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LPLA.OQ - Q3 2020 LPL Financial Holdings Inc Earnings Call

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OVERVIEW:

Co. reported 3Q20 EPS, prior to intangibles, of $1.44.

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PRESENTATION

Operator

Good afternoon, and thank you for joining the third Quarter 2020 Earnings Conference Call for LPL Financial Holdings Inc. Joining the call today are 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. (Operator Instructions)

The company has posted its earnings press release and supplementary information on the Investor Relations section of the company's website, investor.lpl.com.

Today's call will include forward-looking statements, including statements about LPL Financial's future financial and operating results, outlook, business strategies and plans as well as our 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 to listeners to the disclosures put 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, Chris, and thanks to everyone for joining our call today. Over the past quarter, our focus has remained on our mission of taking care of our advisors so they can take care of their clients. This is a credit to our employees who have responded with agility and ingenuity to new working conditions and new opportunities to support our advisors. Their dedication is inspired by the unfailing commitment of our advisors who continue to provide much-needed financial advice to millions of Americans managing through a challenging environment.

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We believe this environment is driving several years' worth of change in just a matter of months. This pace of change is creating many new constraints and challenges to solve for throughout the industry. We see this change as an opportunity to create additional long-term value by enhancing how we serve our advisors, how our advisors take care of their clients and how we engage with and attract the best employee talent. We entered this year with momentum, and the work we have done to operate in this changed environment puts us in an even stronger position to serve our advisors and grow our business going forward.

Now looking ahead, we will continue to focus on investing in our platform, which helps our advisors win in the marketplace, attracts new advisors and, in turn, increases our scale and capacity to invest. This will help us deliver a market-leading platform that is the easiest place for the advisors to construct the perfect practice and run a thriving business. Doing this well gives us a sustainable path to higher levels of organic growth, increased market leadership and long-term shareholder value creation.

With that context in mind, let's now turn to the third quarter and discuss how we are executing the key components of our business priorities while also moving forward on our strategic plan.

Now let's start with how we're executing on our priorities is translating to business results. In the third quarter, our assets reached a new high of over $800 billion, driven by continued organic growth and equity market appreciation. After consistently investing to deliver a leading advisory platform, our advisory assets continue to grow, up 20% from a year ago and now are over 50% of our total assets.

Moving to organic growth. Net new assets remained solid at $11 billion, which translated to nearly a 6% annualized growth rate. This brought net new assets to a new high of $51 billion over the last 12 months, which translates to a 7% annualized growth rate and was driven by continued strength across new store sales, same-store sales and retention. Organic growth increased throughout the quarter as expected. After the impact of client tax payments and summer seasonality in July and August, respectively, organic growth was over 7% in September, consistent with our growth rates in the first half of the year.

In the third quarter, recruited assets were $10.7 billion and contributed to a new high of $41 billion over the past 12 months. These results were primarily driven by the appeal of our model and continued solid execution by our business development team.

With respect to our advisor experience in the third quarter, we continued to develop solid service outcomes driven by the flexibility of our affiliation models, evolving capabilities in technology and enhanced service experience. As a result, retention remained over 98% through the first 3 quarters of the year, up nearly 2 percentage points from a year ago.

One of the traditional contributors to our advisor experience is our annual national conference. Now as we shared last quarter rather than cancel the event due to the environment, we pivoted our approach and in August delivered a digital experience. By moving the conference online, we enabled twice the number of people to participate this year. Advisors found the content engaging and informative and appreciated the savings of both time and expense from not having to travel. That said, we continue to believe in the importance of in-person interaction as a personal connection is at the center of our industry. Given these learnings, we have the opportunity to structurally evolve how we deliver our conferences and leverage a mix of in-person and digital formats going forward.

Our third quarter business results also led to solid financial outcomes with EPS prior to intangibles of $1.44.

Let's now turn to the progress we have made executing on our strategy. As we look ahead, we continue to see growing demand for advice and believe we are well positioned to serve our advisors and collectively compete for additional market share. Now in light of this, we remain focused on executing our 4 strategic plays.

Our first strategic play, as a reminder, involves meeting advisors where they are in the evolution of their practices by winning in our traditional markets while also leveraging new affiliation models to expand our addressable markets from $4 trillion to $13 trillion. Strategically, we believe this combination positions us to not only deliver sustainable and repeatable organic growth but also to increase our growth rate over time.

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With respect to our traditional markets, we continue to drive solid recruiting results, which include achieving higher win rates and attracting larger practices. This dynamic is also benefiting our pipeline, which expanded to new highs throughout the quarter.

At the same time, we continue to increase our market leadership in the third-party bank channel. As a reminder, in July, we signed an agreement with M&T Bank to move its retail brokerage and advisory business to our platform. Earlier this month, we signed an agreement with another leading institution, BMO Harris Bank. Their retail brokerage and advisory business, BMO Harris Financial Advisors, plans to transition approximately $14 billion in assets and 115 financial advisors onto our platform in the first half of next year. We look forward to helping them serve and support their clients, expand their value proposition and grow their business. Together, these 2 leading banks are representative of the work we are doing to serve more large institutions.

And with respect to the expansion of our addressable markets, our new affiliation models continue to gain traction. After launching our independent employee model this summer, we are seeing solid interest from prospective advisors and our pipeline is growing. We also added 2 more Strategic Wealth Services practices in the third quarter, which bring recruited assets on this model to approximately $1 billion. We are encouraged to see our new affiliation models building momentum and believe that they can help increase our organic growth rate over time.

Our second strategic play is focused on providing capabilities that help our existing advisors differentiate the marketplace and attract new advisors to our platform. Within this strategic play, we are focused on internally developing new capabilities as well as opportunistically using M&A to accelerate the delivery of certain solutions. In that spirit, earlier this week, we acquired Blaze Portfolio, an advisory trading platform based in Chicago. As context, trading is a foundational piece of the advisor workflow and increasing its strategic value especially as more advisors shift to models-based practices. With the capabilities from Blaze, we will provide a more flexible and dynamic trading and rebalancing solution that enables advisors to deliver more personalized and engaging experience to their clients.

Let's move to our third strategic play, which involves creating an industry-leading experience to delight advisors and their clients. One of the key parts of this strategic play is transforming our service model into a client care model. As a reminder, this model is designed to provide advisors with differentiated service at a time and in a manner that works best for them by bringing together an omni-channel platform, complex case management and self-help capabilities. After we rolled out our omni-channel and case management solutions across our service organization, they delivered a solid contribution to our advisor experience and NPS scores. We are now using speech analytics to monitor and learn from each service call to fine-tune our model and continue to increase performance and value over time.

The next big category of work is self-help capabilities within client works, which will provide online, relevant and easy to navigate content that solves an advisor's needs without ever having to make a call. Our goal is to make self-help one of the easiest channels for advisors to access and navigate LPL, helping drive convenience and efficiency for their practices while contributing to the ongoing enhancement of our advisor experience and NPS scores.

Our fourth strategic play is focused on helping advisors run the most successful businesses in the independent marketplace. One of the key components of this play is Business Solutions. As we move through the changing environment this year, we have seen expanded utility of our original Admin, Marketing and CFO Solutions as advisors leverage these offerings in different ways to solve for new challenges. The COVID-related climate also proved to be a catalyst for innovation and developing new services, like our Assurance Plan and Remote Office Solution. By continuing to learn and adapt to our advisors' changing needs, we now have a stronger and broader portfolio of solutions that are delivering more value, are applicable to more advisors and are proven across a challenging environment. As a result, our Business Solutions subscriptions have doubled over the past year to 1,200 at the end of the third quarter.

In summary, in the third quarter, we continued to invest in the value proposition for advisors and their clients while driving growth and increasing our market leadership. As we look ahead, we remain focused on executing on our strategy to help our advisors further differentiate and win in the marketplace and to drive long-term shareholder value.

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

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

Thank you, Dan, and I'm glad to speak with everyone on today's call. In the third quarter, we remain focused on serving our advisors, growing our business and delivering shareholder value. We continue to drive strong organic growth, recently signed another large bank and closed on 3 acquisitions and we did all of these while remaining disciplined on expenses. As we look ahead, we are excited about our increasing opportunities to drive organic growth and long-term shareholder value.

Now let's turn to our third quarter results. Total advisory and brokerage assets increased to a new high of $810 million, up 6% from Q2, driven by continued organic growth and higher equity markets.

Looking at organic growth, total net new assets were $11.1 billion or a 5.8% annualized growth rate. Our results increased throughout the quarter with September organic growth at 7.4%, which was up from July and August as those 2 months included the impact from client tax payments and summer seasonality.

Moving on to recruiting and retention, which are 2 key drivers of organic growth. We continued to produce strong results in the third quarter. Recruited assets were $10.7 billion in Q3, which brought our 12-month total to $40.8 billion. At the same time, retention remained over 98% year-to-date.

Looking at our business mix, we continue to see positive trends in Q3. Advisory net new assets were $10.4 billion or an 11% annualized growth rate, which brought advisory assets to over 50% of our total. Centrally Managed platforms also continued to grow as net new assets were $1.9 billion or a 14% annualized growth rate.

Now let's turn to our Q3 financial results. Strong organic growth combined with expense discipline led to EPS prior to intangibles of $1.44.

Looking at commission and advisory fees net of payout, they were $142 million, up $11 million from Q2, primarily driven by higher advisory fees and commissions.

Moving on to asset-based revenues. Sponsor revenues were $145 million in Q3, up $14 million sequentially as average assets increased, driven by higher equity markets and organic growth.

Turning to client cash revenues. They were $109 million, down $8 million from Q2, primarily driven by lower short-term interest rates.

Looking more closely at client cash balances, they remained elevated at $47 billion, up $1 billion sequentially. As for client cash yields, our Q3 ICA yield was 118 basis points, down 9 basis points from Q2. The decrease was primarily driven by lower LIBOR rates as well as $0.5 billion of fixed rate contracts that matured during the quarter.

Looking ahead to Q4, we will have the full quarter impact of the decline in LIBOR that occurred in Q3 as well as another $0.5 billion of fixed rate contracts maturing. Given these factors and where interest rates, client rates and cash balances were at the end of Q3, we expect our Q4 ICA yield to decrease by about 10 basis points sequentially.

Moving on to Q3 transaction and fee revenues. They were $120 million flat sequentially, driven by higher fee revenue and lower trade. While July and August trading returned to more normalized levels, volumes increased in September along with market volatility. Looking ahead to Q4, I would highlight that our October volumes have returned to more normalized levels.

Turning to Business Solutions. They continue to scale with 1,200 subscriptions at the end of Q3. This is up 250 from last quarter and double our total from a year ago. These offerings generate roughly $15 million of annual recurring gross profit, and more importantly, they help advisors free up additional time to serve their clients and grow their business.

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Now let's turn to expenses starting with Core G&A. It was $227 million in Q3, up $5 million sequentially as we continue to invest to drive organic growth across our new affiliation models, technology and service. Looking ahead to Q4, we remain on track to be in the lower half of our 2020 Core G&A outlook range of $915 million to $940 million.

Moving on to promotional expenses. They were $58 million in Q3, up $13 million sequentially, primarily driven by our national advisor conference. Looking ahead to Q4, we anticipate lower conference expense partially offset by seasonal marketing and continued growth in recruiting transition assistance. As a result, we expect Q4 promotional expense to decrease by about $5 million from Q3.

Turning to our tax rate. It was 23% in Q3. This is below our expected range of 27% to 29% as we benefited from a positive decision on a prior expense that was considered nondeductible.

Moving on to capital allocation. Our balance sheet remained strong in Q3 with credit agreement net leverage at 2.15x and cash available for corporate use of $252 million. The strength of our balance sheet remains a key enabler of organic growth and positions us to deploy capital when opportunities arise. As for capital deployment, our framework remains focused on allocating capital aligned with the returns we generate, investing in organic growth first and foremost, pursuing M&A opportunities where appropriate, and returning excess capital to shareholders. As we look forward, we see increasing opportunities to allocate capital to organic growth and M&A, including transition assistance for M&T and BMO next year. Given these opportunities, we are currently prioritizing capital deployment to organic growth and M&A. That said, we will stay flexible and we'll adjust our plans as the opportunity set evolves, including allocating capital to share repurchases.

In closing, we delivered another quarter of strong results in Q3. And as we look forward, we remain excited about the opportunities we see to continue investing to serve our advisors, grow our business and create long-term shareholder value.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

And our first question comes from the line of Bill Katz of Citigroup.

William Raymond Katz - *Citigroup Inc., Research Division - MD & Global Head of Diversified Financials Sector*

So Dan, maybe I want start with your, big picture. Obviously, you detailed 3 or 4 things that are really resonating in the marketplace. Could you unpack maybe the organic growth that you're seeing, maybe take it down a little bit to the different channels between sort of the traditional channels versus new one? And so maybe speak to what's particularly resonating in the marketplace that's driving the very strong both net new assets as well as the recruited assets?

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

Yes. Thanks, Bill. Let me take a stab at that and I'll try to give you a little color, and then if you've got a follow-on, please, fire away. So look, I think if you think about our growth, we, first and foremost, look across all of the different models or parts of the market that we serve and look at how we're doing from new store sales, same-store sales and retention, right? And if you match that to the investments that we make strategically in our model, they are meant to serve or support any parts of that growth formula. So we obviously see record high results in the new store sales, which is referenced in the trailing 12-month recruiting that we've done, where we've brought in over $40 billion in assets, which was a record high for us.

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So that would reinforce that oar in the water is making good progress. I'll come back to that. I think same-store sales has been durable and kind of sustained itself in a similar place over the last couple of years. This year, more of that opportunity is coming from advisors broadening their value to existing clients and ultimately getting rewarded for that value by gathering more assets with those existing clients, which is a bit of a different shift from prior years where they may get a higher mix of that growth from new clients that they attract.

And then on the retention front, clearly, that's us investing in our model, improving and enhancing the service experience, the technology capabilities, our ability to serve and support and evolve the model going forward and sort of play out into the future where our advisors' needs are. And I think that is best reflected in the retention rate, which is up 200 basis points over the last couple of years. So I think that gives you a feel, if you will, around the different oars that we have in the water and the contribution they're making to that. So I think we're getting a good contribution across the board with the most significant coming in the growing of the -- of new store sales or recruiting.

And if I click down on the markets based on your question, most of that recruiting results over the last 12 months has come from our traditional markets. So think about our traditional independent and the institutions marketplace. We've got the 3 new models or markets that we're ramping in. SWS is the first one that you're beginning to see some contribution now come from that, and the pipeline there is sound. More importantly, we're moving people through that pipeline. And I think you'll begin to see a bigger contribution of that in 2021 from the SWS model, our Strategic Wealth Services model.

Then you also have our employee-based model or Linsco model, as we've branded it, and that is just new to the marketplace. It's getting a really positive reception, I think, for some of the differentiated capabilities. We're building that pipeline. We think that solution is appealing to an interesting segment of the marketplace. And so again, I think we're quite bullish on the contribution that can come from that in the future. And none of the growth has come from that model up to this point.

And then finally, the RIA only. We are an RIA custodian or we support some RIAs. We're going in and investing in that model and evolving it, such that we think it's going to create a really interesting, compelling solution that's differentiated in the marketplace at a time where we expect to see some churn pick up in that part of the marketplace. So that's a little bit of how we think about the contribution up to this point with those models, but then how you might think about them differently as we go forward. I hope that helps.

William Raymond Katz - *Citigroup Inc., Research Division - MD & Global Head of Diversified Financials Sector*

That's helpful. It is. Maybe one for Matt. Just sort of thinking about your commentary where you ended in terms of capital priorities. Just stepping back as you think about core expense growth as you look out to next year, how much of an opportunity has that been down the underlying expense growth just given everything that's been going on with COVID and work from home and remote office backdrop versus maybe not letting that bend down and reinvesting back in business to further turbocharge organic growth?

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

Yes. Bill. So I think as we think about expenses next year, we'll share our plans on the next quarter's call. But I think from a principal standpoint, I think you hit on it in your question. When I think about Core G&A and spending, it's really back to the capital allocation priorities. And I think we see the highest and best use of capital to invest and drive organic growth. And I think that will be the principle that we bring to that and that will be the principle we'll bring to laying on our Core G&A plans for next year.

Operator

And our next question comes from the line of Steven Chubak with Wolfe Research.

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

Maybe just starting off with a strategic question for Dan. Some of the acquisitions, including AdvisoryWorld and more recently, Blaze, there are products or services which are being marketed to advisors outside of the LPL channel. And as your strategy evolves and you continue to build out just some of the more proprietary Business Solutions especially given some of the strong demand for those services you've seen from your own advisors, how are you thinking about the opportunity to maybe white-label and market some of those solutions outside of your current advisor network, especially given some of the wealth competitors within that solution space trade at much higher valuation multiples?

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

Yes, Steven, good question. Look, with respect to Blaze and AdvisoryWorld, those are both part of our strategy where we use M&A, in some cases, to help accelerate the development of our capabilities and then fully integrating those capabilities into our overall ecosystem or workflows for our advisors. And in this case, that's very much what we're doing here is capitalizing on a really good solution in property out in the marketplace and bringing it into improve and enhance the overall workflow associated with portfolio construction and development, right. And trading is a big component of that.

That said, the second opportunity associated with this acquisition is certainly to continue to support the market share that they have outside of the LPL platform. And that is our intent to do that here. It's to continue to serve and support it, continue to invest and innovate in the capability and tool and certainly evolve that offering to those clients. I think by doing that, it gives us the chance to continue to learn and understand how to serve a marketplace outside of the LPL platform, which then strategically positions us and reserves the right to if we ever want to shift or pivot and begin to serve that third-party marketplace in a more significant way. I think it gives us the foundation to work from and do that well. So though not the priority right now, it certainly is a strategic element of value here that gives us the chance to learn and allows us to be positioned to do that.

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

And maybe just a clarifying question, a follow-up to Bill's earlier one on organic growth and investment. Matt, I know your investments in recent quarters have been largely focused on driving organic growth. We saw strong momentum in September. I was hoping you can just give us some more color on whether that organic growth momentum has continued into October and what that can mean for just Core G&A expense in Q4 as we contemplate some of those additional investments.

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

Yes. Sure, Steven. When we look at what we've seen so far in October, right, being here pretty much at the end of the month, that momentum has continued. So I'd describe it as consistent with September. I would keep in mind the majority of advisory fees are charged and paid in the first month of the quarter. So when you look at the trends from September to October, that's going to have a natural bias down just from the change in the amount of fees. Putting that aside, October M&A is really trending at a similar level to September. So we've seen that return to organic growth continue.

And then on the cash balance side or the cash sweep side, we've continued to see cash build in October at a modest pace. I think we're seeing some good results there.

On the Core G&A side, to your point, we remain on track for that lower half of our outlook range, so that lower half being, call it, $915 million to around $927 million. And I think to the point of your question, where we would land in that range especially with 3 quarters being completed and just one left, I think the main variable is the variable expense associated with organic growth and how we finish the year. So given the first 3 quarters as well as what we've seen so far in October, I'd say we're probably going to be towards the upper end of that range, meaning the $915 million to $927 million range. But we do have 2 more months to go, so we'll have to see how it plays out. But that would be the perspective where we are today.

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Operator

Our next question comes from the line of Alex Blostein with Goldman Sachs.

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

So I was hoping we could talk a little bit more about the banking channel. You guys announced 2 sizable deals in the last couple of months. So maybe talk a little bit about what's changed in that channel that makes you guys more of an attractive place for some of these advisors to join. And then from a financial perspective, maybe you could just kind of walk us through sort of a framework around gross profit ROA and EBITDA ROA for those type of transactions, including amortization of transition assistance that, Matt, I think you alluded to that in your earlier comments that that's probably going to pick up next year, some of those FAs on board.

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

Yes. So Alex, it's Dan. Let me take the first half of that, and then I'll let Matt finish up with sort of part B of that. So look, with respect to the general financial institutions marketplace, we've seen some good solid momentum over the last couple of years. And as you all know, it's roughly a $1 trillion asset marketplace, and roughly 1/3 of that business is outsourced today. So last year, we recruited $5 billion, which mainly would have been share that's coming from what was already outsourced. This year, we're on track to double those results. And again, it's mainly where there are participants that are already outsourcing that solution or service.

I think strategically, we challenged ourselves around this concept of can we add value to a part of the marketplace that traditionally hasn't outsourced? And if so, how might you do that? In this case, it's these larger financial institutions. And so I think what we've done is try to go in and innovate or ensure that we could deliver for them a differentiated client experience, which we know is important in their overall offering out in the marketplace and how they position themselves. And if we can complement that and extend that overall value proposition in a differentiated way, that's interesting. If we can find ways of which to optimize the financial contribution of this type of business line within the financial institutions would be a second place that we focused on. And finally, ultimately, shifting the risk profile for them, I think, is typically an appealing characteristic of the model.

And so those are the areas that we focused on to try to come up with innovative ways of which to shift that, evolve that, such that this market that had never been outsourced became an opportunity. And that's where we focused and try to show up with a differentiated solution and have had the opportunity to have that dialogue with some of these financial institutions. We think it's pretty appealing. It's a pretty unique model. And I think we've got a couple of wins, and we're out there actively sharing that concept in that model. Though not for everyone, we think it's pretty appealing. So that's the concept we've used to try to extend the market, if you will, in this channel. I hope that answers your question.

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

Yes. And Alex, on the financial side. When you look at the traditional bank channel, usually, the majority of the assets at those institutions are on the brokerage side. So you kind of start and look at our gross profit ROA, and those assets are in the 15 to 20 basis point range. And then for the larger banks, given their size, the returns are usually at the lower end of that range. So that's the way to think about gross profit. On the cost side, I think one of the primary benefits of the transaction is we can really bring our scale to serve them in an efficient way. So there's really a lower cost to serve. And then on the transition assistance side, we always underwrite to returns. So given those dynamics, the TA rates are typically lower for those banks -- for those larger banks.

So when you put all that together, the economics are accretive on the EBITDA margin for us. And then I think on these 2 specific ones, as we get closer in future quarters, we'll give you a little bit of color on to the extent on how their onboarding and things will impact the financials in those periods.

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

Awesome. And my follow-up -- I guess it qualifies as a follow-up, is around M&A broadly. I'm just curious to get your thoughts that in case we do have a change in tax law and there's a change in capital gain taxes, to what extent do you think that could be a driver in increased consolidation in the industry with you as an acquirer potentially or some of your financial advisors acquiring other practices with kind of financial backing of LPL? Because I know, obviously, that's an interesting element to the story that you guys bring to the financial advisor, just kind of allowing them to use your sort of balance sheet for acquisitions.

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

Yes. I think the fundamental point, Alex, which is a good one that you're making is where there's change, there's usually a broad set of different questions or new needs that come up or people contemplate new scenarios that they may not have faced before. And we do think the environment, as we look out for any number of reasons, including potential tax law changes, certainly drives more consolidation and activity on the M&A front. And whether that be at the advisor level, which is a logical place to ask that question, or more at the corporate level, I think we see that landscape being -- and the trajectory of the activity. They are trending up on both fronts. And obviously, as we've said, from a strategic standpoint, we would typically be a participant on both of those levels as we as we have in the past couple of years. And we would take our disciplined approach where we make sure that these acquisitions make sense from a strategic standpoint, a financial one and operationally. But I think we're aligned in the premise of your question that you're going to see more activity.

Operator

Our next question comes on line of Craig Siegenthaler with Crédit Suisse.

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

I wanted to follow up on NNAs. So 3Q was impacted by taxes and seasonality. And then next year, you have 2 NNA accretive transactions closing. So can you comment on your ability to accelerate off this 6% level into 2021?

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

Yes. Thanks for the question. And let me take a first run at that, and you fill in anything, Matt, that you think would be helpful. So I think if you look at Q3 as a jumping-off point where you had roughly a 6% annualized growth rate, that was driven by, certainly, July, as you say, with the tax payment trends and that will pop up next year in April rather than in July, let's hope. But I think you will certainly see that headwind in that particular month that the tax payments occurs. And then there's always a little seasonality in the summer. But let's just say that 6% to 7% is the right more blended jumping-off rate. I think as we look out and push ourselves or challenge ourselves to drive that number forward or higher outside of the $34 billion that comes from the 2 large financial institutions that we referred to, I think we see us continuing to invest in our model that makes it more appealing, improve the effectiveness of our own sales activities and business development activities. Our traditional markets continue to contribute to that -- to a higher growth rate in terms of new recruiting. I think our new markets, as you supplement them then, they begin to contribute because, as I said, up to this point, we've had very little contribution from them. So we see that as an opportunity as they ramp in more robustly next year.

So those are both places where we would challenge ourselves to continue to extend the growth rate, especially as the new store sales. We continue to invest in the model from a service experience standpoint. And we've got retention levels at the 98% level now. We think that's a pretty sound and solid outcome. So I think as we go forward and continue to invest in that service experience, that's probably a good way to think about retention.

And then I think same-store sales is a place that we continue to believe there's more opportunity there. And we continue to innovate, especially inside Business Solutions with a new offering called Growth Solutions that is in the experimental phase right now, where we're being more explicit and coming up with new ways of which to help advisors grow their existing businesses. And so though I don't think that's a short run opportunity,

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we do see that as a long-term opportunity to tease out more contribution in same-store sales. So I hope that helps you as we think about at least going into next year. Where that ramp would come is probably new store sales. And longer term, you probably get it from new store and same store.

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

Dan, very comprehensive. I have one follow-up P&L question probably for Matt, but I just wanted your perspective on the 25% increase year-over-year in transition assistance versus -- I think it was a 4% increase in net new advisors.

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

Yes. Sure, Craig. I mean I think that the approach on TA is really the same, right? It's underwritten to returns and those returns based on the assets that come over. And I think what you're starting to see -- and not just this year, but over the past several years, us starting to recruit larger and larger advisors, and the return hurdles haven't changed. So I think any dynamic you're seeing there is just related to us being able to bring on more advisors from more assets.

Operator

And our next question comes from the line of Michael Cyprys with Morgan Stanley.

Michael J. Cyprys - *Morgan Stanley, Research Division - Executive Director and Senior Research Analyst*

I just wanted to circle back on the Centrally Managed assets and platform there. It looks like that's stabilized here at around 14.5% of client assets. So I just hope you could talk a little bit more about some of the initiatives that you're putting in place when thinking about to further accelerate the penetration. How is the product set evolving? And if you could also touch upon maybe and describe the profile of the type of advisors that are participating on the Centrally Managed platform?

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

Yes. So let me take some of those and get -- if I miss 1 or 2 of the different sub questions in there, please just redirect me. But -- so look, we believe that this models-based approach or models-management-based approach that's emerging inside advisors' practices is a significant and sustainable trend. It's a really good way for them to optimize portfolio construction in a really efficient way and construction/management. And it applies both as rep as PM all the way over to your Centrally Managed platforms. And so we see the opportunity to make investments in this models-based approach being relevant across that entire advisory platform.

That said, if you go move over to the Centrally Managed concepts, I think where we're trying to make investments and where we actually believe we can continue to drive growth and participation on those platforms, continuing to add what I might call variations to them. So you heard us talk a lot about rep sleeve, which is an ability to use Centrally Managed platform and just outsource less than the turnkey option or alternative. And that extends the applicability now of that model to more advisors as an example. We continue to make other investments in that platform and pull in other underlying securities. So you pull in individual equities, you pull in SMAs, and now you're beginning to enrich that overall Centrally Managed platform. And you're going to have a lot more advisors utilize it for a variety of different reasons for their clients. So think about variations to the Centrally Managed solution and also think about extending the overlying strategies that you can apply to it and the different securities that you could use within it.

So there's lots of ripe opportunity there to continue to invest in our platform to extend its applicability to a lot more advisors and help us drive more assets there or contribute more assets. I think also, as you know, we make investments from a pricing standpoint typically each year. And we've tended to focus on advisory, and we will continue to do that as we move forward, our advisory platforms. And this would be an area where,

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again, you lower minimums. You simplify pricing. You lower pricing on your Centrally Managed platforms. You're going to draw more utilization of them there, too. So that's sort of the spectrum of how we think about the opportunity to enrich its appeal to the advisors and ultimately how they use it to serve their clients.

Michael J. Cyprys - *Morgan Stanley, Research Division - Executive Director and Senior Research Analyst*

Great. Maybe just the last part of that question just around the profile of advisors that are more likely to participate or that are participating today? Just any color there that you can share.

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

Yes. I think a couple of thoughts there. It's actually a broad appeal across the board. So there's not one segment that we built it for. It's meant to have broad application across the platform. I think as more advisors are using more advisory solutions in their overall mix, that just overarching demand will tease out the opportunity for more to test, experiment and use it. We see them using it across a client size now that typically ranges somewhere from $100,000 to $0.25 million in assets. And that's not to say it was built that way, but that tends to today fill a sweet spot in perhaps how it's used. I think we continue to work on the pricing. You'll enable it to be used up market.

And I also think you see advisors who have traditionally been rep as PM or had done the portfolio construction and management themselves. As their time is pressured in general or they want to allocate it to other higher value services, you're seeing more and more experiment with shifting some of that traditional rep as PM work over to Centrally Managed model. So making it easy to convert from one model to the other. Putting them all inside one platform under one contract takes out the friction associated with that transition or that movement. And as we do that over the next year or so, we also think that will unlock some movement towards these Centrally Managed solutions.

Operator

And our next question comes from the line of Chris Harris with Wells Fargo.

Christopher Meo Harris - *Wells Fargo Securities, LLC, Research Division - Director and Senior Equity Research Analyst*

A question on the ICA guide for Q4. Has the yield on floating balances changed much at all? And I asked the question because it seems like a decent step down for just $0.5 billion of fixed that are rolling off.

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

Yes, Chris. I think on the variable balances, it's really just the contracts associated with LIBOR, resetting and coming down to where current LIBOR is. Fed funds obviously moved pretty immediately back in March, and LIBOR has just moved slowly after that. I think where it sits today. If history is a guide, it's now settled in where it would typically be when Fed funds is near 0, but it's just those contracts resetting.

Christopher Meo Harris - *Wells Fargo Securities, LLC, Research Division - Director and Senior Equity Research Analyst*

Okay. And subsequent to quarter end, there was a move up in some medium-term, long-term interest rates. At what level of rate do you guys need to see where you might entertain the idea of moving potentially some more balances into fixed?

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

Yes. I mean our focus on fixed is unchanged, right, targeting that 50% to 75% zone of the overall balances and really to minimize the amount of impact on our economics as interest rates move. I think what's most relevant today is less about where the curve is and really just the amount of liquidity in the marketplace. I mean there's just not a lot of demand for those fixed rate contracts. So I think minor movements in the curve probably don't change that. I think over the long term, if the curve steepens, I think there's a lot of opportunity economically for us to move more into fixed rate balances. You just look at where we are today at about 35% fixed. If you just look at the bottom end of that target range moving up to 50%, it's about $5 billion in balances that we can move. And I think if you look back over the last couple of years when we were moving into the fixed rate market, the sweet spot in that market was really the 5-year point on the curve.

So if you're just trying to run some math, I think thinking about the opportunity at the low end of the range of $5 billion on the 5-year point of the curve is the opportunity. But I think in the moment right now, there's just so much liquidity in the market, there's just not a lot of opportunity today.

Operator

Our next question comes from the line of Kyle Voigt with KBW.

Kyle Voigt - *Keefe, Bruyette & Woods, Inc., Research Division*

Most of my questions have been asked and answered, but maybe just a couple of follow-ups. One, just on Business Solutions, the subscriptions up 250 quarter-over-quarter. Just wondering if you can give more color as to which solutions are seeing the most uptake.

And then just maybe qualitatively, if you could talk a bit about how the solutions are resonating as part of the value proposition when you're actually pitching the advisors for some of your new channels?

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

Yes, it's Dan. Let me try to swing at that. So maybe the second one first. I think -- so first of all, this concept about helping an advisor run and optimize how they operate their business. There's new capabilities there that the independent space hasn't always been focused on solving for. And I think our principle was make sure that we build something that is digital in nature so you can scale it and personalize it but also make sure it has the ability to help the business owner or advisor execute versus just sort of sharing more best practices with them. So the concept was to fix an execution challenge, not a know-how or a knowledge challenge.

And so in that spirit, that continues to be our focus with respect to all of these solutions, and that's what resonates regardless of the model, the traditional independent model. Typically, the independent has experienced where some of those challenges or friction points are. And when they get the leverage of an admin or a CFO that can provide in the case of an admin, just leverage points of time where there's task to do that are better outsourced to someone where they can focus and allocate that time to higher-value tasks. The CFO, though, provides them real knowledge and insight that they may not have had or had the luxury of leveraging to help them enrich their decision-making. So it resonates for the independent who has actually already experienced the friction. It resonates with the Strategic Wealth Services because that's an advisor that's coming out of an employee model that is curious about and a little apprehensive about running a business. And these services being available to them is a great leverage point and a boost to confidence in being able to do that.

So those are 2 examples of where a new model that resonates and on an independent model. Same value, but one's got a different experience, but it resonates with them. And I think you're seeing equal appeal as we describe those services in any of those models. I think what we've had to do, remember, we're still really in a phase of innovation and iteration. And so we're constantly learning how to tweak, how to evolve, how to add capabilities, elements or prioritize those in these services. And so this year has been a great learning opportunity for us to take the traditional Admin, CFO and Marketing solutions and evolve their utility or listen to what our clients needs through a different environment, in a tough environment and really enrich the value associated with those solutions such that they broaden the appeal to more advisors.

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The other thing we're thinking about doing is how do we continue to lower the cost, lower the price point and again extend the appeal to more advisors. So those are the things that we're doing inside Business Solutions to drive, we think, increased adaptability and leverage of those solutions. What's growing the fastest, we've seen good consistent growth across the traditional three, Admin, CFO, CMO. We were actually concerned inside the pandemic that people would be concerned about paying for them. And maybe you'd see attrition pickup, and we saw the opposite. People really get great value out of these solutions during it. It actually reinforce their durability and their value. And again, as we said, we extended their versatility or their utility to these clients. And so though I think it did hurt selling to new advisors in the short run because of the environment. We think the value proposition is reinforced, and we've seen growth rates begin to pick up post the sort of the height of the pandemic.

I think the 2 new solutions that we mentioned, especially the Assurance Plan, have been the biggest drivers of growth in the last quarter. The Assurance Plan really resonates when you think about helping someone protect their business in the event of an untimely or unplanned impact to their lives, and it creates a really interesting way of which to preserve the asset that they've created in their business and create an orderly way of which to ensure that it protects that asset for their family and for those end clients of it and make sure for an orderly transition at a reasonable market-based valuation. So that has been very attractive because that gap out in the marketplace did not exist, especially for advisors who are in their 40s and 50s and have a longer runway left to operate their businesses. It's an extremely attractive value.

Kyle Voigt - *Keefe, Bruyette & Woods, Inc., Research Division*

Thanks, Dan. Maybe a follow-up for Matt on capital return. I think the last 2 quarters, you mentioned -- or you stated that the buyback was paused. I don't think I caught that exact phrase in this quarter. But just wondering if we should take that to mean that you're more comfortable restarting some level of buyback even though you're prioritizing that capital towards organic growth and M&A.

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

Yes. I mean, I think maybe if I bridge us from the beginning of the year, where we were buying back shares in Q1 and pretty consistently in 2019 as well, I think that pause in March was really driven by the macro uncertainty from COVID. And while we continue to monitor the macro, I think as you heard well in the prepared remarks, the business has really strengthened. So I think all else equal, we likely would have restarted share repurchases by now. But those opportunities in organic growth and M&A have just increased. And that's really where we're deploying the capital, right? Organic growth driving the highest levels in our history. We talked a fair bit about M&T and BMO onboarding next year, where just those 2 firms alone are $34 billion of AUM. And we closed on 3 M&A deals in as many months in the last 3 months.

So I think you heard right. Share repurchases are attractive, but the opportunities that we're focused on right now are on organic growth and M&A. And if that changes, we'll adjust consistent with our priorities, and that includes allocating capital to share repurchases.

Operator

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

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

Maybe just one for me on competitive dynamics. But broker recruitment, obviously, has been strong throughout the pandemic. And if historical trends, I guess, are something to look to, there we might expect sort of a pickup in broker recruitment on the other side of this. So just sort of curious to see or hear, based on conversations, is there kind of a cohort of advisors that's waiting to kind of get to the other side before engaging with folks, such as yourselves? Or perhaps, has this been a different environment, whereby you've been able to kind of just consistently go out and attract advisors despite the uneven backdrop?

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

Yes. It's good question. Certainly, this environment, we have seen movement of advisors are churned as we call it down. As you look over the last 9, 10 months, churn rates are down but our win rates are up. So the team has done a great job of persevering through some of the complexities created by the environment. And I think you've continued to share the story and helped advisors find creative ways of which to still make that transition. We expect that creativity in that approach and sort of that resilient heads down, keep moving forward approach to be taken by our team as we move forward. We do believe that as you get to the other side of the pandemic that it's reasonable to expect churn rates to trend up. And with the additional models we have, applying them across multiple markets where the churn rate comes up, we think about that as an interesting opportunity. So I think your premise is correct.

Operator

And our last question comes from the line of Ken Worthington with JPMorgan.

Will Cuddy - *JPMorgan Chase & Co, Research Division*

This is Will Cuddy filling in for Ken. So production revenue has been elevated this year, and while still elevated in 3Q, it's been trending a little lower from the first half of the year. If my math is right, Slide 4 of the deck implies a 97% retention rate of production, down from 98.5 for the first half of the year. And it doesn't look like there's seasonality in prior years. Why do you think production has trended down in 3Q? And looking ahead, do you expect this to continue down and stabilize around a more normal level of 96%, stabilize at current levels or increase back to levels seen in the first half of the year?

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

Yes. So let me take that one. I think to maybe come back to your final point and question, we think somewhere in that 2% to 3% range is what we're trying to play to. And we think that's a reasonable landing place for attrition. So conversely, 97% to 98% of retention. I think you had, in the first part of the year, some benefit or tailwind, if you will, around retention just because of the pandemic and what we said earlier, lower churn in the overall marketplace kind of showed up there, maybe with a little bit of help. But I think, again, the growing appeal of the model, the capability set that we're trying to invest in, the service experience we can deliver is really the drivers of that retention rate. And we think a reasonable place is that 97% to 98% range.

Will Cuddy - *JPMorgan Chase & Co, Research Division*

Got it. Thanks, Dan. And then on transaction fee revenue, Matt, thanks for the commentary in the prepared remarks on trading volumes. To help us understand the dynamics a little bit better. Could you roughly break out how much of that revenue line is transaction and how much of that is fee? And then as we think about the growth of your Business Solutions and subscriptions, like how can that growth drive that revenue line item further? How are we going to see that on the P&L?

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

Yes. I mean the majority of that line is fees. So call it 2/3, the 3/4 zone is fees. So transactions is a much smaller piece of it, so to answer your first question. On the Business Solutions side, it's -- right now, the run rate gross profit is around $15 million for the solutions that we have so far. And I think, obviously, we expect to grow that from there. And maybe just to emphasize Dan's color a little bit earlier. We're still in the experimental phase on some of them and learning and growing from here. But I think we feel quite good about growth over the long term. And perhaps more importantly, they're about setting up advisors for them to be able to manage their businesses and grow their balance sheets, if you will, or AUM as well as operate a more efficient practice. And I think if we do that, you're going to see that show up across the P&L. I think that's really where the long-term success can come from as well.

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Operator

And this does conclude today's question-and-answer session. I would now like to turn the call back to Dan Arnold for any closing remarks.

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

Yes. I just wanted to thank everyone for taking the time to join us this afternoon, and we look forward to speaking with you again next quarter. Have a great day, and please stay safe.

Operator

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

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