

LPL Financial Holdings

LPL announces Atria Wealth Solutions acquisition; raising EPS modestly

Reiterate Rating: NEUTRAL | PO: 290.00 USD | Price: 255.00 USD

Atria deal announcement summary and guidance

LPLA announced its acquisition of Atria Wealth Solutions for an upfront price of \$805M with further potential earnouts of \$0-230M based on retention ranging from 80-100%. Atria currently supports 2,400 advisors and 150 enterprises serving \$100B in AuC. The deal is expected to close in 2H24 with client onboarding taking place in mid-2025. Management estimates a run-rate EBITDA accretion of \$140M when fully ramped along with \$300-350M of one-time onboarding and integration costs that should have no impact on adjusted earnings.

What this means for LPL; our impact assumptions

We estimate that between the purchase price plus additional transitional assistance and loans, LPL may issue \$1B in debt for the deal. We use its outstanding '28 bonds trading at a 5.6% yield to estimate an impact of an additional +\$56M run-rate to interest expense. We also pause our buyback assumptions through 2024 under the guidance but resume the buyback program in 2025. Through these assumptions, our 2024 and 2025 EPS estimates are adjusted downwards driven by our buyback and interest rate assumptions with the earnings accretion impact fully hitting in 2026.

Raising LT EPS & PO; implies 15% total return

We adjust our 1Q24/2025/2026 EPS estimates to \$4.22/\$21.52/\$26.38 from \$4.23/\$21.73/\$25.93 driven by adjustments to lower buybacks, increased net debt, and increases to AuC and cash sweep. We apply an unchanged 11x multiple on 2026E EPS to arrive at our \$290 PO (previously \$285) which implies ~15% total return potential. LPLA has historically traded in a range of 10-17.5x EPS while its closest public comps (Raymond James, Stifel Financial) currently trade at 10-12x.

Reiterate Neutral but expect upside to '26 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), we estimate 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	16.46	21.52
EPS Change (YoY)	10.4%	57.5%	31.7%	8.4%	30.7%
Consensus EPS (Bloomberg)			15.44	16.25	19.51
DPS	0.99	0.98	1.19	1.45	1.76
Valuation (Dec)					
P/E	34.8x	22.1x	16.8x	15.5x	11.8x
Dividend Yield	0.4%	0.4%	0.5%	0.6%	0.7%

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Timestamp: 14 February 2024 07:50PM EST

14 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	285.00	290.00
2025E Rev (m)	5,111.0	5,271.7
2024E EPS	16.83	16.46
2025E EPS	21.73	21.52

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Stock Data

Price	255.00 USD
Price Objective	290.00 USD
Date Established	14-Feb-2024
Investment Opinion	B-2-7
52-Week Range	179.00 USD -263.34 USD
Mkt Val / Shares Out (mn)	19,037 USD / 74.7
Free Float	98.6%
Average Daily Value	154.54 USD
BofA Ticker / Exchange	LPLA / NAS
Bloomberg / Reuters	LPLA US / LPLA.OQ
ROE (2023E)	0%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

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)	(2,367)	(2,793)
% of Net Revenue	58.8%	50.8%	49.4%	52.3%	53.0%
Non-Compensation Expenses	(421)	(500)	(647)	(857)	(932)
Net Income to Ordinary Shareholders	484	846	1,066	964	1,145

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%	28.8%	29.3%
Net Profit Margin	23.5%	28.6%	28.6%	27.6%	30.7%
Comp Expense/Revenue	58.8%	50.8%	49.4%	52.3%	53.0%
Non-Comp Expense / Revenue	16.6%	15.3%	15.7%	18.9%	17.7%
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 \$290 and is derived from a price to earnings method. We apply a 11x 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.

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US - Brokers, Asset Managers, & Exchanges Coverage Cluster

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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
	Choe 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

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

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

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

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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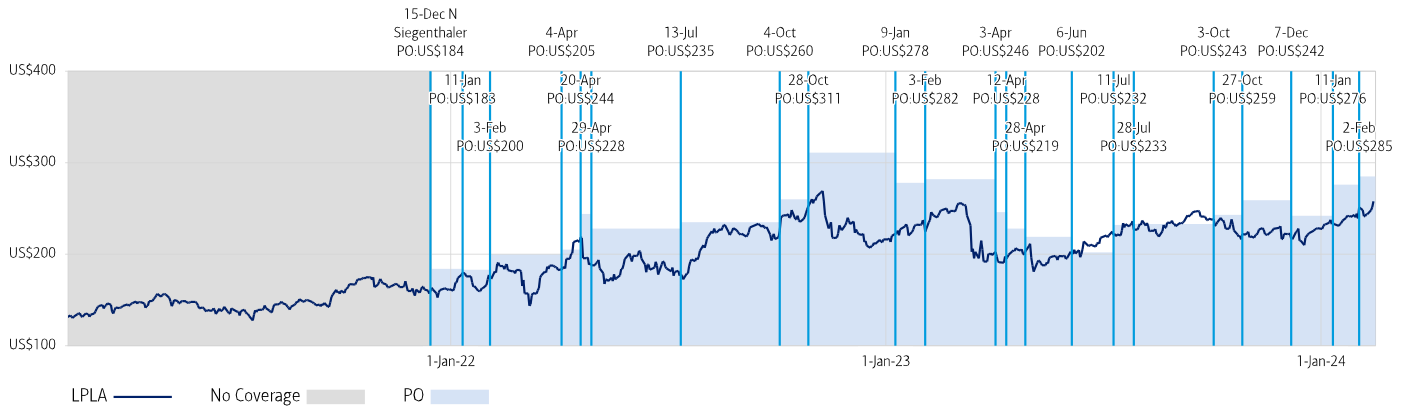
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LPL Financial (LPLA) Price Chart



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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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