

Q3 2017 Earnings Key Metrics

LPL Financial Holdings Inc.

Q3 2017 Earnings

October 26, 2017

Notice to Investors: Non-GAAP Financial Measures

The management of LPL Financial Holdings Inc. (“the Company”) believes that presenting certain non-GAAP 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 measures and metrics discussed herein are appropriate for evaluating the performance of the Company.

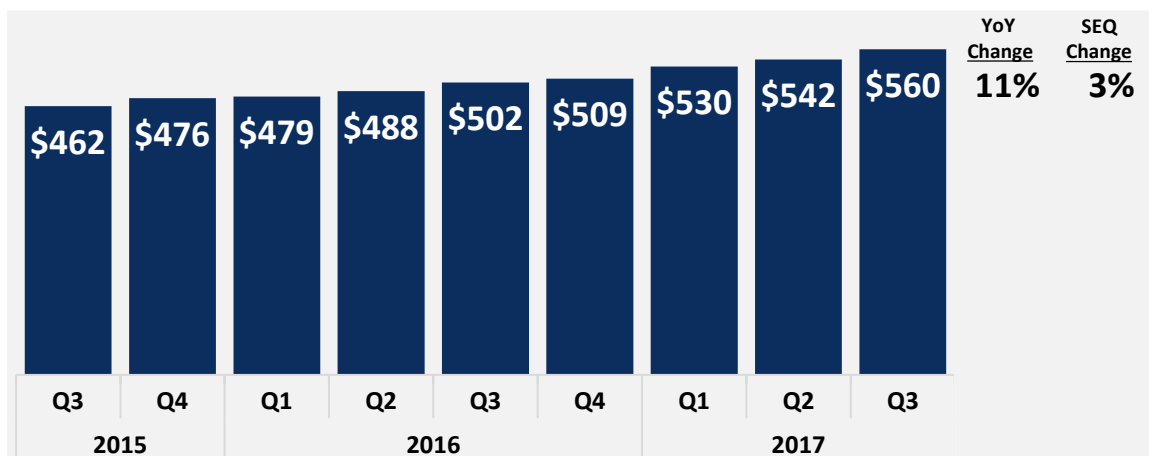
Gross Profit is calculated as net revenues, which were \$1,064 million for the three months ended September 30, 2017, less commission and advisory expenses and brokerage, clearing, and exchange fees (“BC&E”), which were \$664 million and \$13 million respectively for the three months ended September 30, 2017. All other expense categories, including depreciation and amortization, 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 can be useful to investors because it shows the Company’s core operating performance before indirect costs that are general and administrative in nature.

Core G&A consists of total operating expenses, which were \$940 million for the three months ended September 30, 2017, 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 against the Company’s total operating expenses, please see FN 3 of the Company’s earnings press release, dated October 26, 2017, which is posted on the Company’s website (investor.lpl.com). Prior to 2016, the Company calculated Core G&A as consisting of total operating expenses, excluding the items described above, as well as excluding other items that primarily consisted of acquisition and integration costs resulting from various acquisitions and organizational restructuring and conversion costs. Beginning with results reported for Q1 2016, Core G&A was presented as including these items that were historically adjusted out, and for periods prior to Q1 2016, reflects those items in employee share-based compensation and other historical adjustments for comparative purposes.

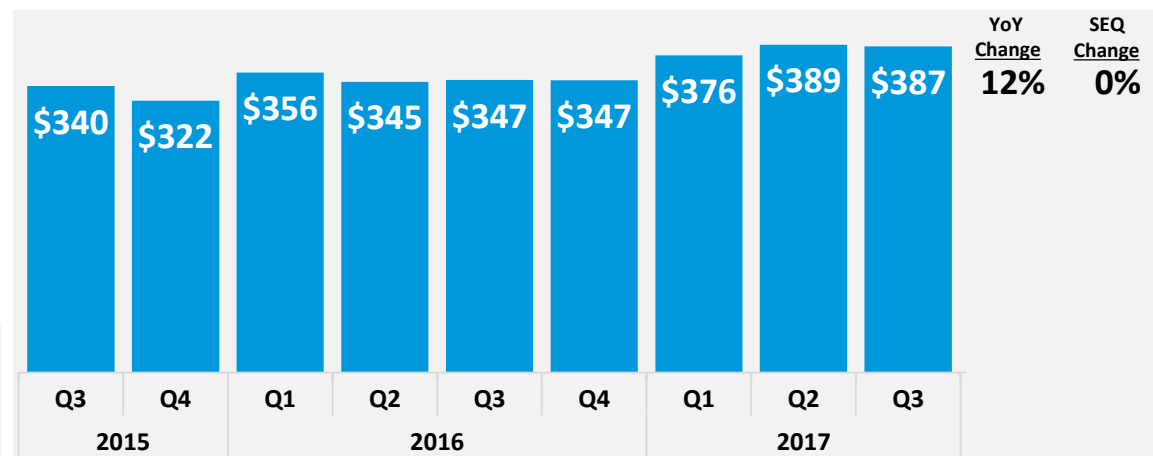
EBITDA is defined as net income plus interest expense, income tax expense, depreciation, and amortization. The Company presents EBITDA because management believes that it can be a useful financial metric in understanding the Company’s earnings from operations. EBITDA is not a measure of the Company’s 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. 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.

Performance has steadily improved on four key metrics

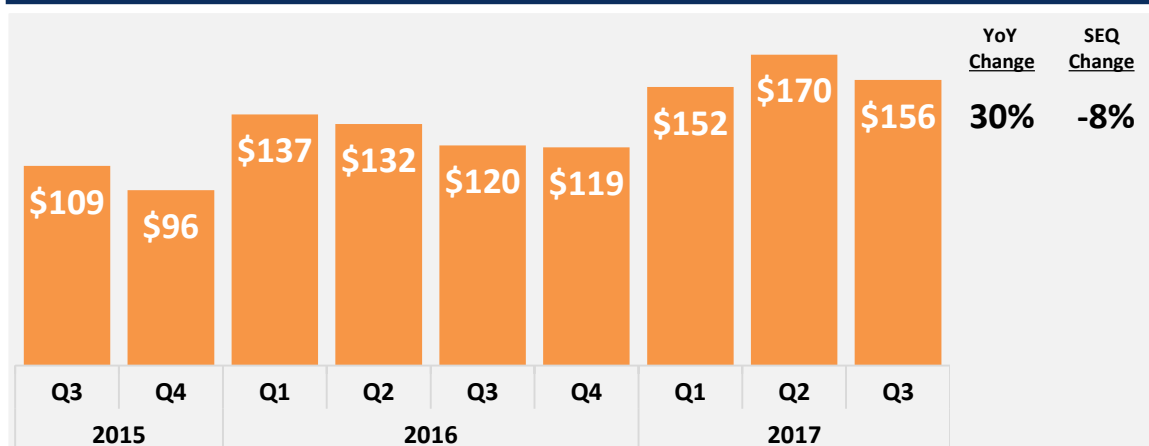
Total Brokerage & Advisory Assets (\$ billions)



Gross Profit (\$ millions) ⁽¹⁾



EBITDA (\$ millions) ⁽²⁾



EPS, Diluted (\$)

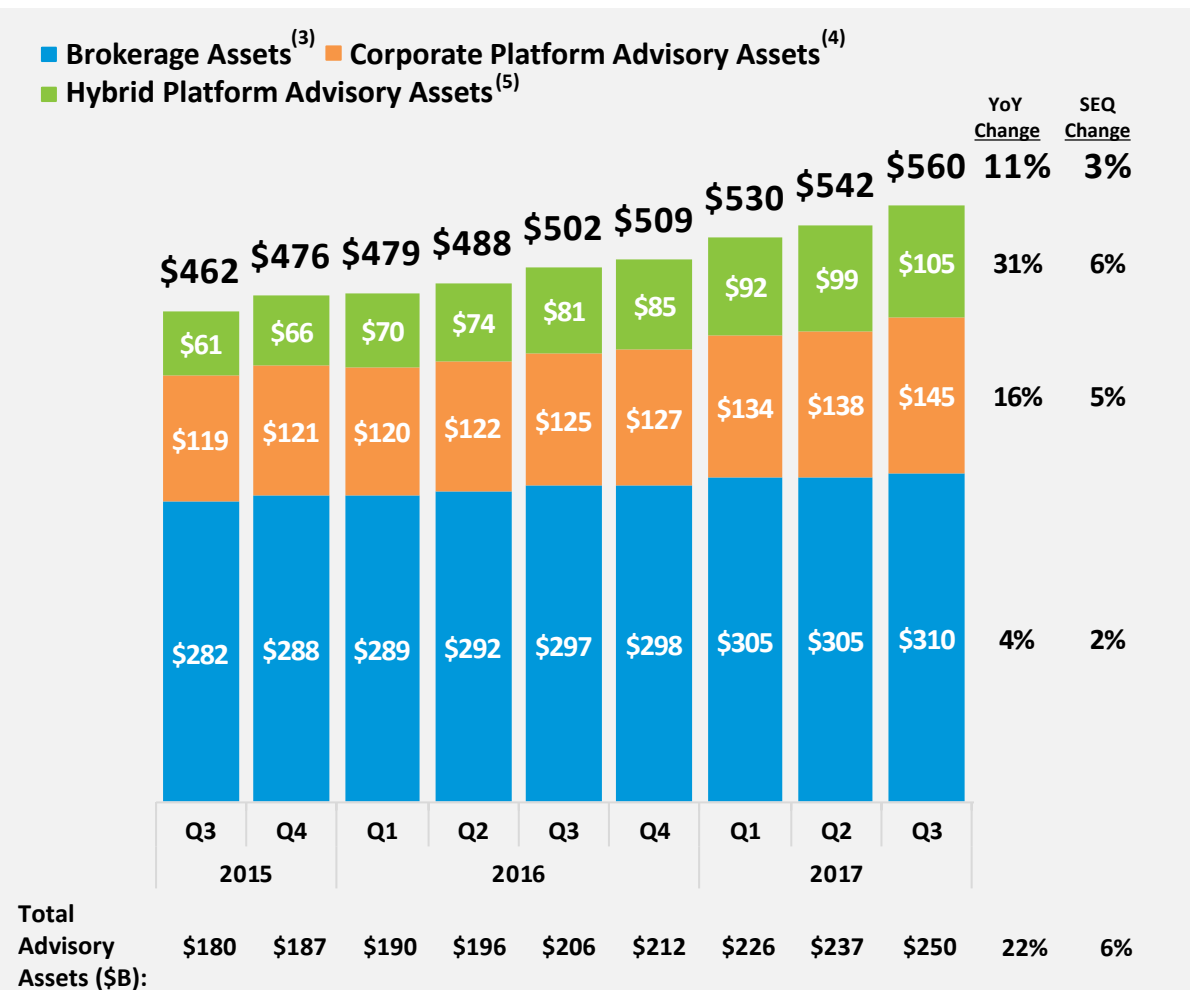


*EPS for Q1 2017 includes a charge related to the Company's March 2017 debt refinancing that reduced its EPS by \$0.14. Prior to this charge, EPS was \$0.66.

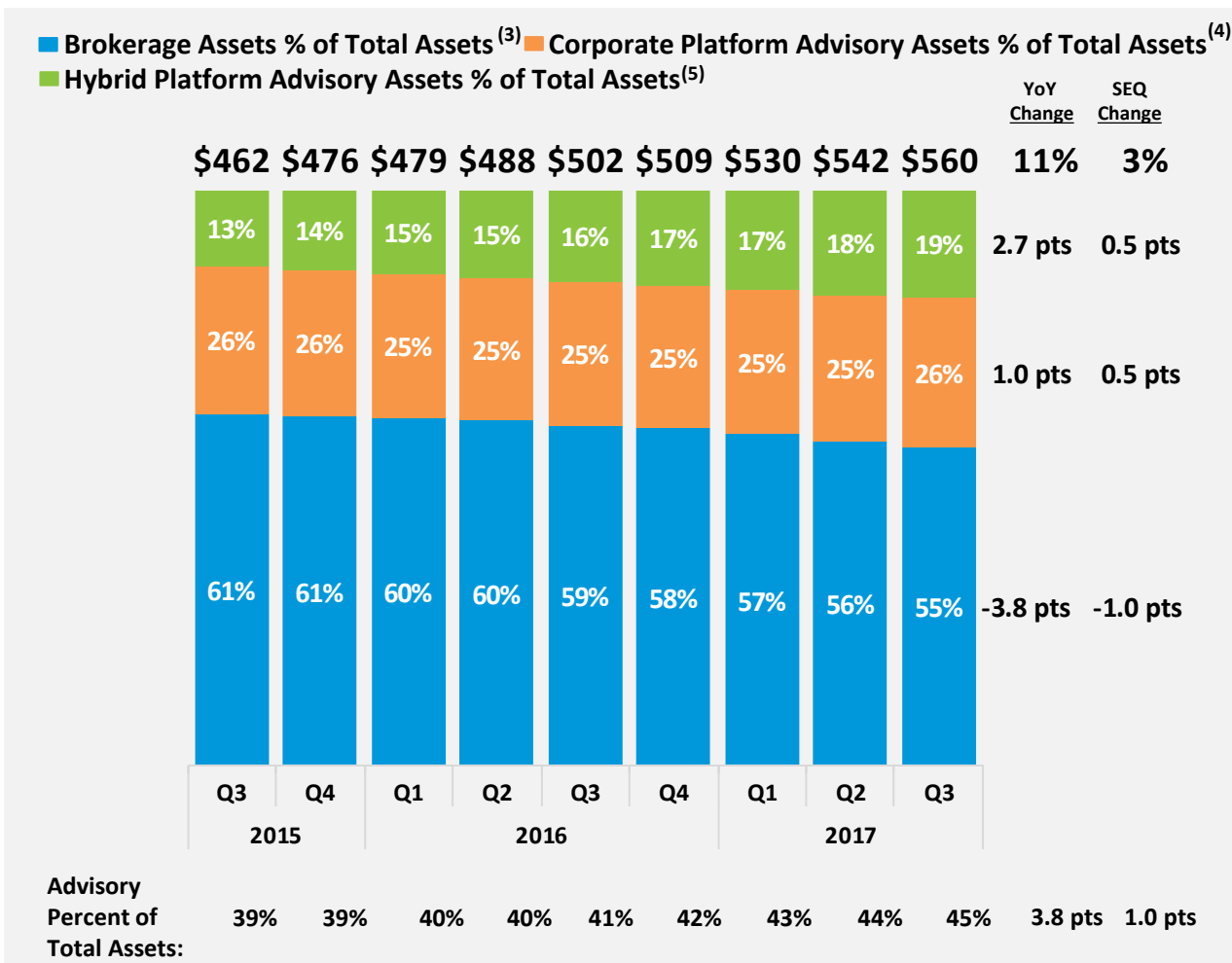
**EPS for Q3 2017 includes items related to the Company's August 2017 acquisition of NPH and September 2017 debt refinancing that reduced its EPS by \$0.03. Prior to these items, EPS was \$0.66.

Q3 Total Brokerage and Advisory Assets increased 11% year-over-year to \$560 billion, and increased 3% sequentially

Total Brokerage and Advisory Assets (\$ billions)

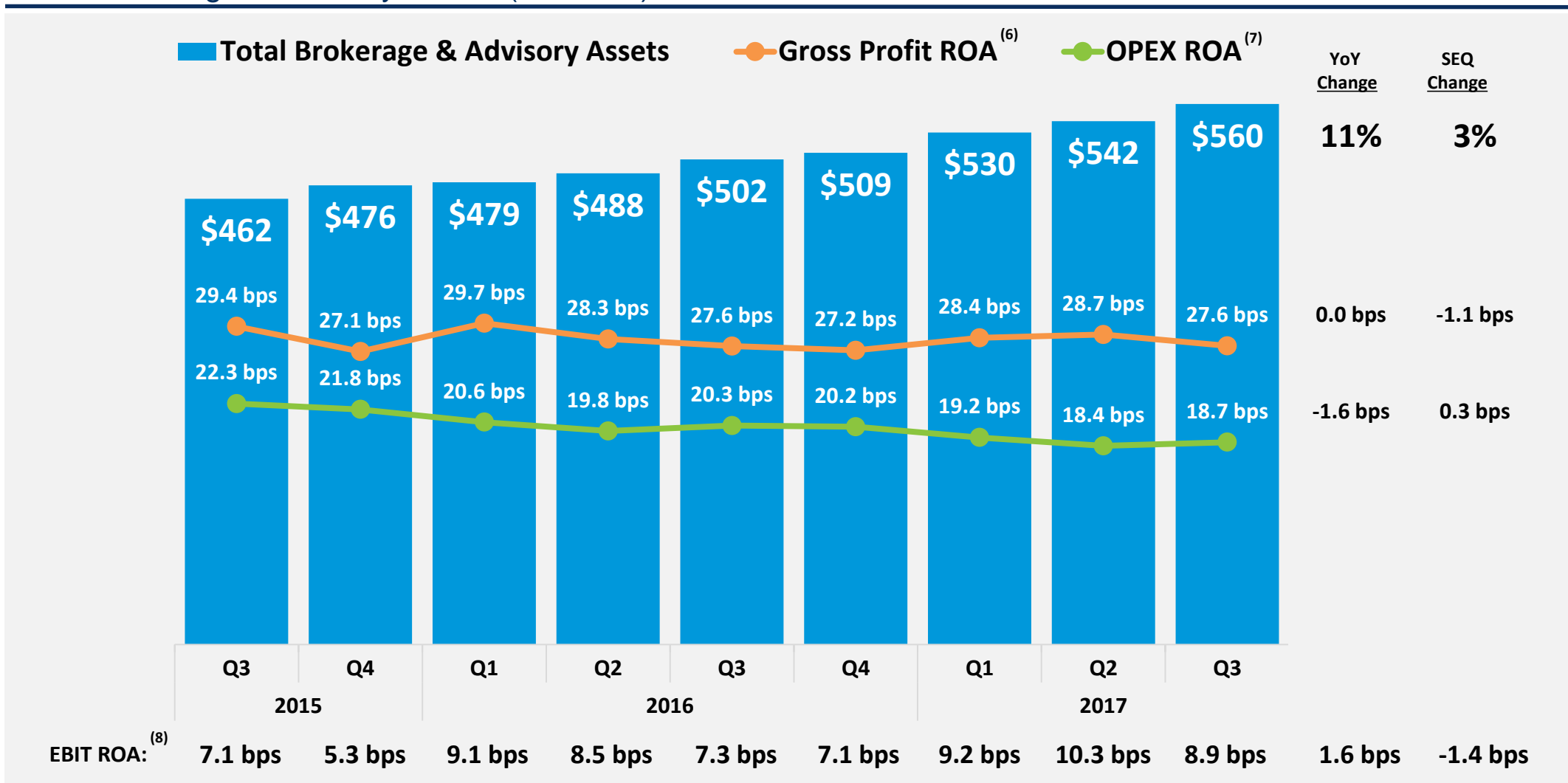


Total Brokerage and Advisory Asset Mix



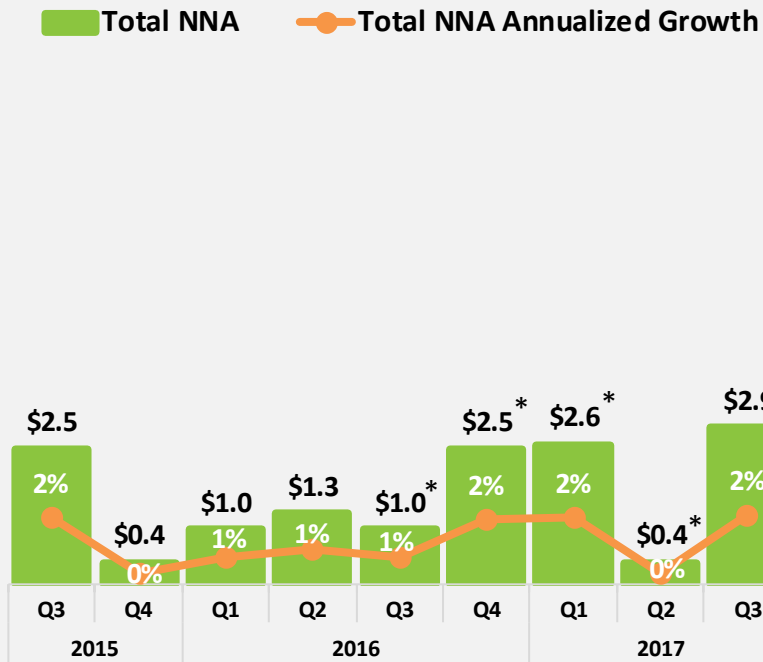
Q3 EBIT ROA increased 1.6 bps year-over-year as Gross Profit ROA remained flat and OPEX ROA decreased year-over-year

Total Brokerage & Advisory Assets (\$ billions)

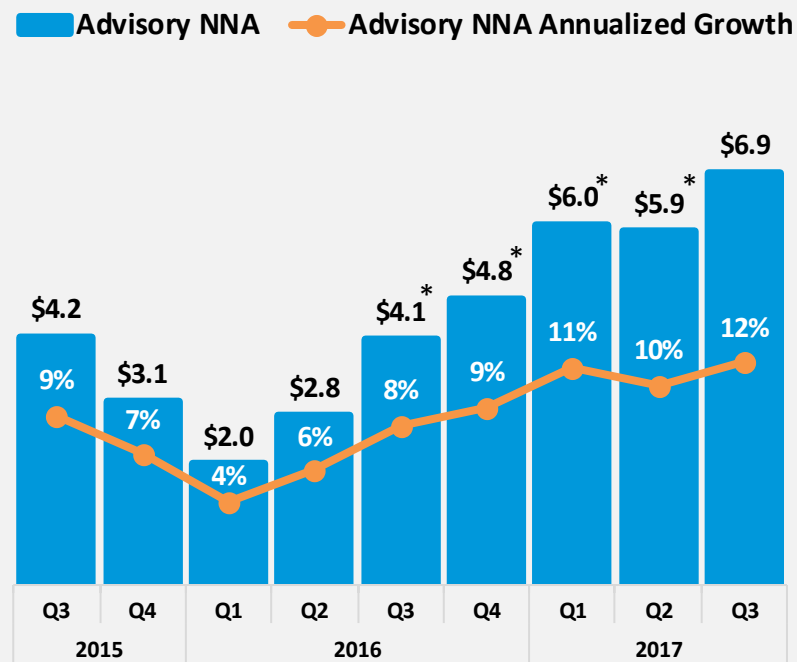


Q3 Total Net New Assets were an inflow of \$2.9 billion

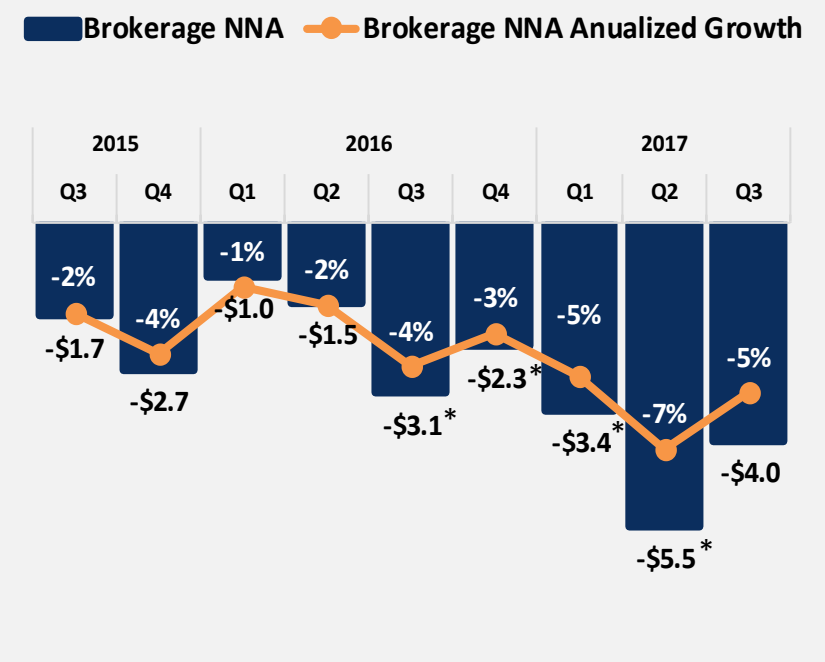
Total Net New Assets (\$ billions) ⁽⁹⁾



Net New Advisory Assets (\$ billions) ⁽¹⁰⁾



Net New Brokerage Assets (\$ billions) ⁽¹¹⁾



Net Brokerage to Advisory Conversions (billions): ⁽¹²⁾

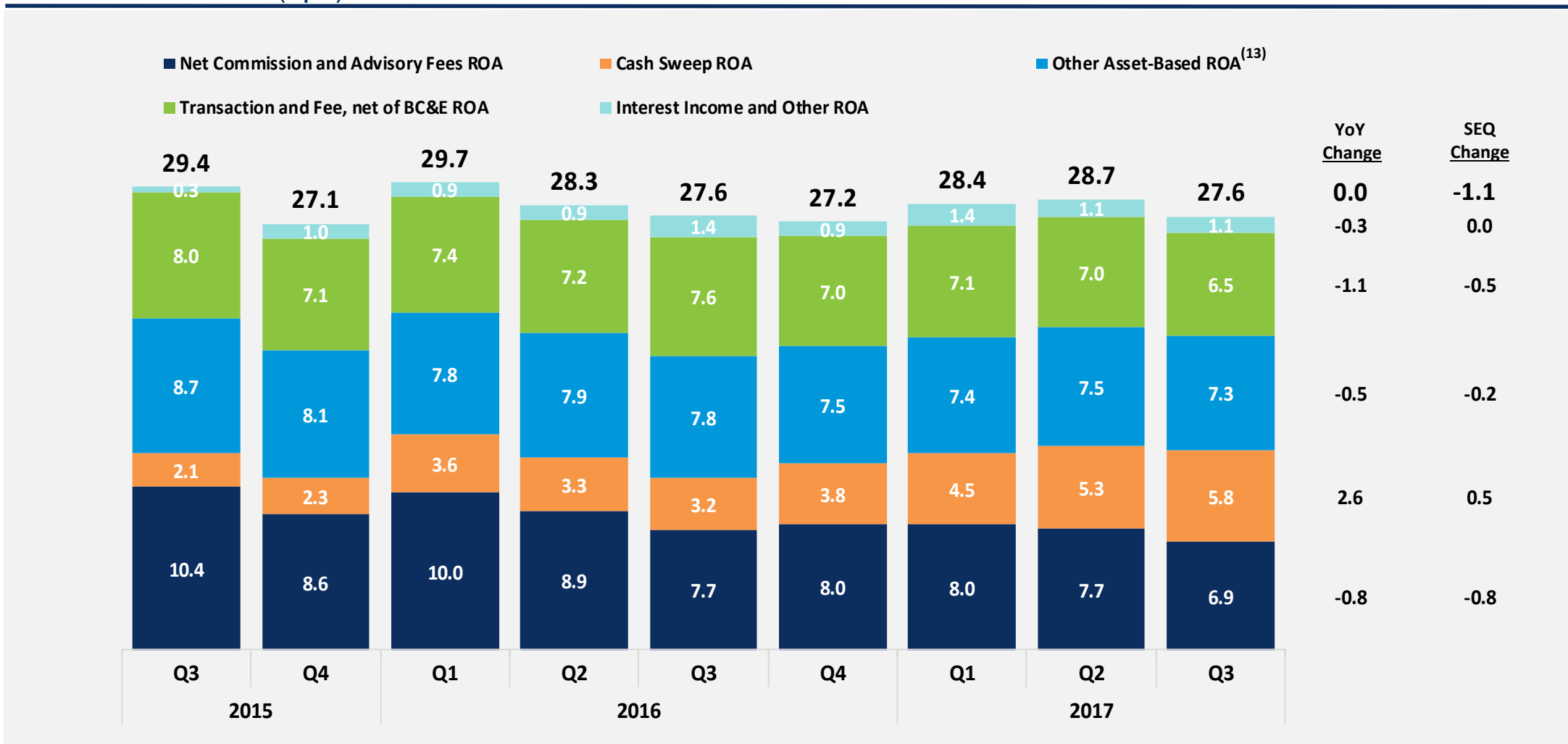
\$1.0 \$0.8 \$1.0 \$1.4 \$1.3 \$1.7 \$2.3 \$2.0 \$1.9

Results excluding previously announced departures*:	NNA:	\$3.2B \$4.9B \$6.5B \$2.1B				\$4.7B \$4.8B \$7.1B \$6.1B				-\$1.5B \$0.1B -\$0.6B -\$4.0B			
		Annualized Growth:	3%	4%	5%	2%	10%	9%	13%	11%	-2%	0%	-1%

*The Company announced anticipated client departures on both its Q3 2016 and Q4 2016 earnings calls. The impact in Q2 2017 of the announced client departures was \$1.7B (\$0.2B of advisory assets and \$1.5B of brokerage assets) and in Q1 2017 it was \$3.9B (\$1.1B of advisory assets and \$2.8B of brokerage assets). The impact of the departure of an institutional client that was announced on the Q3 2016 earnings call was \$2.2B of assets in Q3 (\$0.6B of advisory and \$1.6B of brokerage) and \$2.4B of assets in Q4 2016 (all brokerage).

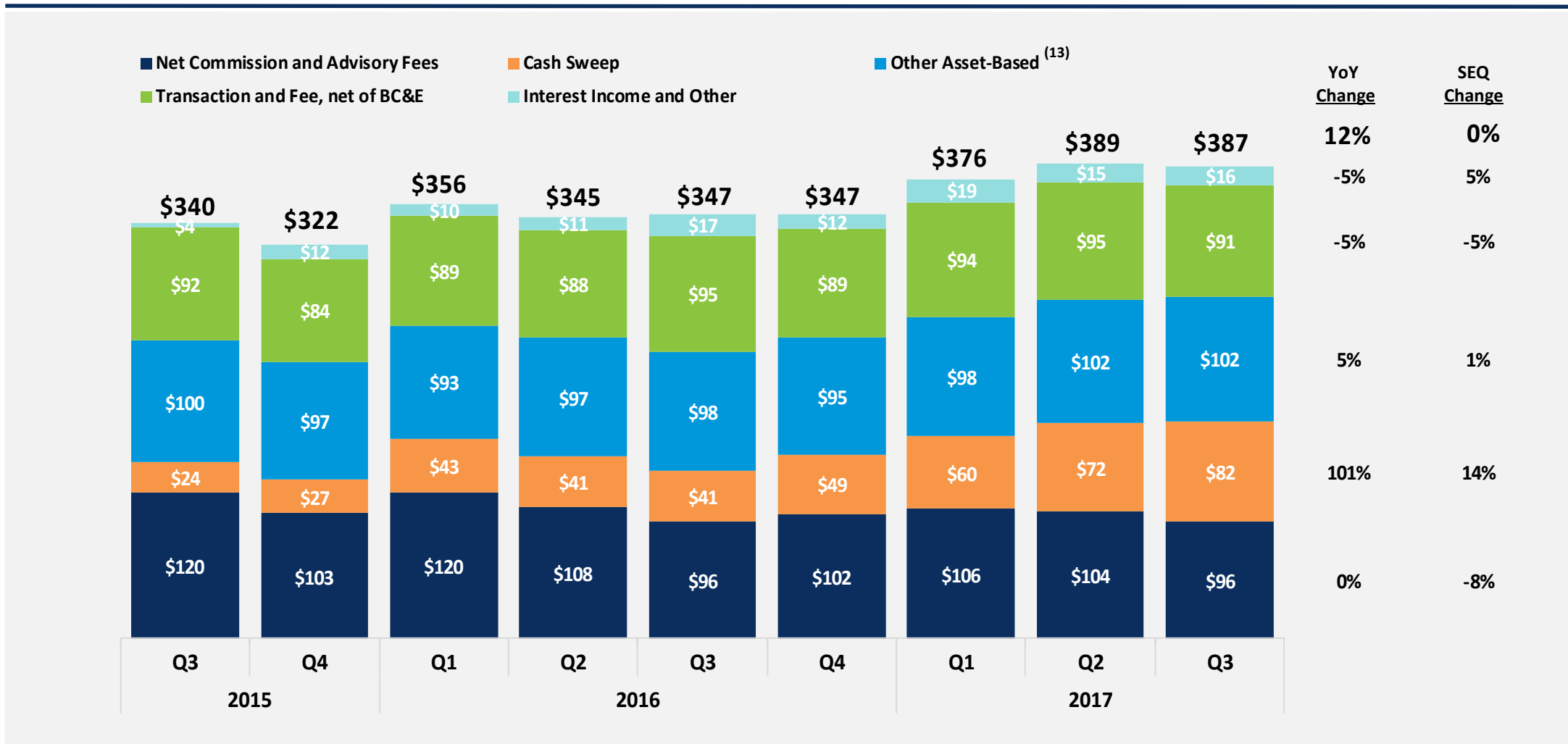
Q3 Gross Profit ROA was flat year-over-year, and down 1.1 basis points sequentially

Gross Profit ROA (bps)



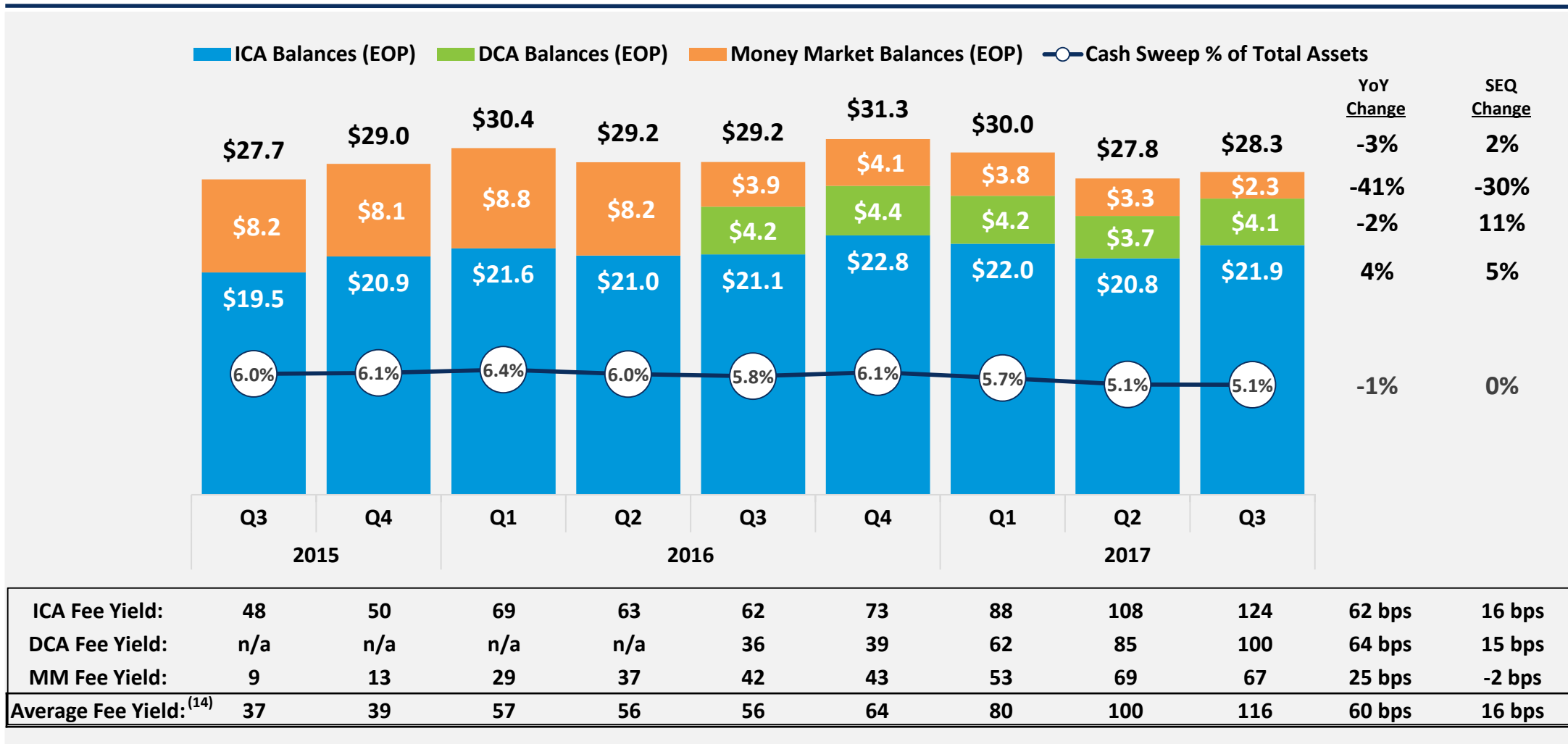
Q3 Gross Profit increased 12% year-over-year, and decreased slightly on a sequential basis

Gross Profit (\$ millions)



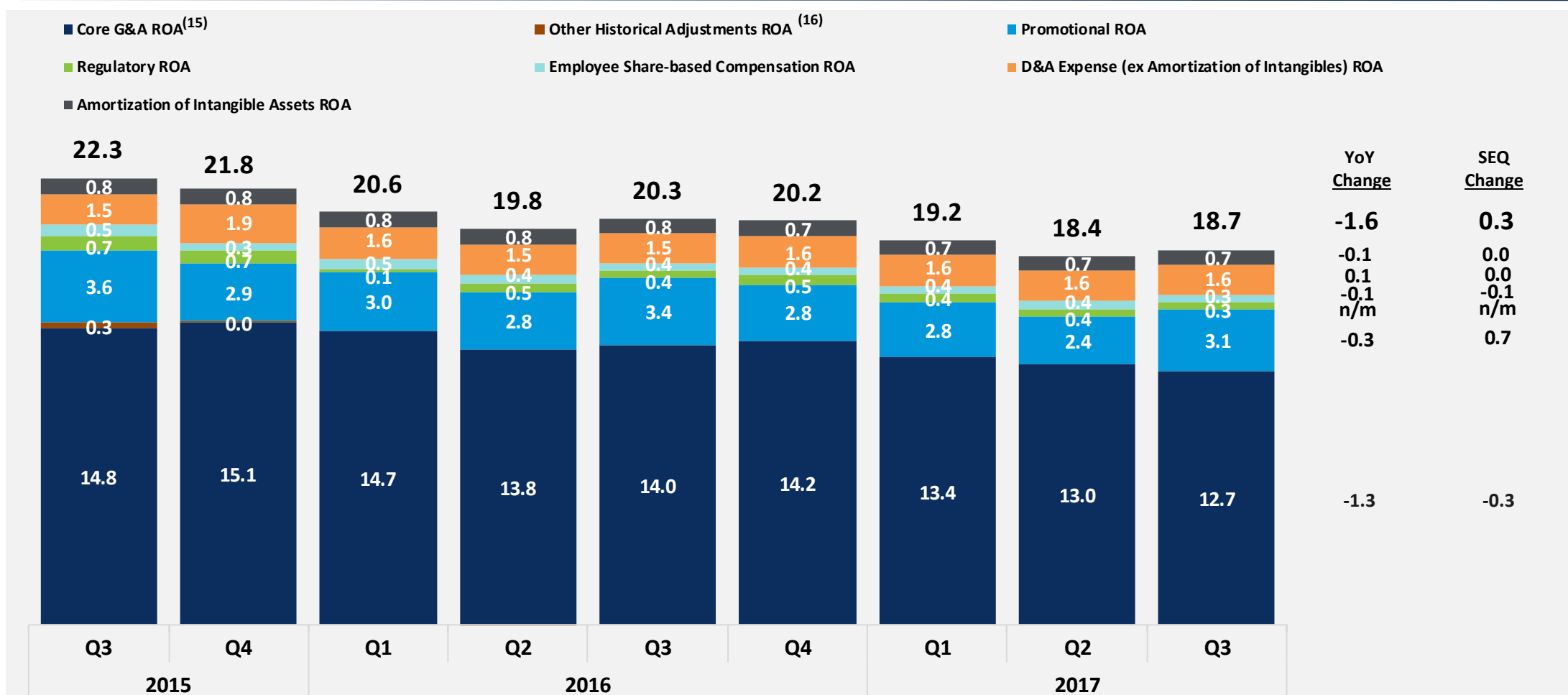
Q3 Cash sweep balances decreased 3% year-over-year, and yields increased 60 bps year-over-year

Client cash sweep balances (\$ billions)



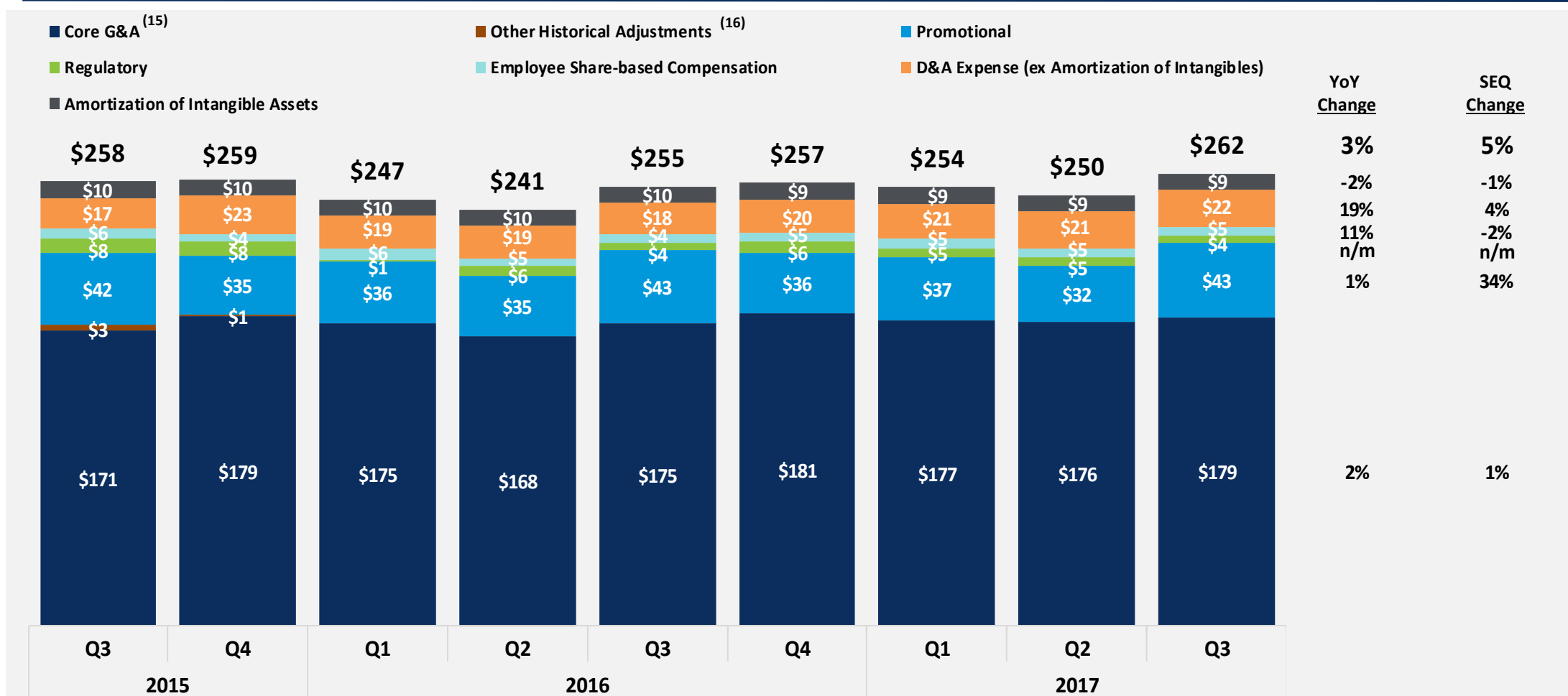
Q3 Total Opex ROA was down 1.6 basis points year-over-year, and up 0.3 basis points sequentially

Total Opex ROA (bps)



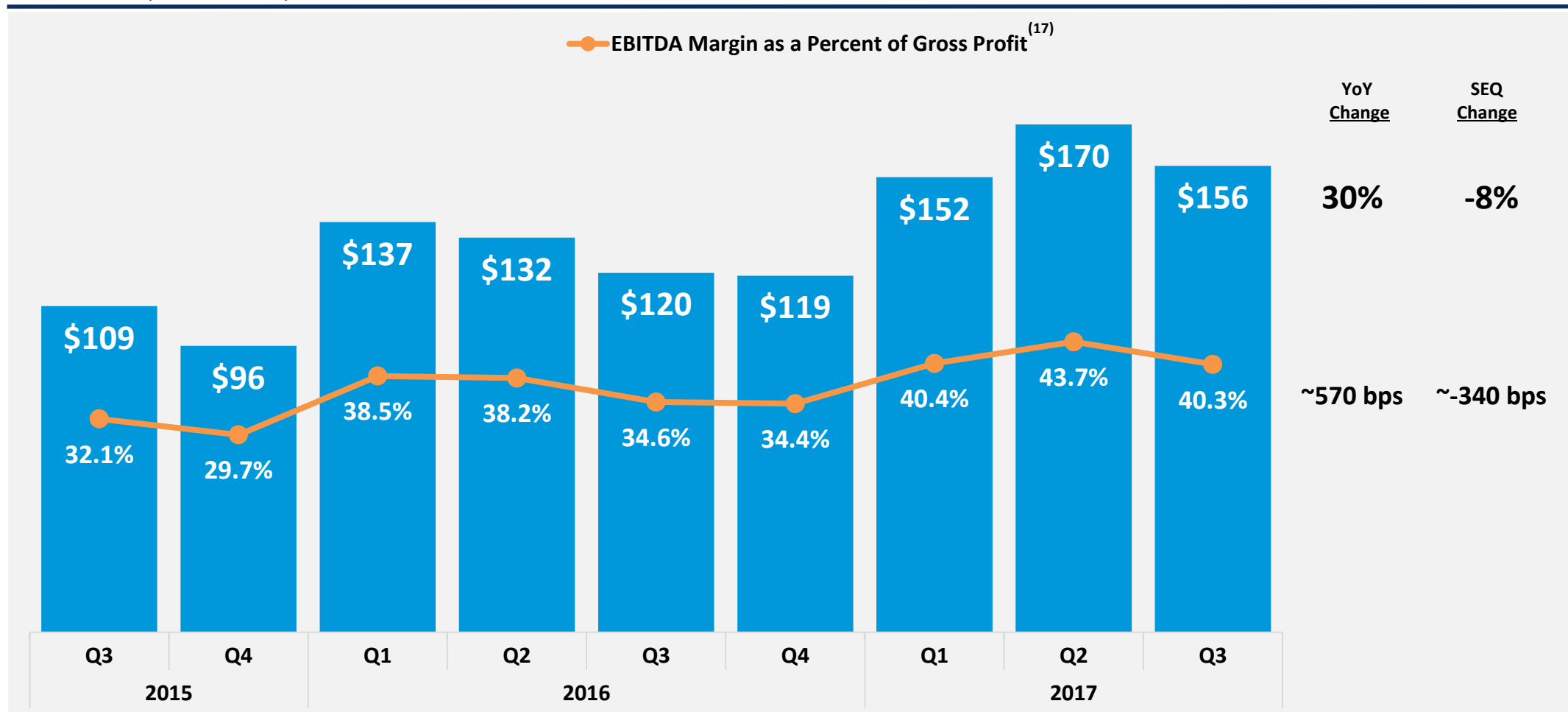
Q3 Total Opex increased 3% year-over-year and 5% sequentially

Total Opex (\$ millions)



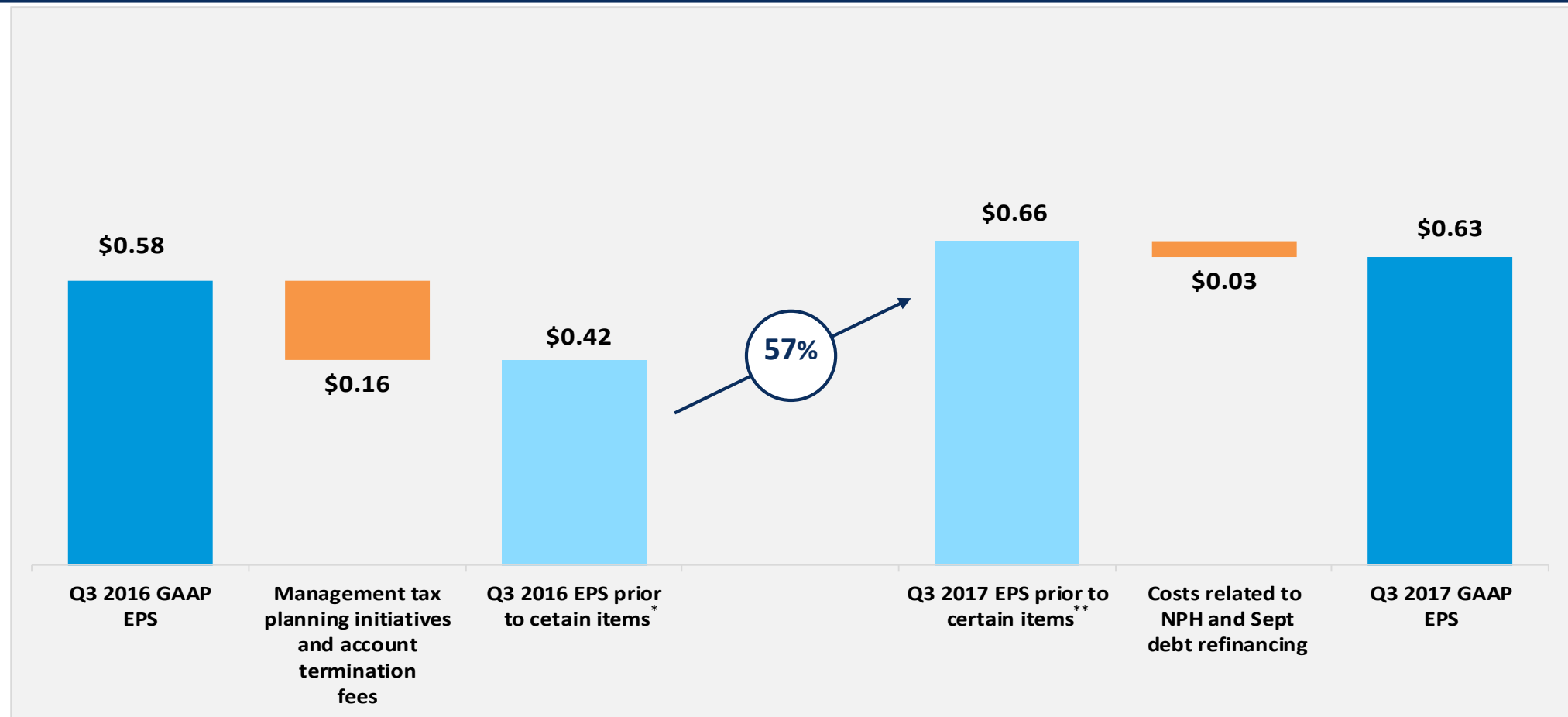
Q3 EBITDA was up 30% year-over-year and EBITDA margin was up ~570 bps year-over-year

EBITDA (\$ millions)⁽¹⁷⁾



Q3 2017 EPS was up 57% year-over-year prior to certain items

Earnings per share



*EPS for Q3 2016 was \$0.42 prior to \$0.16 of benefit related to management tax planning initiatives from prior periods and account termination fees from an institutional client.

**EPS for Q3 2017 includes items related to the Company's August 2017 acquisition of NPH and September 2017 debt refinancing that reduced its EPS by \$0.03.

Footnotes

- (1) Gross Profit is a non-GAAP financial measure. Please see a description of Gross Profit under “Non-GAAP Financial Measures” on page 2 of this presentation for additional information.
- (2) EBITDA is a non-GAAP financial measure. Please see a description of EBITDA under “Non-GAAP Financial Measures” on page 2 of this presentation for additional information.
- (3) Consists of brokerage assets serviced by advisors licensed with the Company’s broker-dealer subsidiary LPL Financial LLC (“LPL Financial”).
- (4) Consists of total assets on LPL Financial’s corporate advisory platform serviced by advisors who are investment advisor representatives of LPL Financial.
- (5) Consists of total assets on LPL Financial’s independent advisory platform serviced by advisors who are investment advisor representatives of separate investment advisor firms (“Hybrid RIAs”), rather than of LPL Financial.
- (6) Represents annualized Gross Profit (see FN 1) for the period, divided by Total Brokerage and Advisory Assets at the end of the period.
- (7) Represents annualized operating expenses for the period, excluding production-related expense, divided by Total Brokerage and Advisory Assets at the end of the period. Production-related expense includes commissions and advisory expense and brokerage, clearing and exchange expense. For purposes of this metric, operating expenses include Core G&A (see FN 15), Regulatory, Promotional, Employee Share Based Compensation, Depreciation & Amortization, and Amortization of Intangible Assets.
- (8) EBIT ROA is calculated as Gross Profit ROA less OPEX ROA.
- (9) Total Net New Assets is equal to the sum of Net New Advisory Assets and Net New Brokerage Assets. Annualized growth is calculated as the current period net new assets divided by preceding period Total Brokerage and Advisory assets.
- (10) Net New Advisory Assets consists of total client deposits into advisory accounts less total client withdrawals from advisory accounts. The Company considers conversions from and to brokerage 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.
- (11) Net New Brokerage Assets consists of total client deposits into brokerage accounts less total client withdrawals from brokerage accounts. The Company considers conversions from and to advisory accounts as deposits and withdrawals respectively. Annualized growth is calculated as the current period net new assets divided by preceding period Total Brokerage assets.
- (12) Net Brokerage to Advisory Conversions consists of existing custodied assets that converted from brokerage to advisory, less existing custodied assets that converted from advisory to brokerage.
- (13) Other asset-based revenues consist of revenues from the Company’s sponsorship programs with financial product manufacturers and omnibus processing and networking services, but not including fees from cash sweep 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.
- (14) Calculated by dividing revenue for the period by the average balance during the quarter.
- (15) Core G&A is a non-GAAP financial measure. Please see a description of Core G&A under “Non-GAAP Financial Measures” on page 2 of this presentation for additional information.
- (16) Other Historical Adjustments primarily consists of acquisition and integration costs resulting from various acquisitions and organizational restructuring and conversion costs. Beginning in Q1 2016, these items have been included in Core G&A expenses.
- (17) EBITDA Margin as a percentage of gross profit is calculated as EBITDA divided by Gross Profit.