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PRESENTATION

Operator

Good afternoon, and thank you for joining the Third Quarter 2023 Earnings Conference Call for LPL Financial Holdings Inc. Joining the call today are our President and Chief Executive Officer, Dan Arnold; and Chief Financial Officer and Head of Business Operations, 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 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 more information about such risks and uncertainties, the company refers listeners to the disclosures set forth 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.

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, Tanya, and thanks to everyone for joining our call today. Over the past quarter, our advisors continue to provide their clients with personalized financial guidance on the journey to help them achieve their life goals and dreams. To help support that important work, we remain focused on our mission of taking care of our advisors so they can take care of their clients. This quarter we continued to see the appeal of our model grow due to the combination of our robust and feature-rich platform, the stability and scale of our industry-leading model and our capacity and commitment to invest back into the platform. As a result, we continue to make solid progress in helping advisors and enterprises solve challenges and capitalize on opportunities better than anyone else and thereby serve as the most appealing player in the industry.

With respect to our performance, we delivered another quarter of solid results while also continuing to make progress on the execution of our strategic plan. I'll review both of these areas, starting with our third quarter business results.

In the quarter, total assets remained at $1.2 trillion as continued solid organic growth was offset by lower equity markets. Third quarter organic net new assets were $33 billion, representing 11% annualized growth. This contributed to organic net new assets over the past 12 months of $97 billion, representing approximately a 9% growth rate. In the quarter, recruited assets were $31 billion, including $12 billion from Bank of the West and Commerce Bank. Prior to large enterprises, Q3 represents a quarterly record for recruiting. This outcome was driven by the ongoing enhancements to our model as well as our expanded addressable market.

Looking at same-store sales, our advisors remain focused on taking care of their clients and delivering a differentiated experience. As a result, our advisors are both winning new clients and expanding wallet share with existing clients, a combination that drove solid same-store sales in Q3.

With respect to retention, we continue to enhance the advisor experience through the delivery of new capabilities and technology as well as the evolution of our service and operations functions. As a result, asset retention for the third quarter and over the last 12 months was approximately 99%. Our third quarter business results led to solid financial outcomes of $3.74 of adjusted EPS, an increase of 19% from a year ago.

Let's now turn to the progress we made on our strategic plan. Now as a reminder, our long-term vision is to become the leader across the advisor centered marketplace, which for us means being the best at empowering advisors and enterprises to deliver great advice to their clients and to be great operators of their business. Doing this well gives us a sustainable path to industry leadership across the advisor experience, organic growth and market share.

Now to execute on our strategy, we organize our work around 2 primary categories: horizontal expansion, where we look to expand the ways that advisors and enterprises can affiliate with us and vertical integration where we focus on providing capabilities that solve for a broader spectrum of advisor needs. And with that as context, let's start with our efforts around horizontal expansion. This work involves meeting advisors and enterprises where they are in the evolution of their businesses by creating flexibility in our affiliation models, such that we can compete for all 300,000 advisors in the marketplace. As a result, this component of our strategy helps contribute to solid growth in our traditional markets, while also expanding our addressable model.

Over the third quarter, we saw strong recruiting in our traditional independent market, adding approximately $13 billion in assets. And as a result of the appeal of our model and the efficacy of our business development team, we maintained our industry-leading win rates while also expanding the breadth and depth of our pipeline. With respect to our new affiliation models, Strategic Wealth, Employee and our enhanced RIA offering, we delivered our strongest quarter to date, recruiting roughly $5 billion in assets in Q3. Subsequent to launching these models a few years ago, we have continued to enhance their capabilities and thus further differentiate their value. Add to that, the growing awareness of these models in the marketplace and that combination is creating more demand from prospective advisors. As a result, we expect to see a sustained increase in growth within our new affiliation models.

Next, the traditional bank and credit union space continues to be a consistent contributor to organic growth as we added approximately $1 billion of recruited assets in Q3. During the quarter, we also continued to make progress with large enterprises, onboarding Bank of the West and Commerce Bank. The early feedback from these transitions has been positive as we continue to apply the learnings from previous onboardings to further enhance the experience. Looking ahead, we are confident that our industry-leading onboarding experience, matched with the expanding appeal of our model positions us well as a compelling alternative in this part of the market.

In Q3, we also announced that Prudential Financial would onboard its retail wealth management business to our enterprise platform in the second half of 2024. This milestone reinforces the appeal of our value proposition for enterprises and reflects our commitment to help solve for the unique and complex needs of a broad spectrum of institutions. Looking ahead, we are encouraged by the momentum and strong pipelines across the enterprise market.

Now within our vertical integration efforts, we are focused on delivering a comprehensive platform of capabilities, services and technology that help our advisors differentiate and win in the marketplace and run thriving businesses. Now over the past quarter, we continued to make progress across several key fronts on this part of our strategy, including continuing the journey to build a world-class wealth management platform. This work includes evolving and enhancing our advisory platforms through simplified and lower pricing, enhanced trading capabilities, value-added services like tax management and the expanded investment choice and flexibility within our UMA platform. These efforts will help our advisors continue to provide more value for the clients in a differentiated and more personalized way.

Now as an additional part of our vertical integration strategy, we continue to expand and enhance our services portfolio and are encouraged by the evolving appeal of our value proposition and the seasoning of this business. As a result of solid demand in Q3, the number of advisors utilizing our services group continued to increase. We ended the quarter with approximately 3,700 active users, up 26% year-over-year.

As a reminder, a recent innovation in this portfolio is our Liquidity and Succession solution, which is resonating with existing LPL advisors, where to date, we have deployed approximately $275 million of capital to close 20 deals. And with the benefit of our learnings and insights, we recently began offering this solution to advisors that are external to LPL and are encouraged to see the early interest building. Finally, this service is also enriching the appeal of our model and by doing so, providing another differentiated solution to support our advisor recruiting efforts.

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 advisors further differentiate and win in the marketplace and as a result, drive long-term shareholder value.

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

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO & Head of Business Operations*

Thank you, Dan, and I'm glad to speak with everyone on today's call. In the third quarter, we remained focused on serving our advisors, growing our business and delivering shareholder value. This focus led to strong organic growth in both our traditional and new markets, and we continued to make progress with our Liquidity and Succession solution. In addition, we onboarded Bank of the West and Commerce Bank, and are preparing to onboard the wealth management business of Prudential. We accomplished all of this while continuing to invest in our industry-leading value proposition. So as we look ahead, we continue to be excited by the opportunities we have to help our advisors differentiate and win in the marketplace.

Now let's turn to our third quarter business results. Total advisory and brokerage assets were $1.2 trillion, unchanged from Q2 as continued organic growth was offset by lower equity markets. Total organic net new assets were $33 billion or approximately an 11% annualized growth rate. Our Q3 recruited assets were $31 billion, which included $12 billion from Bank of the West and Commerce. Prior to these large enterprises, this was a quarterly record for overall recruiting as well as for our new affiliation models, which contributed $5 billion in the quarter.

As for our Q3 financial results, the combination of organic growth and expense discipline led to adjusted EPS of $3.74. Gross profit was $1.10 billion, up $20 million or 2% sequentially. As for the components, commission and advisory fees net of payout were $219 million, up $1 million from Q2. In Q3, our payout rate was 87.3%, up 60 basis points from Q2 due to typical seasonality in the onboarding of Bank of the West and Commerce Bank.

Looking ahead to Q4, a reminder that the production bonus increases throughout the year and is typically highest in Q4. So we anticipate our payout rate will be approximately 88%.

With respect to client cash revenue, it was $378 million, down $18 million from Q2, as cash balances declined $3 billion to $47 billion. This marked the smallest quarterly decline we've seen this year. Within our ICA portfolio, the mix of fixed rate balances increased to roughly 65% within our target range of 50% to 75%. Our ICA yield averaged 318 basis points in the quarter, down 4 basis points from Q2, driven by a decline in floating rate balances.

As for Q4, based on where client cash balances and interest rates are today, we expect our ICA yield to decline by roughly 5 basis points due to the mix impact of lower floating rate balances. As for service and fee revenue, it was $136 million in Q3, up $13 million from Q2, primarily driven by revenues from our National Advisor Conference and IRA fees. Looking ahead to Q4, we do not have any large advisor conferences and expect seasonally lower IRA fees. Given this, we anticipate service and fee revenue will decline by roughly $10 million sequentially.

Moving on to Q3 transaction revenue. It was $50 million, up $3 million sequentially due to increased trading volume. As we look ahead to Q4, we have seen an increase in trading activity in October. So based on what we have seen to date, we would expect transaction revenue to increase by a couple of million sequentially.

Now let's turn to our strategic relationship with Prudential. In August, we announced that Prudential will onboard its retail wealth management business onto our platform, including the roughly 2,600 advisors serving approximately $50 billion of client assets. The investments we are making in connection with this relationship will not only help us serve Prudential and their advisors, but also improve the experience for our existing advisors and help unlock a broader opportunity to serve enterprises.

With respect to the ongoing earnings benefit from Prudential, we continue to estimate a run rate EBITDA benefit of approximately $60 million once they are onboarded. Looking ahead, we will continue to provide updates on the progress we are making as we prepare to onboard Prudential. With that said, in terms of the cost of transition, we continue to estimate total onboarding and integration costs of roughly $125 million, with approximately $20 million expected in Q4.

Now let's turn to expenses, starting with core G&A. It was $342 million in Q3, up $5 million from Q2. Looking ahead, given our strong levels of organic growth and the variable costs associated with supporting that growth, we are increasing the lower end of our 2023 core G&A range by $5 million. As a result, we now expect 2023 core G&A to be in a range of $1,350 million to $1,370 million.

Moving on to Q3 promotional expense. It was $140 million, up $33 million sequentially as we hosted our largest advisor conference of the year during the quarter. We also incurred roughly $6 million of Prudential related promotional expense in Q3. Looking ahead to Q4, we expect conference spend to decline by approximately $20 million. At the same time, we will be ramping preparation for Prudential and expect related onboarding and integration costs to increase by roughly $15 million from Q3. So overall, we expect Q4 promotional expense to be flat to down $5 million sequentially.

Turning to depreciation and amortization. It was $65 million in Q3, up $7 million sequentially. Looking ahead to Q4, we expect depreciation and amortization to increase by roughly $5 million sequentially. As for interest expense, it was $48 million in Q3, up $3 million sequentially, driven by the impact of higher short-term interest rates on our floating rate debt and increased usage of our revolver. Looking ahead to Q4, given current debt balances and interest rates, we expect interest expense to increase by approximately $1 million from Q3.

Regarding capital management, our balance sheet remained strong. We ended Q3 with corporate cash of $309 million down $16 million from Q2. Our leverage ratio was 1.3x, up slightly from Q2. 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 where appropriate and returning excess capital to shareholders.

In Q3, we allocated capital across our entire framework. We continued to invest to drive and support organic growth, allocated capital to M&A within our Liquidity and Succession solution and returned capital to our shareholders, repurchasing $250 million of shares. As we look ahead to Q4, we plan to repurchase $200 million of our shares, keeping us on track to execute on our $2 billion authorization over 2 years. To summarize, our balance sheet is strong, and we are well positioned to drive value through our capital allocation framework.

In closing, we delivered another quarter of strong business and financial results. 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) Our first question will be coming from Steven Chubak of Wolfe Research.

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

I wanted to start off with a question just on the organic growth outlook. The 11% NNA figure came in at the higher end of the 7% to 13% range you guys have talked about in the past. I would say what really stood out was the strong result relative to the slowdown in NNA that we saw at some of your peers. I was hoping you could unpack what were the biggest contributors to the share gains in the quarter. And with the recruited assets tracking up 40%, how confident are you at this level of organic growth can, in fact, be sustained?

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

Steven, it's Dan. Let me take that. And certainly, we can build off of that answer. So look, I think in the short term, we've got a jumping off point that as you said, it's in a solid place of 11% growth for the quarter. And probably just as importantly, we saw a diverse contribution across all of our advisor and enterprise models, which speaks to not only the volume of growth but the breadth and diversity of the sources of growth.

And I think if I highlighted a couple of things inside Q3 that maybe are significant to that overall outcome. The first would be we continue to see low levels of attrition in that 1% to 1.5% zone. That's certainly a solid outcome and reinforces the appeal and the execution quality of the operation day to day. And I think it's complemented by the solid performance in new store sales where we recruited $31 billion of assets for the quarter. And if you click down on that $31 billion of assets, I think if you look at that prior to large enterprises, right, Q3 had quarterly high recruiting of $19 billion in assets, which is more than double a year ago.

And I think when you take out or back out some of the lumpier nature of some of the large enterprise recruiting and you put down underneath that. Again, you see the diversity of that growth in new store sales as well as it happening across all of our different advisor-oriented models. And you feel -- we feel pretty good about the sustainability of that opportunity set. And so look, the drivers of that, right, it's the flexibility of the affiliation model that gives us and puts us in a position of competing for potentially any advisor that's looking for a newer, better home. It's continued expansion of our capabilities help us differentiate our model, and then you continue to invest in simplifying the onboarding to make it easier and easier to move and take friction out. We believe we do those things well, and it creates a key contributor to our overall growth and good solid sustainable growth rate as we go forward. So I hope that helps.

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

That's really helpful color, Dan. And for my follow-up for Matt, surprise, surprise a question on client cash. 3Q cash levels were down 5%. And maybe more resilient than the sweep deposit declines that we saw of roughly 7% to 10% at peers. That being said, cash outflows did continue in September. How are client -- cash balances trending so far in October? And are you anticipating any seasonal benefit to 4Q cash levels from tax loss harvesting?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO & Head of Business Operations*

Yes, Steven. So I think on -- just -- and maybe to answer the last part of your question first, I think if history is a guide, you typically do see some seasonal build in and at the end of the fourth quarter. Typically in December for some cash or tax loss harvesting. So I'd be surprised if we did not see that this year. It's pretty common.

I think on the core of your question, when we look at how things are going in October, I'd say that the headline is on the cash sweep side is that we continue to see some of the stability that we started to see in the third quarter. And I'd specifically -- and a reminder that advisory fees primarily come out in the first month of the quarter, and that's for October would be a little over $1.1 billion, which is going to immediately bring down cash, but cash flows outside of that have been relatively flat here almost at the end of the month. So that would put cash sweep at around $46.2 billion, is really those advisor fees coming out. And from a percent of AUM would put it right at 3.8% of AUM, which would be the fourth month in a row that we were at that level.

So I think when we look at those trends, and I think as we've talked a bit about before, we're starting to get to a place where you've got a natural amount of cash necessary to really manage the account and -- of course, it could go down further from here, but I think you're starting to see those resistance levels that we've talked about before in those balances.

Now some of the other drivers there, maybe just to speak to how organic growth is going because a lot of that drives and brings in cash as well. When we look at what we've seen in October, is really continuing some of those positive trends that Dan was just talking about in Q3. And keeping in mind that the seasonal nature of the first month as well on organic growth where those advisory fees come out as well, when you look at what we've seen so far for October prior to any additional assets coming onboard from Bank of the West and Commerce, organic growth is running in the 6% zone. That compares to 4% prior to large enterprises in October of last year. So we're continuing to see that strength there. And then there's about $1.5 billion of AUM left to come onboard from those 2 institutions and -- some of that may come in, in October. So that would bias it up from there. So overall, I think I'd summarize October as stability is starting to show in cash sweep and organic growth continuing to come in at solid levels.

Operator

And our next question will be coming from Alexander Blostein of Goldman Sachs.

Luke Bianculli - *Goldman Sachs Group, Inc., Research Division - Equity Research Associate*

This is Luke on for Alex. If we could start with Prudential, we've seen LPL expand into new channels a number of times with the insurance channel being the newest one with the Pru partnership. Can you just talk through how you expect this opportunity to expand over time? And how you think about the TAM? And then could you also refresh us on the P&L dynamics and the timing you're thinking through there?

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

Let me start with answering that and then Matt will come in and answer maybe the second part of that question. So when you look at the headline level, if you take a step back and just look at the large enterprise opportunity set, with respect to the bank space, as you know, we onboarded 2 new large enterprises this quarter, and we continue to see opportunity set in that large enterprise space of those that continue to act as their own broker-dealers and RIAs and do the business in house, and see an interesting TAM that would consider a different strategic approach.

And so I think those wins reinforce that value proposition, our continued investment in our experience in managing and working with these large enterprises that certainly help us as we go forward in that part of the large enterprise space. And as you said, the announcement of the Pru win opens up a different part of large enterprises in this case, perhaps insurance solution sets and/or part of the market space.

And look, for there, we think -- again, we take that similar chassis. We're building some personalized and interesting customized solutions or Prudential that we think will resonate with other solutions in that part of the space. They've got similar needs from a value proposition standpoint, when you think about the improvement in driving efficiencies within their models, shifting their risk profiles, enhancing economics and even working to stimulate top line growth. All things that I think similar large enterprises are looking to do, these are things that we're working on collectively with both banks and ultimately, the Prudential. So we think there is a relevant opportunity. We think the Prudential opportunity is a catalyst to open up more discussions in that part of the space. So we think, again, the broader enterprise, large enterprise market is an interesting, continued durable growth opportunity for us both on the bank side and on the broader insurance -- if that helps.

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO & Head of Business Operations*

And then just following up on the financial dynamics and reminders, there are about $50 billion of client assets. We would expect to onboard them in the latter part of '24, and that's when our estimated run rate EBITDA of $60 million would start when they're fully onboarded. Between now and then is really the onboarding and integration costs, that estimate overall of $125 million. And if you look at what we've done so far in the third quarter and our guide for the fourth quarter, that puts broadly $25 million of that in 2023, meaning the remaining $100 million would come through in 2024. And then once they're onboarded, again, we would be back to that $60 million EBITDA run rate.

Luke Bianculli - *Goldman Sachs Group, Inc., Research Division - Equity Research Associate*

Awesome. Super helpful. Thanks for walking through everything there. Switching topics a bit for the follow-up. This quarter saw an acceleration of service and fee revenues up 11% quarter-over-quarter. Can you just talk through what drove that? And how do you think about revenue opportunities for existing services? And then related to that, you recently expanded access for your outsourced CFO services. What are high-level expectations there for both FA uptake and revenue opportunities?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO & Head of Business Operations*

Yes. I'll take the first part of that, and then, Dan, if you want to jump in on the CFO solutions, which I know is your favorite solution which is mine as well. I think, so on service and fees, I'd say there's 2 primary drivers. I think the first is just seasonal factors that come through in the third quarter. We've had our largest -- our National Advisor Conference in the third quarter and there's revenues and fees that come along with that for the product sponsors that are there. And then second, the third quarter is a seasonally high quarter for IRA fees. So those 2 things came through.

But then second, I think maybe from a longer-term standpoint is really organic growth of the business, and we've got fees associated with that are specific to advisors on our platform. So as we continue to grow the number of advisors we serve and support, you've got recurring fees and things that come along with that, and those show up here as well. So those are the 2 broad drivers.

So I think when you look ahead to Q4, that's why we expect the decline of $10 million is really that seasonality coming -- the seasonal factors coming out. But I think the core from a long-term standpoint is the more we drive organic growth, more we serve and support advisors on our platform, this section or this item will continue to grow. That also includes the fees related to our services portfolio. So maybe I'll turn it over to Dan to talk about the CFO solution.

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

So look, if you think about our services portfolio, just start with a broader context and then we'll put down on your specific question. Initially when we rolled out these solutions or the services portfolio, the initial bundle of services were really more relevant for our larger practices. And if you didn't have a complex practice, let's use as an example, our initial rollout of CFO solutions, then that solution may not be relevant to you or it may be at a price point that makes it out of reach for you.

And so learning through that sort of first iteration or round of innovation, we realized that a lot of the capabilities within the original CFO solutions were needed for all advisors to figure out how to package those in a different way at a lower price point and still create that leverage point of value for our advisors, then that would be a good problem to solve for and one that will create real value for our advisors. And so that's what you saw with this new rollout of what we call CFO Essentials. That again, it will reach a much broader set of our 22,000-plus advisors or being much more applicable to them, and we think meet their needs at a price point that makes sense and continue then to drive the utilization and growth of that overall kind of suite of CFO type solutions. We're doing that on the marketing side as well. So these are just, I think, places where we continue to innovate on that overall portfolio.

With a fine point on that, we now have 13 solutions in our overall services portfolio, which many of them are relevant across -- or could be relevant across our entire advisor base. We've got 3 more solutions that we will roll out in the near to intermediate term and another handful in incubation.

So it continues to be a place of innovation for us, and we think there's still a good bit of opportunity to continue to help build leverage points for advisors in the spirit of helping them run driving businesses. So that's kind of the context around CFO Essentials.

Operator

And our next question will be coming from Devin Ryan of JMP Securities.

Devin Patrick Ryan - *JMP Securities LLC, Research Division - MD, Director of Financial Technology Research & Equity Research Analyst*

Great. Would love to just maybe start on the RIA channel, really nice momentum, particularly on net new assets there in the quarter, and I guess, particularly in the corporate RIA. I would love to just maybe dig a little bit into the drivers this quarter and then just the outlook and also whether the Schwab-Ameritrade conversion was a factor this quarter or even just going forward as you kind of consolidate some of the large players there, just want to think about kind of some of the incremental opportunity for LPL.

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

Devin, it's Dan. Let me try to cover the sort of different points that you're exploring. I think first and foremost, if you look at overall just advisory growth in general, you continue to see success and progress we have in both same-store sales and new store sales across, again, all of our different types of affiliation models. So that would cover your corporate RIA, your hybrid RIA solutions, your pure RIA solutions. And I think we still see about $0.75 of every new dollar invested going to advisory. So that's where you're going to pick up the contribution from same-store sales. And you still see conversions or transitions from brokerage to advisory services. Those are your tailwinds that are overall driving that advisory growth.

I think if you pull back then and look at the different affiliation models and how we're positioned in the marketplace, certainly, the diversity of our different models continues to help us attract a diverse set of advisors and advisors that frankly do more and more advisory when they join LPL. And you're seeing that in the traditional space as we continue to attract more and more larger advisors with more complex practices. You look across our different new affiliation models, right, Employee, Strategic wealth and pure RIA. A lot of those will be breakaways from wires that will come with significant advisory books.

And if you just click down on those new affiliation models, as we said, this quarter represented a record in terms of recruiting of $5 billion of assets. If you look back over the last 12 months, we've actually recruited $14 billion in new assets to those affiliation models, which is 50% of what we've overall recruited since they've been launched. And certainly, that mix of business that tends to have more significant percentages of their books in advisory is again another driver. And I think as we continue to have success with those models, as we continue to invest in, they come more and more feeling, there's more and more awareness of them, invest in more demand. We certainly are well positioned to see that advisory business grow.

I think specifically relative to maybe your question around Schwab and Ameritrade, it's probably more the pure RIA business, and we do see that as a continued interesting place of which to compete and try to win. So we continue to invest in our solution and our model to ensure that we create a differentiated solution that will help us be positioned to win and capitalize on whether it be market share opportunity that's created by consolidation or just ongoing demand for that type of solution. And I think as we try to position ourselves as a more vertically integrated strategic partner that creates more value for the advisor, we think that positions us well to participate and win an outsized share of market as we go forward in that space.

Devin Patrick Ryan - *JMP Securities LLC, Research Division - MD, Director of Financial Technology Research & Equity Research Analyst*

All right. Follow-up here just for Matt. Thinking about kind of the ICA yield glide path maybe beyond 4Q. So you have $6.5 billion of contracts maturing next year. We're just modeling kind of -- this kind of rolling off ratably. But is there any sense of, as we get closer there, just more color on the cadence, what that could look like. And then as we think about also the base rate on ICA and even on the floating book today, how much improvement are you seeing? I just -- it seems like, and we're hearing that there's more demand in the bank system. And so just kind of what the uplift might look like there?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO & Head of Business Operations*

Yes, Devin. On the fixed rate side, I think the -- of that $6.5 billion, about $0.5 billion rolls off in the first quarter and then the rest of its evenly throughout the year. So about $2 billion a quarter. And I think our plans would be to reinvest that in new fixed rate contracts same way we have been in that 3- to 5-year zone. And I think when you look at the rates in that environment, the demand here is just as strong as it is on the floating rate side. So to your point on kind of spreads above the base rate.

So if you look at where the curve is for a 3- to 5-year money at this point, you're in the 450 to 470 range, but we're starting to see with the demand for deposit spreads on the fixed rate side as well. So you can think maybe more closer to or up to 500 basis points for those contracts when they're rolling off on average at 250. So rounding up, I'd say, an opportunity to kind of double the earnings on those balances as they mature.

On the floating rate side, I think we've seen spreads in the 15 to 30 basis point range, which I'd say is historically high. But we've probably seen that for the last couple of quarters. So you're starting to see that flow through on the floating rate side. But a broad point, you can just see in the pricing, the -- if you are a supplier of deposits, the demand is there and the pricing is quite good.

Operator

And our next question will come from Ben Budish of Barclays.

Benjamin Elliot Budish - *Barclays Bank PLC, Research Division - Research Analyst*

I wanted to follow up on some of the commentary on Ameritrade. We've seen some kind of media press indicating that there may be a pickup in sort of outbound to alternative custodians and other kind of services providers. I'm not sure if that's something you can comment on, but would great if you could. But even if not, maybe another sort of question along the same lines is, if that were the case and you were seeing a pickup post-Labor Day, how long does it typically take for an advisor who is showing interest to convert if you're successful there?

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

Yes. So for us, I think I'd answer that more broadly that we see all registered advisors as an opportunity to potentially affiliate with one of our models, and we obviously invest in a significant business development team. It is out in the marketplace exploring those opportunities. I think we continue to create real structural value that creates demand and appeal across our model, it's first and foremost, the opportunity. But if you're doing that well, and you have the efficacy of a good business development team will then when market opportunities may arise in the short run, and we challenge ourselves to be agile and nimble to be able to capitalize on those regardless of what they may be and when they may occur. And so that's the combination that we think about how we go to market, right? You create good structural differentiation and value, you have a great team that can go tell that story and then you're agile and nimble when opportunities come up that may be created for whatever reason.

So look, when there's transitions that occur in the marketplace, just in general, back to your broader question, there's generally opportunity that may occur around the transition of assets from one custodian to another or one broker-dealer from another. And depending on the complexity that may occur in that transition, typically, then there's some opportunity that may arise post that, whether that be because of new environment, service challenges, new technology, whatever the case may be change management challenges that may occur, that may create some unrest. And that may create some opportunity. And again, I think we try to be well positioned and well prepared to capitalize pre-conversions, post-conversions when those may occur and where that opportunity may occur. I hope that helps.

Benjamin Elliot Budish - *Barclays Bank PLC, Research Division - Research Analyst*

Yes. Understood. Maybe one -- just quick follow-up just on corporate cash for the last few quarters been running ahead of your target level. Just to what degree is that maybe conservatism or just a matter of timing for the end of the quarter? Or is that more intentional? Any color you could share there would be helpful.

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO & Head of Business Operations*

Yes, you bet. Short answer is timing, right? I think when you look at our overall liquidity, it's more about managing our overall leverage ratio. I think the corporate cash balances end up being a little bit of timing. As simple as that.

Operator

Our next question will be coming from Dan Fannon of Jefferies.

Daniel Thomas Fannon - *Jefferies LLC, Research Division - Senior Equity Research Analyst*

I wanted to follow up on NNA and the outlook. And just what the backlog looks like today maybe versus last quarter or a year ago, and we've heard about more industry churn or churn for advisors picking up. And would you echo that? And what does that mean for potential acceleration in terms of that advisor adds over the next kind of 6, 12 months?

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

Yes. So look, I think the headline, as we said earlier, from a recruiting standpoint is we continue to see that as a solid lever and driver of growth or contributor to growth both in the short run and longer term. So if I just put a little color on that for you. When we look out at the environment, explore how we position ourselves to win. We typically start with the opportunity set where you went to advisor movement. I would actually reflect it as more flat over the last year, it's somewhere around 5.5% movement or turnover. We haven't seen a big move up from that, but it's more sustained and we call it that range down for now.

What has happened is there's been a bit of a mix shift in some of the movement or turnover where we've seen the movement amongst the independent market picked up where some of the movement has slowed down from the wires as an example. That said, given all of that, look, I think what we do is challenge ourselves into how do you succeed regardless of the volume of movement. And I think we continue to see our win rates improve despite the lower level of movement. And with the diversification of our models, right, that mix shift that I spoke to is more of a neutral point for us as, again, we try to compete -- competitively for all 300,000 advisors that may move.

So the overall churn, we've overcome those lower levels of churn, we do think that they will come back over time. There's lots of reason to believe that, that number begins to pick up and more trend back towards the norm. And so if we can sustain higher win rates because we've got a more appealing model, and we've gotten better at recruiting matched with the flexibility of our model, I think -- we think that positions us well as we go forward.

I think if you look at the competitive landscape, again, we haven't seen significant changes or material changes across the playing field there. That said, it's what we talked about in the last question, there are moments in time in the marketplace where there may be some elevated movement because an organization is going through some strategic transition. And we always try to position ourselves there to get a bit of an over index gain on those opportunities when they may occur.

I think if you add all of that up and you look out over the intermediate term, if you look at our growing pipeline, the growing sort of appeal of our different affiliation models, the strength of our advisor recruiting matched with the nice complement of bigger mandates in the enterprise marketplace. And we feel good about our short and intermediate opportunity for recruiting.

And then longer term, I think we go back to our structural advantages and really back to our strategy where we continue to see growing a feel in demand for advice, the attractiveness of the advisor or the independent model matched with the desire to receive that model from a financial professional, the overall demand for advice continues to give us a big tailwind. If you take our market leadership in the independent model singular focused on really understanding and innovating in it. Robust feature-rich platform we have to jump off from -- in our capacity and commitment to invest back into the model. And we think that certainly positions us long term to capitalize on current large demand that exists today, but the growing demand for advice that is going to create more opportunity going forward and our ability to differentiate and win -- hope that helps.

Daniel Thomas Fannon - *Jefferies LLC, Research Division - Senior Equity Research Analyst*

Yes, that's helpful. And I guess, Matt, just a follow-up here on expenses. So first, is the promo expense missed the guidance for the third quarter. So curious about what drove that? And then as we think about G&A, I know there's elevated spend because of the environment and the solid organic growth. If we -- and looking at Slide 24, it's obviously been on the trajectory higher for several years. If we think about longer term, not so much for just '24, what is a reasonable growth rate do you think for G&A spend to maintain these solid levels of organic growth?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO & Head of Business Operations*

Yes. I think just -- I'll hit the promo first. I think when you look at our guide for Q3, which was in the $130 million to $135 million range, we came in at $140 million, really just a factor of the timing of the large enterprise onboarding expenses. We had both Bank of the West and Commerce come onboard in the quarter. That's the quarter where those expenses are typically the highest. And then we started the integration onboarding work for Prudential, which we've got an overall estimate of $125 million, and that is still our estimate, just ramped up a little bit faster. So it's simply the timing of expenses associated with those. I think that was what I'd highlight for Q3.

I think to your second question on overall core G&A growth, I mean, I think we plan those investments and spend in each and every year, with a focus on making sure we're investing to drive and support organic growth, making sure we're balancing that with delivering operating leverage. And then I think perhaps to the core of your question, adjusting those levels based on the macro environment. And I think that's where we get to -- what we're doing this year is having an up level of investment in spend that I think really helps improve our value proposition, our capabilities to our advisors and this is one of the drivers of our success in organic growth. And I think when we think about that over the long term that things like that would be dependent upon the environment, right?

So if you remember, from the guidance of 13% to 15% growth this year, about 4% to 5% of that was really based on the opportunity of the environment. So I think when you're thinking long term, I think that's a bucket where you can put aside and say, we just be opportunistic for that amount if the environment was there. And I think when we get back to what we're spending on, what we're doing this year, we think it's been quite the right decision and a good use of capital.

Operator

Our next question will be coming from Michael Cyprys of Morgan Stanley.

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

Maybe just continuing with expense related questions. Just on the promotional expense, we've seen an uptick in recent years. I understand there's been some investments made to support that. Just as we look out over the next couple of years, how should we think about sort of an underlying true run rate of expense growth for -- on the promotional side in order to maintain the organic growth that you guys are looking to achieve? And I think on the promotional side, you also called out about $100 million of onboarding for next year. Should we think about that all fully coming out in '25?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO & Head of Business Operations*

Yes. Well, I think when you look at the drivers, it's really 3 things. And I think on that last point, on the $100 million for Prudential, it's related to large financial institutions and those institutions coming on board. So I think that when we think about our opportunity set, I think we would expect to have those be an ongoing opportunity. But to the core of your question, if there weren't any in a year or there weren't any large financial institutions coming on board, those expenses would go away. That $100 million is specific to Prudential, meaning once that's onboarded, unless there's others coming on board, you wouldn't have a spend level of that amount.

But the other -- and the key drivers of the growth overall outside of the number of large financial institutions or enterprises we have are coming onboard. There's really organic growth, right? And I think when you look at the amount of organic growth that we have, the transition assistance associated with that and the amortization of that, that's primarily what shows up in the growth for promotional and it's about the size of our recruiting. I think we talked about it a bunch on this call and during this Q&A, but the amount of recruited AUM that we're bringing onboard is increased substantially, and the capital that helps bring them onboard and the expense shows up here.

The other one I'd highlight to a much smaller extent is just conference spend, right? That's based on the number of advisors we have at the firm, the bigger we get the more -- the more value there is in engagement with more of those folks in person at our conferences that would naturally rise. But I think the 2 key things are: number of large financial institutions coming onboard, and then just the level and amount of our organic growth; those would be the 2 big drivers.

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

Great. And just a follow-up question on D&A. I think you had called out about $200 million of platform investments to be capitalized. I imagine that's going to come through the D&A line. Just how do we think about the time frame and cadence for that to come through?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO & Head of Business Operations*

Yes. And that's associated with Prudential as well. So if you think about Prudential overall of $325 million of investment, and a reminder, there's no transition assistance that comes along with that. That's the total investment. So the timing will be like typical to a large financial institution. It will be mostly leading up to and during the quarter of onboarding, but there can also be some that comes across after that. And then you get into based on the technology that we're putting in place, which are typically amortization periods, call it, in the 4- or 5-year zone once they're deployed.

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

So we should think about that $200 million coming through over 5 years or so, roughly. Is that fair?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO & Head of Business Operations*

Yes. Yes, once it's deployed, 4 or 5 years following that. So I think that's a good way to think about it.

Operator

And our next question will be coming from Kyle Voigt of KBW.

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

Maybe just one on the regulatory environment. It sounds like the DOL is set to propose a new fiduciary rule very shortly. Obviously, I don't have any -- many details at this point, but just wondering if you could comment high level on the state of the business today relative to 2016, remind us of some of the more meaningful changes that were already implemented ahead of the prior DOL rule that was ultimately vacated. And would be great to kind of hear how you feel about potential expense needs to comply with any new rule proposal given the investments that were already made to comply with the prior rule?

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

Yes. So let me take that one. And so look, there is a DOL proposal that's under review at the White House Office of Management and Budget. And that's the procedural step, as you know, before the proposal is released to the public comments. So there's not a lot of insight on what's contained inside of that. I think there's been a lot of speculative dialogue about what that may be. But I think we'll learn more as we move to the next step. I think what we do believe is that once it moves to public comment, it's a long process, of which to work through, ultimately, either some proposed changes that may occur from that and/or not. And so I think you'll see a good public dialogue about what's being considered.

That said, I think we did, as you said, did significant work back in 2016 and had some full innovation even around some products like mutual funds as an example that didn't ultimately -- wasn't ultimately utilized as we -- as the 2016 fiduciary rule was struck down and ultimately pivoted to the regulation best interest.

What is different, and I think -- and by the way, that will serve as a great baseline, a lot of the innovative work that we did. Some we use today in Reg BI, some we're not using, and we think it prepares us well of which to ultimately pivot and/or adjust for whatever changes may occur in the rule. I do think that the dialogue around the rule itself is a bit different in context, the circumstances are different. And as you know, Reg BI has just really been released out into the marketplace for a couple of years and -- we do think it proposes a higher standard of care, which we are aligned with. And we think the SEC is the right regulator to create that rule across all parts of business, both retirement and non-retirement.

And consequently, we think that because of that rule is in place, the consideration set for that and allowing that to run its course and ensure that it's effective and ultimately establishing and aligning around that higher standard of care, we think, has a lot of relevance in the dialogue that will occur.

And if you go back to some of the proposals in 2016, I think there is the big risk that ultimately you take away choice and that begins to harm low and middle-income investors by limiting access to brokerage advice of those smaller retirement accounts, which obviously, systemically, it's not a good outcome and would be a big consequence, which I think will have a lot of pushback and a lot of relevant concern around that potential outcome. So we just believe the circumstances are different to have this sort of public debate and open review around the process.

All that said, if there are some changes incrementally, we do think we're well prepared to pivot and add those and continue to deliver a choice between both brokerage and advisory. We always believe it's a principal choice, this is another option and we think it will serve investors much, much better. So I hope that gives you a little color. The point is, we don't really know yet. I think there is something that is being considered, and we think it will be a good healthy debate, and we'll be well-prepared.

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

Great. And then just for my follow-up, just on the Liquidity and Succession solutions. You know that you're now opening that externally. I guess is there any way to frame how meaningful that could be relative to the size of the capital deployed internally they disclosed so far? And then second part of that question, and I know this topic comes up from time to time, but curious if you could give us any updated thoughts on potentially offering your broader business solution suite externally?

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

Yes. So look, I think -- let me take the strategic part of that and then I'll turn it over to Matt to ask your capital -- to address your capital question. So look, the Liquidity and Succession solution that we came up with was on the premise of solving a big need, right, 1/3 of advisors potentially retiring over the next 10 years, certainly a relevant problem to solve and the team did a great job of coming up with a differentiated creative solution that has ultimately been very appealing to existing LPL advisors that were facing that same problem of challenge. And I think because of its differentiated nature, it made sense for us to take those learnings and insights and then to potentially offer that outside of our platform.

In doing that, high probability that those assets, and if we offered it to the external marketplace, we've then moved to the LPL platform, that would be the concept as another way to motivate them to move to our platform. Because of the demand and the interest that we've generated internally and because of the learnings that we've had just in the basically 45 days, we've been in market around it. We think it's going to have some interest and be broadly appealing to the outside marketplace.

We'll learn more, and it's hard to size right now because we just don't have enough data to support that. But we do think it's a feeling in another way to attract assets to the LPL platform and be a smart deployment of capital in order to do so. So that's kind of where we are now in that journey. More to come as we learn more. But at least that's how we think about it strategically.

With respect to our other services that we may offer outside of the platform, I think we continue to, have set that aside as a future possibility. We continue to see opportunity internally on -- with respect to our growing number of advisors on the LPL platform, and innovating on new solutions and expanding that portfolio set versus broadening the distribution outside of the LPL platform. So think about that as our near-term focus, is continue to add more services and supporting our growing platform here. I do think it's a relevant question at some point to ask, could you logically apply that outside of our advisory base. Do you want to take that?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO & Head of Business Operations*

Yes, Kyle. I think that -- I mean, the headline is that I wouldn't see any different level of capital deployment taking it external, other than to highlight when you're taking this externally, you're really doing 2 events. There's a recruiting event as well as the L&S transaction, Liquidity and Succession solution. So think about it from a capital deployment standpoint. A good frame would be that knowing that those 2 things would be occurring. But I think the headline point is nothing from a capital standpoint, that will be different than we've talked about before. These are relatively small amounts of capital deployment on an individual level. It's more about, as Dan was covering, the strategic connection of this capability from an advisor standpoint and our long-term growth.

Operator

And this concludes today's conference call. Thank you for participating. You may now disconnect.
