

LPL Financial Holdings

Adjusting expense guidance post Atria acquisition announcement

Reiterate Rating: NEUTRAL | PO: 312.00 USD | Price: 255.00 USD

Lower long-term EPS & raise PO; implies 21% total return

We adjust our 1Q24/2025/2026 EPS estimates to \$4.23/\$20.83/\$24.98 from \$4.22/\$21.52/\$26.38 driven by (1) higher promotional expense, (2) higher depreciation expense but slightly offset by (3) lower core G&A (our 2024 estimate is now inside of management's target). We apply a 12.5x multiple (from 11x) on 2026 EPS to arrive at our \$312 PO (previously \$290), which implies a +21% total return potential. Given our Fed rate cut assumptions and LPLA's high organic growth, we think that a slightly higher valuation on long-term EPS is now more appropriate. LPLA has historically traded in a range of 10-17.5x, while its closest public comps (Raymond James-RJF, Stifel Financial-SF) currently trade at 10-12x.

Reiterate Neutral but see upside potential to 2026 consensus

LPLA offers an attractive EPS algorithm that includes 8-10% organic growth + 6% beta, with both combining to 15% revenue growth. Then when you apply operating leverage and capital management (including M&A potential), LPLA could generate annualized EPS growth of 20% or even higher in active deployment years. What is most important relative to peers is LPLA's stable ROCA trajectory, as its economics (x-cash sweep) have demonstrated resiliency over the last few years. However, LPLA remains one of the most sensitive names to Fed rate cuts in our coverage and is a crowded long.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	7.32	11.53	15.19	16.74	20.83
EPS Change (YoY)	10.4%	57.5%	31.7%	10.2%	24.4%
Consensus EPS (Bloomberg)			15.44	16.24	19.54
DPS	0.99	0.98	1.19	1.45	1.76
Valuation (Dec)					
P/E	34.8x	22.1x	16.8x	15.2x	12.2x
Dividend Yield	0.4%	0.4%	0.5%	0.6%	0.7%

15 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	290.00	312.00
2024E EPS	16.46	16.74
2025E EPS	21.52	20.83

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Stock Data

Price	255.00 USD
Price Objective	312.00 USD
Date Established	15-Feb-2024
Investment Opinion	B-2-7
52-Week Range	179.00 USD -263.34 USD
Mrkt Val / Shares Out (mn)	19,037 USD / 74.7
Free Float	98.6%
Average Daily Value	153.90 USD
BofA Ticker / Exchange	LPLA / NAS
Bloomberg / Reuters	LPLA US / LPLA.OQ
ROE (2023E)	0%
ESGMeter™	High

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Timestamp: 15 February 2024 12:48PM EST

G&A = general and administrative

iQprofileSM LPL Financial Holdings

Income Statement Data (Dec)	2021A	2022A	2023E	2024E	2025E
(US\$ Millions)					
Net Revenues	2,541	3,276	4,133	4,527	5,272
Compensation & Benefits	(1,494)	(1,665)	(2,041)	(2,337)	(2,851)
% of Net Revenue	58.8%	50.8%	49.4%	51.6%	54.1%
Non-Compensation Expenses	(421)	(500)	(647)	(857)	(944)
Net Income to Ordinary Shareholders	484	846	1,066	986	1,093

Balance Sheet Data (Dec)	2021A	2022A	2023E	2024E	2025E
(US\$ Millions)					
Total Assets	7,992	9,482	10,385	10,401	10,924
Deposits	NA	NA	NA	NA	NA
Long Term Debt	2,814	2,717	3,734	4,734	4,734
Total Equity	1,671	2,168	2,079	749	749

Sector Metrics (Dec)	2021A	2022A	2023E	2024E	2025E
(US\$ Millions)					
DARTs	NA	NA	NA	NA	NA
Net Interest Margin	NA	NA	NA	NA	NA
Interest Earning Assets	49	66	50	52	62
Net New Assets	0	0	0	0	0
Growth	0%	0%	0%	0%	0%
Total Client Assets	1,206	1,111	1,354	1,585	1,902

Performance Metrics (Dec)	2021A	2022A	2023E	2024E	2025E
(US\$ Millions)					
Operating Margin	24.6%	33.9%	35.0%	29.4%	28.0%
Net Profit Margin	23.5%	28.6%	28.6%	28.1%	29.7%
Comp Expense/Revenue	58.8%	50.8%	49.4%	51.6%	54.1%
Non-Comp Expense / Revenue	16.6%	15.3%	15.7%	18.9%	17.9%
Net Revenue Growth	16.8%	28.9%	26.2%	9.5%	16.5%

Company Sector

Asset Management

Company Description

LPLA is the largest independent broker-dealer in the United States with \$1.2Tn in client assets. The firm supports more than 22,000 financial advisors nationwide, through a number of services including brokerage & advisory, investment solutions, technology and cybersecurity platforms, operational support and compliance oversight.

Investment Rationale

LPLA operates a high-growth and capital-light business model and has continued to expand the capabilities that it provides its advisors. We believe LPLA's current organic growth rate is sustainable longer-term with the firm expanding into higher growth segments (pure RIA) and has used M&A to accelerate its growth/competitive positioning. LPLA is sensitive to interest rates and Fed rate cuts could trigger negative EPS revisions.

Quarterly Earnings Estimates

	2022	2023
Q1	1.95A	4.49A
Q2	2.24A	3.94E
Q3	3.13A	3.74E
Q4	4.21A	3.51E

Price objective basis & risk

LPL Financial Holdings (LPLA)

Our price objective (PO) for LPLA is \$312 and is derived from a price to earnings method. We apply a 12.5x multiple to our 2026E to obtain our PO. Its closest public comps currently trade at 8-11x consensus EPS, but we think that LPLA offers a higher growth trajectory and its business model is less capital intensive.

Risks to our PO are sustainability of its long-term growth, revenue pressure from maturing fixed contracts, soft deposit demand from third party banks, risk of Fed rate cuts, and elevated financial leverage.

Analyst Certification

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BUY				
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	Ameriprise Financial	AMP	AMP US	Craig Siegenthaler, CFA
	Ares Management Corp	ARES	ARES US	Craig Siegenthaler, CFA
	BlackRock, Inc.	BLK	BLK US	Craig Siegenthaler, CFA
	Blackstone	BX	BX US	Craig Siegenthaler, CFA
	Blue Owl Capital	OWL	OWL US	Craig Siegenthaler, CFA
	Cboe Global Markets	CBOE	CBOE US	Craig Siegenthaler, CFA
	Interactive Brokers	IBKR	IBKR US	Craig Siegenthaler, CFA
	Intercontinental Exchange	ICE	ICE US	Craig Siegenthaler, CFA
	KKR & Co. Inc.	KKR	KKR US	Craig Siegenthaler, CFA
	Raymond James Financial	RJF	RJF US	Mark McLaughlin, CFA
	TPG Inc	TPG	TPG US	Craig Siegenthaler, CFA
	Tradeweb Markets Inc.	TW	TW US	Craig Siegenthaler, CFA
	Victory Capital Holdings, Inc.	VCTR	VCTR US	Craig Siegenthaler, CFA
	Virtu Financial	VIRT	VIRT US	Craig Siegenthaler, CFA
NEUTRAL				
	Affiliated Managers Group	AMG	AMG US	Craig Siegenthaler, CFA
	Apollo Global Management	APO	APO US	Craig Siegenthaler, CFA
	Brookfield Asset Management	BAM	BAM US	Craig Siegenthaler, CFA
	CME Group Inc	CME	CME US	Craig Siegenthaler, CFA
	Invesco	IVZ	IVZ US	Craig Siegenthaler, CFA
	Janus Henderson Group	JHG	JHG US	Craig Siegenthaler, CFA
	LPL Financial Holdings	LPLA	LPLA US	Craig Siegenthaler, CFA
	Patria	PAX	PAX US	Craig Siegenthaler, CFA
UNDERPERFORM				
	Charles Schwab Corp.	SCHW	SCHW US	Craig Siegenthaler, CFA
	Franklin Resources	BEN	BEN US	Craig Siegenthaler, CFA
	Nasdaq	NDAQ	NDAQ US	Craig Siegenthaler, CFA
	Robinhood Markets	HOOD	HOOD US	Craig Siegenthaler, CFA
	T. Rowe Price	TROW	TROW US	Craig Siegenthaler, CFA
	The Carlyle Group	CG	CG US	Craig Siegenthaler, CFA



iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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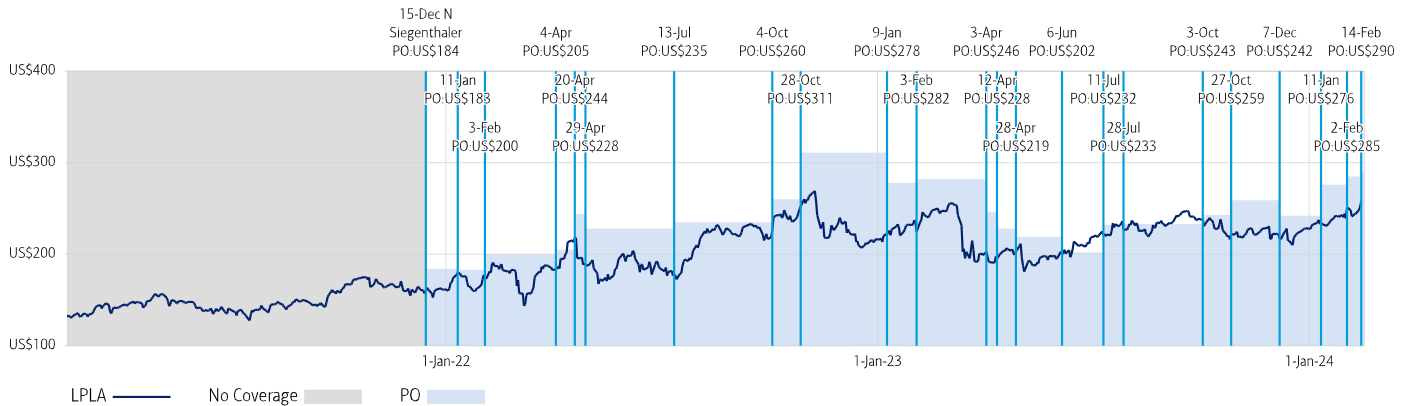
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LPL Financial (LPLA) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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