advisory, regulatory charges, promotional, employee share-based compensation, depreciation and amortization, amortization of intangible assets, and brokerage, clearing, and exchange. Management presents Core G&A because it believes Core G&A reflects the corporate operating expense categories over which management can generally exercise a measure of control, compared with expense items over which management either cannot exercise control, such as commission and advisory expenses, or which management views as promotional expense necessary to support advisor growth and retention including conferences and transition assistance. Core G&A is not a measure of the Company's total operating expenses as calculated in accordance with GAAP. For a reconciliation of Core G&A to the Company's total operating expenses, please see page 34 of this presentation. The Company does not provide an outlook for its total operating expenses because it contains expense components, such as commission and advisory expenses, that are market-driven and over which the Company cannot exercise control. Accordingly, a reconciliation of the Company's outlook for Core G&A to an outlook for total operating expenses cannot be made available without unreasonable effort.

EBITDA is defined as net income plus interest and other expense, income tax expense, depreciation and amortization, and amortization of intangible assets. The Company presents EBITDA because management believes that it can be a useful financial metric in understanding the Company's earnings from operations. EBITDA is not a measure of the Company's financial performance under GAAP and should not be considered as an alternative to net income or any other performance measure derived in accordance with GAAP, or as an alternative to cash flows from operating activities as a measure of profitability or liquidity. For a reconciliation of net income to EBITDA, please see page 35 of this presentation. In addition, the Company's EBITDA can differ significantly from EBITDA calculated by other companies, depending on long-term strategic decisions regarding capital structure, the tax jurisdictions in which companies operate, and capital investments.

Credit Agreement EBITDA is defined in, and calculated by management in accordance with, the Company's credit agreement ("Credit Agreement") as "Consolidated EBITDA," which is Consolidated Net Income (as defined in the Credit Agreement) plus interest expense, tax expense, depreciation and amortization, amortization of intangible assets, and further adjusted to exclude certain non-cash charges and other adjustments, including unusual or non-recurring charges and gains, and to include future expected cost savings, operating expense reductions or other synergies from certain transactions. The Company presents Credit Agreement EBITDA because management believes that it can be a useful financial metric in understanding the Company's debt capacity and covenant compliance under its Credit Agreement. Credit Agreement EBITDA is not a measure of the Company's financial performance under GAAP and should not be considered as an alternative to net income or any other performance measure derived in accordance with GAAP, or as an alternative to cash flows from operating activities as a measure of profitability or liquidity. In addition, the Company's Credit Agreement-defined EBITDA can differ significantly from adjusted EBITDA calculated by other companies. For a reconciliation of Credit Agreement EBITDA to Net Income, please on page 35 of this presentation.

EPS Prior to Amortization of Intangible Assets is defined as GAAP earnings per share ("EPS") plus the per share impact of amortization of intangible assets. The per share impact is calculated as amortization of intangible assets expense, net of applicable tax benefit, divided by the number of shares outstanding for the applicable period. The Company presents EPS Prior to Amortization of Intangible Assets because management believes the metric can provide investors with useful insight into the Company's core operating performance by excluding non-cash items that management does not believe impact the Company's ongoing operations. EPS Prior to Amortization of Intangible Assets is not a measure of the Company's financial performance under GAAP and should not be considered as an alternative to GAAP EPS or any other performance measure derived in accordance with GAAP. For a reconciliation of EPS Prior to Amortization of Intangible Assets to GAAP EPS, please see page 36 of this presentation.

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# LPL Overview

## Mission

**We take care of our advisors so they can take care of their clients**

## Value Proposition

**We are a leader in the retail financial advice market and the nation's largest independent broker-dealer<sup>(1)</sup>.**

**Our scale and self-clearing platform enable us to provide advisors with the capabilities they need, and the service they expect, at a compelling price, including:**

- **Open architecture offering** with no proprietary products
- **Choice of advisory platforms** between corporate and hybrid, as well as **centrally managed solutions** to support portfolio allocation and trading
- **Enhanced capabilities, ClientWorks technology, Client Care model, and Business Solutions**
- **Industry-leading advisor payout rates**
- **Growth capital** to expand or acquire other practices

## Key Markets and Services

### **\$670B+ Retail Assets:**

- **Brokerage:** \$348B
- **Advisory:** \$322B

### **16,700+ advisors:**

- **Independent Advisors:** 9,200+
- **Hybrid RIA:** 4,900+ (450+ firms)
- **Institutional Services:** 2,500+ (780+ banks and credit unions)

## Key Metrics

### **Q1 2020 Business Metrics**

Assets:	\$670B
Organic Net New Assets:	\$14.3B
Organic Annualized Growth:	7.5%
Recruited Assets <sup>(2)</sup> :	\$8.4B
Advisors:	16,763
Accounts:	5.8M

### **2020 LTM Financial Metrics**

Average Assets:	\$720B
Organic Net New Assets:	\$42B
Recruited Assets <sup>(2)</sup> :	\$36B
Gross Profit*:	\$2.2B
EBITDA*:	\$1.0B
EPS Prior to Intangible Assets*:	\$7.30

### **Q1 2020 Debt Metrics**

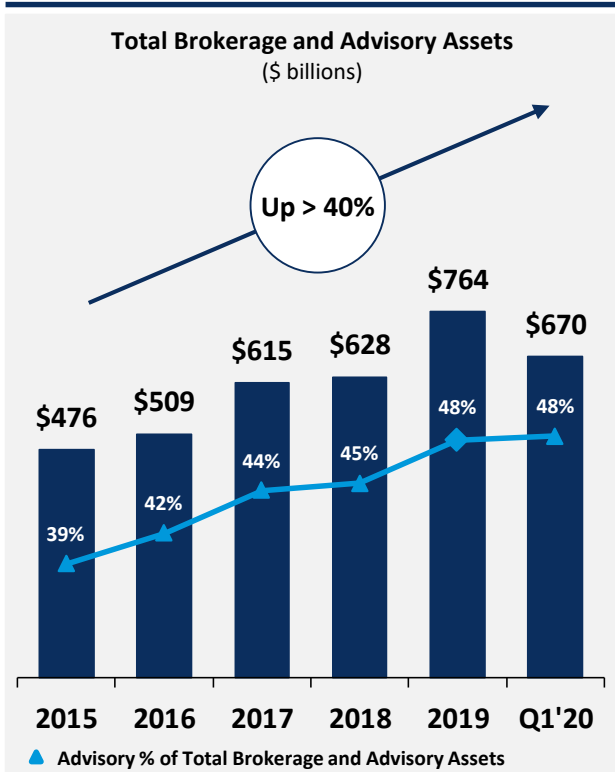
Credit Agr. EBITDA (TTM)*:	\$1.1B
Total Debt:	\$2.5B
Net Leverage Ratio <sup>(3)</sup> :	2.07x
Cost of Debt:	4.13%

### **Ratings & Outlooks**

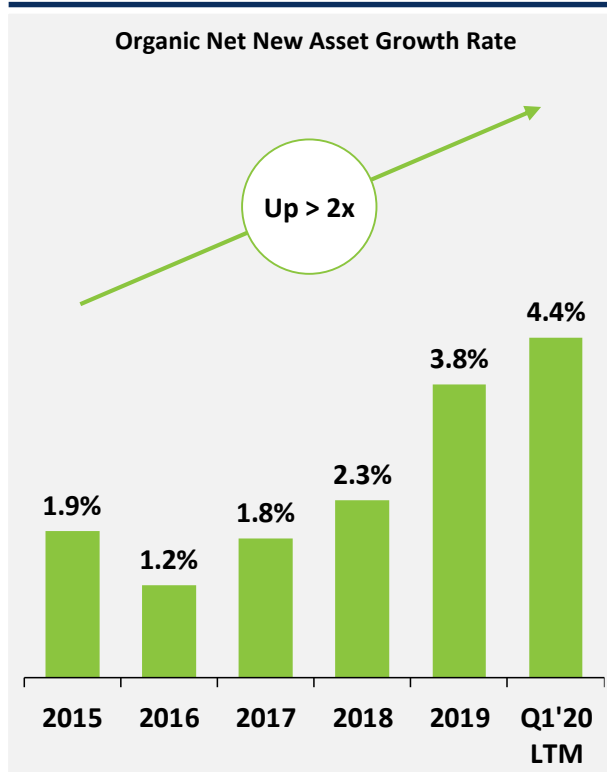
Moody's Rating:	Ba1
Moody's Outlook:	Stable
S&P Rating:	BB+
S&P Outlook:	Negative

# We continue to drive business and financial growth

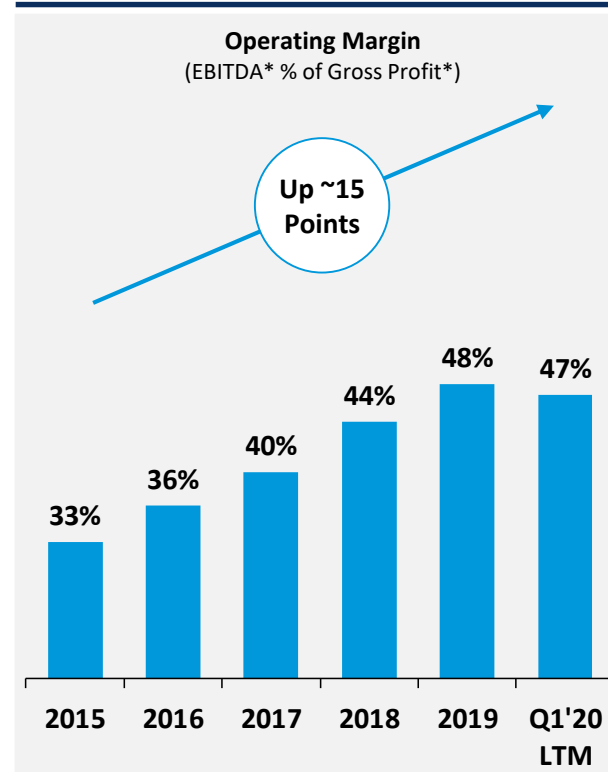
Total assets have increased more than 40%



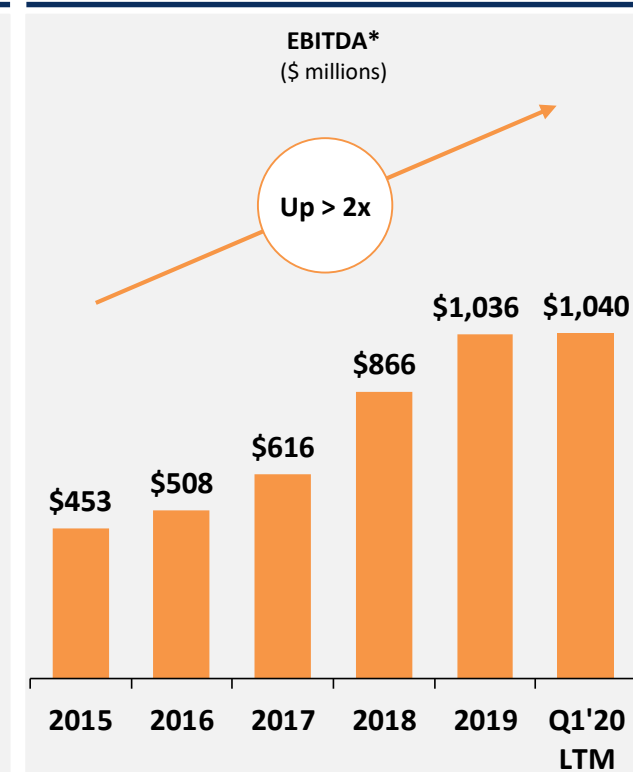
Organic asset growth has doubled



Operating margin has increased ~50%



EBITDA\* has more than doubled to over \$1 billion



# We are creating the next generation of the Independent Model



## Position Our Model Across the Entire Wealth Management Market

Extend our leadership in our places of strength (IBD and Bank)

Expand our affiliation models to compete across more segments of the wealth management market



## Create an Industry-Leading Service Experience, at Scale

Develop excellence in Continuous Improvement

Turn ClientWorks into an industry-leading technology platform

Transform our Service model into a Customer Care model



## Help Advisors Run Successful Businesses

Digitize advisors' practices and enable evolution of their value proposition

Shift portions of practice management execution from advisors to LPL

Develop end-to-end solutions at each stage of the advisor lifecycle

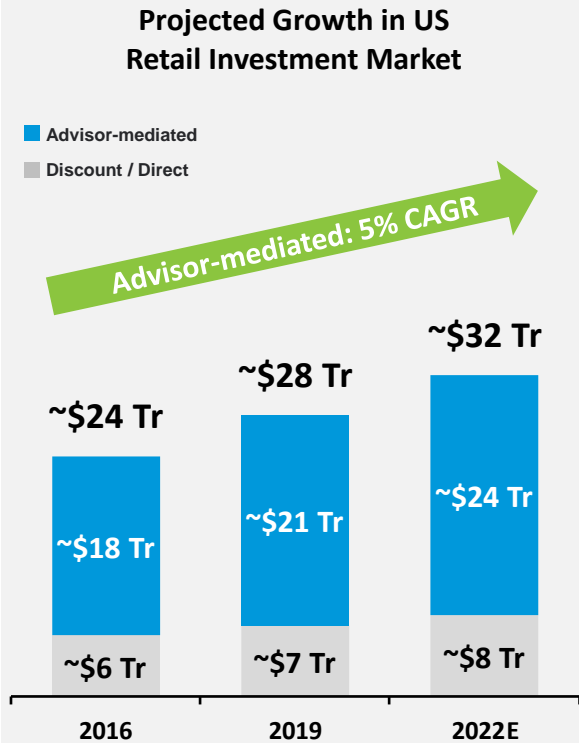
**A strategy to win in the marketplace**

# LPL Investment Highlights: Significant opportunities to grow and create long-term shareholder value

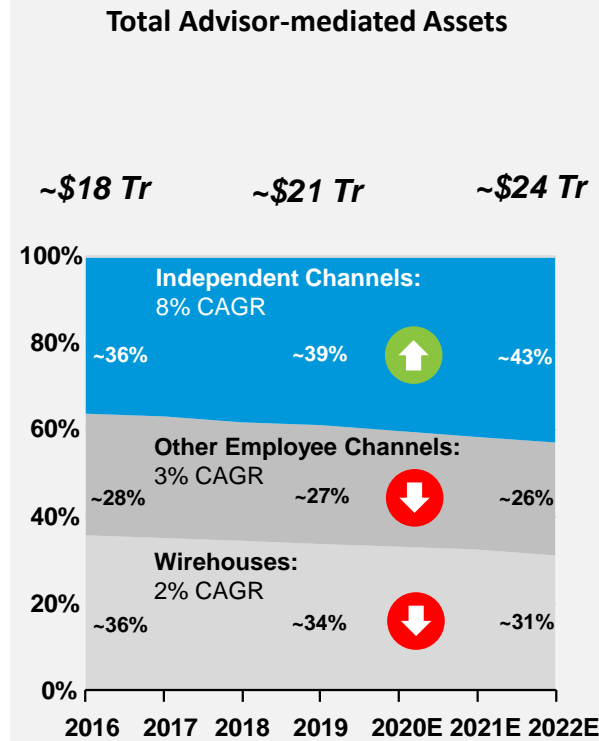
- 1 Established market leader with scale advantages and structural tailwinds**
- 2 Expanded capabilities to enhance the advisor value proposition**
- 3 Organic growth opportunities through net new assets and ROA**
- 4 Resilient business model with natural hedges to market volatility**
- 5 Disciplined expense management driving operating leverage**
- 6 Capital light business model with significant capacity to deploy**
- 7 Opportunity to consolidate fragmented core markets through M&A**

# We are a market leader with scale advantages and industry tailwinds

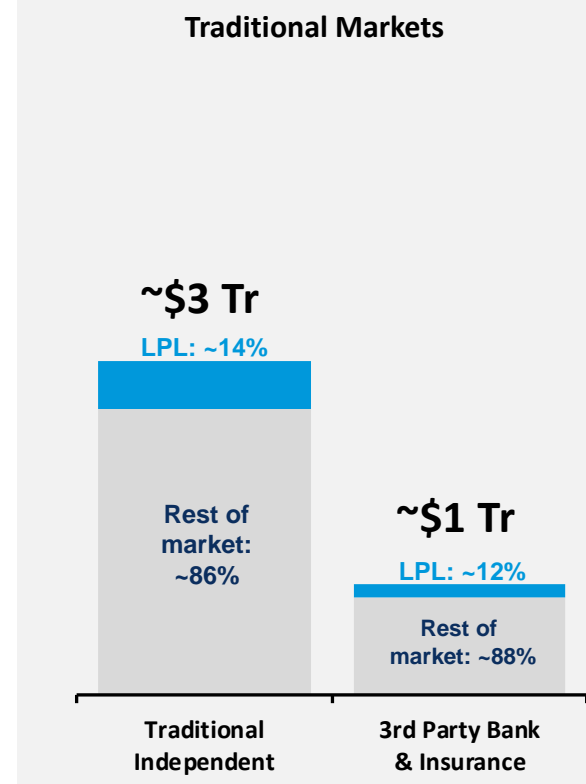
## Growing demand for advice



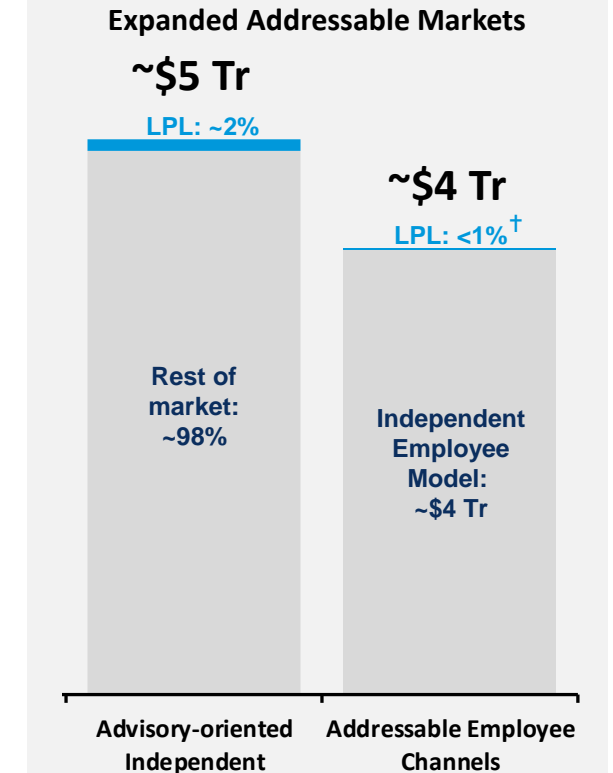
## Independent Channel gaining share



## Leading position in traditional markets



## Tripling our total addressable markets



Note: LPL estimates based on 2019 Cerulli channel size and advisory share estimates and include market adjustment for 2019.

† Consists of approximately \$3 billion of brokerage and advisory assets serviced by Allen & Company advisors.



# We are expanding our addressable markets by ~3x with new affiliation models

## Advisory-Oriented Independent Market New ~\$5 Tr Opportunity

### Strategic Wealth Services (brand launched in Q2 2020)

- Previously referred to as our **“Premium” model**
- Provides comprehensive support for **“breakaway advisors” to move to independence**
- Includes enhanced, hands-on assistance through all aspects of **new practice startup and transition**
- Delivers **tailored business support** through strategic consulting and Business Solutions

### Fee-Only Advisory (in development)

- Enables RIAs to leverage **fully-integrated** capabilities, technology, services, and clearing platform
- Supported by dedicated **relationship management** teams along with practice-level support
- Provides the **flexibility to outsource risk management and compliance** (Corporate RIA) or manage internally (Hybrid RIA)

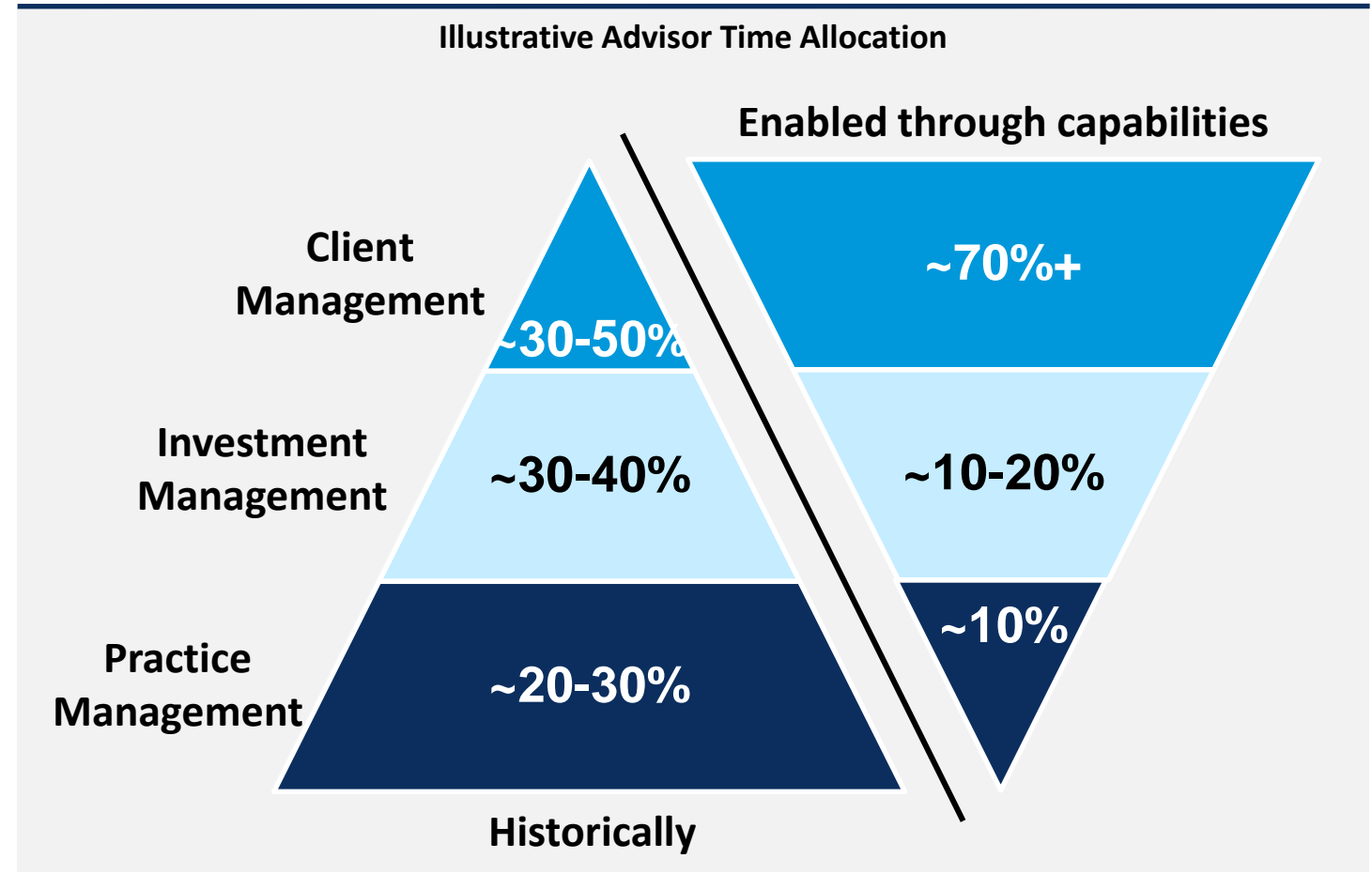
## Independent Employee Market New ~\$4 Tr Opportunity

### Independent Employee (anticipate go-to-market by end of Q2)

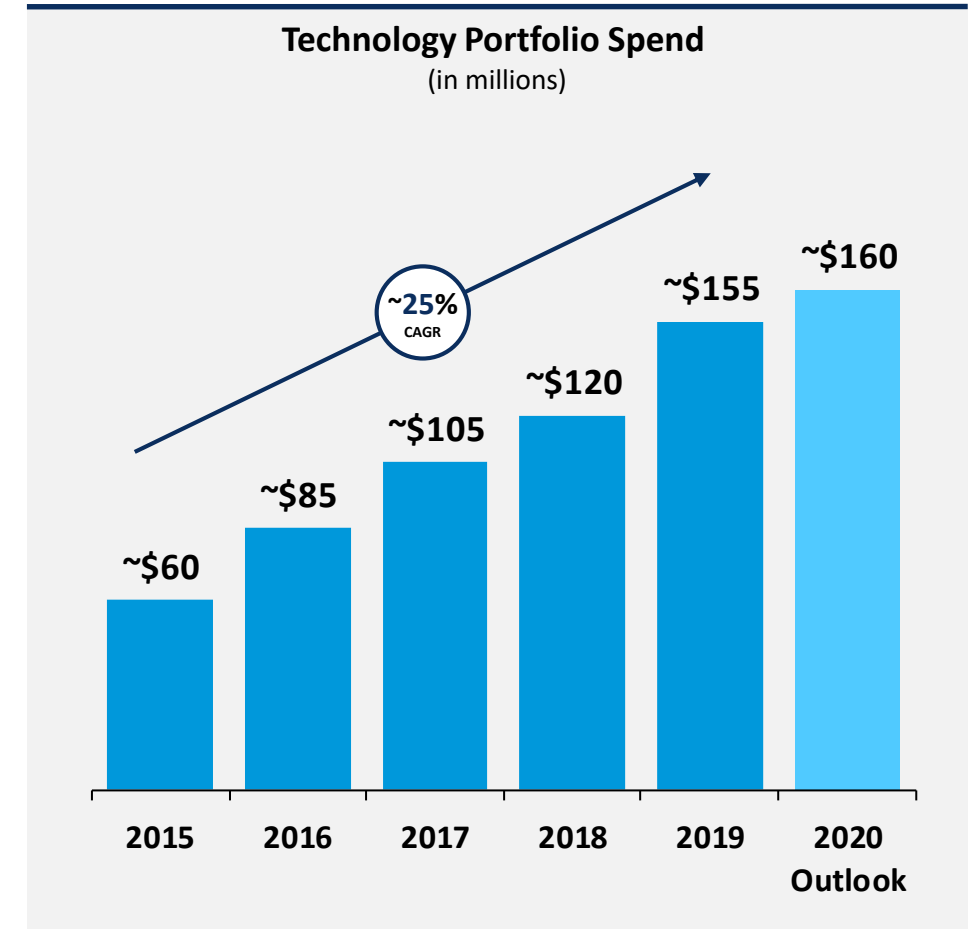
- Pairs the **benefits of independence** with the **turnkey services** of an employee model
- Enables advisors to **own their client relationships** and have the freedom to design their practices to **fit their model for advice**
- Increases **payout for advisors** versus traditional employee firms through a lower-cost model

# We have increased our investments in capabilities to enhance our advisor value proposition and drive growth

We are focused on delivering capabilities that position advisors to spend more time with their clients

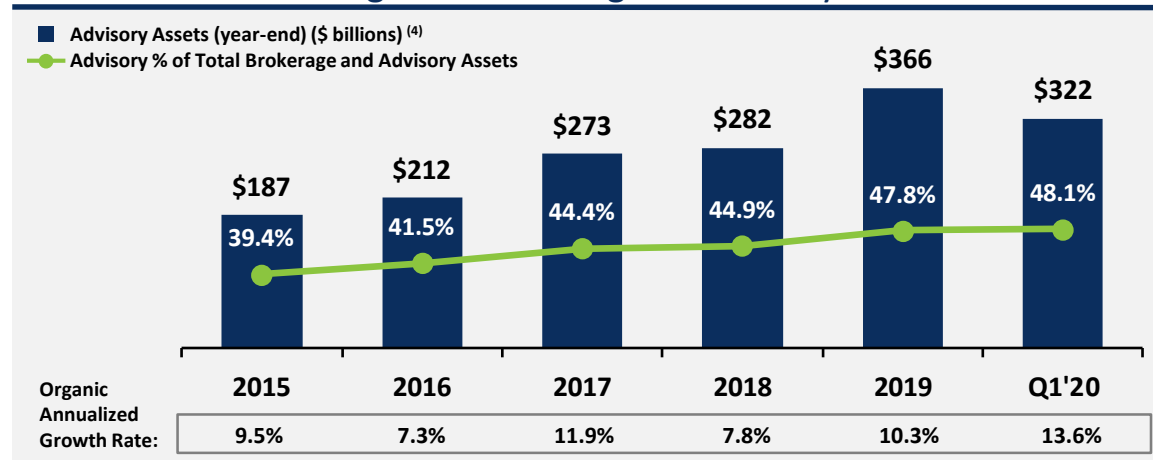


As a result, we have increased our technology investments over time



# Advisory and centrally managed services have grown organically following pricing and capability enhancements

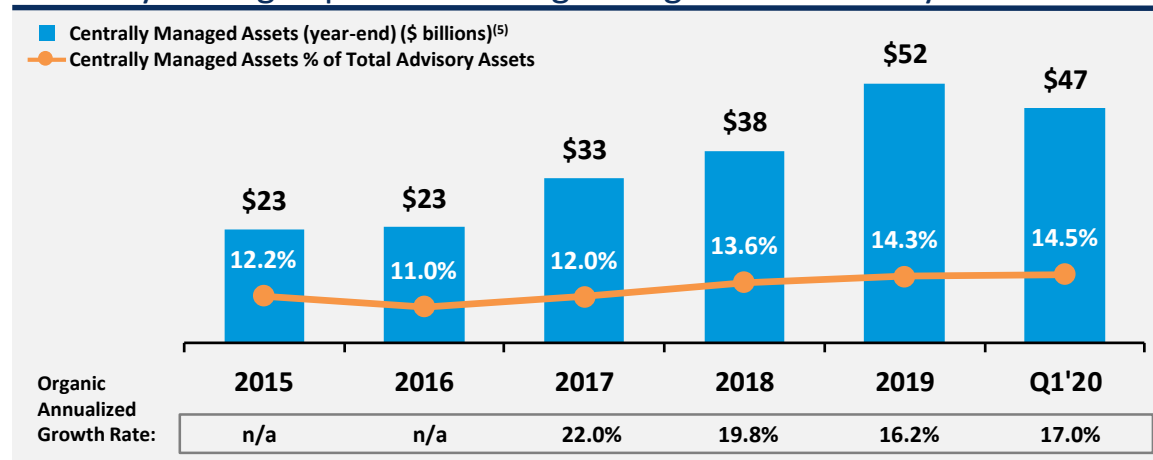
## Our business is shifting from Brokerage to Advisory



## The shift to Advisory can create value

- Assets are shifting from Brokerage to Advisory, consistent with industry trends, as end clients seek greater levels of support from advisors
- Our mix of Advisory is below industry levels of ~70% Advisory
- We are shifting towards Advisory at a rate of ~2% per year
- Advisory ROA is ~10 bps higher than Brokerage ROA, so a ~2% shift is ~\$15M in annual Gross Profit\* benefit

## Centrally managed platforms are growing within advisory



## Centrally managed platforms generate higher returns than Advisory

- Outsourcing portfolio design and management can free up advisors' time to serve clients and grow their practices
- Advisors can also continue to design their own portfolios while outsourcing investment management tasks to LPL
- Centrally managed platforms have increased as a percentage of total advisory assets at about 1% annually
- Centrally managed platform ROA is ~10 bps higher than Advisory overall, so a 1% increase is ~\$3M in annual Gross Profit\* benefit

# Business Solutions can help advisors free up more time to serve their clients and increase the value of their businesses

## We have developed capabilities to help position advisors to spend more time with clients

- Advisors spend a significant amount of time on practice management
- Business Solutions can help advisors more efficiently operate their practices
- This can help free up more time for advisors to serve their clients and grow their businesses

## Our capabilities are focused on key areas that help advisors operate their practices



### Admin Solutions

Reduce daily tasks with experienced and trained administrative help



### CFO Solutions

Optimize the growth, scale, and profitability of the advisor's business



### Marketing Solutions

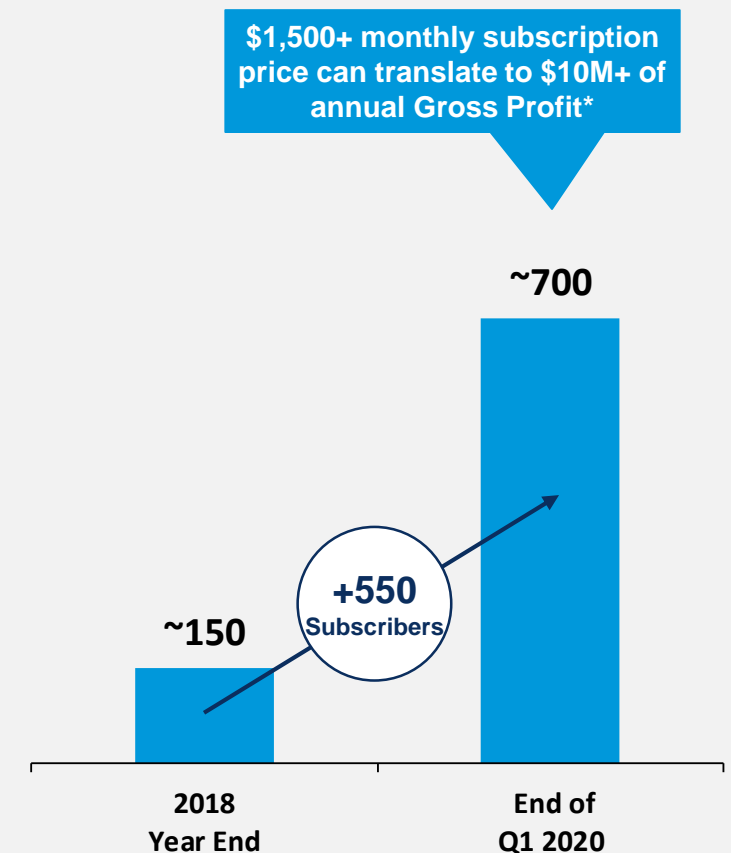
Unleash digital marketing to generate new prospects and connect with existing clients



### Technology Solutions

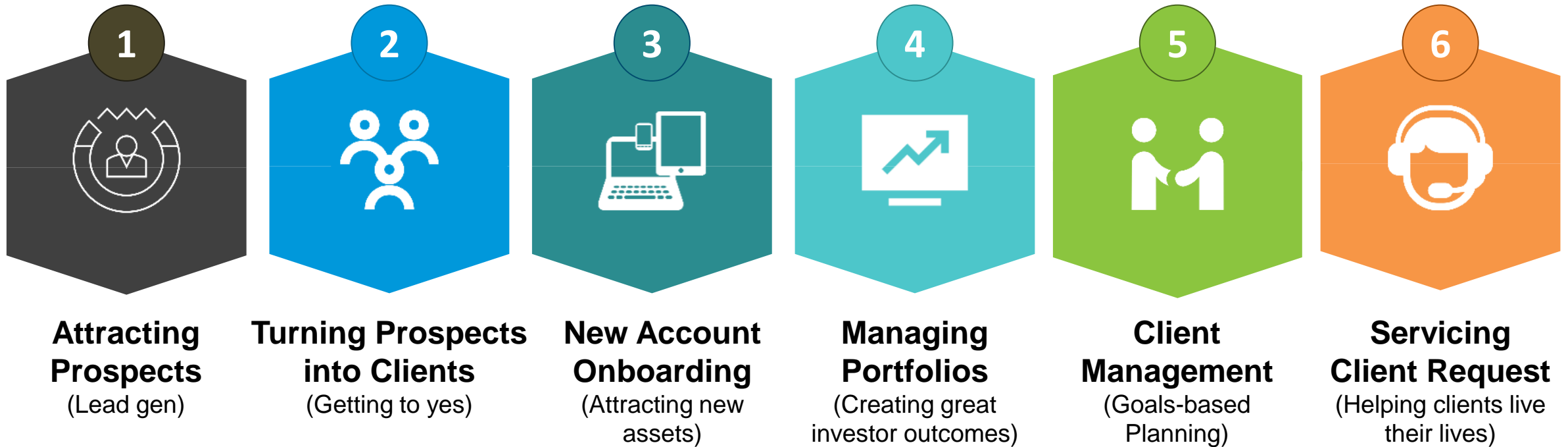
Peace of mind with enterprise-grade cybersecurity and productivity-enhancing software

## Business Solutions have begun to scale and contribute to our Gross Profit\*




We are digitizing key advisor workflows to help drive practice scalability and efficiency

## ClientWorks Connected



For each of the platforms, we are integrating a free solution as well as leading third-party options


# We are supporting advisors with access to capital throughout their practice lifecycle



**Transition Assistance**  
Capital to help advisors transition their practices to LPL



**Growth Capital**  
Capital and expertise to support practice growth initiatives



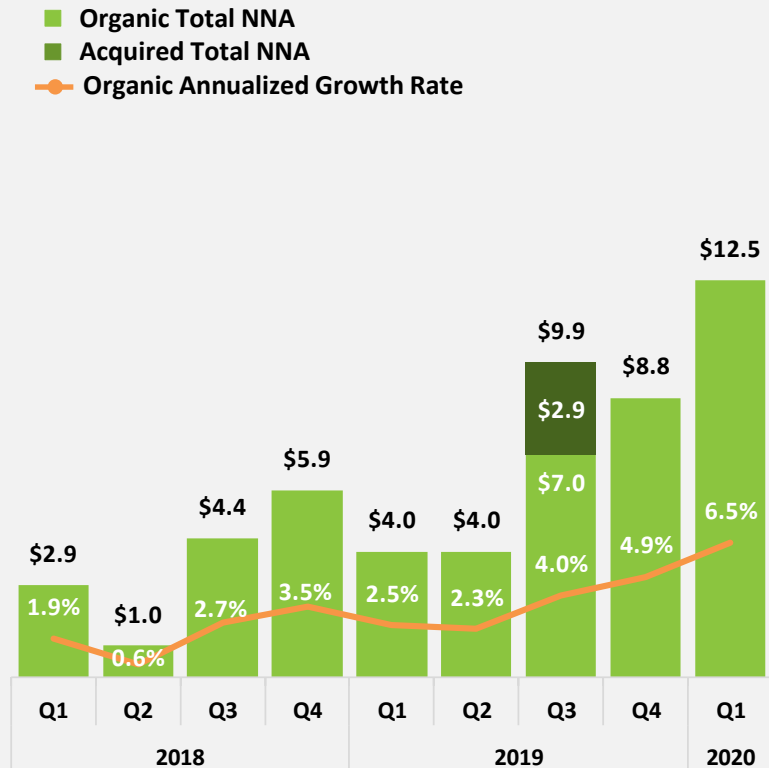
**Advisor Practice M&A**  
Capital and expertise to support acquisitions of other practices



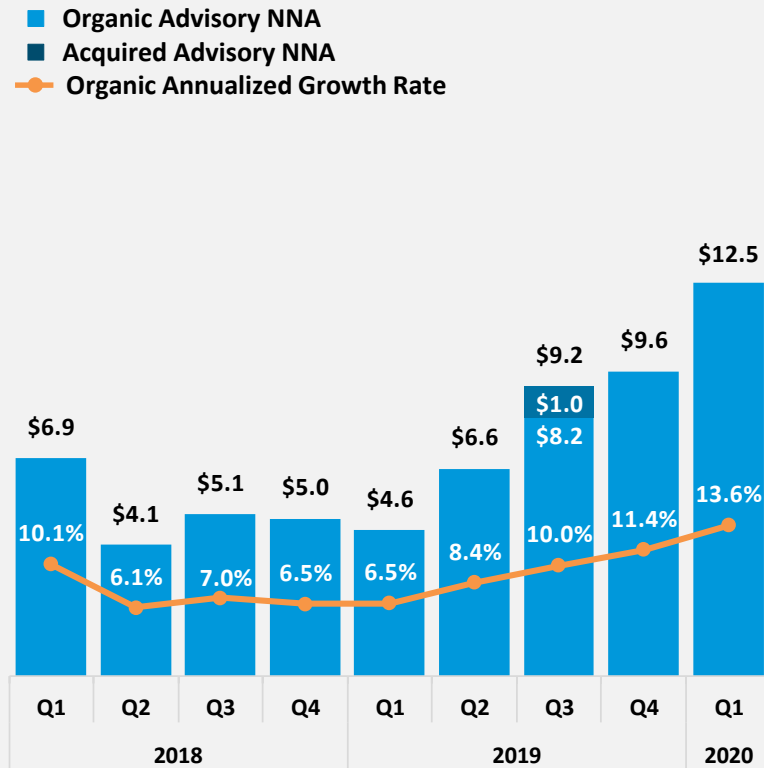
**Succession Planning**  
Capital and expertise to help advisors monetize and transition their practice

# We continue to drive higher organic growth; Q1 total organic Net New Assets were an inflow of \$12.5B

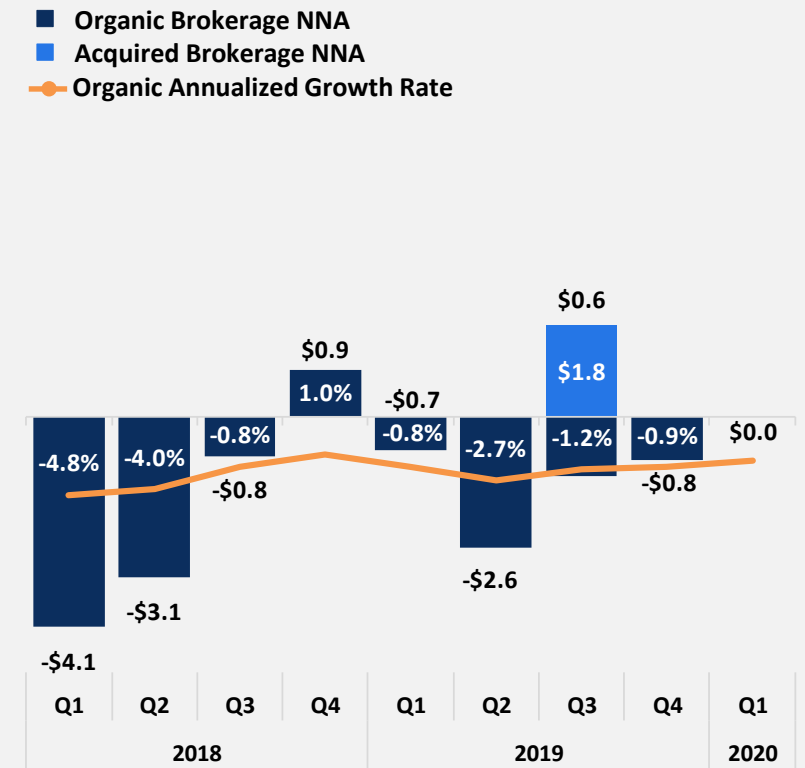
Total Net New Assets (\$ billions)



Net New Advisory Assets<sup>(6)</sup> (\$ billions)



Net New Brokerage Assets<sup>(7)</sup> (\$ billions)

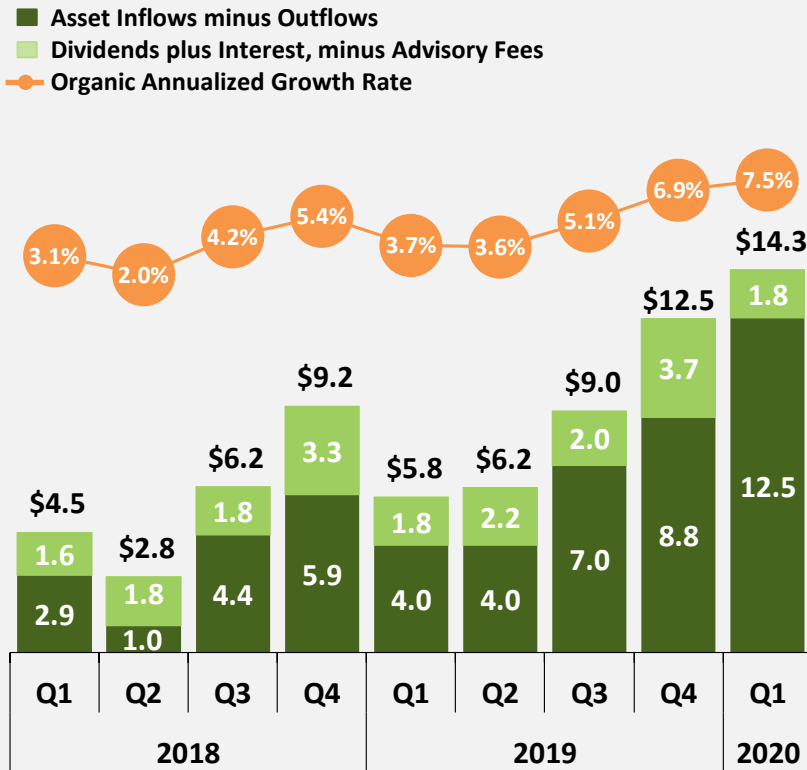


Net Brokerage to Advisory Conversions<sup>(8)</sup> (billions): \$2.5 \$1.8 \$1.7 \$1.4 \$1.4 \$1.8 \$1.7 \$1.9 \$2.4

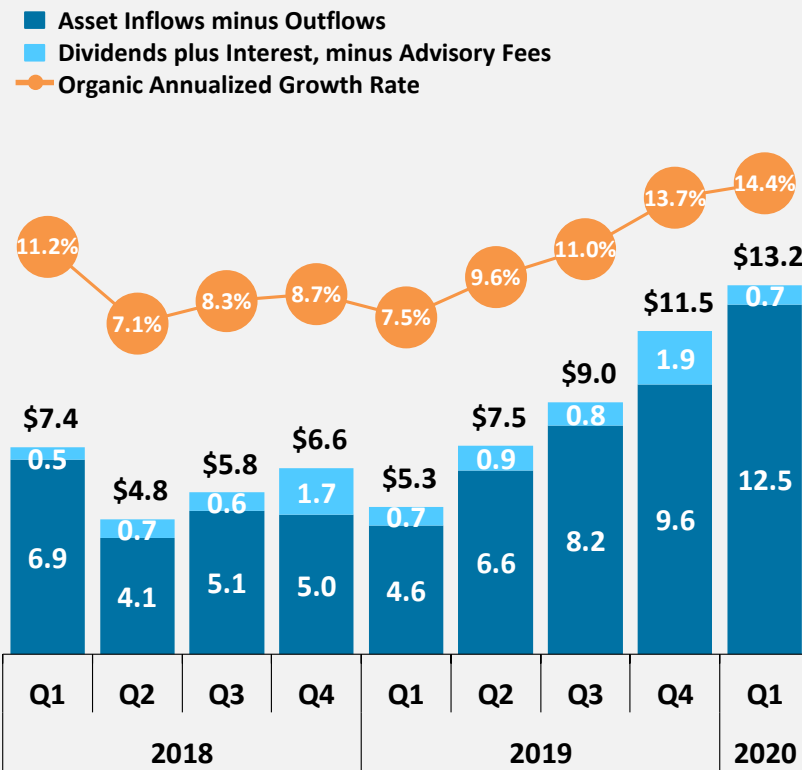
# Starting in Q2, we will align our Net New Asset definition with market practice by including Dividend & Interest inflows and Advisory Fee outflows

- We have provided the history below to show the combined contribution of Dividend & Interest inflows and Advisory Fee outflows on our historical results
- On average, these factors make up ~1.5% organic growth on an annual basis for our business

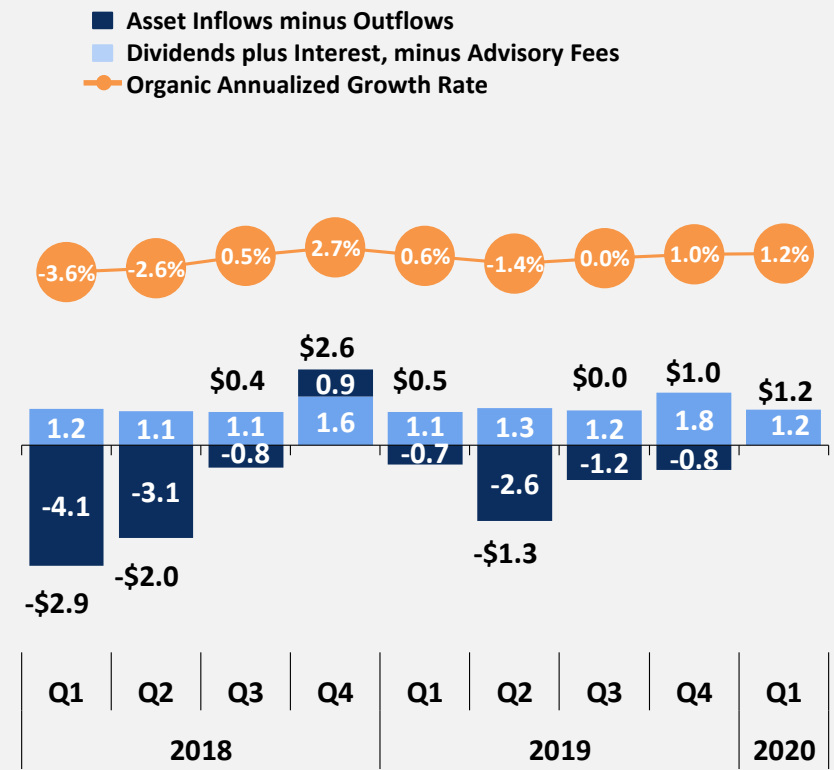
Total Net New Assets (\$ billions)



Net New Advisory Assets<sup>(6)</sup> (\$ billions)



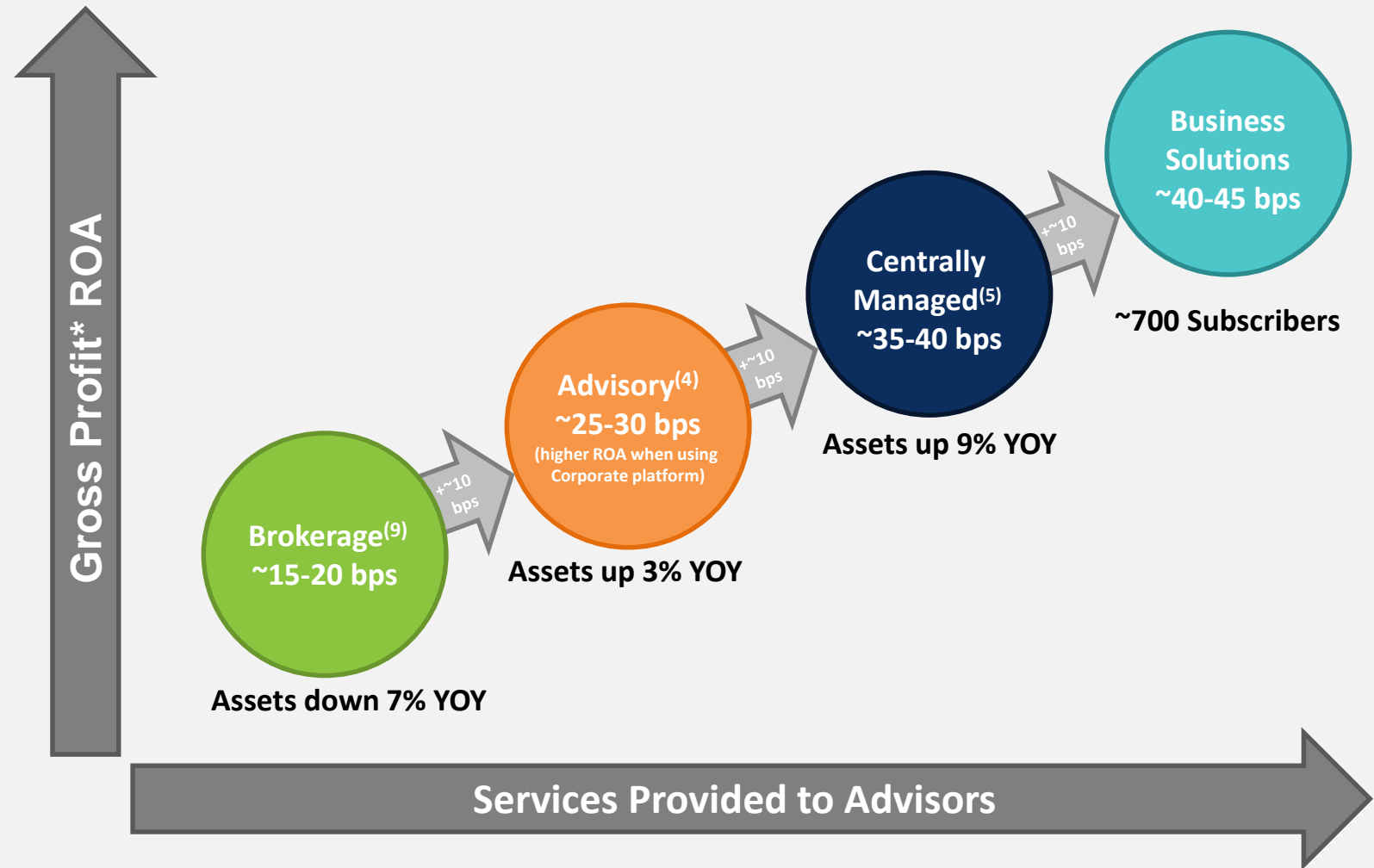
Net New Brokerage Assets<sup>(7)</sup> (\$ billions)



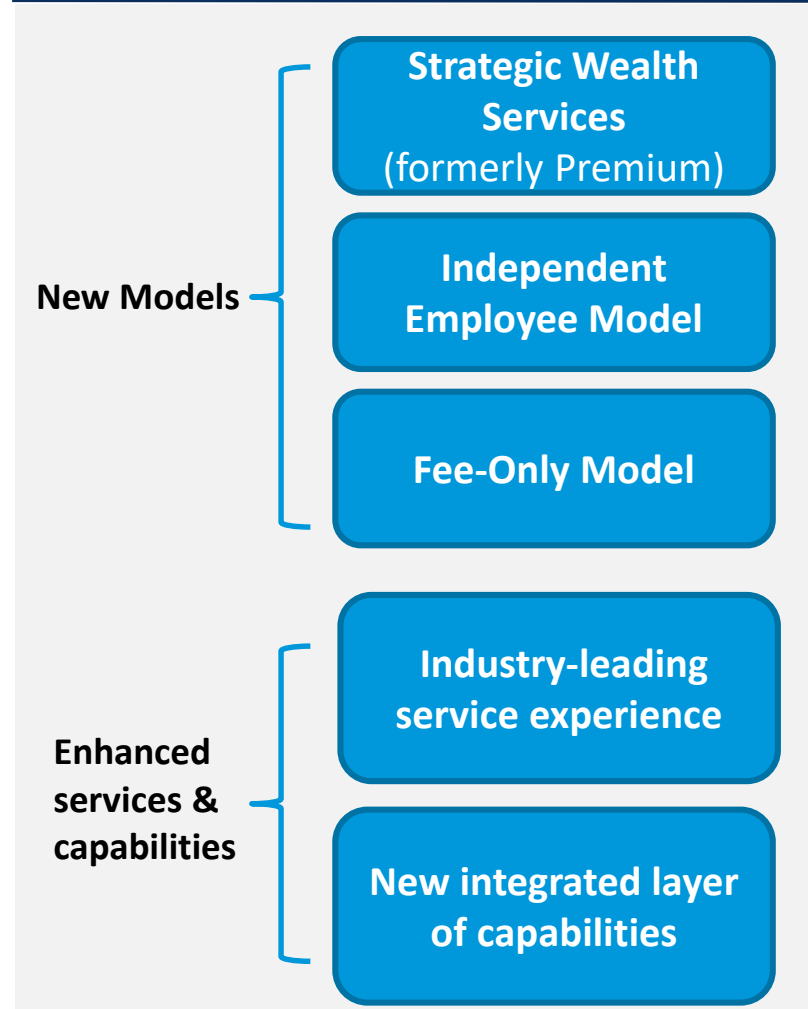


# As advisors use more of our services, our returns increase

We have seen a favorable mix shift in our platforms



Additional drivers of growth



Note: ROAs reflect Q1 2020 trailing twelve month averages adjusted for lower interest rates as of the end of Q1 2020. Year-over-year comparisons are based on the change from Q1 2019 to Q1 2020.

# We benefit from rising market levels and interest rates, and our business model has natural hedges to market volatility

**Macro benefits**

## Market Levels (S&P 500)

Rising market levels drive growth in assets and related revenues including Advisory Fees, Trailing Commissions, and Sponsor Revenues

### Annual Gross Profit\* Impact

**~\$25M**  
Per 100pt increase in market levels

## Interest Rates

Rising interest rates benefit ICA and DCA yields including estimated deposit sharing of 25-50% per rate hike

**~\$25-45M<sup>†</sup>**  
Per 25 bps increase in FFE target rates

**Natural offsets to market declines**

## Cash Sweep Balance

Increased risk and volatility in the market drives higher cash sweep balances

**~\$2.5M<sup>‡</sup>**  
Per \$1B increase in cash sweep balances

## Transaction Volume

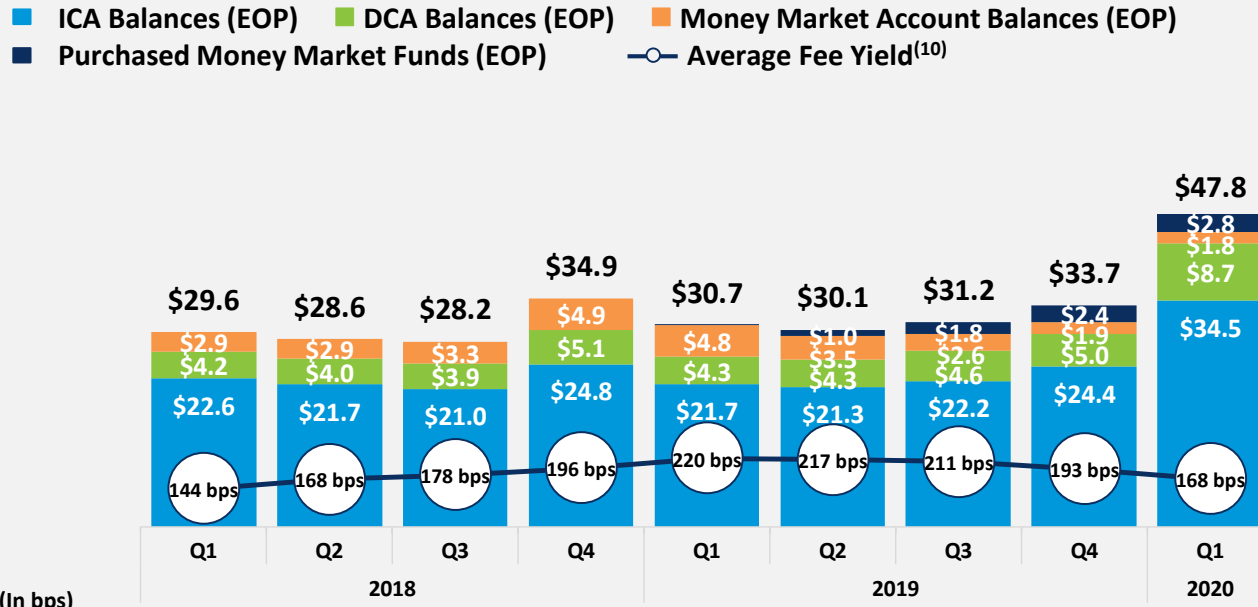
Increased risk and volatility in the market drives additional portfolio rebalancing activity and higher transaction volumes

In Q1 2020, transaction & fee revenue increased ~\$20M sequentially, primarily driven by March volatility

<sup>†</sup> Assumes change based on ~\$35B of ICA balances at ~50% fixed rate, deposit betas of 25-50%, ~\$15M change in DCA revenue, and ~\$3M change in interest expense on floating rate debt.  
<sup>‡</sup> Based on variable balances indexed to Fed Funds + a spread (~20 to ~30 bps).

# Client Cash balances increased to ~\$48B in Q1, up 42% sequentially

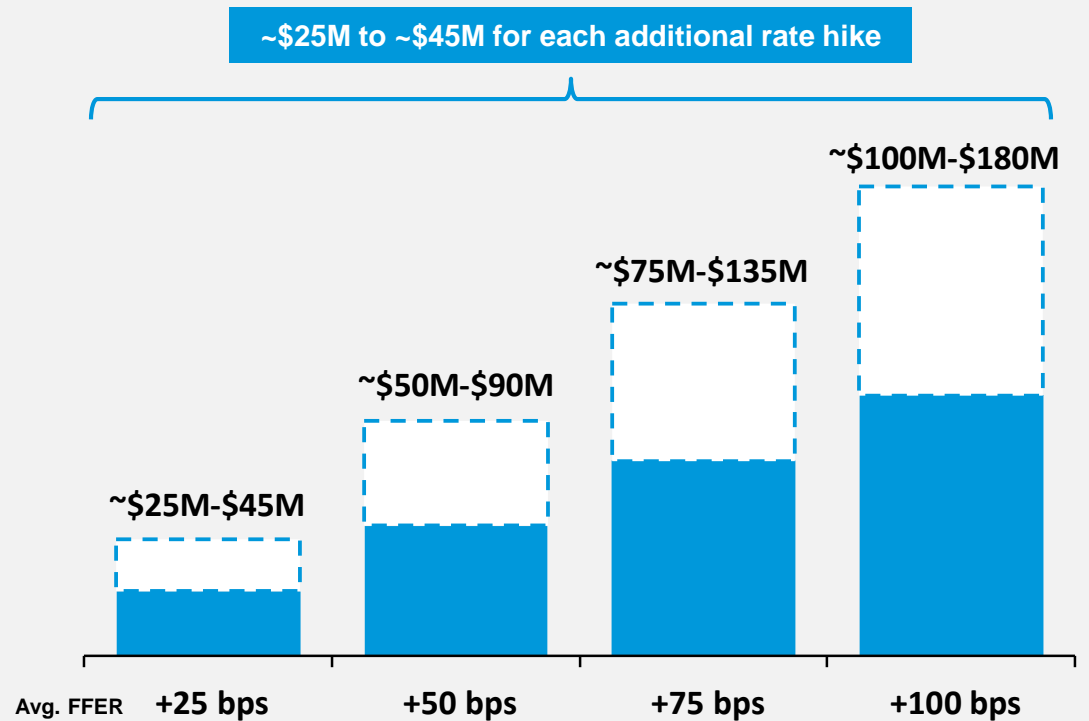
Client Cash balances (\$ billions)



(In bps)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
ICA Fee Yield	152	179	189	215	250	249	241	222	195
DCA Fee Yield	150	175	198	207	220	226	217	184	142
Purchased MM Fee Yield	n/a	n/a	n/a	n/a	n/a	n/a	29	29	29
MM Account Fee Yield	71	72	75	75	77	74	68	69	58
Average Fee Yield :	144	168	178	196	220	217	211	193	168
Client Cash % of Total Assets:	4.6%	4.3%	4.1%	5.6%	4.5%	4.3%	4.3%	4.4%	7.1%

Annual potential Gross Profit\* benefit from rising short-term interest rates

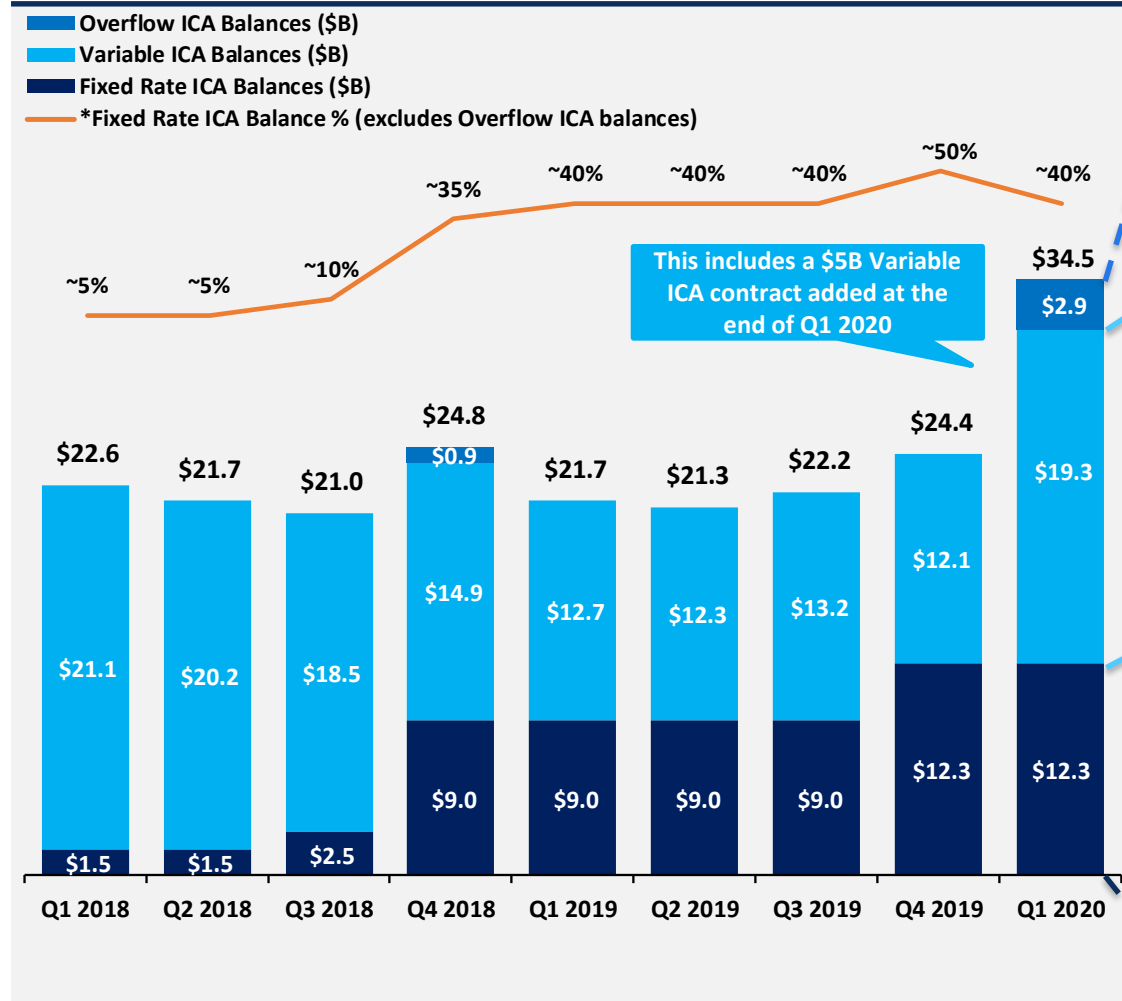
Estimated Interest Rate Sensitivity with ICA Balances of ~\$35B at ~50% Fixed Rate



Note: assumes change based on ~\$35B of ICA balances, deposit betas of 25-50%, ~\$15M change in DCA revenue, and ~\$3M change in interest expense on floating rate debt

# Our ICA portfolio has a combination of fixed and floating rate balances

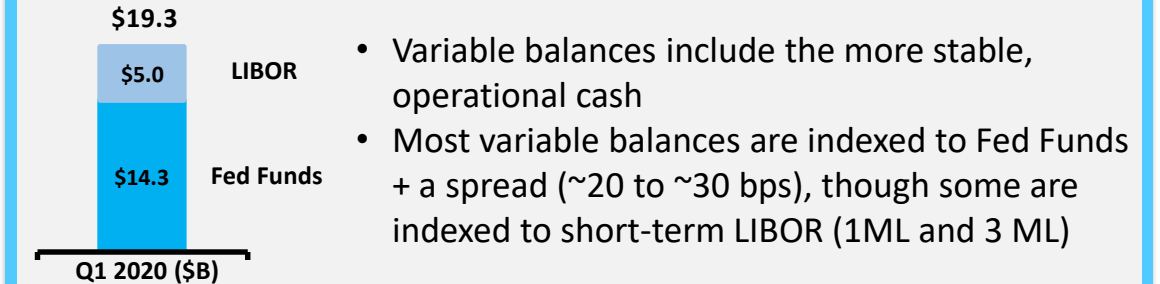
We target having 50-75% of our ICA portfolio in fixed rate balances



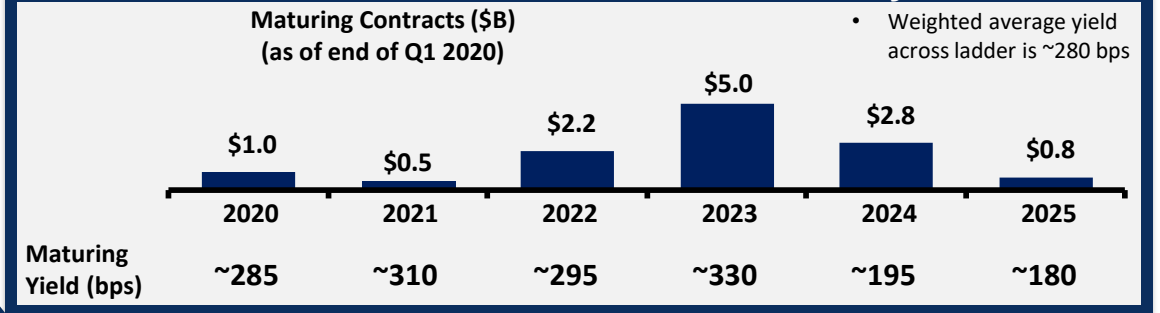
## Overflow balances provide capacity when balances spike

- When elevated market volatility leads ICA balances to temporarily exceed our variable contract capacity, we use overflow contracts
- However, since they are uncommitted balances that are short-term in nature, they typically yield ~FFE with no spread

## Variable balances are mostly indexed to Fed Funds



## Fixed rate ICA contracts are laddered over ~5 years

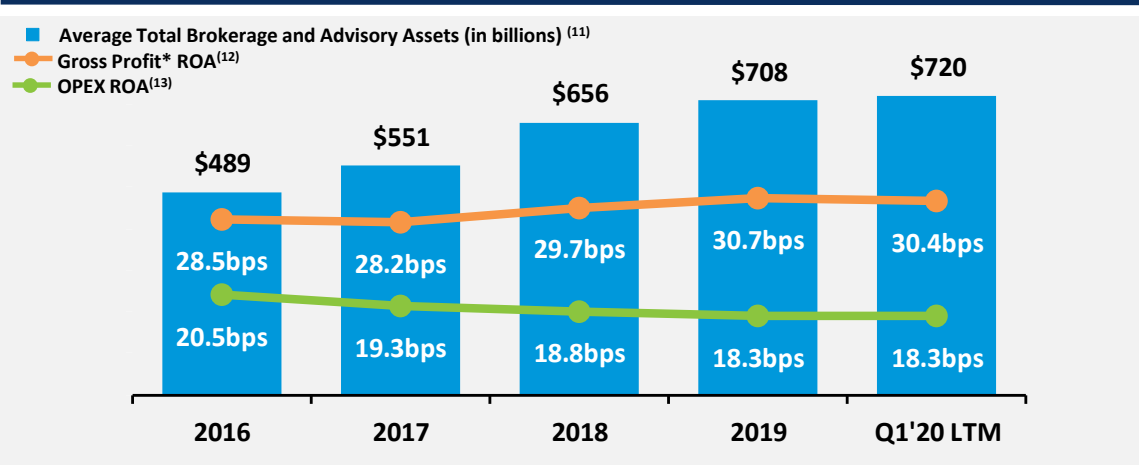


Note: Yields shown on this page are prior to client deposit rates (~1 bps) and administrator fees (~4 bps)

\*Note: Fixed Rate ICA Balance % excludes Overflow ICA Balances

# We have driven margin expansion

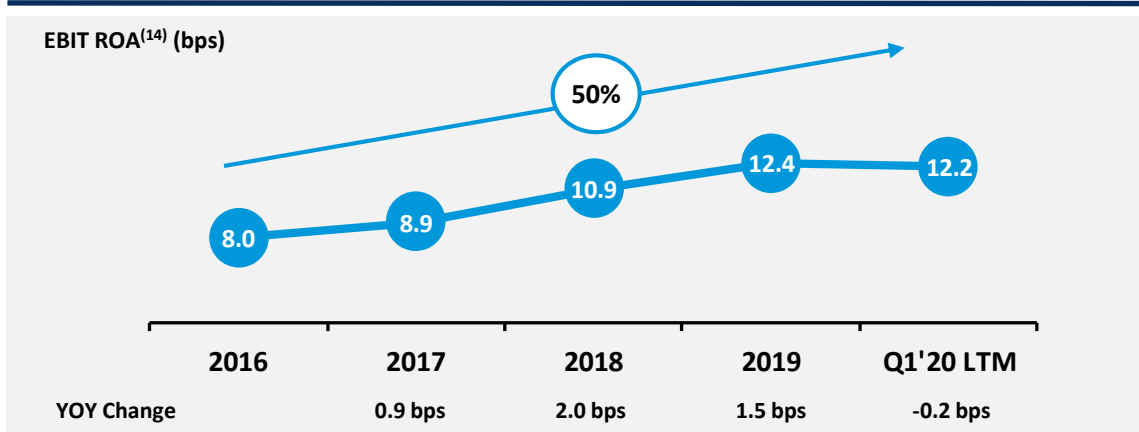
Gross Profit\* ROA increased, and OPEX ROA continued to decline



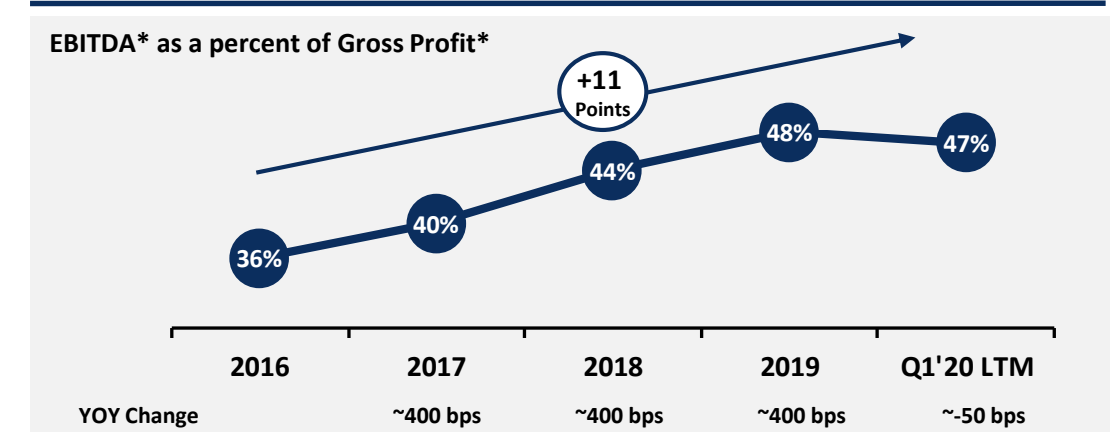
Long-term expense and investment strategy

- Deliver operating leverage in core business
- Prioritize investments that drive additional growth
- Drive productivity and efficiency
- Adapt cost trajectory as environment evolves

As a result, EBIT ROA has grown



EBITDA\* margin expanded over time



# We remain focused on investing to drive organic growth while also staying flexible to adjust spending if macro conditions warrant

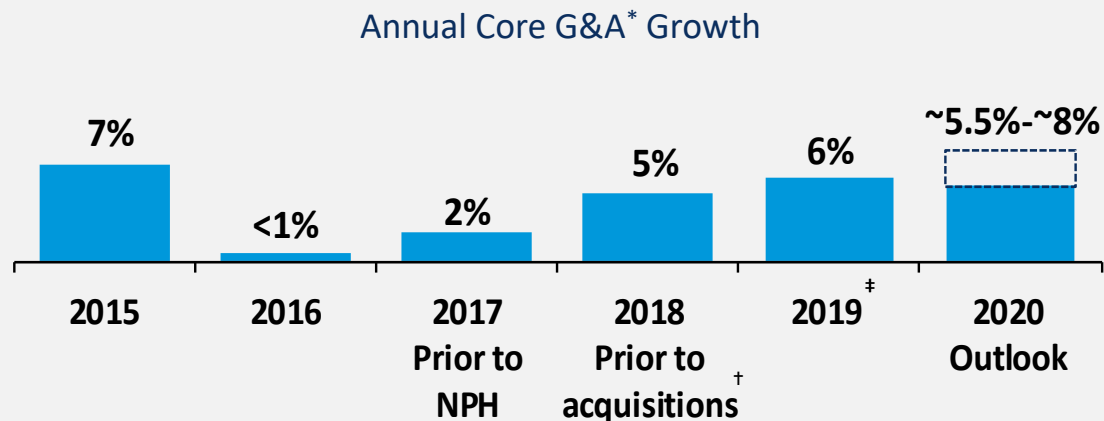
## Long-term cost strategy

- Deliver operating leverage in core business
- Prioritize investments that drive additional growth
- Drive productivity and efficiency
- Adapt cost trajectory as environment evolves

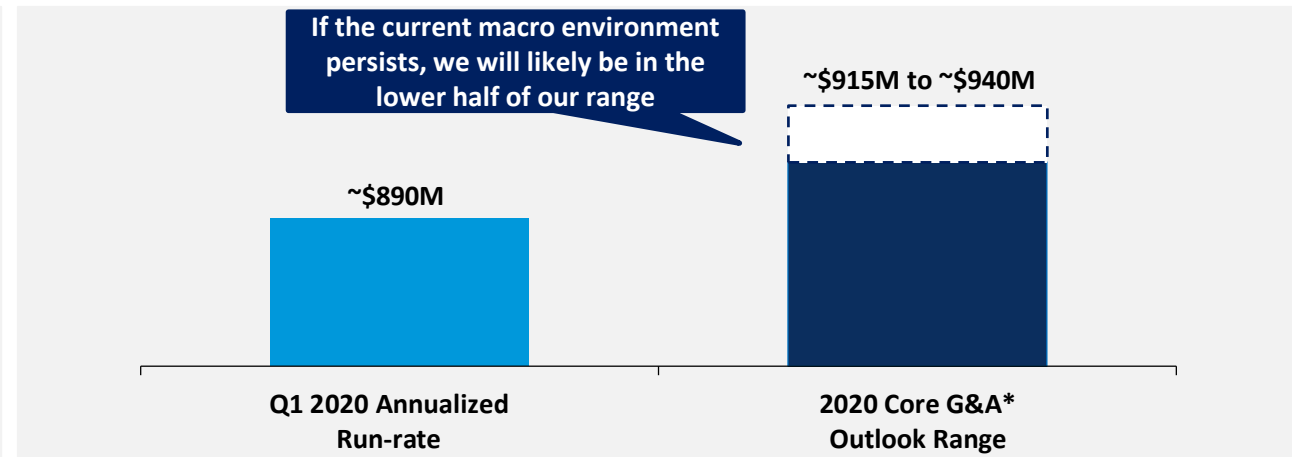
## 2020 Core G&A\* context

- Our 2020 Core G&A\* plans are for a range of \$915M to \$940M (~5.5% to ~8% growth) to drive growth across existing and new markets
- In Q1, Core G&A\* was \$223M, or an annualized rate of ~\$890M, below the low end of our 2020 outlook range
- As we look ahead, we are currently planning to be in the lower half of our outlook range
- We have also sequenced our spending to build gradually through the year, which positions us to be flexible depending on how the year plays out
- That said, our priority remains driving organic growth, especially given that environments like these can have some of the best opportunities to invest for growth

## Recent expense trajectory, prior to acquisitions



## Core G&A\* outlook



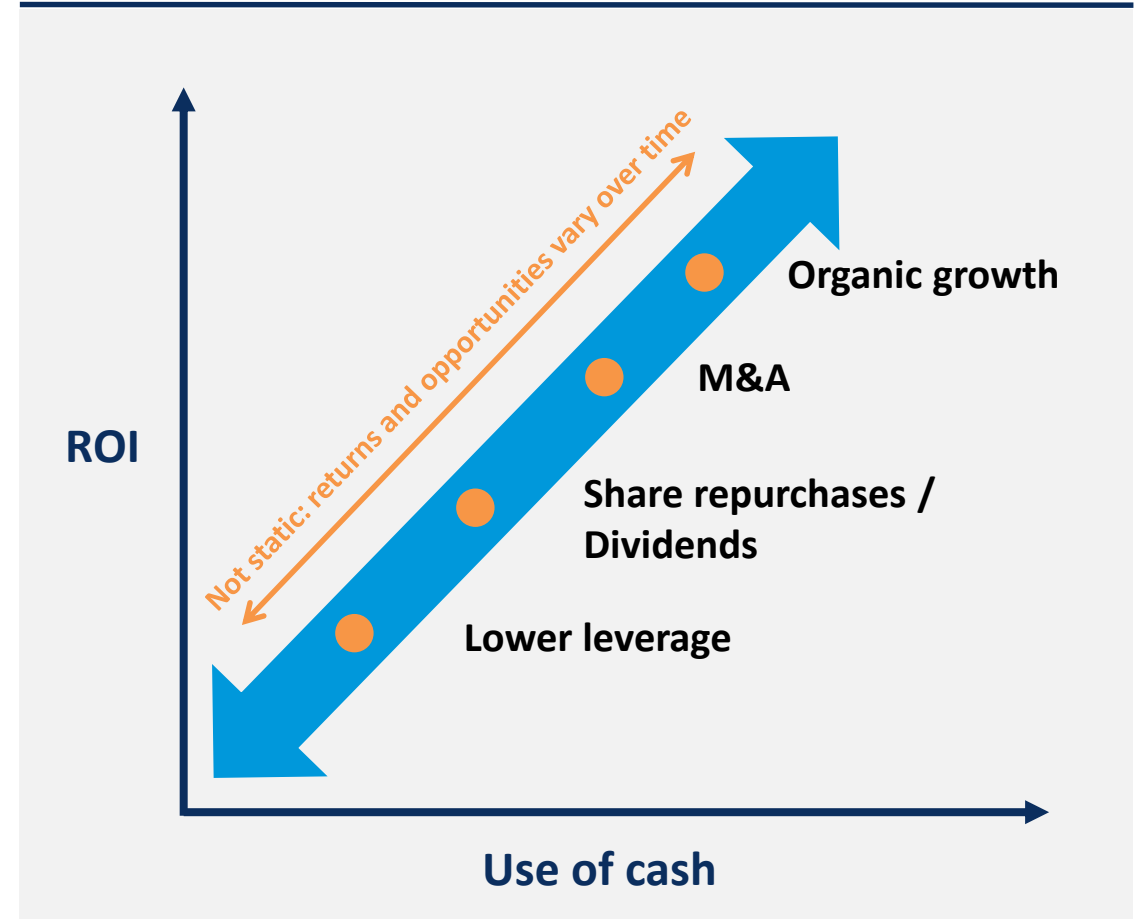
<sup>†</sup> Based on the Company's 2018 Core G&A\* prior to NPH and AdvisoryWorld related expenses compared to the Company's 2017 Core G&A\* prior to NPH-related expenses. <sup>‡</sup> Based on the Company's total 2018 Core G&A\*.

# Our capital management strategy is focused on driving growth and maximizing shareholder value

## Our capital management principles

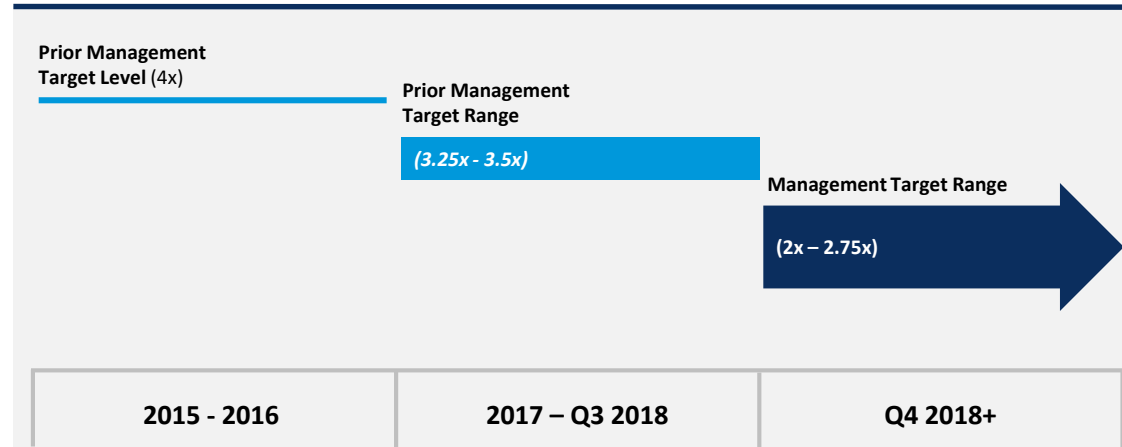
- **Disciplined capital management to drive long-term shareholder value**
- **Maintain a strong and flexible balance sheet**
  - Management target net leverage ratio range of 2x to 2.75x
  - Debt structure was refinanced to be more flexible and support growth
- **Prioritize investments that drive organic growth**
  - Recruiting to drive net new assets
  - Capital to support advisor growth and advisor M&A
  - Capability investments to add net new assets and drive ROA
- **Position ourselves to take advantage of M&A**
  - Potential to consolidate fragmented core market
  - Stay prepared for attractive opportunities
- **Return excess capital to shareholders**
  - Share repurchases
  - Dividends

## Dynamic capital allocation across options

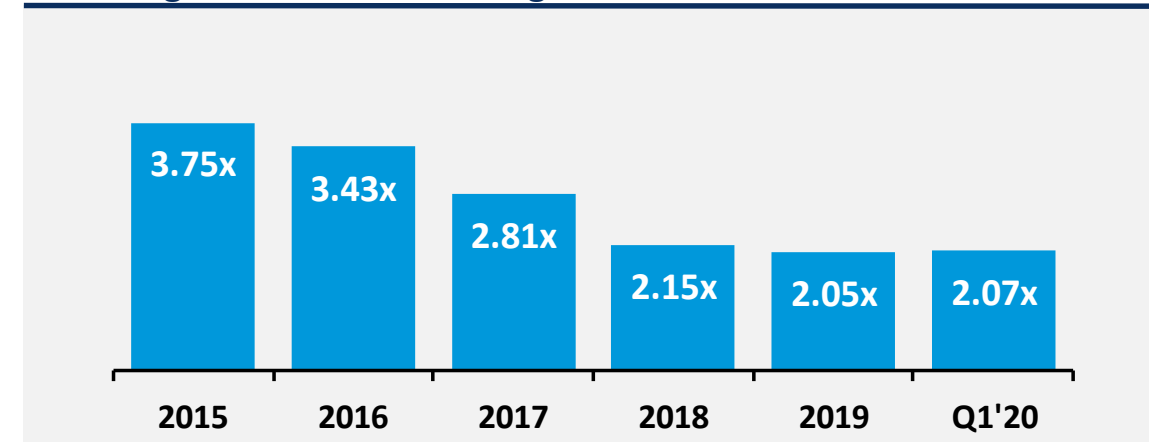


# Our balance sheet strength is a key driver of our organic growth

## Management Target Credit Agreement Net Leverage Ratio<sup>†</sup>



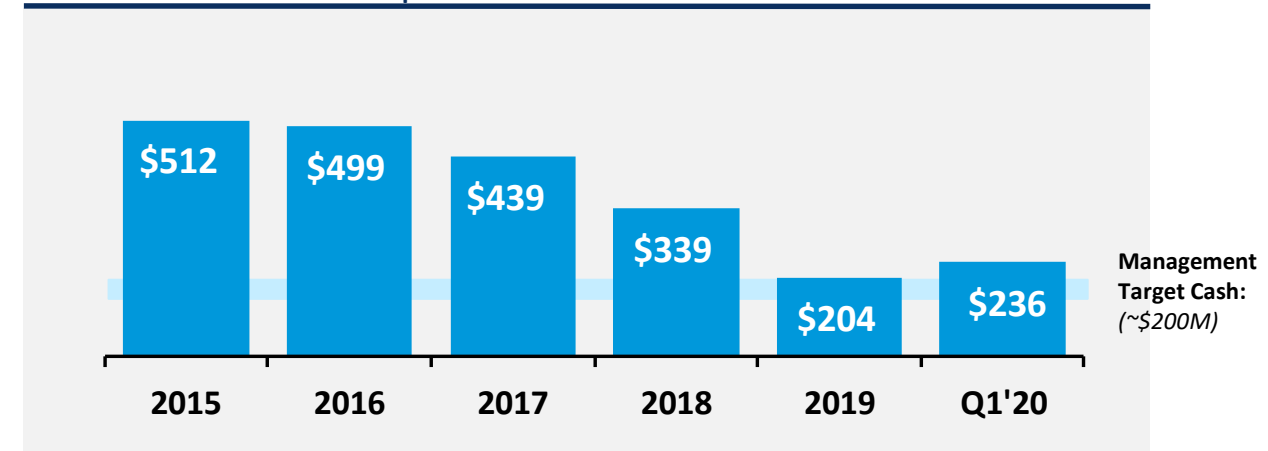
## Credit Agreement Net Leverage Ratio<sup>‡</sup>



## Balance Sheet Principles

- We want to maintain a strong balance sheet that can absorb market volatility while having the capacity to invest for growth
- As a result, our target leverage range is 2x to 2.75x, which we believe positions our balance sheet well
- At the same time, we are comfortable operating above or below this range temporarily if attractive M&A opportunities arise and as we continue to grow earnings

## Cash Available for Corporate Use<sup>‡</sup>

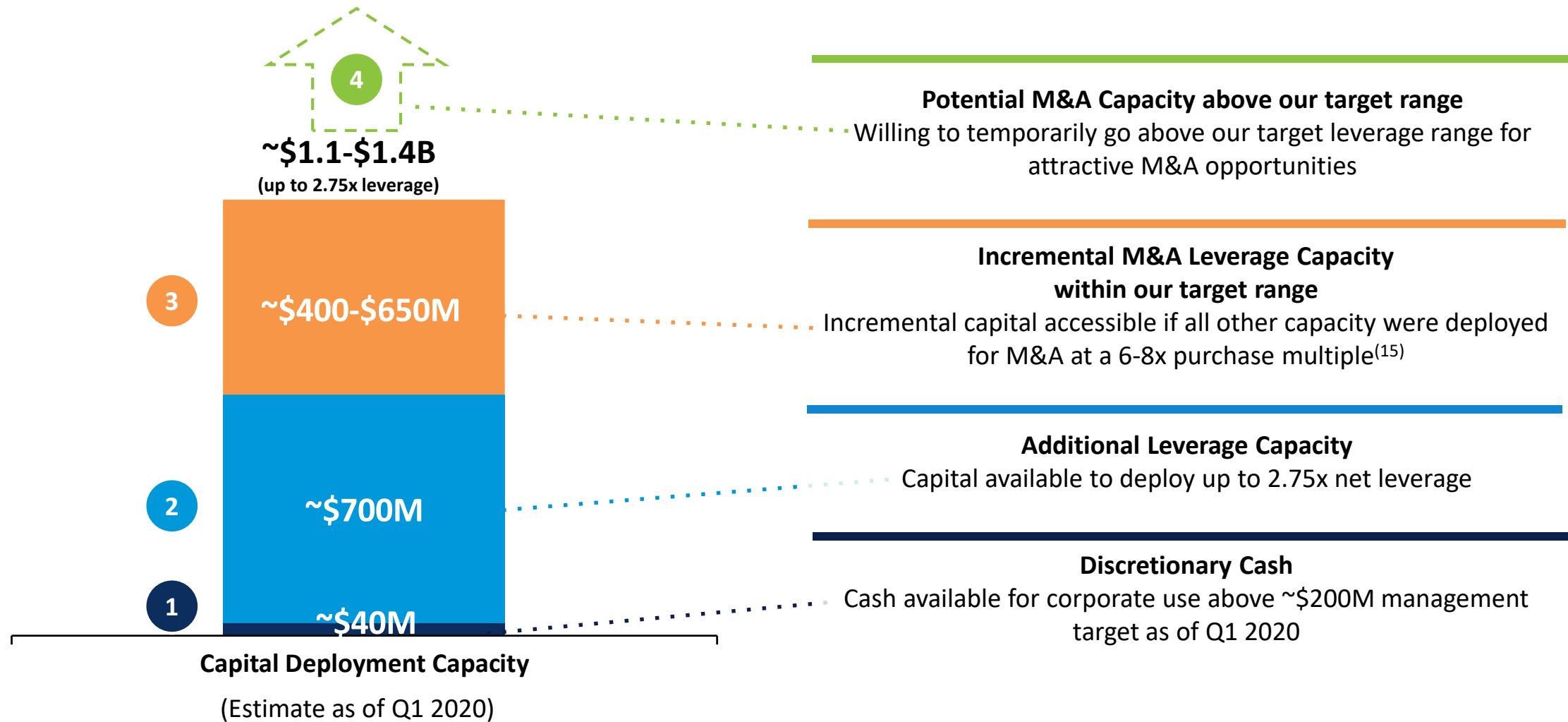


<sup>†</sup> Note that the Credit Agreement Net Leverage Ratio only applies to the Company's revolving credit facility

<sup>‡</sup> Note that these figures are as of period-end

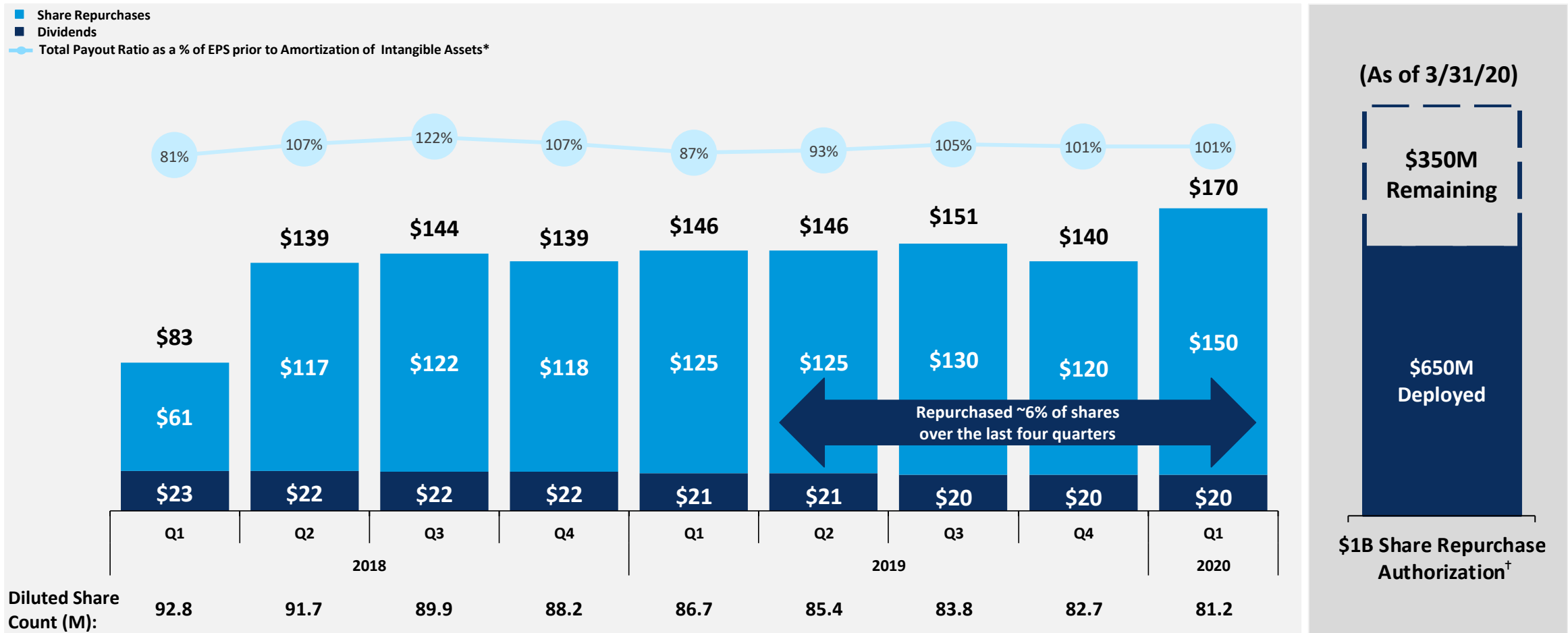


# We have a significant amount of capital deployment capacity



...And we have continued to return capital to shareholders, though we are now paused on share repurchases given the uncertainty in the macro environment

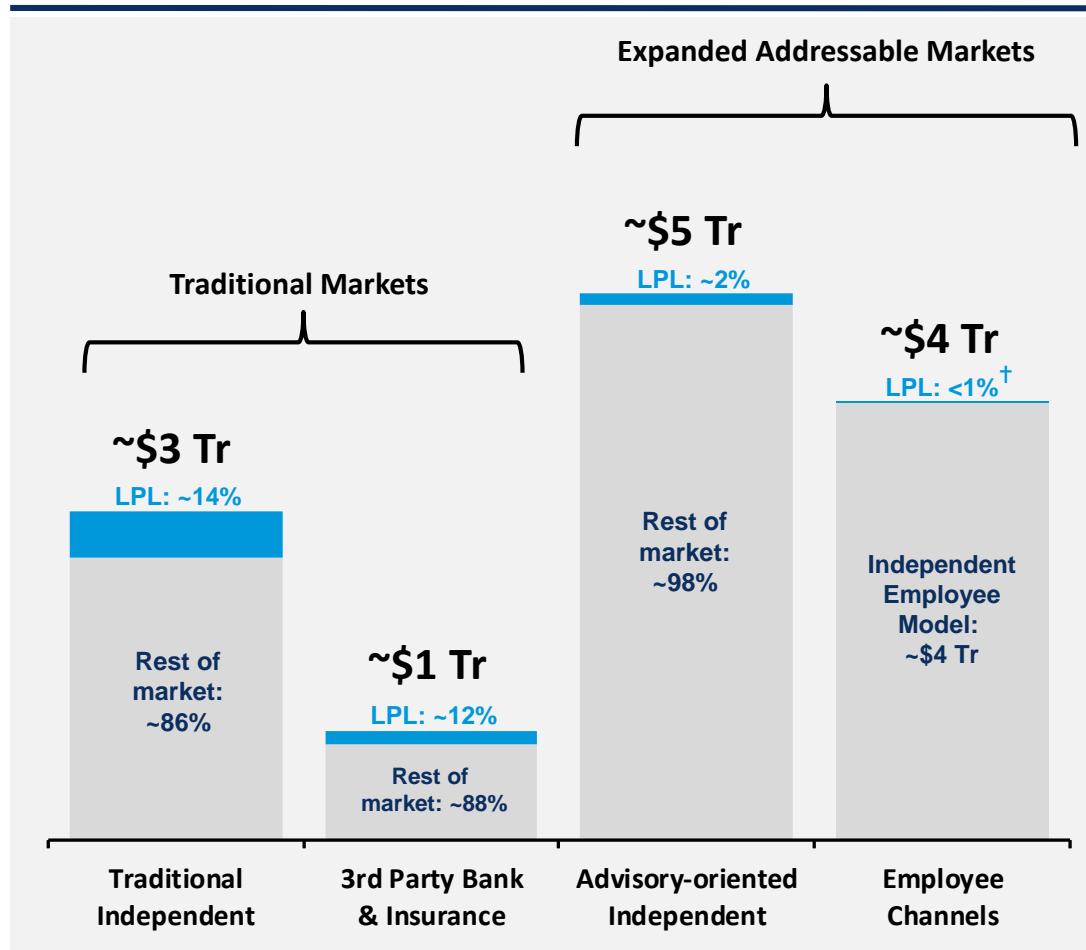
Shareholder Capital Returns (\$ millions)



† Increased share repurchase authorization to \$1B as of December 31, 2018

# Our addressable markets are fragmented, with potential for consolidation

## Addressable markets



## Growth potential from consolidation

- Our scale, capabilities, and economics give us **competitive advantages in M&A**
- The **traditional and advisory-oriented markets are fragmented** with consolidation opportunities
- Rising cost and complexity** is making it **harder for smaller players** to compete
- Therefore, **we believe consolidation can drive value** by adding scale, increasing our capacity to invest in capabilities, and creating shareholder value

Note: LPL estimates based on 2019 Cerulli channel size and advisory share estimates and include market adjustment for 2019.

† Consists of approximately \$3 billion of brokerage and advisory assets serviced by Allen & Company advisors.

# Recent acquisitions

## Traditional markets



### 2017

~\$70B Assets transferred  
~4X EBITDA\* purchase multiple

- Large independent broker/dealer network
- Added to our scale and leadership position
- Increased our capacity to invest in the advisor value proposition and return capital to shareholders



### 2020

~\$1.5B Assets  
~6X EBITDA\* purchase multiple

- Leading San Diego practice with approximately 20 advisors



### 2020

~\$2B Assets  
~6X EBITDA\* purchase multiple

- Leading Seattle practice with approximately 35 advisors

- Complements organic growth and continues industry consolidation
- Expected to close in the second half of 2020

## Capabilities



### 2018

Industry-leading capabilities  
\$28M purchase price

- Leading provider of digital tools for advisors that serves more than 30,000 U.S. financial advisors and institutions
- Capabilities include proposal generation, investment analytics, and portfolio modeling
- Enables our efforts to digitize workflows that help advisors grow and drive efficiency in their practices

## New markets

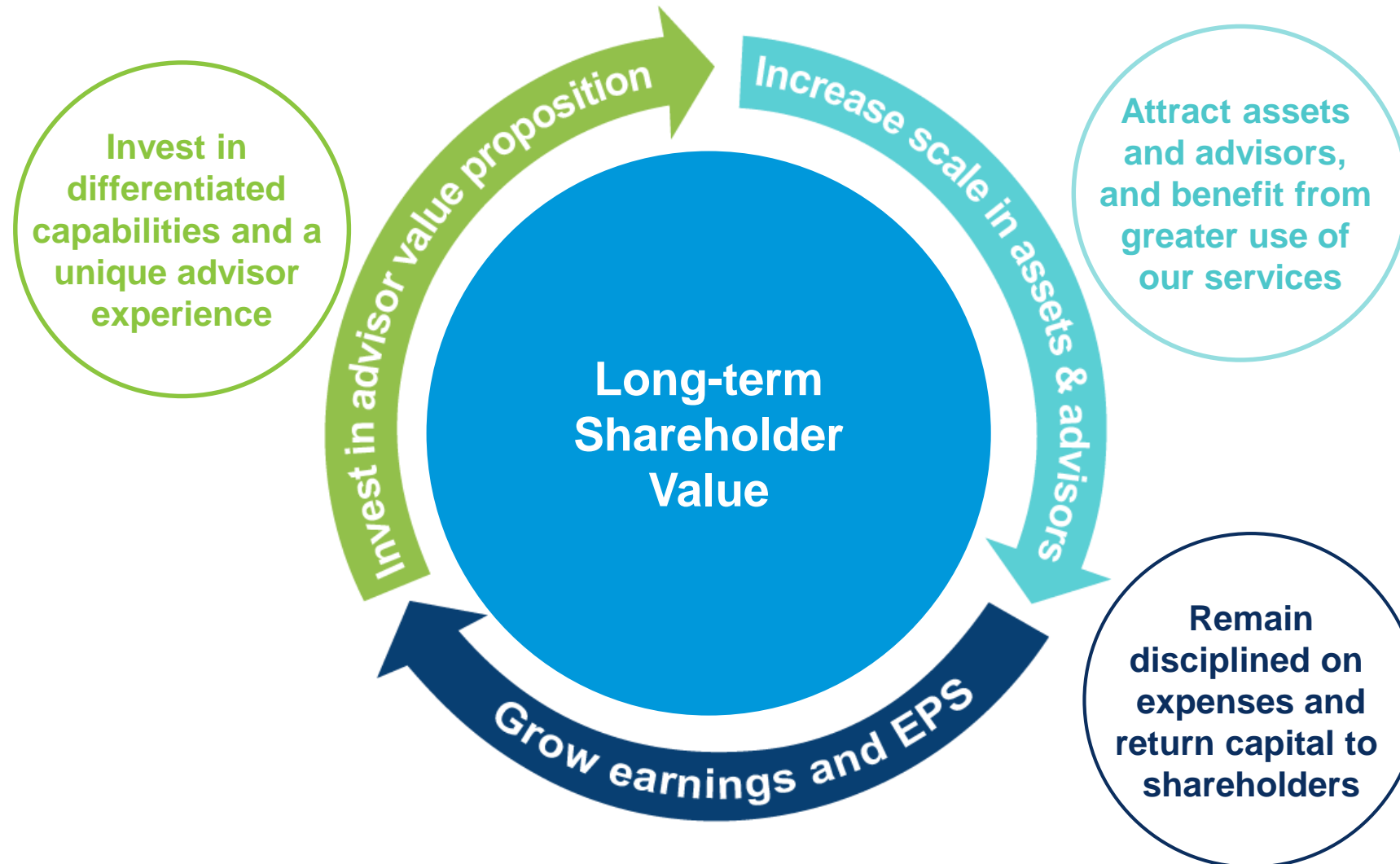


### 2019

~\$3B Assets transferred  
~7X EBITDA\* purchase multiple

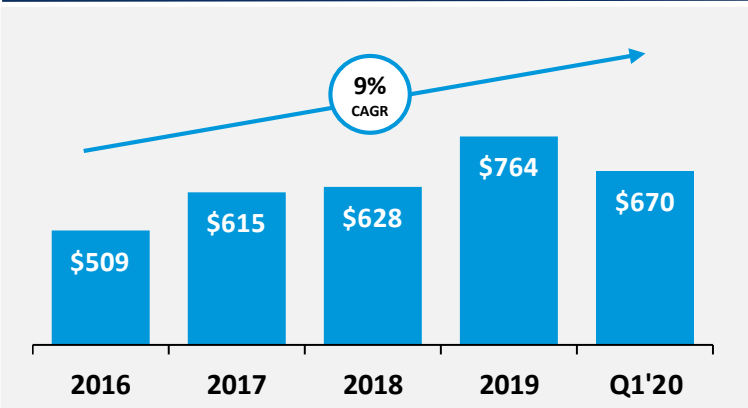
- Leading Florida practice with client base and culture that are good fits for LPL
- Will affiliate under an employee model
- Transaction closed in August 2019 and assets onboarded onto LPL's platform in November 2019
- Achieved expected ~\$5M of annual run-rate EBITDA\* accretion in early 2020

As we continue to invest and increase our scale, we enhance our ability to drive further growth

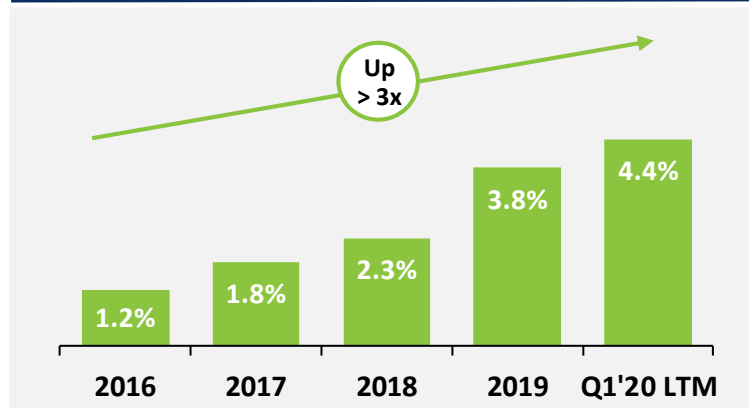


# We are focused on executing our strategy and delivering results

Total Brokerage and Advisory Assets<sup>(16)</sup> (\$B)



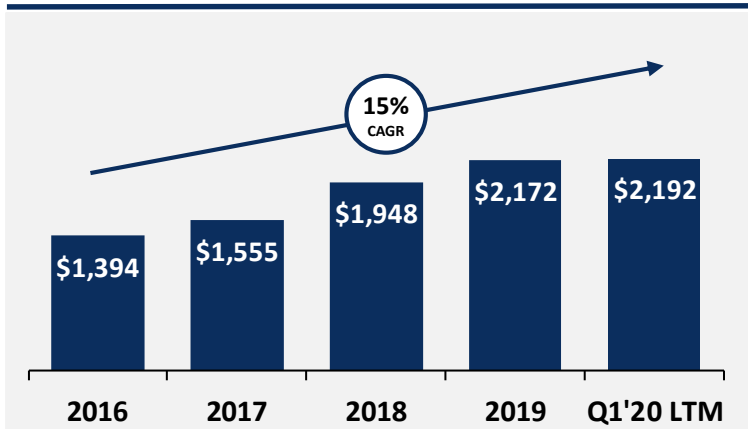
Organic Net New Asset Growth



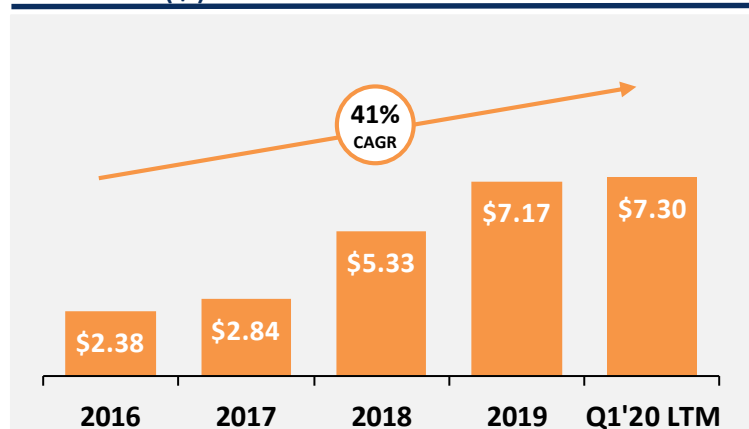
Incremental earnings growth opportunities

- Enhanced Advisor Value Proposition**  
(Capabilities, Technology, Service)
- Greater Use of our Services**  
(Advisory, Corporate, Centrally Managed, Business Solutions, Advisor Capital Solutions)
- New Models**  
(Strategic Wealth Services, Employee Services, RIA-Only)
- Increased Organic NNA**
- Drive Operating Leverage in Core Business while Investing for Additional Growth**
- Excess Capital Deployment**  
(Technology, Advisor Capital, M&A, returning capital to shareholders)

Gross Profit\* (\$M)



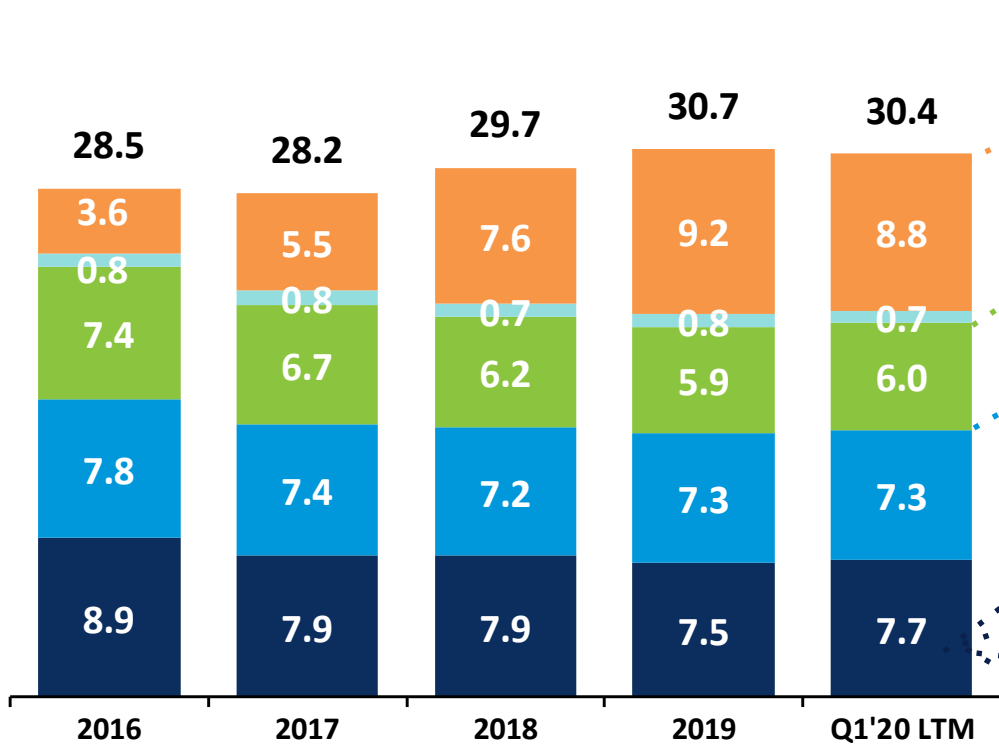
EPS Prior to Amortization of Intangible Assets\* (\$)



# Appendix

# Our strategy and investments have helped drive positive mix shifts that benefit return on assets

Gross Profit\* ROA <sup>(12)</sup>



Gross Profit* ROA prior to client cash:	2016	2017	2018	2019	Q1'20 LTM
	24.9	22.8	22.1	21.5	21.7

■ Net Commission & Advisory Fees 
 ■ Interest Income and Other, net <sup>(17)</sup>
■ Other Asset-Based <sup>(18)</sup>
■ Transaction & Fee, Net of BC&E 
 ■ Client Cash

## Key drivers of Gross Profit\* ROA growth going forward

- Client Cash Offerings**  
(e.g. deposit betas in the 25-50% range, extending ICA duration)
- Modernize Practice Management**  
(e.g. Business Solutions, advisor capital solutions)
- Asset Custody**  
(e.g. sponsor programs)
- Advisory Services**  
(e.g. secular brokerage to advisory trend, enhanced hybrid capabilities, centrally managed platforms)
- Portfolio Construction**  
(e.g. centrally managed, separately managed, Guided Wealth Portfolios)
- Risk Management**  
(e.g. corporate vs hybrid mix shift, increased use of compliance capabilities)
- New Models**  
(e.g. Strategic Wealth Services, Fee-Only, Employee Services)



# Calculation of Gross Profit

Gross Profit is a non-GAAP financial measure. Please see a description of Gross Profit under “Non-GAAP Financial Measures” on page 3 of this presentation for additional information.

Set forth below is a calculation of Gross Profit for the periods presented on page 4 and 30:

\$ in millions	Q1'20 LTM	2019	2018	2017	2016	2015
<b>Total Net Revenue</b>	<b>\$5,717</b>	<b>\$5,625</b>	<b>\$5,188</b>	<b>\$4,281</b>	<b>\$4,049</b>	<b>\$4,275</b>
Commission & Advisory Expense	3,459	3,388	3,178	2,670	2,601	2,865
Brokerage, Clearing and Exchange	65	64	63	57	55	53
<b>Gross Profit</b>	<b>\$2,192</b>	<b>\$2,172</b>	<b>\$1,948</b>	<b>\$1,555</b>	<b>\$1,394</b>	<b>\$1,358</b>

# Reconciliation of Core G&A to Total Operating Expense

Core G&A is a non-GAAP financial measure. Please see a description of Core G&A under “Non-GAAP Financial Measures” on page 3 of this presentation for additional information.

Below are reconciliations of Core G&A to the Company’s total operating expenses for the periods presented on page 22, and of Core G&A, prior to the impact of the acquisitions of NPH and AdvisoryWorld, against the Company’s total operating expense for the same periods:

\$ in millions	Q1'20 LTM	2019	2018	2017	2016	2015
Core G&A	\$879	\$868	\$819	\$727	\$700	\$695
Regulatory charges	31	32	32	21	17	34
Promotional	212	206	209	172	149	139
Employee share-based compensation	31	30	23	19	20	23
Other historical adjustments	-	-	-	-	-	13
<b>Total G&amp;A</b>	<b>1,152</b>	<b>1,136</b>	<b>1,082</b>	<b>938</b>	<b>886</b>	<b>904</b>
Commissions and advisory	3,459	3,388	3,178	2,670	2,601	2,865
Depreciation & amortization	99	96	88	84	76	73
Amortization of intangible assets	66	65	60	38	38	38
Brokerage, clearing and exchange	65	64	63	57	55	53
<b>Total operating expense</b>	<b>\$4,841</b>	<b>\$4,750</b>	<b>\$4,471</b>	<b>\$3,787</b>	<b>\$3,655</b>	<b>\$3,933</b>

\$ in millions	2018	2017
Core G&A	\$819	\$727
NPH related Core G&A	65	15
AdvisoryWorld related Core G&A	2	-
<b>Total Core G&amp;A prior to NPH and AdvisoryWorld</b>	<b>\$752</b>	<b>\$712</b>

# Reconciliation of Net Income to EBITDA

EBITDA is a non-GAAP financial measure. Please see a description of EBITDA under “Non-GAAP Financial Measures” on page 3 of this presentation for additional information.

Below are reconciliations of the Company’s net income to EBITDA for the periods presented on page 4 and 5:

\$ in millions	Q1'20 LTM	2019	2018	2017	2016	2015
<b>Net Income</b>	<b>\$560</b>	<b>\$560</b>	<b>\$439</b>	<b>\$239</b>	<b>\$192</b>	<b>\$169</b>
Non-operating interest expense	127	130	125	107	96	59
Provision for Income Taxes	186	182	153	126	106	114
Depreciation and amortization	99	96	88	84	76	73
Amortization of intangible assets	66	65	60	38	38	38
Loss on Extinguishment of debt	3	3	-	22	-	-
<b>EBITDA</b>	<b>\$1,040</b>	<b>\$1,036</b>	<b>\$866</b>	<b>\$616</b>	<b>\$508</b>	<b>\$453</b>
Credit Agreement Adjustments	45	45	103	129	44	57
<b>Credit Agreement EBITDA</b>	<b>\$1,085</b>	<b>\$1,081</b>	<b>\$969</b>	<b>\$745</b>	<b>\$552</b>	<b>\$510</b>

# Reconciliation of EPS Prior to Amortization of Intangible Assets to GAAP EPS

EPS Prior to Amortization of Intangible Assets is a non-GAAP financial measure. Please see a description of EPS Prior to Amortization of Intangible Assets under “Non-GAAP Financial Measures” on page 3 of this presentation for additional information.

Below are the following reconciliations of EPS Prior to Amortization of Intangibles to GAAP EPS for the periods presented on pages 4 and 30 of this presentation.

	Q1'20 LTM	Q1 2020	Q4 2019	Q3 2019	Q2 2019	2019	2018	2017	2016	2015
<b>GAAP EPS</b>	<b>\$6.73</b>	<b>\$1.92</b>	<b>\$1.53</b>	<b>\$1.57</b>	<b>\$1.71</b>	<b>\$6.62</b>	<b>\$4.85</b>	<b>\$2.59</b>	<b>\$2.13</b>	<b>\$1.74</b>
Amortization of Intangible Assets (\$ millions)	66	17	17	16	16	65	38	38	38	38
Tax Expense (\$ millions)	(18)	(5)	(5)	(4)	(5)	(18)	(17)	(15)	(15)	(15)
Amortization of Intangible Assets Net of Tax (\$ millions)	47	12	12	12	12	47	43	23	23	23
Diluted Share Count (millions)	83	81	83	84	85	85	91	92	90	97
EPS Impact	0.57	0.15	0.15	0.14	0.14	0.56	0.48	0.25	0.26	0.24
<b>EPS Prior to Amortization of Intangible Assets</b>	<b>\$7.30</b>	<b>\$2.06</b>	<b>\$1.68</b>	<b>\$1.71</b>	<b>\$1.85</b>	<b>\$7.17</b>	<b>\$5.33</b>	<b>\$2.84</b>	<b>\$2.38</b>	<b>\$1.98</b>

# Endnotes

- (1) Based on total revenues, Financial Planning magazine, June 1996-2019.
- (2) Represents the estimated total brokerage and advisory assets expected to transition to the Company's broker-dealer subsidiary, LPL Financial LLC ("LPL Financial"), associated with advisors who transferred their licenses to LPL Financial during the period. The estimate is based on prior business reported by the advisors, which has not been independently and fully verified by LPL Financial. The actual transition of assets to LPL Financial generally occurs over several quarters. The actual amount transitioned may vary from the estimate.
- (3) The Company calculates its Net Leverage Ratio in accordance with the terms of its Credit Agreement.
- (4) Consists of total assets on LPL Financial's corporate advisory platform serviced by investment advisor representatives of LPL Financial or Allen & Company and total assets on LPL Financial's independent advisory platform serviced by investment advisor representatives of separate investment advisor firms ("Hybrid RIAs"), rather than of LPL Financial.
- (5) Represents those advisory assets in LPL Financial's Model Wealth Portfolios, Optimum Market Portfolios, Personal Wealth Portfolios, and Guided Wealth Portfolios platforms.
- (6) Consists of total client deposits into advisory accounts (including advisory assets serviced by Allen & Company) less total client withdrawals from advisory accounts. The Company considers conversions to and from advisory accounts as deposits and withdrawals, respectively. Annualized growth is calculated as the current period Net New Advisory Assets divided by preceding period total Advisory Assets, multiplied by four. Beginning in Q2 2020, the calculation of Net New Advisory Assets will incorporate dividend and interest inflows and advisory fee outflows.
- (7) Consists of total client deposits into brokerage accounts (including brokerage assets serviced by Allen & Company) less total client withdrawals from brokerage accounts. The Company considers conversions to and from brokerage accounts as deposits and withdrawals, respectively. Annualized growth is calculated as the current period Net New Brokerage Assets divided by preceding period total Brokerage Assets, multiplied by four. Beginning in Q2 2020, the calculation of Net New Brokerage Assets will incorporate dividend and interest inflows and advisory fee outflows.
- (8) Consists of existing custodied assets that converted from brokerage to advisory, less existing custodied assets that converted from advisory to brokerage. This included \$0.2 billion of assets from NPH in Q4 2017, and \$0.3 billion of assets from NPH in each of Q1 and Q2 2018.
- (9) Consists of brokerage assets serviced by advisors licensed with LPL Financial or Allen & Company.
- (10) Calculated by dividing client cash program revenue for the period by the average client cash program balances during the period.
- (11) Represents the average month-end Total Brokerage and Advisory Assets for the period.
- (12) Represents trailing twelve-month Gross Profit\* for the period, divided by average month-end Total Brokerage and Advisory Assets for the period.
- (13) Represents trailing twelve-month operating expenses for the period, excluding production-related expense ("OPEX"), divided by average month-end Total Brokerage and Advisory Assets for the period. Production-related expense includes commissions and advisory expense and brokerage, clearing and exchange expense. For purposes of this metric, operating expenses includes Core G&A\*, Regulatory, Promotional, Employee Share Based Compensation, Depreciation & Amortization, and Amortization of Intangible Assets.
- (14) Calculated as Gross Profit\* ROA less OPEX ROA.
- (15) Additional leverage capacity is assumed to be generated by acquired EBITDA\* from an M&A opportunity at a 6-8x purchase multiple for which capital was deployed up to 2.75x net leverage.
- (16) Consists of total brokerage and advisory assets under custody at LPL Financial or serviced by Allen & Company advisors.
- (17) Consists of interest income, net of interest expense plus other revenue, less advisor deferred compensation expense.
- (18) Consists of revenues from the Company's sponsorship programs with financial product manufacturers and omnibus processing and networking services, but does not include fees from client cash programs. Other asset-based revenues are a component of asset-based revenues and are derived from the Company's Unaudited Condensed Consolidated Statements of Income.