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# EDITED TRANSCRIPT

LPLA - LPL Financial Holdings Inc 2017 Investor and Analyst Day

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## PRESENTATION

### Operator

Please welcome, Matt Audette.

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**Matthew J. Audette** - *LPL Financial Holdings Inc. - CFO and MD*

All right. Good morning, everyone. Thanks for the warm applause, and welcome to LPL's Investor and Analyst Day. So I think most of you know me. But I am the CFO, and I'm going to get us started today and walk through what we plan to cover, and give a little bit of context of where we came from the last time we met with all of you back in May of 2016.

So if we start with the agenda, and it's on Page 3 of your materials. So I'm going to start us off with a welcome and a little bit of background. Then we're going to bring up Dan H. Arnold, our President and CEO, and he's going to walk you through, not only our strategy, but a fair bit on our core business growth and how we see that growing today and in the future, especially as the nature of an advisor practice is evolving, and he's going to spend a lot of time on that. And he's going to give you an update on how NPH's on-boarding is going. And I know none of you are interested in hearing about that, but he's insistent on spending some time on it. So he's going to do that.

Then we're going to have a little bit of a break, and then we have an advisor panel. So Andy Kalbaugh, who's our Managing Director and really in charge of the advisor relationships overall is going to moderate a panel with 3 of our advisors. And we're really excited about this, 3 of them have been kind enough to join the stage, sitting right over here, Judy, Ken and John. And we've got -- they're from a range of our services from a hybrid practice to someone on our corporate platform. And John has recently decided to join us from NPH, we think this is going to give you really a wide range of perspective about what our clients think about us. So we hope that will be helpful.



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Then we'll do another quick break, and then we're going to talk about the advisor experience. So we're going to have Burt White come up and talk about and really build upon, from a capability standpoint, what Dan lays out in his section is really a vision for where the company is going. Then we're going to have Scott come up and talk about technology. And Scott's recently joined us as our new Head of Technology, and he's going to share with you his vision on how technology can help drive our business. And then finally, in this section, we're going to have Thomas Gooley come up and talk about service and operations. And when you think about Tom's area, they got the vast majority of people in the company who are interacting with our clients on a day-to-day basis, right? So he's on the front lines. He's going to share with you how his group is moving and improving. And then finally, we have another break and then I'm going to bring us home with a discussion about operating leverage and how everything that we've talked about here, how we see that delivering shareholder value for you. And then we're going to have lunch available at 12:30 in the back of the room. And I think most of management will be there to answer any additional questions that you have because we're going to have Q&A throughout the day but I'm sure there'll be some additional questions and we'll look to cover that with you.

So that is the day. I know you've all decided to invest the half day with us, so we really appreciate it. We think it's going to be a good return on your time.

All right. So covering off a couple of things that I think you are quite familiar with. So let's start with the safe harbor. I know the font is real small, so I'd encourage you all to look at your materials in the room in front of you and those of you on the webcast. I think you can see it pretty well. The key here is we're going to talk about some forward-looking statements today, right? And they're forward-looking statements about matters that are inherently uncertain, right? So actual results could be materially different, right? So please keep that in mind. The nature of our business also has risks, right? We lay all these out in our 10-K and our risk factors, so I'd encourage you to look at those. We update them in our 10-Q as well. And if you don't have those documents available, I'd encourage you to go to our website at [investor.lpl.com](http://investor.lpl.com).

And then one more item to cover off Slide 5, non-GAAP financial measures. We use several non-GAAP financial measures to discuss our business. We think they are critical. We think they are important to understanding certain trends in the business. But they are non-GAAP, so it's important that you understand how they reconcile back to their closest GAAP measure, right? And Slide 5 takes you through how we do that, so I'd encourage you to review that as well.

All right. So let's get into the meat of it. It's a little bit of an overview for those of you newer to the story on LPL and who we are, right? We are a leader in the financial advice market, and we're the nation's largest independent broker-dealer. And if you look at our size, right, so we are now up to \$560 billion of assets served. And you look at the earnings that we generate, so I'd focus you in on the bottom of the page, when you look at our EBITDA, going back to 2013 at \$426 million, when you look at the last 4 quarters, we are nearly at \$600 million, right, so we got a business model that's continuing to generate more and more earnings and more and more cash flow, right, and our objective here if we execute well, is to continue to grow this.

So let's turn to Slide 7 and talk through our strategy a little bit. So we met with you last year back in May, and we lay out this construct, a strategy that we think is really simple. We want to grow our core business, and we want to execute with excellence. And execute with excellence means driving efficiency and embedding quality and innovation in everything that we do. And the key to this is this strategy is unchanged. We have been focused on this for the last 2 years, and there is -- other than a few changes in the words, this is not new. It is the strategy that we are driving the business forward with.

So if we go to Slide 8, and just a little bit of reflecting. So we were here just across the street back in May, coming out of a period of significant market volatility and a period of volatility on our business model. And we laid out a construct in a strategy that we just talked through how we were going to execute that. So how have things gone, right? So our business model, I'll talk a fair bit about this in my section. It's highly dependent on the market, right? S&P levels, interest rates levels, both of those things have increased meaningfully since the last time we're here. So we don't control that but we do benefit from that. Then you look at our results. So those assets, \$560 billion, it's up 17%. The revenue on that, up 10%. Our operating leverage and expense discipline and share repurchases leading to EPS increase of 31%, and then at the end of the day, the thing that matters the most, the value that we deliver to you as a shareholder, up 80% from back in May. We were in this last week. It's a little bit down from there, but you get the point. So if our objective is to continue, we have all these charts, in our space up to the right is a good thing. We want to continue that.



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So last item before I call Dan up. So we thought through presenting here today, and what did we want to have in our materials. The main thing is what do we want to leave all of you with at the end of the day. So we started with, well, how do we, as management, see the opportunity? And so we came up with a list of those things and like this is what we want to leave you with, so this is what we're starting you with. This is the list. So we're running through them really quickly to set up the day: Attractive market with secular industry tailwinds. More and more people are seeking advice. Assets under management with financial advisors is increasing. Within that space, the market share in the independent space is growing. And in the mix between brokerage and advisory, in advisory, we provide more services and our clients provide more services to their clients. That's growing, all things that benefit us.

Then looking at us, we're a market leader with scale advantages. Dan is going to talk about a few things that we're doing to take advantage of that scale. We think it's a big opportunity. Then organic growth, not only through net new assets, but through the return on those assets. And we talk to a lot of you about, okay, I see the net new asset growth, but what are you doing to grow the return on those assets. We're going to talk a lot about that today.

Fourth, so we just talked through it, we benefit from interest rates and equity markets going up. And then if we drive all -- take all of these top 4 to drive revenue, we're going to be disciplined on expenses. We're going to continue that and deliver operating leverage.

Moving down to #6. Our business model is capital-light. We generate more cash than we need to run the business, and our balance sheet is positioned with significant capacity to deploy. I'm going to take you through how we think through that. And then finally, opportunity to consolidate a fragmented core market through M&A. We believe this is a big opportunity. We are in the midst of integrating one of those acquisitions with NPH. I can tell you from our premise, going into that and all the things that we've learned so far in the process only furthers our conviction that this is a big opportunity for us to deliver value to you.

So when I get up here at the end, I hope, today, I hope that's what we leave you with.

So with that, and Dan, I'm 1 minute 20 seconds ahead of schedule, I'd like to call up our President and CEO, Dan H. Arnold.

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**Dan H. Arnold** - LPL Financial Holdings Inc. - CEO, President and Director

Good morning, everyone. I'm not sure if that was suggesting that I'm going to be long-winded or not, but we'll see. So I, too, would like to express my appreciation for all of you being here. It's not lost on us, the investment in time and effort necessary to be here, so thank you for that.

So this morning, I'd like to start our dialogue and our conversation in thinking about our strategy, or as I like to say, how we positioned ourself to win and our mission to ensure that we make independent objective advice accessible to all Americans for the purpose of helping them achieve their life goals and dreams. And so at the end of the day, that is what we are all about. That is why we were created, and we think we've got a pretty compelling story of which to do that.

Now when you talk about the strategy, we could talk about that way beyond our time constraints this morning. And so I'll ask you to go to Page 12 in your book and that is a framework of which we will use to hopefully facilitate this conversation and go at pace, and give you a high-level view of how we think about our strategy. Now this framework we introduced roughly a year ago to our employees all for the purpose of simplifying how we talk about, communicate, and create a similar language around our strategy for the purpose of heightening the probability that we are well positioned to go execute it. So we thought it would be a good framework to leverage and use here today.

So our strategy and our focus around that strategy and the guidepost and the guard rails that make up that strategy haven't changed. As Matt suggested, we continue to focus on driving growth in our core markets, both now and kind of look to the future. And then our premise is, is that if you take a good strategy and you package it or you complement it with extraordinary execution, that will be a source or a recipe to deliver repeatable, sustainable success, which comes in the form of, obviously, growing market share and driving long-term shareholder value.



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So that's the framework with which we'll use to talk about today, all right? What we'll also do is leverage this throughout the day, so that as each successive speaker comes up, they'll use this as a framework so you know their commentary, where it fits inside the strategic framework, hopefully, for helpful context for you.

So before I drill down on the different components, let me just make sure that we sort of level along the opportunity set or a line around the opportunity set. So when I think about that, I always start from kind of the macro view, what's the size of the price and what's the growth characteristics around what potentially you're looking at or potentially what you're participating in. And in this case, I think we all know that, hey, this is a large industry. We're roughly approaching \$19 trillion in assets in the adviser-assisted advice space. And Cerulli suggests that over the next coming years, we'll see continued growth in the demand for advice. We agree with that, the more we see this ongoing complexity of life and the noise of life, people are desiring to get more and more help in terms of how they think about their financial welfare. And so we continue to see that as an interesting opportunity. I think if you click down on that demand, we also see it across all client segments from the millennials, all the way up to their parents and grandparents. In fact, it's interesting that the millennials are actually -- have a propensity to seek advice at some 1.5x their parents and grandparents. So again, so we see that as a good, solid and consistent demand across all market segments.

And if you think about that opportunity a little bit more, and you explore, is there any enhanced opportunity in kind of the space you participate in that overall industry? And again, I think this is rather interesting and that this information reinforces the continuing appeal of the independent model for financial advisors. And so now the independent space makes up the largest segment in the wealth management industry, and it also continues to have favorable growth characteristics. So the structural trend towards independence, we expect to continue to see, and obviously, we benefit from that because that's the part of the industry of which we obviously participate and play in.

So how are we positioned relative to or against this opportunity, or maybe said differently, do we operate from a place of strength within the industry? And again, I think in the independent channel you see here, in the core markets that we choose to participate in, we're both a market leader in those elements, but also, we have plenty of room for growth. So we like the opportunity that's before us and also our positioning to capitalize on that opportunity.

Finally, I think we believe we have some durable differentiators that will help us compete for this ongoing opportunity and successfully drive share. So that's how we think about the opportunity set at a very, very high level. And I think that sets a nice context then to now drill down on these 3 main components of our strategic framework.

So if you take the first one, this is really about taking a look at that opportunity and saying, "How do we best go capitalize on that, using and leveraging the strengths of our model." Said differently, doing what we do best to go and find that opportunity to attract more advisors to our model, and to help our existing model -- advisors grow their practices. And there's a large number of things that we do inside -- this is our core business. and I wanted to highlight a couple of them for you this morning that I think, perhaps, are interesting, and we've seen some movement in and some growing opportunity here in the last 6 months. So I'm going to highlight how we're thinking about the M&A potential that's out there. And we will also talk about how we see investing in the advisory platform creates a potential differentiator and a catalyst for growth. So not surprising, but I think we operate in a very fragmented market, and we think the continuing environmental or industry trends that make it tougher for industry participants to continue to grow and to maintain performance in this space is only going to get tougher, especially for smaller players. So we think the -- sort of the ingredients or the environment for the continued consolidation that we've seen started will likely continue. We also think when we consider the M&A opportunity, because of our self-clearing platform, because of our own advisory platforms, we have -- and because of our scale -- we have certain economic advantages, which give us a competitive advantage of creating accretive deals within this M&A space, and we think that gives us certainly and positions us well from an opportunity standpoint. So you take this ongoing notion of continuing consolidation and our advantage around that, and I think we see that as an interesting combination, and certainly, the NPH transaction is a great example of this.

So speaking of NPH, let me give you a little bit of color on that just to let you know where we are from a progress standpoint relative to the deal. And in order to do that, let me just remind you of a couple of things that were reported, I think, in terms of some of the deal characteristics. So as a reminder, the purchase price was targeted at \$325 million. There was a contingent payment that was driven based on retention of the advisors, thus, we risk-shared with NPH down to around 72% of retention. The expected EBITDA that would come from that range of retention was anywhere from \$75 million to \$100 million, so somewhere within that range the way we had structured the deal, would likely create a 5x multiple. So that's just a quick review on sort of how we thought about the deal and its characteristics.



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So as we fast forward now some 2.5, 3 months later, how are we doing relative to retention? What's our progress or success, thus far? Well, when we started the deal, we knew, as I said, on the earnings call, that this would be a competitive environment. Anytime you have a transaction, you're putting potential assets in motion. It's going to be a competitive environment. We also knew this was a good quality property, but that all advisors necessarily wouldn't match up with us strategically. That said, we thought we had a very compelling offer of economics and a way to transition to the platform and capabilities such that we thought it would be an attractive alternative for many of the advisors. And so we approached this very consistent to our standard way we approach recruiting, and we stayed disciplined relative to our financial, risk and strategic standards. And after now working 2.5 months on this overall effort, our estimate relative to wave 1, and I should have told you, just a reminder, the business is coming in over 2 waves. Wave 1 represents roughly 50% of the opportunity and it will come over at the end of November. So that's the wave we have the best optics on, and we would approximate that production retention at 70%. Now it hasn't -- it doesn't move until the end of the month, so I call it approximate only because it could vary slightly or marginally, plus or minus, but that gives you what we believe is a good target in terms of where we think we land on production retention.

Now what we've seen is the advisors that see our Solution as really appealing, the self-clearing capabilities in nature, love the advisory solution and the broad capabilities it offers, sees the technology as a big opportunity for efficiencies in their overall practice. And, hence, the demand in the utilization of our services and capabilities is going to be more extensive than we originally had assumed in our modeling. And so with that, I think what you'll see is, ultimately, EBITDA, or the incremental EBITDA that we'll get from this first wave will be more the equivalent of production retention at the 80% level, all right? So 70% production retention. The EBITDA lift that comes from that would be more the equivalent of what we would have seen at the 80% level.

Now some of you, and by the way, that would give you a deal multiple if you extrapolated that across the entire transaction of somewhere in the 4x range. Again, wave 2 is different than wave 1, but in simple math, that would give you approximately 4x multiple, okay? Now some of you may be wondering how we're doing with respect to wave 2. It's early to call that. We continue to focus on it. We've got great engagement. We're encouraged by activities, and we're optimistic in the results and outcomes associated with wave 2.

So if you take this concept of we expect to see continuing consolidation within the industry, we sit, at a competitive advantage relative to being able to generate and create accretive transactions. And you take our learnings and insights, and the muscle we've worked and developed from this transaction -- we like the opportunity and our prospects associated with any potential M&A opportunity that may emerge in the future as we look forward.

Now the second area that I mentioned that we thought was an interesting opportunity and a catalyst for growth is thinking about our advisory platforms. Now why do we think that's a strategic significance? Well, that's where the money is going. And I think we're all familiar with the structural trend towards the greater utilization of advisory solutions. At LPL, we see now every new dollar of assets coming in -- 75% goes to advisory solutions, 25% to brokerage. We think that's probably a likely sustainable baseline, somewhere in that range. So that gives us 2 thoughts. One, we want to continue to maintain choice. We think with that mix of business, choice is important. It's an opportunity for us to help differentiate our advisors by ensuring that they can offer both brokerage and advisory solutions, hence, the reason we've been so diligent at preparing for the DOL rule changes.

The second thought that it gives us is if a significant amount of money is going to these advisory platforms, then that's the opportunity to go in and differentiate and potentially put our advisors in a place of offering a winning type solution to their clients. So in that spirit, we approach our advisory platforms in this way. So we have 2 models. We have the corporate RIA model and the hybrid RIA model. We will continue to offer both those models. We will continue to invest in both of those models. Why? Because it gives us great versatility to serve a much broader set of advisors. We think that this is a unique combination that helps differentiate ourselves and continue to attract more advisors to our platform.

Now within both of those platforms, we offer a continuum or comprehensive, sorry, spectrum of investment management options or platforms. So when you think about adviser-directed or centrally managed or separately managed accounts, we're going to continue to offer all of those options and alternatives to our advisors, and continue to invest in them. And underneath those platforms, advisors can use a wide variety of products from anything from passive to actively managed solutions.

Now the positioning of these 2 different models is an area that we've been working on recently. So with respect to the corporate RIA, that's positioned to be offered to advisors of any size. And these advisors tend to want to outsource the operations and the risk management associated with their



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advisory activities. Now on the hybrid RIA side of the ledger, this tends to attract advisors who are large enough and have a desire to operate and underwrite the risk of their own RIA. Now typically, this model has been accessible to advisors that have over \$50 million of advisory assets. So this is where we made a change recently, where we just aligned with the industry and we positioned our hybrid RIA model such that you had to have \$50 million or more advisory assets to leverage and utilize the solution.

And as we think about the planned investment, I said we will continue to invest in both of these platforms. Those investments tend to show up in 3 ways: investment content, workflows to drive efficiency and then pricing opportunities. Can we create additional economics that helps that advisor differentiate themselves out in the marketplace? And I think if you take MWP as an example, you have seen us make those investments over the last couple of years. We've added a large number of new investment options and alternatives within that platform. We continue to drive efficiency into the overall workflows that advisors used to leverage that platform. And finally, we significantly reduced the platform fees. The outcome of that, well, in the last couple of quarters, you've seen -- as Matt reported, we have seen as much as \$1 billion net new asset flowing into MWP, that 2 years ago were negative flows. And so we've seen those changes and those investments drive new opportunities for advisors to leverage that and differentiate themselves in the marketplace.

And so we see those opportunities as we go forward across the platform. Now the most recent investment that we made was the announcement we just made this week, where on our corporate RIA platform, we lowered the cost of the adviser-directed platform, or that's what we call SAM, and that tends to be our largest platform. And what we did here is we targeted advisors that had over \$50 million in advisory solution -- advisory assets. And we lowered their platform fee such that their overall payment to us would be roughly 10%. And for that 10%, they can outsource the operations and outsource the risk management services and get access to our entire platform and capabilities. And from our research, we believe that's a really appealing trade for an advisor to pay those additional economics to avoid have to taking on the risk in the administrative and the operational duties of running their own RIA. Hence, we would expect that platform now to retain more advisors on the corporate RIA then necessarily moving over to the hybrid even if they qualify or continue to improve, enhance the mix of our recruiting classes to using the corporate RIA versus the hybrid. This is not a corporate versus hybrid. This is us leveraging our scale and our advantages of that scale to oversee and efficiently manage that risk, and provide those operating capabilities all in the spirit of helping the advisor free up their time to spend more on managing clients and spending time with their prospects and existing clients, okay?

So at the end of the day, the outcomes we expect: We'll continue to attract more advisors to our platform because of these advisory capabilities, which is where the money is flowing; we'll enable our advisors to continue to expand their practices or grow, and ultimately, we'll improve and enhance ROA with mix shift in business to platforms where we provide more services and get paid for those services. So another big opportunity on our platform to grow.

Now the second component of this strategy, if you'll move to me there, it's a bit more of lean to the future and how we think it's important to position or help the advisor position themselves for success in the future. And I don't think there's any debate around the number of industry changes that are going on, that are influencing how we all think about this business or even how the advisor has to evolve or transform their practice. Now many advisors are already underway on this transformation or pivot. Others -- and many have not started yet -- but we think these industry trends are going to force that advisor to think about their value proposition, think about their pricing strategy, think about their business model structure. And this change, we don't see as a problem, we actually see it as a great opportunity. See, we believe we can help partner with our advisors and not only make that pivot, but position themselves and their practices to thrive, going forward. And this change simply just raises the bar. And when the bar is higher, less people get over it, but there's a much bigger opportunity set on the other side, and that's the journey we want to take and help our advisors go on.

So let me give you a little color around that. Now this does a good job, I think, of trying to show the pivot that the advisors are going through or the transition they're going through. So historically speaking, a lot of advisors' value proposition was centered around the construction of the portfolio. And they would charge their price, their value relative to that effort or that value. And many of them would tend to operate their practice hiring local level resources, and partnering with local level vendors to enable them to run that business. It worked for them for many, many years. They've had great success in doing that. Now with the changes going on in the environment in the industry, I think now we see this sort of what's the future success model? And it's one that rather than built on a value proposition of portfolio construction, it's actually built on more of a planning and outcome-based approach to the client. It focused on solving complex problems for that client. And when they think about operating their business, they begin to look for how to lower the cost and create scalability, so they look at ways of which to bring virtual services or outsourcing



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more services as opposed to trying to fund them at a local level. The best part of all is this model of the future actually helps them position to allocate their time, where it matters most, which is with prospects and clients.

So in that spirit, we see a really interesting opportunity to innovate right here in this sort of part of the ecosystem. So what we're working on is what I call a platform of virtual services. In this platform would tend to leverage things like shared economy concepts, and it would tend to use AI and data to transform how we think about kind of the personalization of the end-client's experience. It's meant to take friction out of the system and find efficiency inside of it. It's meant for us to even help with prospecting and marketing activities for the advisor, all for the purpose of helping that advisor lower their costs to drive up the profitability of their practice, to create scalability in their model, to handle more clients, to generate more growth, and finally, to make sure that they are allocating and spending their time on those things that are going to be most productive and drive returns on their business, like prospecting and marketing and spending time with their clients. And if we're successful at doing this, what are the benefits to LPL? Well, we'll generate new revenue streams that, on a subscription basis, will generate additional ROA. We'll further differentiate ourselves, which we think will help attract more advisors, and we'll give a great stimulus to our existing advisors and a catalyst for growing their practices, all of which are interesting opportunities and contributing to organic growth.

So this third component of our model or our strategic framework is about execution. And remember, our premise was core or growth in our core markets packaged with strong execution will create sustainable and repeatable outcomes. And so this was borne out of a place roughly a year ago, where we added this to our strategic framework. We recognized that we had a big opportunity to get much, much better from an execution standpoint. And we had opportunities in how we plan, and we had opportunities in enriching and enhancing our decision-making, and we had opportunities in thinking about how we leverage data and listen to feedback from our clients, all for the purpose of generating better outcomes and results. Getting from A to B on time, on budget and on planned outcome.

So in that spirit, I think this quickly became a sort of a cultural and organizational priority. And what we were trying to do is ultimately find a systemic way of which to drive and enhance and accelerate our ability to execute, and we wanted something that was systemic across 3,000-plus employees and something that was ultimately sustainable. So it became part of the culture. It became part of our DNA. It became part of our language and our lingo. So we created a management system in order to do that. Now the key components of that management system focused on quality, and that quality is in what we deliver. And if we deliver quality well there, it's going to enhance the trust and the reputation we have with our advisors and their clients. It was built on efficiency. And this meant efficiency in driving operating margin and positioning us to operate from a place of strength on a relative basis. And then finally, it was built on innovation and the desire to continuously get better, such that we could extend or expand our market leadership.

And we're seeing this beginning to show up inside the organization, things like the delivery of ClientWorks. This was a wonderful catalyst to help that work over a 3-year period, get to a place of where our advisors can leverage it on go-forward-basis. It shows up in our preparation for DOL or even the work we're doing to try to improve the service experience to our advisors. What's important, because those are big strategic things that make a difference in our partnership with our advisors.

So if we do these 3 things. We focus on that core growth both now and as we think about it for the future, and we take that strategy and we package it with good execution, we think it positions the firm well to capitalize on the opportunity, drive share gains, and ultimately, shareholder value.

So let me pause there. We'll move to Q&A, and I'll take about 15 minutes of Q&A and then we'll go to break. So I'll call the last question when it's time, all right.

We're going to bring you a microphone because we want to make sure it gets onto webcast. So we've got a couple of runners that will bring you the microphone. So Chris, you want to go first?





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## QUESTIONS AND ANSWERS

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

Yes. Sure. Dan, so as brokerage continues to be deemphasized, do you guys think that hurts you from a value proposition perspective? And then related to that, is it harder for you to recruit a fee-only advisor versus one that does both brokerage and fee?

**Dan H. Arnold** - *LPL Financial Holdings Inc. - CEO, President and Director*

Yes, so I think with brokerage being deemphasized, we actually, again, don't see brokerage going away. If you think you can effectively and efficiently offer it in the marketplace, we think it's really important for the advisor to have both options and alternatives. If you only have one solution, and sometimes, you could be reduced to a hammer looking for a nail. And every problem has to be a nail. And we actually believe that maintaining choices are a really good thing for the advisor, and positions them to differentiate themselves. I think the deemphasis on brokerage, there's certainly a structural trend there, but some of it's cyclical as well. We haven't seen a lot of product innovation because the environmentals have been very, very tough. The regulatory environment has been uncertain and I think that's why I suggest that we'll see a baseline of somewhere around 75%, 25%. That's not meant to be overly precise, but we do think brokerage stays relevant. There's a large variety of clients that, that's a better option and alternative for them, and we want to make sure that we can always put the best solution forward. For advisors, who maintain both, we think that becomes an appealing differentiation versus someone who has just gone pure advisory. That said, we do serve advisors that only operate in the advisory solution. We call that an IFA. And those folks are attracted to our platform for all the reasons that we talked about here. This is a robust advisory platform. We continue to invest in our custodial capabilities, and that advisory platform, and those things will attract those advisors. We actually have a fully integrated solution. We've got pricing advantages. We've got certain capability advantages across that advisory platform, and we continue to invest in custodial capabilities, like account aggregation and things like householding, those things that we think are important to make sure that someone whose only focused on advisory solutions can win in the marketplace. So we think we can compete there. It is not the market that we've targeted, not because we can't compete there, but because we wanted to invest in those core markets where we had market leadership, leverage that first. The nice thing is, is the capabilities we're building there are easily applicable to the pure RIA space. Bill?

**William R Katz** - *Citigroup Inc, Research Division - MD*

So a couple of questions if I could. First one was when you mentioned that 70% AUM retention, but 80% EBITDA contribution. Can you talk a little bit about what that 30%, what the issues were, around not on-boarding with you, number one? And then related to that, is there anything about the second wave? You said you're a bit more optimistic on that. Is there anything different about the segments of assets that are coming on that we could infer from this ratio you're giving us today? That's question #1 and question #2 is of that \$3 million incremental spend in terms of repositioning some of the corporate RIA platform, what are the underlying assumptions against that, for vying, if you will, to potentially offset that drag of EBITDA?

**Dan H. Arnold** - *LPL Financial Holdings Inc. - CEO, President and Director*

Yes. So let me hit the first one, Bill, and if I don't, you may have to remind me on the second one if I don't get it right, all right? So on the first one, I think when we looked at the opportunity set, we always knew that there would be an element of those advisors that wouldn't necessarily have the track records, from a risk standpoint, to join our platforms. So that certainly is part of that overall 30%. There's other advisors out there that, I think, ultimately decided not necessarily affiliate with us because of some of the economic incentives that they received out in the marketplace that didn't necessarily meet our financial standards. And so I think that was a second contributor. And then, I think, thirdly, some folks may not have looked at all the capabilities set that we have. And said, well I don't want to use and leverage all of those capabilities to position my practice, going forward in the future and they may have seen a different solution that may have been smaller in nature with maybe less capabilities as an alternative for them. None of that is a surprise to us. I think we always went into this, knowing that it would be a competitive environment and we thought, again, that we have a very compelling proposition that's why we approached it from kind of that standard recruiting concept or -- that I mentioned earlier in terms of the pursuit of the overall activity. But that's kind of the spectrum of reasons why we may not have retained some of those advisors. And again, I think this shapes up very similar to what we've seen with other historical transactions. Wave 2 has a higher mix of financial institutions in it than wave 1. I think that would be one notable sort of difference in the different waves. And sometimes, that can have



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an influence on retention rates. But we feel good about, again, the engagement, the activities that are going on in order to secure those advisors, and we're getting good feedback on the appeal of the business model, and I'm quite optimistic about it. And I think we'll be able to give you a better clarity on that. Think about fourth-quarter earnings timing, which is early Feb -- will likely be early February will be -- when we give you the next best clarity on that. And that wave will occur towards the end of February, just to remind you of that time frame. Sorry, Bill, ask the second question again?

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**William R Katz** - Citigroup Inc, Research Division - MD

Thanks for your patience with all the questions. Anyway, just in terms, you mentioned it's going to cost you an incremental \$3 million of EBITDA to reposition the corporate RIA within advisory, what are the underlying baseline assumptions for volume growth? Just want to talk about the opportunity sort of cross seller accelerated growth for the practice. Are you assuming flat volume or any kind of offset on the volume to offset the drag?

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**Dan H. Arnold** - LPL Financial Holdings Inc. - CEO, President and Director

Yes. Most of how we thought about that investment and that return would be more from how we think about a shift in ROA, one, in terms of a reduction in the number of advisors that might transition from the corporate platform to the hybrid platform. We also thought about it in terms of future recruiting classes and just a different mix of corporate versus hybrid in those recruiting classes. So think about it more as ROA necessarily than as anticipated volumes. May we get some volume lift from that? Sure, I think that's a reasonable assumption, but that's not necessarily how we thought about it when we analyzed that investment and the potential yield from that investment. Devin?

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**Devin Patrick Ryan** - JMP Securities LLC, Research Division - MD and Senior Research Analyst

So maybe a question on just organic recruiting and growth and something that's coming up a lot recently is the exit from Morgan Stanley from the broker protocol, and I think people are shaken out both ways on that, that it could be really good in terms of a marketing dynamic to really highlight firms and financial advisors, the clients being the financial advisors versus the firms, I think, is maybe one perception. But if you think that more firms at the larger end, are going to maybe back away, and effectively blows up this protocol, how are you thinking about that in terms of play out on recruiting? Is it a factor, good or bad? And then I guess just bigger picture, how this plays into some of the commentary that you're making around M&A. I suspect that maybe M&A becomes more important or there's more firms that are interested in selling because they could have some implications on their organic growth. And so that's kind of the first part. I know there's a lot there. But the other part is just on M&A, obviously, a lot of conversation here. NPH is kind of the first big deal. It sounds like there's, hopefully, other things coming here based on the market dynamic. Is that -- are there other actual situations that are live? We should think about conversations are high? Or is it just if NPH goes well, this would open the door for maybe us to think about doing more, if this is a template?

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**Dan H. Arnold** - LPL Financial Holdings Inc. - CEO, President and Director

Yes, let me answer that second one first and then I'll go back to the first one. So the second one, I think we're focused on making sure that we integrate this business really well and that will be our focus. And I think we've suggested to you that, that work will go through a -- much of that work will go through mid-year of next year. So first and foremost, our priority is to get that done and done right. I think then the second half of the year, you begin to sort of look at operational readiness, and begin to think about the opportunity to explore a possibility, should it be there. So that's the way I would think about that from a sequencing standpoint and a timing standpoint. I think your first question, when we think about recruiting, look, it is an important way we think about organic growth. We allocate significant amount of capital to it. We allocate lots of mindshare and activity to trying to do that well, and thinking about that strategically and looking at the different changes in the industry, and how do you pivot and adjust your strategy accordingly, both with respect to recruiting, and then ultimately, the allocation of that capital. And so I think your premise would be if you see a change in protocol, how do you think about that from a strategic standpoint. I think you're right. You can build a good case on either side of whether that's an opportunity or whether that's a headwind. And I would take us back to prior to protocol, and one of our primary sources of growth was recruiting, and we tended to work our way through those extra hurdles necessary to ultimately recruit these



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advisors from this employee-based models. Do we think other people will come out of the protocol? Again, I think you can make an interesting case to the extent that people come out of the protocol, what does that do relative to the immediate opportunity from a recruiting standpoint? But I also think it reinforces the importance of the independent model and appeal and attractiveness to the independent model. One of the great things about the independent model and the reason we have this structural trend towards independence is the sort of autonomy and ownership that, that advisor has of their practice and those accounts, and how they think about them, and how they position them, and what they do with them over the long haul. And so I think it just reinforces the appeal of the independence model. It helps contribute towards that structural trend towards independence, albeit with extra hurdles that we had to solve for prior to protocol. So I think we continue to watch and assess whether or not folks come out of the protocol and how we think about that. I think what we can control are the actions we take, and the actions we're that taking are certainly looking at that and positioning resources and thinking about how our model lines up with potential opportunities prospects, both in the short run and the long run, and that's what we think we can control to make the most out of whatever change occurs. That's a long-winded way of saying there might be enough puts and takes that it doesn't really change the trajectory over time. It just changes the shape of how you approach it, but we think if we're smart about managing that change and playing into that change, that we can get some outside lift from it. Did that answer both of them?

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**Devin Patrick Ryan** - JPM Securities LLC, Research Division - MD and Senior Research Analyst

Yes.

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**Dan H. Arnold** - LPL Financial Holdings Inc. - CEO, President and Director

Awesome. Yes?

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**Unidentified Analyst**

DO you have any thought as to what kind of the NPH process has detracted from your organic growth maybe over the last 3 to 6 months? Would you just call it very immaterial or there's been some impact?

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**Dan H. Arnold** - LPL Financial Holdings Inc. - CEO, President and Director

Yes, there's been marginal impact. And specifically, not around the work we're doing on ROA, which comes in the form of product development, platform development that gives more capabilities and services to our advisors to ultimately leverage those platforms where we provide those services and get paid for that incremental value. So there's been no headwind there. We've continued to make a priority out of servicing, and supporting our existing clients, and supporting and helping their growth. So there's no impact there. And of course, that business has not began to transition onto the platform, so that hasn't been an impact to our existing clients or even if it was, it wouldn't have shown up yet, is the point. I think the one place that it has a marginal impact is that we used some of -- we used our recruiting leadership to allocate time to manage both of these efforts, but we've separated the efforts to try to separate the labor that we deduct against them. And that will have some marginal impact on our recruiting, probably more at the larger enterprise and institution level, where some of that expertise that we used to leverage some of that opportunity in NPH will have some distraction impact, if you will, in overall recruiting. So I would call it marginal recruiting short run.

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**Unidentified Analyst**

When do you think there refocused or it stops taking up their time?

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**Dan H. Arnold** - LPL Financial Holdings Inc. - CEO, President and Director

Yes, January. Conor?

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**Conor Burke Fitzgerald** - *Goldman Sachs Group Inc., Research Division - VP*

Just a question on the EBITDA for NPH. It sounds like that's purely the upside there is coming from their advisors looking more like your advisors on the revenue side. But I wanted to kind of clarify that. And then the second question on that, is there any upside from cost coming in better than you thought? Or is that still -- actual cost to service the asset, not the purchase price? And then sorry, just one more clarification, the financial institutions in wave 2, does that make you more or less optimistic about retention?

**Dan H. Arnold** - *LPL Financial Holdings Inc. - CEO, President and Director*

Yes. So I think, historically speaking, where you have institutions, you have higher retention rates, just historically speaking. We still got to play that out, still got to work through that, but that's what history tells us. I think with respect to the EBITDA lift that we're seeing, that is about advisors that see appeal to our advisory platforms, our custodial capabilities. So you would see things like centrally managed solutions being used, advisory being used, more assets custody-ed on our platform. And that's the way to think about that because wave 2 has to come in before you could fully assess that cost to serve. I think there's no changes in how we're thinking about that at this point, and I think we can give you a better assessment of that at the end of it. Did I get everything? I think I might have got it. Well done.

**Unidentified Analyst**

Great. Just curious if you could share with us where you think you're innovating most today? And if you could help us understand your innovation framework and how you ingrain that in the organization in terms of incentives?

**Dan H. Arnold** - *LPL Financial Holdings Inc. - CEO, President and Director*

Yes. It's a great question. And I think this is one of those where back to our framework -- and we focused on improving, enhancing our execution -- this is one of those main components of that structure because we saw with the pace of change out in the marketplace, we had to get better and better at innovation. We had to get better and better at using data and insight, feedback with our clients of which to drive how we think about things, how we develop hypothesis, and quite frankly, improve cycle times on those experiments, and ultimately turn into outcomes. And so we continue to work on that and evolve our innovation process -- how do we take the intake and the insights, and then connect those dots and work on that to develop the hypothesis, then to experiment and to deliver. And so we continue to work on that, but yes, we're very disciplined about creating that innovation process that is going to drive improved and enhanced cycle times, one. Two, we wanted to make sure that we have the leadership that's got the history of leveraging and utilizing those types of capabilities that then drive commercially improved outcomes associated with that, and that's one of the reasons that we had Scott Seese join us. He's the new CIO that had a proven track record in partnering up with the business and the leadership that they saw where there's the opportunity and how do we take the technology, put those together to create better outcomes. Areas where we see opportunity, it certainly is in what I was describing to you where we see this vertical integration opportunity of going down and providing more value for the advisor, such that they can continue to think about how they transform and evolve their practice, so that they ultimately can create scalability, lower cost and spend time that's going to drive overall growth in their practices. We're also seeing more and more opportunity of using data, AI and technology to actually perform certain functions for the advisor or execute on their behalf, which again, frees up capacity for them to think about other opportunities for growing their business, and potentially even doing some of those growth activities for them, prospecting, lead generation, things like that. If we can become very confident in supporting and in helping them with that, then that becomes a scalable way of which to drive growth in the future and what I call same-store sales. So that's a place of innovation, to oversimplify, but there's lots of other places relative to data and AI and how you think about transforming the investor experience and that whole personalization that is enabled and done through technology that we think is really interesting. I will tell you, my big avocation is helping investors think about a journey towards their goals and life dreams and aspirations. And if we can take them on that journey and help them understand how we're helping them try to solve that, and how they're doing against that, that's a really powerful way of which to enhance the investor experience; we see innovation and technology there as an opportunity. So those are just some of the places that we're seeing. Last question. All right. Time for one more question. I think he knows the answers. Anybody else? Conor, let me try to get somebody else who hadn't asked questions. Steve?

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### Unidentified Analyst

So I was hoping you can give some context as to how we should be thinking about on Slide 21 the mix from brokerage to advisory. Do you view -- you talked about it in the context of net new assets being 75% allocated to the advisory side. How do you see the mix overall though evolving? Is that a reasonable expectation over a multiyear horizon or...

### Dan H. Arnold - LPL Financial Holdings Inc. - CEO, President and Director

Yes, so I think if you maintained a consistent sort of that baseline mix, going forward, that's going to lead to an overall mix shift in the aggregate because the historical brokerage assets you have on a relative basis are becoming less and less impactful. Do we think some of those brokerage assets will ultimately transition over to advisory solutions -- if appropriate, for the client. I think that's a reasonable way to think about that. I think Matt will show you a graph later on in his session. It helps you think about what that journey might look like and how that changes the economics. So I think that will be a better place to answer that question, okay? So hopefully, this was helpful to get started this morning. Great questions. Thank you for engaging with us. We'll take a 10-minute break, and then we'll come back with the advisor panel. So we'll give you a little announcement, but just be on the lookout for about 10 minutes. Thanks so much.

(Break)

### Operator

Please welcome, Andy Kalbaugh.

### John Andrew Kalbaugh - LPL Financial Holdings Inc. - MD and Divisional President of National Sales & Consulting

Thank you, and welcome back. As Matt talked to you about this morning, what we wanted to do today was bring to you some of our advisors with the idea that we can bring a little bit to what they do in their business every day and our partnership in the model and bring that to life for you. But let me start with a little bit about what our team does as the head of national sales, our team spends the majority of their day working with our advisors and institutions, helping them both introduce and utilize these tools and platforms you saw Dan and Matt talk about earlier, and then help them use that as leverage points, as they look at ways that they can grow and enhance their business, drive efficiency and productivity into their business. And really, at the end of the day, our job is to assist them both with the relationship here at LPL, leverage the model as best that we can help them with, and assist them in the growth of the business. And we thought a great way to do that today was bring 3 of them up for you to walk you through a 3 sets of questions to help you get a better understanding of that.

So in no particular order, let me introduce my 3 panelists. Let me start with Ken Van Leeuwen. Ken joined us down the street from Princeton, New Jersey. Ladies and gentlemen, Mr. Ken Van Leeuwen.

### Kenneth Van Leeuwen

How are you, sir?

### John Andrew Kalbaugh - LPL Financial Holdings Inc. - MD and Divisional President of National Sales & Consulting

Next, let me bring up Judy VanArsdale. Judy joins us from Chicago, Illinois. So Judy, thank you very much. Welcome. And last, but definitely not least, Mr. John Brooks from St. Louis, Missouri. John, welcome to New York.



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Grab a seat, please. And as Dan and Matt talked about, by design, we have 3 very successful advisors with somewhat different businesses that we thought would help give a good view into the businesses that we're trying to support. Ken, to my left here is a hybrid advisor, 20-some years -- 20-plus years at LPL. Judy, I think, is 2 weeks away from a 14th anniversary at LPL, corporate RIA. And John Brooks, down there to my left, is actually an advisor, and runs an office from National Planning Corp, one of the 4 offices -- one of the broker-dealers, excuse me, through National Planning. John -- selected LPL, and he'll be joining us here in a couple of weeks with wave 1, and thought we'd have that as a view also with some of the thought process he and his advisors went through, as they looked at why LPL, the benefits to their business, and why the affiliation going forward, okay.

So again, thank you for taking the time out of your busy days and your businesses to join us. Let's do just some high-level conversations to set the room with a little bit of background on your business. So maybe a couple of minutes each just on profile of your businesses and length of tenure and those kinds of things, real quick. Ken, why don't I start with you since you're closest?

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#### **Kenneth Van Leeuwen**

Ken Van Leeuwen, Princeton, New Jersey. I'm in hybrid RIA with LPL that Dan referenced and Matt. Again, I've been with them 22 years, 20 years with Van Leeuwen & Company. And primarily, why we use the hybrid platform is it gives us the ability of choice.

The ability to choose how we do our business. Again, and to give us just the scale and the scope of all that LPL has to offer.

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#### **John Andrew Kalbaugh** - LPL Financial Holdings Inc. - MD and Divisional President of National Sales & Consulting

Thank you. Judy?

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#### **Judy VanArsdale**

Judy VanArsdale, northwest suburbs of Chicago, and I became an adviser 14 years ago and came to LPL. This is a second career. So this was a career change for me. I left corporate -- the corporate world and became an adviser, and so this allowed me as a solo practitioner to have a team of experts behind me. So as I was learning the business, I sounded like a much bigger office than I really was.

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#### **John Andrew Kalbaugh** - LPL Financial Holdings Inc. - MD and Divisional President of National Sales & Consulting

And we're glad you're here. John?

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#### **John Brooks**

Thank you, Andy. This is my 39th year in practice. I look out of the audience, I might be the oldest one here. But I can tell you, my passion and desire for this industry, my vocation is my vacation. April 1 next year will be my 40th year, and I'm looking for the next 10 to 20 years of life to be with a company that we can call family.

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#### **John Andrew Kalbaugh** - LPL Financial Holdings Inc. - MD and Divisional President of National Sales & Consulting

Well, we appreciate all 3 of the businesses. Let's -- we're going to walk through just a series of questions, again giving you a sample of what they're leveraging from our business, how it impacts their model, how they introduce it to the clients and how the partnership works together.

So Ken, I'm going to start with you again if you don't mind. You've been here 20 years, a couple of hundred million dollars in assets under management. You've seen a lot of change through LPL, but let's a little bit about maybe what you value most.



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### **Kenneth Van Leeuwen**

Well, I think one of the things is, as a hybrid, we have the ability, frankly, to move, frankly, to any platform pretty simply, and I mean a non-LPL platform. But one of the things that keeps us here and keeps us strong, frankly, is just the relationship. One of the things we have found currently is with the current senior management team. What they're talking about to all of you is that they preach it every day. We are -- which is very valuable to us. We are their clients, and they value what we do. They also, frankly, value the input we can bring to them. Because we are out in the field, we're using the tools that they have or they've built. But our client, our clients, my clients, are the ones who look at these tools and determine whether or not we -- that's beneficial to them. But they've built that, and it gives us the choice. The other thing is, is that one of the things is, is that they talk about a lot, and it's very important, is this operational efficiency, mixing it with the technology efficiency. I think that is so essential because we all know that technology is playing a bigger and bigger part of our lives, including how we, as advisers, deliver financial services and advice to our clients. Frankly, they've built that and are building it, and I think that they're on that forefront, and I value that very highly.

### **John Andrew Kalbaugh** - LPL Financial Holdings Inc. - MD and Divisional President of National Sales & Consulting

Thank you. Judy, you referenced this as second career, and you've had exceptional growth from where you started to where you are [10 years], 13 years. Talk a little bit about that growth, how you accomplish that, but also hopefully, how we've played an important role in that support.

### **Judy VanArsdale**

Certainly. When I came to LPL, I had been an adviser for a year. I came with \$8 million in assets, and today, I have \$300 million in assets. So as you can only imagine, it was quite a learning curve for me. And I think that the first part -- I think there were probably 3 key components to how LPL helped me and how I leveraged LPL. I think that the training and technology that was available to me, the way that they helped us to help my team learn how to use the systems made me realize very quickly that I don't know what my capacity is. And apparently, I still don't know because I still keep thinking I can grow and take care of more families. So that was one of the pieces that was very key early on and continues to be very, very important. The next thing is, is that the planning and part of the organization that helped me do the due diligence on acquisitions. I was part of purchasing 2 two businesses of retiring advisers. So being able to have someone help look at all the financials, understand the profitability models, looking at how much it's going to cost for me to integrate that business and how to do it the right way was completely invaluable. I couldn't have done it alone. And then I think the third piece was encouraging me as a sole practitioner, who kind of can be on an island, to attend some of the meetings and to understand quickly that a lot of the meeting was about meeting these guys, about understanding what my peers had to offer, best practices, understanding how the best of the best got to where they were so that I could try and achieve those same goals.

### **John Andrew Kalbaugh** - LPL Financial Holdings Inc. - MD and Divisional President of National Sales & Consulting

That's great. You've done a wonderful job. You've pulled through a few things that Dan and Matt talked this morning. The succession planning goes to some of the opportunities in the industry. Desire for the tools that we're building to create opportunities for advisers to spend more times on what they do best and what they want to do, which is to help more people, and allow them to have the time to find some new clients and make sure they're embracing when my parents walk into your office. So that's a key part of what we're doing, and your growth has been amazing. So thank you very much.

John, you were at National Planning for 11 years, if I believe, right? And we introduced a little curve for you this summer, and you had a choice you had to make, and you selected LPL, which we're very pleased about. To help the audience understand some of the process you went through and meetings we set through with you and how that decision came about for you and your advisers.

### **John Brooks**

Thank you, Andy. First of all, we had 2 other broker-dealers approach us earlier in the year, and we were considering a change. And so we were taking the tire. Where we're at we knew wasn't adequate with what we were doing. And so for us to realize that 2 other broker-dealers were

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interested in our firm, I've told our business partners, go ahead and have lunch with anybody to learn something, but don't have dessert because you're probably going home with them. And so we like to learn about the industry and grow with it. And so on August 15, a matter of fact, I had just hosted a summer meeting for our group here in New York City. And our qualifications aren't as high as LPL's. Our qualifications are RSVP. So if you want to come, Burt, you come. You bring your kid and bring their crayons, too. If your mom and dad want to come, you come and be part. Because a critical component, I heard listening to LPL down in Nashville, was that family was important. And so if that's true, I want to hold them accountable for that. One thing about leadership, either the corporation is going to go up or it's going to go down. And what I've seen just from a little preview, they probably have the best human capital in my 40 years of observation.

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**John Andrew Kalbaugh** - LPL Financial Holdings Inc. - MD and Divisional President of National Sales & Consulting

Thank you. Humbling. Thank you very much.

Judy, let me mix it up, go back to you if you don't mind. You talked about your capacity. One of the ways we're trying to introduce capacity is the introduction of the ClientWorks system. You've helped us and your team have helped us through some of the pilots, work through banging around like any pilot. Talk about what you've seen, how your team is utilizing it and the difference its made so far.

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**Judy VanArsdale**

Certainly. I'm probably -- well, I know I am the lowest common denominator on technology in my office, so I have to preface every comment with that. So my team has done the banging around. They really have made sure that I know how to use the new system, how to transition from BranchNet over to ClientWorks. What is -- and I think what my team has loved the most is by being a participant in the testing is they got to give feedback. They felt like they actually got to help design some of the capabilities and change some of the things that needed a little bit of tweaking along the way. And so feeling that connection to LPL's office and seeing, hey, remember when we asked to have this done, it got done. Look at what's on the reporting now or what's in the trading, or look what's happening as we're starting to move money and even change beneficiary forms. So it has been a transition that we've embraced. We've realized that the industry, the technology was just our life, it is where we're at, and it's going to be different in another 10 years. So we just have -- we continue to try and grow and learn.

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**John Andrew Kalbaugh** - LPL Financial Holdings Inc. - MD and Divisional President of National Sales & Consulting

Yes, looks good. And again, thank you for the volunteering and helping us bang on the system. And Scott will go through the system in details. But look, we built a very rigorous process around gathering advisers and institutions' feedback to make sure we're incorporating in the user experience. This made a huge difference. So I both thank you for volunteering and the time you spent. And you get a little glimmer into my world, which is I have the honor to be able to work with firms like theirs to help their business. But at the same time, you'll see what they give back to help us be a better firm that keeps the engine moving well. So thank you both very much.

Ken, I'm going to throw one to you. Look, you're 95% advisory business today, so you're almost that kind of classic 100% advisory fee business. But yet, after 20-some years, you're still hearing on our platform. Lots of choices, a custody of choices could've been your way, but you chose to embrace the model. Walk us through the parts that you leverage the most and why.

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**Kenneth Van Leeuwen**

Well, I think, Andy, that's a very simple answer from my perspective. I think one of the things that -- we are hybrid, 95% of our business is fee revenue. But there's so many other things that go into creating that fee revenue. My practice in Princeton, we focus on basically the high net worth individual. So I think one of the great things that LPL provides us as well, they provide a lot of high net worth solutions, so provide -- they have a special consulting group of the high net worth consulting group, where we can access various opinions, planning tools, et cetera, to help us with our clients and our prospects. Also, we have trust services. I think that's very important. It's because we have a dedicated trust company. As our clients get older, frankly, that is going to become more and more demand. Also, since I'm talking to a group of business people, I think it's important also





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to maintain the value of my client's assets, frankly, is that because I can offer them that, then they're not going to transition to another platform. So I think that's very important. And I -- so I think all that wrapped together creates a very compelling solution. And also just -- I forget one thing. One of the things we're also doing now more and more is different lending solutions. I mean, we're not doing more, you just don't let me get into that. But we've also now, LPL is pioneering some programs on some different lending solutions. Because as you can imagine, with the high net worth individual who probably has some of their good amount of their wealth in a single stockholding, they figure it's time now to buy that beach house. They want to do that. So we offer them -- we're able to offer them that solution, and frankly, not lose the asset. So that's a really benefit of being here with them.

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**John Andrew Kalbaugh** - LPL Financial Holdings Inc. - MD and Divisional President of National Sales & Consulting

That's great. Because I think what you're describing is we're trying to introduce our ways to help you solve complex issues. So whether that's the complex needs of a high net worth clients, the trust needs of some of the more affluent markets you're serving, we're trying to bring those to our advisers and institutions to make those conversations much easier and to make the complex subjects significantly easier than you could do almost anywhere else. And we feel good about that.

John, you've done a number of demos. We've shown you our new system. When you land here in a couple of weeks, you'll land on our new systems. So you won't have any transition. You'll just land on the new system. Give this room a sense of what you're feeling the technology is compared to where you were and thoughts on what it may make impacts to your advisers.

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**John Brooks**

Yes, that was probably, Andy, the #1 reason I was fortunate back in 2006 and 2007. We had about 150 advisers make a change from a broker-dealer. And I can remember Wall Street running an article about, not me, but the entire organization. And they said, well, the advisers know how to deliver the product, but more importantly, they're a very loyal group. And we think loyalty is a very important part of our culture. And so when I look at your technology piece, the people that examined it -- Judy, it's probably not you, and it's not me, but I had our young business owners. I mean these young men and women are 20 and 23 and 25 with that. They just said, "Wow." They feel like they're in a Star Trek movie, where they got control. And that's got to do so many things to accelerate their practice as to get in time for that face-on-face time with it. So let LPL do spend, as you have, \$100 million or more on technology. That was the reason we left an extremely large broker-dealer, this home office happens to be here in New York City, to go to NPC because we felt your technology piece. And today over time, we realize the money and, more importantly, the human capital that comes with that money was not there to continue to take us forward.

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**John Andrew Kalbaugh** - LPL Financial Holdings Inc. - MD and Divisional President of National Sales & Consulting

Helpful.

And Judy, Dan had talked about our advisory platforms, the investment we're making to make both offerings competitive. Ken did a very good job of walking through the kind of why hybrid. You are corporate, and I do know you leverage a lot of the centrally-managed also. So walk us through that thought process, how you chose that and maybe also how you present that centrally-managed to your clients when they come and visit you.

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**Judy VanArsdale**

Certainly. Through the acquisitions, most of my business that I purchase were brokerage. And so it didn't take long to figure out that I needed a different solution to be able to manage all of the business and also spend my time where I felt was most important, which is with the client and taking care of their life goals. And so when it was introduced to me to take a look at the Model Wealth Portfolio, which is the one that is the portfolio I use the most inside the platform, to realize that there was hundreds of choices of different managers, of different strategists, of different risks and objectives that I could put together to fit into my client's portfolio, to create their total plan. It became apparent to me that, that was a very



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comfortable place for me, but it also works for my clients. It was easy to talk about what the cost was for the plan. It was easy to share how it was going to work for them. And again, I had 65 research analysts at LPL that I got to brag about that were my people. I got to talk about all of the other companies and all their research teams. That was -- it made the capability of, hey, it's not just Judy picking the stock, it was the team helping us create the plan for the client.

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**John Andrew Kalbaugh** - LPL Financial Holdings Inc. - MD and Divisional President of National Sales & Consulting

That's terrific. Thank you.

Ken, let me throw one back to you. Look, we're -- you mentioned earlier good feedback both -- all 3 of you are, and we're trying to do a better job, make sure we listen to all of our clients, doing some really good stuff. But we're never -- we're not always perfect. If you had one wish, what do you want us to make sure we focus on to keep improving?

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**Kenneth Van Leeuwen**

The operational efficiency. I think that is -- of course, things are becoming more complex in the individual advice business. It's no longer just buying a stock, buying a bond. I mean, as clients become wealthier, their needs change, and the solutions have to become more advanced. And the question -- many different questions arise. As we can also see from a demographic perspective, we had to be in a position as clients pass away to be able to know how to handle the states well. I mean that's an issue that we need to really get into, and LPL is doing that in terms of getting really good at all those different processes. As we know, technology is ever changing. There's always something new down -- around the corner. Operations are key because it's how we are interfacing, frankly, also with home office on a regular basis. I mean, that's one of our touch points. So the more we can do that, the better. And frankly, we are making very big strides in that area. You're going to see some slides later. I believe Matt is going to talk about that, but just in the strides that we've made, and Tom, in that area. Tremendous improvement and very noticed by the advisers.

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**John Andrew Kalbaugh** - LPL Financial Holdings Inc. - MD and Divisional President of National Sales & Consulting

Thank you. Good feedback.

John, if you look 3 or 4 years out the road, you've selected us, what's the impact you're hoping we've made in your business and your advisers' business if you look down the road?

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**John Brooks**

Yes, great question, Andy. One of the benefits of having 40 years in this business, I'm still looking for the finish line. I've been part of where we've been purchased 3 or 4 times, and so it's not a new event. And you might say, well, why LPL versus the other 2 broker-dealers who approached us? As a matter of fact, I probably had more phone calls the last 60 days than I have in 40 years. I realized we were that valuable.

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**John Andrew Kalbaugh** - LPL Financial Holdings Inc. - MD and Divisional President of National Sales & Consulting

You are. Flattering. Thank you. (inaudible) with that.

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**John Brooks**

But what I look at is that I believe LPL is positioned to not just be in the industry but to create the future of the industry. I think we're going to do things that Amazon has done, that Apple has done. I think we're not even going to be compared to our own peers. Because the mergers and acquisitions that Dan talked about, those firms can't stand the test of time. So I want to be with the 800-pound gorilla, and today, I'm proud to be



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part of that family. So I see the leadership. I see the innovation. I see the opportunity to grow a practice. It's not only going to affect LPL, going to infect the entire global community that we're all engaged in. We're not just this group of people that are here today. What we do today is going to make a difference. And so I'm looking for a legacy that I can put my thumb print on and say, "You know what? I was on that team." It took talent to get here, but more importantly, it took character to stay. So I'm proud of your leadership. I see the character. I've observed your competency with the introduction to your team, Andy, that you and Dan have put together here. They're outstanding men and women. And I'm proud to say that I'm part of this new family. And more importantly, I like your chemistry. They're good listeners, and that's important in a leadership to have somebody who'll listen when you've got a question or an idea.

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**John Andrew Kalbaugh** - LPL Financial Holdings Inc. - MD and Divisional President of National Sales & Consulting

Super. Thank you.

Getting towards the end here, so let me run one question by all 3 of you. You run very good businesses. The world is changing fast. We've covered that today. So 5 years from now, where do you want to make sure we're focused on to help you remain competitive, differentiate, do whatever it is that you think you just do? We want to make sure we're listening. What would that be, 5 years from today? Judy?

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**Judy VanArsdale**

For me, it is succession planning. If you can tell, probably the 3 of us won't be here in 20 years sitting here talking to the next generation of investors. So for me, it's very important to create a legacy for the business. I'm very fortunate I have a very young team, one of which is my daughter, who has decided that she does want to make this her next -- her career also. But for me, it's really important to make sure that she feels comfortable and that we're creating the next generation of adviser and that -- and just because that still seems to be a bit of a void for me, a void in the industry, it's very important. My team is amazing. And I want them to go many, many years beyond what my decision may be. And I just think that this is the company and the place that will help them grow and be able to do that.

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**John Andrew Kalbaugh** - LPL Financial Holdings Inc. - MD and Divisional President of National Sales & Consulting

Great. Good feedback. John?

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**John Brooks**

Good question. What do we see? Judy, I'm still going to be here 10 years from now.

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**Judy VanArsdale**

You can come visit me at the beach.

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**John Brooks**

I just want to let you know. And I want to be here because this vocation for myself, my family, our organization, this vocation has been a vacation. If you can't define the work that we do that really is serving people's needs so we can take that risk of good news you're -- good news is you're living longer. The bad news is you're living longer. I tell clients every day as they engage in client building as well as organizational building is that we have to make sure you run out of time before you ever run out of money. So I want LPL to write this next chapter and whatever time it takes to realize that we, as an organization, made a difference. But we got to do that together. There's got to be a unification. We've got to be on the same path together with leadership, providing that direction. And again, as you've heard me say as a small-business owner, it's kind of nice you got a checkbook, too. We like cash flow.



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**John Andrew Kalbaugh** - LPL Financial Holdings Inc. - MD and Divisional President of National Sales & Consulting

Very good. Ken, let's wrap with you.

**Kenneth Van Leeuwen**

A very esteemed colleague of mine and someone I respect a great deal told me a couple of months back, he said to me, "Kenny, you are going to manage more assets than you ever thought imaginable. I can't tell you what cost, but you're going to be able to do that." And I think the key is, of course, if we're going to do that, we need that efficiency, that technology. Just think about what that's going to look like in your world, and that's what I'm focusing on. Also, I think what's very important, as people become wealthier, as people become older, as people -- because now we have the generation where not only our clients worrying about their children, they're worrying about their parents. I think the issue is we have to be on that forefront in terms of dealing with the challenges of outliving your money. And I think that, that's something that we, as a firm, with LPL's help and support, are really looking at in a really strong way. That is the huge challenge. And it's a huge opportunity, frankly, because we're going -- it's a huge challenge because I can't tell you what the quality of life is going to be for these folks. But it's a huge opportunity because I, too, hope to be in business or part of my firm. But the amount of people that we're going to be able to serve is a very big opportunity, and I think that's key. And that's why you need that technology. That's why you need that operational efficiency. And I think -- and I can't overemphasize this enough. This is a team of leadership that listens to its clients. They don't operate in a vacuum. They don't operate in a place where they know everything. They really value what we have to say. And I, as a client of theirs, value that very highly.

**John Andrew Kalbaugh** - LPL Financial Holdings Inc. - MD and Divisional President of National Sales & Consulting

Thank you. Thank all 3 of you. I hope this little 30 minutes gave you a little look into our world. I hope it gave you a little look into why we built this firm. It gives us a chance to help these advisers and thousands more who aren't here make a difference in the living millions and millions of Americans around this country. So when my parents walk into their office, they've got the opportunity to deliver what they need when they need it and do it with pride and service and all the right things. It's humbling. It's why we come in the office. So we sit here to be able to be a part of that. This is a big honor for all of us at LPL.

Let me thank you, all. Thank you for your time. All it was, was a simple phone call. Hey, can you help me? We want to do this panel in New York. And they said, sure, when, where? What do I got to wear? And you see a glimpse into the quality people that we are lucky enough to do business with. It's a great honor. Thank you for what you do. The work you do is noble and good, and I value it. And everybody at LPL thanks you for taking the time out of your day.

So we're going to take a brief break. I think about another 10 minutes of refresh, and we'll be back up here. So thank you, and thank you for your attention.

(Break)

## PRESENTATION

### Unidentified Company Representative

Please welcome, Burt White.



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**George Burton White** - *LPL Financial Holdings Inc. - CIO and MD of Investor & Investment Solutions*

Hey everybody, how are you? I'm Burt White. I'm the Chief Investment Officer at LPL Financial. Also, I lead a group called the Investor and Investment Solutions Group, which is a division that has about 5 different departments in it. And the main goal that this group does is sort of connects the strategy to solutions and capabilities and platforms to help enable growth. And what we're going to do today is talk a little bit about that. But I can't actually start this without just saying that panel of advisers. It humbles me every time. I'm inspired every time when you begin to think about the work that they do, the work of really -- of helping millions and millions and millions of Americans get to where they want to be. They mentioned life, goals and all that stuff. It's just so inspiring. Welcome to the family. And it's just really inspiring.

The other thing that we learned, I think, that I heard, which was really interesting, was this component piece of what the opportunity looks like and how great that is for us to capitalize on. And I think that's really exciting because this demand for advice is growing. And what we're really excited about is helping our advisers fuel and go get that. And what we're going to do today is we're going to talk about some of that. But make no doubt about it, even though that opportunity is great and huge, there are challenges that we got to overcome. It's a demanding regulatory environment out there. You've got evolving expectations from retail investors. You've got a real competitive fee environment. And all that stuff means that advisers have to adapt. They have to adapt to be able to serve more clients. They have to adapt to be more productive and more efficient. Those are all component pieces of importance that we've got to invest in. So what we're going to talk about is on this strategic framework, the things that we're doing, the things that we're investing and the innovation that we're doing to fuel exactly that. The enhancement of these strategic capabilities are going to end up being the things that fuel the future and be able to enable this growth. And what we're going to do is we're going to talk about several different things here, and we're going to go through those today.

Now before we dive into those, what I wanted to do is to dive a little bit deeper into something that Dan started, and this is talking about really the adviser of the future. Now there are many types of advisers and many sizes of advisers, and the greatest part about LPL is that we are uniquely positioned to be able to handle all of that diversity of business type. Unlike any other firm, we can handle that diversity of business type, from hybrid like Kenny, to Judy in corporate, John and his group. All of that component piece, we can handle. But what we're beginning to see is several things. And the first one is that the value proposition of advisers is evolving, and that value proposition is moving from a focus on things like portfolio construction to being involved to more of customized goals and planning. This element is a huge shift. It's a change in value proposition.

Now when we think about this value proposition, what that fuels is an element of a use of more advisory, and that change to advisory is an important piece. Now what's interesting about this, and I think what's important about this, is that when you think about this change to advisory from brokerage, many times, we just look at this as a different way that advisers get paid. And that's completely wrong. It's actually a new service orientation. It's a deeper, more intimate relationship with clients. It helps them solve real problems and complex problems and important problems like those life events. What you're seeing is advisers are spending less time thinking about market events and more time thinking about life events. And what that means is for the retail investor, that relationship is more valuable. What it means for the retail investor is that relationship is more meaningful. And for advisers and LPL, that means that relationship is more rewarding. But what nobody talks about or not enough people talk about, when you make this move to advisory, what it also means is that our advisers have more work to do. It's harder to service those clients. It's more work to do that. And so what we have to be able to do is to help advisers find that efficiency and that scale. The things that Kenny and Judy and John were talking about, how do I find that scale and efficiency to be able to drive productivity and smarter ways to be able to do things like outsource and automate. And that's the component piece that we're going to talk a little bit about today.

Now we've got, too, at LPL as a part of our strategy, we've got to be able to help the advisers find this productivity, find the scale. Because if you could find that, it gives them more capacity to go out and get more clients, serve their clients, grow assets, make organic growth actually happen and turn that into very profitable, valuable businesses for them and for LPL. And here's how we're going to do it. We're going to do it 3 ways. The first thing is we're going to talk about today is we're going to be expanding our products and platforms. This ends up to be the area that offers differentiation and scale to advisers. We're going to talk about that a little bit. The second piece is we've got to invest in a more modern and a more compelling value proposition, not value proposition, but a story for the retail investor. The retail investor wants to see a more compelling digital experience, and we've got to invest in that with more customization and more personalization. And the last piece is how can we think about practice management and client management activities. These operational activities that are so, so, so difficult for advisers to do as they run their growing small businesses. How can we use LPL's scale to help them be able to run those businesses more productively and more efficiently. And that's what we're going to talk about today.



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The crown jewel of this strategy is our centrally-managed platforms. I want to talk a little bit about our centrally-managed platforms. Because what centrally-managed platforms really are is the bundling of investment services, and those investment services are things that advisers can outsource to. So centrally-managed is essentially an ability for advisers to outsource investment services. What does this do? It allows them to get productivity and time and capacity. And when they get those things, they can redirect it, redirect it to finding new clients and redirect in it to deepening their relationships with their current clients, and that's extremely valuable. And it also does something else, though. It allows the adviser to tap into and leverage the proficiency of a big research and investment team to help them be able to drive really quality outcomes and results.

The other thing that centrally-managed platforms do that's embedded is somewhat of a scalable service model. Think of this as collateral and materials that help advisers be able to intercept with their clients. Things like proposals and market commentaries, and things that are going on in the market you provide to advisers so they can get that scale, be able to serve those clients that's set within a centrally-managed platform. You see, a centrally-managed platform is essentially a container. A container of investment services that advisers can outsource so they can get more productive, more efficient, they can leverage the proficiency of a big research team in a big organization to be able to serve their clients better, right? But it's also a container to deliver more services. And if you deliver more services, you deliver more value. And if you deliver more value, that increases the experience for the retail investor but also the profitability of that client. Okay? And what we're going to do is to tap a little bit further into that. Because I believe we've just scratched the surface of our centrally-managed platform. Even though we have one of the leading centrally-managed platforms in the industry, I think we've just started, just started that journey. Now what we've been building for the last decade is really an infrastructure that really supports this centrally-managed platform, and it's an investment in things like our investment team and our research team and rebalance systems. And we've already got those things integrated end-to-end that right now advisers are utilizing to get scale.

The second piece of this strategy is where we are now. What we're doing now is beginning to pull 3 levers. The first lever that Dan talked about is lowering cost. The second one is more seamless workflows to get that efficiency, that operational efficiency, that Ken was talking about looking forward, how you make more productive, how is it easier to use. But the third one that I'm going to highlight for you is new solutions. If you think about this advisory platform, this centrally-managed platform sitting out there as a wonderful container to outsource to, imagine if you can now put in premium services that you layer on top, that can create additional revenue streams and add more value. There's a couple of elements to this, and one of them that we're working on now and we're going to roll out next year is advanced training opportunities. Think of this as tax-managed. The ability to actually offer a premium service that sets on top of our centrally-managed platform, where we could actually do tax management on behalf of the adviser for individual clients and deliver tax alpha. Not only are we trying to outperform. Not only are we trying to do well with the market and help clients get their goals. But imagine now having a tax alpha service that sets on top of that, that's a premium service to offer. Another one might be option overlay to offer protection features. That's another premium service that sets within this centrally-trading opportunity that we're working on as we speak. These new solutions create new value, and that new value expands that relationship, right?

And then as we move forward, what we see is a huge opportunity to leverage data and where you can leverage data to actually drive productivity and better results. One of the things that we're working on and we will rollout next year is account aggregation. It's an opportunity for advisers' clients to begin to aggregate all of their investments, both at LPL and not at LPL, and put it here within our statements. That does something really key. The first thing it does is it gives visibility to our advisers so that they can more holistically serve those clients and create much deeper and better advice. But secondly, it gives more visibility into those assets which serve as an asset-gathering service. This use of data, this is going to end up being the next component piece as we begin to advance the centrally-managed platform.

Now let me change to the second topic, and this is the aspect of the digital environment. And make no doubt about it, the retail investors being influenced by the digital transformation all around them, from mobile devices to social networks and everywhere in between, they're being influenced by this. And what we've got to build is a more modern and a more compelling digital solution, right? Because what it does is it offers more personalized experience. And that's a much more meaningful element, right? And it leads a deeper relationship. And if you lead to deeper relationships, that's better retention. So what we're going to do is invest in this particular piece, and we've already begun it.

This year, we've rolled out brand-new refurbished monthly statements for advisers to have and showcase with their clients. This is sort of the intersection piece that goes out, and it tells a wonderful story. Dan talked about how we want to showcase a more compelling financial journey for clients, so we'll then be able to see that journey. It's not just a statement of how I've done. It's a statement of what my journey is and where it's going. And we've rolled that out. It's easier to read. It's a more streamlined format, and it's a component piece that enhances that retail investor experience.



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But what we're working on is the next phase of that, and there are 2 things I want to highlight that we're rolling out for next year. The first piece is we're in the midst of building a client-facing mobile app. That mobile app will allow advisers and clients to have timely interactions that will deepen that relationship. The second thing, and know what, I've got a picture up here in this prototype that we have built, and we are going to be rolling this out in the first half of next year, is goals-based planning module that will be integrated within an adviser's workflow. Now this is why this is important. As you begin to think about this transformation that advisers are making, the one we talked about before, the one where we talked about transitioning from the primary episodes of market events and moving to life events, what we want to make sure we do is we have a module that helps tell that story so that you could transform and capture what a client's goals really are. Therefore, you're refocusing the conversation, less about performance versus benchmarks, which is irrelevant, more towards progress versus my goals. And that component piece is going to continue to drive that experience, deepen relationships and, we believe, increase the share of wallet.

The last thing I want to talk about is probably the most exciting service. Because here's a place where you can leverage data, you can leverage technology, and you can leverage our scale to be able to help advisers leverage and more efficiently run their small businesses. Here's a stunning stat. We estimate that, collectively, LPL advisers spend \$1 billion in operational, administrative and human capital expenses to run their business. Think about this as managing their real estate, managing their office, the administrative services to get business done, having the higher administrative help, train administrative help, manage administrative help. All of that takes a lot of time. It takes a lot of energy. It's a lot of cost. And it's also difficult. And most importantly, for many advisers, it's not the component piece that got them into the market in the first place. What got them in the market in the first place was helping advisers get to their goals and dreams, not doing performance reports with their staff. So the reality is, how can we help with this? How can we help to drive this? And what we're in pilot right now, there's a couple of dozen -- a few dozen advisers that are in pilot right now, and we're testing this right now, this element of virtual administrative services. Think about this as a premium service that's going to help reduce the amount of time that advisers end up spending on the administrative portions of their business. And if they spend less time on the administrative portions of their business because they can outsource those things to us, what does that mean? That means it creates more capacity for their growth. It means they can redirect those activities and that energy into visiting with more clients and go and marketing to more clients and deepening the relationships with those clients. And that's exciting.

The other component piece of that is if you mirror our scale, so our ability to deliver these at scale mixed with this element of sort of just paying for what you need. Think of it as sort of a Uber-ization, the ability to actually have advisers only pay for the administrative services that they need. What does that do? It reduces the cost for the adviser to run their practice. And if it reduces their costs, what do they do with that reduced savings -- with that savings? It (inaudible) back into the growth of their business and allows them to be able to grow. This is pretty exciting.

Now there's another component piece of this as well. Because remember, as we're beginning to provide a fully-trained, a fully on-demand administrative help, what that's going to end up doing is it's going to make sure that the operational friction that is in the system, the ability for advisers to have to train their staff, get a new one on, learn the systems, figure out how to do that, that's not there anymore. And if it reduces their time, guess what? It also reduces ours. And if it reduces our time, it lowers our cost, and that creates great opportunities for us.

At the end of the day, if you look at the way advisers are thinking about spending their time, these first 2 down here, those are your centrally-managed platforms. That's the ability to outsource areas of training and areas of investment management. Now imagine if you could outsource the small business operation functions and allow us to help with that as well. What's next is that it focus advisers on the one thing that drives revenue for them and the deep relationships, which is helping clients get to where they need to be, bringing more ones on and getting more and more and more Americans onto the LPL platform and to the wonderful advice that our advisers deliver.

So I think in summary, what's exciting about this is that we are focusing on these new strategic opportunities, and we're doing this to support this new winning adviser of the future. And if we do that, this is going to drive growth for those advisers and enhance organic growth for LPL. We're working on these 3 things that we talked about, it's expanding our product and platform solutions to differentiate that and allow advisers to outsource those component pieces mainly to our crown jewel, our centrally-managed platform. Secondly, we're going to digitize this retail investor experience, make it more compelling and more modern. And things like goals-based planning models and digital apps will do that. And lastly, develop services that allow advisers to tap into our scale, to outsource some of the small business activities so that they can spend less time having to do those and more time bringing in clients and working with them. And if we do those, we're going to lower cost across the system, both at LPL and at the local level, as well as we're going to increase scale, and we're going to lead to higher growth. And that's a pretty compelling future.



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Now what I want to do next is I want to bring up someone that could really dive into some of the component pieces of this and bring it to life because the technology behind this is going to be the real key. And what I'm really excited about doing it is it's my pleasure to introduce the other CIO, not the Chief Investment Officer, the Chief Information Officer, and the newest acquisition for LPL, Mr. Scott Seese.

**Scott Seese** - LPL Financial Holdings Inc. - MD & Chief Information Officer

Thank you, Burt.

And because I'm new here, I just want to take a moment and say I'm very excited to be part of my very first Investor Day, part of the company. And I want to help you understand who I am so that you can understand a little bit about what shapes my values and my thinking.

So I've held CIO roles, Chief Information Officer roles, at companies like American Express; eBay, and that's when eBay had PayPal and a few other companies within the company; also with Bank of America, retail; and GE, General Electric.

Now what I remember when I was at eBay is that the company here was about the size of eBay when I joined. So there was a little bit of a moment when I was like, huh, interesting. And then people asked me with, why LPL? Scott, why did you come to LPL? I had a mentor push me about a year ago to sit down and say, "Scott, you are at the half time of your life. And if you focus on the second half of your life, what do you want it to be about? What's the impact that you want to have?" I got to be honest, that hit me right in the gut. And I studied it, and I came back, and I wrote a thesis that I want to enable a million people, at least a million people, to have a better life by whatever I create or I am part of. And then fast-forward, when I learned about this opportunity, this company, this role, as we get this right, we can enable millions of people to reach their fullest potential in life by what we do. So that is just a little bit about who I am, my background, which shapes my thinking and values and why I am so excited about this role right here with this company right now.

So let me start with the vision. The vision for technology is to take it from being a utility to a strategic asset for the company. And when I learned the strategic framework was all about leverage, enhance and execute, I got to be honest, I got really excited. As I joined at the end of the summer, I knew what to do with that. I knew what to do and how to hit the ground running. And what I want to do is share with you a little bit about how we're bringing this to life as part of technology.

Let me start with through some very heavy lifting in the back half of this year. We are executing and delivering. The strategic ClientWorks platform is now live. The strategic ClientWorks platform is now live. We have between 20,000 and 30,000 people on the system every single day, all day long. That's advisers, people in their office, on the system, using the system with end-to-end tools all day long, enabling millions of Americans across the country.

Now I want to put this in perspective. This was replacing an application, a utility application, that was written 17 years ago. This was an application that has been around for 17 years, and it became the largest technology conversion ever in the company's history. And we are now live on the new platform. And I got to be honest, I'm having a *deja vu* moment. When I was at eBay, and the platform got into place, all of that growth (inaudible) that happened from there was just awesome and exciting. It was about getting the platform in place and how you can extend it, how it scales and into the future.

Now I also want to share with you that because the platform is in place, NPH advisers are actually going to onboard straight to the new ClientWorks platform. They'd go straight to it. This enables us to continue to extend and scale for the future coming off of that, and the platform sets the foundation for where we go from here.

Now I want to talk about how we're enhancing the adviser and investor experience by extending the platform, and I want to start with one of my favorites, artificial intelligence. By using some early-stage artificial intelligence, we can help guide advisers, we are helping to guide advisers, through the complexity of regulation and opportunity with a differentiated investment solution of mutual fund only in the brokerage space. Early-stage artificial intelligence is the only way you can bring this to life at scale. And without this platform, it would've never been possible. With this platform, it is now possible and becoming a reality.





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The second one is a world I have lived in for a while. And guess what? We all lived in this world. We are on-the-go all the time. And where do we go to check in on the things that matter the most? We check what's in our pocket. We use what's in our pocket to understand and check in on the things that matter the most. Digitizing that retail experience, bringing it to the investor enables us to enable them to check in while on-the-go with the things that matter the most.

Now another one of my favorites is using machines, data and systems to bend the curve on insights. And we all know that humans can't do this alone. And by using machines and systems and data, you can bend the curve on insights. We are now extending the platform and already doing this with speech-to-text analytics. We are getting millions of insights in a real-time basis across the platform through speech-to-text analytics. And in the service world, we're also extending the platform to enable our call center agents to use the data that is at their disposal so they can spend more time connecting and less time gathering. By bringing some of the power of data and systems together, we're enabling our call center agents to operate in a completely different way.

And then another example is, I was sitting -- and you have to understand. My wife and I, we adopted a little girl from Guatemala. We got her at birth. It's all about her. And I was sitting the other day at her singing recital, and it caused this moment as I was thinking about the second half of my life, I could see her going to college. I could see her getting married. I could see retirement. And then part of that, I want her to want to come back and spend time with us. And how do I plan for that? What's my goals for that? And enabling this capability through goals-based planning by extending the platform is part of how we're already starting to bring this to life, giving me and millions of people the confidence that is needed to meet those moments because they're prepared.

These are just 4 illustrative, not comprehensive, 4 illustrative examples in how we are extending from the platform to bring some of these strategic capabilities to life.

Now let me talk to you about how we're leveraging the size and scale of the company. Because of the size and scale of this company, the technology investment as we look into '18 is actually going to raise so we can do even more with capabilities. Now there's a second really key point I want you to walk away with. Because we don't have to do another conversion off of the legacy utility application to the new strategic platform, all of those investments now free up as we go forward to create an acceleration moment for us to drive more relationships, more growth and that efficiency that we were talking about before. So not only are we raising the level of technology investment within the company, but the density of the mix of where we can apply it shifts.

So I just want to leave you with a couple of thoughts. Our vision is to take technology from being a utility to a strategic asset. And because of that heavy lifting in the back half of this year, the platform is now alive. The platform is now live, 20,000 to 30,000 people on it every single day, enabling millions of Americans across the nation. And it sets the foundation for how we can extend it to enhance the adviser and investor experiences, and we're leveraging the size and scale of our company to drive growth and accelerate the technology value.

So that was just a couple of moments on the vision and where we're going. And now I get the honor and privilege of inviting and introducing Thomas Gooley, who leads our Service and Operations Group, to continue on with the story. Thank you.

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**Thomas Gooley** - LPL Financial Holdings Inc. - MD of Service, Trading and Operations

Thanks, Scott.

As Scott mentioned, I'm Thomas Gooley, I run the Service, Trading Operations Organization. I thought I would take a moment and give you just a little bit of context around the organization and what it does. There are over 1,500 people in the STO organization. We're -- if you put that into context of the firm, that's almost half of the firm. So if you break it down into its components, it's pretty straightforward. It's as it sounds. The service organization is a part of the firm that takes the inquiries, the phone calls from the advisers and their staff. The trading or the organizations, they're the one that executes the trades on behalf of the advisers and their clients. And the operations group is pretty much what you would expect from any back-office operations group. It does cash management, settlements, new accounts and all the rest of that stuff.

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But the point that you should realize is that this organization probably takes the majority of the service-based interactions on a daily basis with our advisers and their staff. This is the main point of entry for them. So when you look at those parts of the framework that are up there and on our strategy, they're one on the far right. Execute with excellence is really key to the day-to-day business of my organization. For us to provide a high level of service, we need to execute with excellence every day.

What I'd like to do today is walk you through the service journey. No, wrong graph. So if you look at this triangle, this represents the journey that we are on in the service world. What we really want to do is we want to have a goal that's going to move service from a function within the firm to something that delights the advisers and their staff on a day in and day out basis. As you can see from the triangle, there are 3 levels or 3 phases of this journey. Each one builds on the other. The bottom phase, stabilize the function, is where we were last year. We spent a lot of effort and energy stabilizing the service experience. And we feel like that one's pretty much done, so I'm not really going to talk about that today. I'm going to talk about the other 2.

The second phase is really focused on enhancing our systems and the processes and the way that we do business. It's building that structure that allows us to step forward, and that gets us to the maximizing value stage. In this stage, we're actually going to transform the journey a little bit more, and we're going to become more consultative, more proactive in the way that we interact with the advisers. We're also going to leverage data in all the things that we've done. And what I think you probably heard throughout today is a lot of people talk about data. This is another place that we're going to do it.

So I'm going to take a little bit of a deeper dive, and I'm going to focus on the second and third phase. And what I like to talk to you about is a little bit of the components. So if you look on building the foundation, it really has 2 main components. The first one is enhancing the systems and processes. Scott called out ServiceWorks, and I like to take you just slightly deeper into that.

So ServiceWorks is an application for the people that answer the phones. If you think about it, it's more like a dashboard or a desktop. It's a place that they can go to see all of the information that they need to interact with the adviser. It's a place where they see here are the transactions the adviser has done. Here is their profile. Here are their licenses. Here are the past experiences they've had with us. It's a collective place where they can get all of that information. They can spend time servicing the adviser as opposed to hunting for information. It gives us a lot of efficiencies and a lot of time savings, but it also allows us to see the entire perspective of the adviser.

The second place that we're looking to do is the increased efficiency in automation. You heard a lot about ClientWorks today and the things that we're doing. So from my perspective, from my organization's perspective, there are really 3 big things that we do for the advisers on a day in and day out basis. We open new accounts for them, we do account transfers for them, and we move money for them. So that's in the operations space, about 80% of what we do, and it's a direct interaction for the advisers and their staff.

So when we were designing ClientWorks, we talked a lot about how do we take those experiences, doing those 3 big things and make it easier for the advisers and their staff to interact with us. We looked at things like how did they set them up? How do they move their way through the processes? And the way that we designed the system was to make it a lot more intuitive. By way of a simple example, if an adviser is going to open an IRA account, the next steps within ClientWorks only show you things that pertain to an IRA account.

And then it pre-populates using AI, various components of that. What that means is it's easier for the advisor and their staff to work their way through the process. And it means it's a much more efficient process that has less errors and issues and then it makes it easier.

The other thing that we've heard from the advisers is they want more transparency of information. So another tool that we've rolled out is called the Request Tracking Tool. This tool allows them to see where their transactions are in the process. So if you think that you've entered a Move Money transaction and you want to know what's the status of that, it used to be you had to phone us and say, "Where is my transaction?" Now you can go online and you can see where your transaction is, whether it's been completed or what stage in the process. This tool also has the capability for you to self-serve and type in your own item and send that into us. So you actually don't even need to call us to initiate the transaction. That's some of the stuff that we're doing in that middle phase.



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In the third phase, it's really about having a much more consultative and proactive service model. What we really want to do in this phase is shift the organization to be more collaborative, to not just respond to phone calls, but to anticipate the types of phone calls that you're going to have or the advisors and their staff are going to have, so we can get ahead of it. Right? We're also going to look to use data analytics. So Scott also mentioned something that we call speech analytics. This is a place that we are trying to get really far ahead of the game in our anticipation. What we do is we take the audio phone calls, the audio component of it and we convert it to text. Once you convert it to text, it becomes searchable. And when it becomes searchable, you can start to mine the data and you can find trends. You can rapidly figure out why are the advisors and their staff calling us. When you know why they're calling you, you can figure out ways to deflect those phone calls to make the process easier for them. So what we've done is we've taken that information and we've adjusted the training material for the advisors. Because if they're all asking a common question, we should go fix the material. We've adjusted the training material for ourselves. We've also adjusted some of the processes and policies. But these are some of the ways that we're starting to maximize the value for our advisors.

So how are we doing in this overall journey? On this Slide, what you're seeing are 4 KPIs. They're not all the KPIs we use. They're just examples of them. It's how we manage -- how we monitor, how we are doing from a service and a processing perspective.

Now generally, as Matt mentioned earlier in a finance presentation, you like to see slides that are moving to the right and going up. In my world, I like to see slides that are moving to the right and going down. When they go down, that means the process is getting much more efficient, the costs are going down, things are in much better shape.

I'd like you to look at the slide in the top left corner on NIGO rates, NIGO stands for not in good order. What that means is the advisor or the retail client has sent us a document or transaction that has some kind of issue. It could be missing a piece of paper. It could be missing a field, it could be the incorrect form the incorrect document, could be any of those things. That then starts a process that can be a bad experience. We have to reject that document. We have to reject that transaction, send it back, say, "You need to redo this." That may cause the advisor to go back to their client and say, "We need to redo this." It may cause one of these ping-pong effects where things go back and forth between us and the advisors as we try and sort this out. It's a bad experience, and it causes a lot of friction in the system.

So as you can see from the graph, we've taken it in half, right? We've cut it from 13% down to about 6%. That's a pretty big shift. How did we do that? We leveraged data and analytics. We look through why are we getting the NIGOs. What are the things that are bottlenecks and challenges in that process? And how do you fix those things? We focused on the advisors. We focused on our processes. We automated things. We made policy changes. We changed the training for both sides of the equation, the advisors and us to try and drive these rates lower. Why is this so important? When you improve the NIGO rate, if you remove that friction from the system, it saves the advisors time and their day. They have less rework. They have less egg on their face if they have to go back to the client. It also saves out LPL money. It also is a much better experience for both groups.

The other thing you should take is the process that we went through with the NIGOs, we're doing the same thing with all of these KPIs and all of the rest of them that we're not showing here. We're really digging through the process and leveraging the data and the information we have to make them better. So who benefits from all of this? Well, I'd like to say the advisors and LPL benefit for it. What we do know, using our data, is that advisors who leverage our platforms, who leverage our technologies, they have lower error rates. They also call us less. They don't need us as much. They actually -- things just process right away. It reduces the time and the need for them to go back to their clients. It also means less administrative work. I think you've heard that a few different times. That concept of reducing the amount of the administrative things that you need to do on a daily basis allows you to spend a lot more time with your clients and growing your business. That's really important for the advisor.

For LPL, the better service experience allows us to market this to prospective clients. People like John. It also allows us to retain our current advisors because they're having a good experience. And when you're having a good experience, you really don't want to go someplace else. It also makes our processes a heck of a lot more efficient and eliminates a lot of the costs associated with it. So it's a win-win for both sides in the equation. And I can tell you, our team is very dedicated to making it easier for advisors to do business with LPL. And at the end of the day, it makes it easier for them to serve their clients.

So in summarizing, we're really changing up the service model, and it's really about driving growth and efficiency. That's really where we're focused. We know we will need to be much more proactive and consultative with the advisors. We need to be adding that value to their day. Data is key to



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how we're going to work our way through that. We're going to leverage the analytics. We dive through the information on a daily basis, and we're really looking to maximize the value.

So with that, we're going to open it up to questions and answers. I'm going to invite Burt and Scott to come back up on stage, and we'll take your questions.

## QUESTIONS AND ANSWERS

### Unidentified Analyst

So on ClientWorks, I appreciate it's probably a very big upgrade for LPL. How does that platform compare to your competition? So that's part one of the question. Part two is what kind of impact should we expect in terms of your growth in all of these investments you're making intact?

**Scott Seese** - LPL Financial Holdings Inc. - MD & Chief Information Officer

I'll take the first part. The way I would think about this is if we think about our 14,000 plus advisors playing and winning in the local markets, our platform enables them to basically play and win in those local markets, which completely differentiates us in a way that enables our advisors. Now it's scalable for the future, and it's extensible with everything that we just talked about. So that's what I think is most relevant in your question is how do we help them win in those local markets.

**George Burton White** - LPL Financial Holdings Inc. - CIO and MD of Investor & Investment Solutions

Yes. And I think the second part of your question is how do we quantify the elements of some of the investments and the innovation that we're making? And how does that going to translate into growth? I'll maybe get my friend over here, Matt Audette, to take a little bit about that. I know he's going to spend some time later on giving you some highlights on that, but just atmospheric because he'll give you details on that a little bit, just atmospheric. Listen, when you look at doing all the investments that we're making, [themes] and data, our official intelligence, systems, you begin to think about bringing costs down. You begin to think about how you're making advisors more productive in their day. Now as we showed you the winning advisor of the future, we think that they're going to have, a few years from now, twice as many clients as they do today. Just imagine that element of what that kind of growth looks like. So you have an opportunity to see practices have vastly more clients because they can utilize the scale to turn this into a really scalable market for them as they begin to draw off of more services and do that for more clients. And so Matt is going to share with you a little bit of some of that, how it translates into growth. We just from an atmospheric perspective know that all of these innovations and investments that we're making are going to really enable our advisors to be able to grow and do so with less cost and more effectively and more efficiently.

### Unidentified Analyst

Question on the virtual admin service that you -- it sounds like this was rolled out recently. Can you just maybe talk a bit more about what advisors are using that most for? What percentage of advisors are starting to use that? How they pay for it sounds like they pay a la carte. And then, I guess, bigger picture if you can, you have \$1 billion of costs that they're spending. Do you have any sense of maybe how much costs you can take out of the system? What I'm really trying to get at is, is it clear that if they use this which sounds interesting, and maybe innovative, are they actually saving? And so at the end of the day is it worth paying whatever that cost is.

**George Burton White** - LPL Financial Holdings Inc. - CIO and MD of Investor & Investment Solutions

You're running that you want to take the first crack at it and we can tag team it?



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**Thomas Gooley** - LPL Financial Holdings Inc. - MD of Service, Trading and Operations

Sure. It's a multi-subscription fee right now. We're in pilot mode. We're starting at a little -- we're starting in a method that we can make sure that we can scale it appropriately. One of the interesting components that we have seen from virtual admin is that I was talking about NIGO rates just a minute ago. Their NIGO rates. People using the virtual admin is about half of the normal rates so it drops pretty precipitously. And it's a much more effective way for them to manage the overall process. Keep in mind, we train them, we teach them how to use all of our infrastructure, all of our systems, so it's kind of an admin in a box for the advisors, they step in, they can make the phone call they get the same couple of individuals that they get to talk to all time they build that relationship. It's just a -- it's a very efficient and an easier model for them. So it's a little bit dipping the toe in the water and try to learn and understand how it works in rolling that forward.

**George Burton White** - LPL Financial Holdings Inc. - CIO and MD of Investor & Investment Solutions

Yes and we're early on it and sort to think about how scalable that is clearly when you look at large practices like Kenny and Judy and Johns and others, they've built an infrastructure to be able to support a lot of those. But we've got an enormous amount of advisors across that are 1-advisor practices, 2-advisor practices. If their administrative assistant goes out on vacation, they don't have any administrative help for that week, right? And so it's a component piece to think about how you can utilize it. You can utilize it as your sole-administrative service. You can use it because you need it because your administrative help goes on vacation. Your administrative help goes on leave for a couple of weeks or whatever the case may be and so those component pieces allow that, so we're still working through exactly the application, but we see great, great promise for us.

**Thomas Gooley** - LPL Financial Holdings Inc. - MD of Service, Trading and Operations

Just another little thing just to add onto that. One of other things, as we've seen, is that some advisors aren't using it to replace, they're just taking their administrative assistant and letting them do different things and they're using this more for the administrative and the transactional side of the process.

**George Burton White** - LPL Financial Holdings Inc. - CIO and MD of Investor & Investment Solutions

Yes. Last piece on that sort of ping-pong on this one. Last piece on that is when you think about trying to run a practice and you're a 3 advisor practice and you need 4.5 people to help with the administrative help, it's tough to hire a half of admin help and make sure that they're really effective and trained. In this piece, you can begin to think about how you utilize these and more importantly, how you redirect them. And so now you begin to think about redirecting some of your administrative help to become junior advisors, begin to service the smaller accounts, which frees up your advisors to not handle smaller accounts but to go after bigger accounts and serve those, right? And so you could see how this is a cascading opportunity, and it's one that we're excited about.

**Unidentified Analyst**

When you were going over those new modules, it's definitely a big upgrade to the ClientWorks. Although when you -- as may be a counterpoint when you described the new -- the tax laws harvesting and the financial planning modules, I could think of a third-party provider that already does that at a very high level, which has been very well received like Black Diamond doing portfolio management or e-money advisor and (inaudible) plan doing financial planning. And so how would -- will your in-house solutions stack up against those third-party tools? And also will the advisors still have the option to integrate third-party tools with ClientWorks? Or is it more closed architecture? And third, will you charge incrementally for these tools as you develop or will they be wrapped into the -- which would obviously be a value to them if you wouldn't charge as much. That's a big question but take all...

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**George Burton White** - LPL Financial Holdings Inc. - CIO and MD of Investor & Investment Solutions

Yes. I think that somewhere between you and I on that one. So I don't -- so I'll start with that. Yes, right? So things like account aggregation, things like goal space planning and others, those aren't new. There are services that are out there that provide those. There's an element for our strategy, as Tom and -- or as Scott and my teams work together of us building some in-house, renting some and for us, building some, right? So for some of these, we're actually going out and partnering with very established and good services, right? To be able to fast-track those in. Because that component piece is not where we're going add our value. We're going to add our value, which is where I think this is different is it will be integrated within the workflow, right? And this is where you get back to this -- the second piece of the system we are talking about, lowering costs. The second one is seamless workflows. You don't recognize it with this ability you'd actually go and say, well I got to rebalance today let me go and pull out the other platform and double-click it, and enter the data, rebalance it, print it off, translate it over the trading system, and log it in, and trade it. That's not efficient. And if you have to do that across hundreds of accounts, that's difficult. So what we're -- the magic of what we're doing is not the fact that we're going to create an account aggregation that aggregates accounts better than account aggregation services. I think the magic of ours it is it will be integrated. And it will be integrated within the overall ecosystem to enable it to have that. The second thing that I would say is that there are elements of -- when you think about an end-to-end environment, you want it to use the same language. So it actually looks like it comes from the same company and it's connected, right? So we utilize the same component pieces. And that's what's key about this and that's what drives that workflow. So as it relates to that, I think that -- that we feel good about that capability set. I think the second question you have was about the integration and utilization of third-party technologies. Maybe you want to take the first stop.

**Scott Seese** - LPL Financial Holdings Inc. - MD & Chief Information Officer

I just want to build off of that with having the platform with end-to-end tools and connecting to that conversation that happened earlier, enabling the advisors to have more efficiency. If you have a platform with end to end tools that brings the experience forward, that's one thing. If you have tools on opposite ends that now you have to go do the work to bring that experience together, that's a completely different thing. Procurement of choice is an option. Our option brings the experience together and ties into that earlier conversation around efficiencies that can be brought forward. So it's a choice. But I think it becomes an obvious choice as we look at that.

**George Burton White** - LPL Financial Holdings Inc. - CIO and MD of Investor & Investment Solutions

Yes. And so as far as third-party stuff goes, we have many third-party applications that our advisors utilize all the time. We utilize our scale to try to bring and make those as effective and from a cost perspective, down as best we can for them. But the reality is they use those all the time. I think the reality is that what we're hearing is this end-to-end piece is what's really, really important and we're going to build on that. The last piece of your question, I believe, if I wrote it down right, was about the charging for those. And yes, right? I think as you begin to think about adding in some of these premium services and you start layering those in, some of these premium services, you might build within the already built container. And you might go and say, "This is a piece of the container." So something like goals-based planning would be something that would be built within the container. But if you look at something like the tax management overlay, right? That's a component piece that will be a premium service that will have a separate revenue stream attached to it because that's a whole another level of value. That sits on top of the centrally-managed platform or the advisory platform. That would allow advisors to go out and talk about a brand-new offering, right? So to go and say, "I can offer to you this bundle of essentially managed opportunities and invest your assets and rebalance it and trade it and do all wonderful things for you, but I can also manage your taxes on a personalized basis and make sure that your tax lots and your trading is done optimized and I believe that I can deliver to you tax alpha." I think if you look at a lot of the studies out there, tax alpha is generated somewhere between 50 and 150 basis points. That's meaningful, right? That adds value, and that value will not only add to the sort of the relationship and the services they provide, but it will add a revenue stream. So these component pieces of additional services sit on top and will in many cases be opportunities for our advisors to drive more revenue for their business.

**Thomas Gooley** - LPL Financial Holdings Inc. - MD of Service, Trading and Operations

We have time for one last question. You had your hand in the back.



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### Unidentified Analyst

Just a question on the technology portfolio. Project spend, I think you were mentioning earlier, it's a \$77 million growing in a 15% CAGR. So just a three-part question on there. One, how much of that is to maintain the platform versus actually grow the platform and to expand the business? And then second, where exactly is that being spent? Is that mostly headcount? Just any color you can sure on that front? And third, why \$77 million? Why not \$100 million? How do you know you're investing enough in the business? And how do you think about the growth rate going forward?

**Scott Seese** - LPL Financial Holdings Inc. - MD & Chief Information Officer

Yes. So first part of your question, that's all development. The whole run budget is not in that. That is all development. And as we shared with you, we are continuing to invest in raising the level of investment. And I don't think we ever share exact numbers but what I can tell you is that it's going up. And the second point I want to bring you back to and the message is that density shifts from being not just poring over the technology from the utility to the strategic asset, but because that doesn't repeat, all of that portion of it frees up to go even more towards growth and everything else. And what we spend it on is your typical, the building of the capabilities, the writing of the code, the partnering of the third parties and the hardware and the software that necessarily brings it together and the data centers that it runs within as you put the capital against it, it's typical. Key message is that it's going up and that the density is getting even better. Let me stop and pause and see if I answered your three-part question, or at least I got the first 2, I think.

### Unidentified Analyst

More around the piece of acceleration as you look out from here your do you see it accelerating further? First I think you said 15% CAGR, just do you see that accelerating to 20% looking out?

**Scott Seese** - LPL Financial Holdings Inc. - MD & Chief Information Officer

I'm going to defer to Matt here.

**Thomas Gooley** - LPL Financial Holdings Inc. - MD of Service, Trading and Operations

What a great segway. So thank you for your time. We will be in the back and we'll defer all questions to Matt, but we'll be in the back afterwards to answer any additional questions. We're going to take a quick 10-minute break and then Matt will take us home. Thanks.

(Break)

## PRESENTATION

### Unidentified Company Representative

Please welcome back, Matt Audette.

**Matthew J. Audette** - LPL Financial Holdings Inc. - CFO and MD

All right. Thank you. All right. We're almost at 3 hours, so we got -- we got home stretch time here, so one more section to go. And what I'm going to talk to you as I talked about at the beginning of the day is take us through how we see everything that you've heard from the team about today, how we translate that into driving value for you, our shareholders.



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So a little bit of reminder. I start the day talking about a little bit of context on where we were when we last met. So now I'm gonna give a little bit of a longer view. So if you think through the 4 things on the screen on how our strategy or our successful strategy will translate to value. We want to grow assets, right? So we're going back over the last 3 years, assets up 10%. We want to grow the revenue on those assets at a faster pace, you don't see that up here. We grew assets at 10%. We only grew revenues or gross profit at 6%. So there is a bunch of things going on in the business that led to that. And a lot of things that you heard today on how we aim to, at least, improve that trend going forward. Then we want to take that operating leverage and translate it into EBITDA at a faster pace, up 17% versus at 6%, right? And we want to combine that with our capital allocation to drive even more value. EPS up 19%. So these are the long-term trends of success that we're focused on delivering and improving over time.

Now if we turn to Slide 65, so operating leverage. So you see us talk through and focus on this concept a lot. So if you look at the charts, the orange line across the page, that's our return on our assets coming down from 28.5 basis points down to 26.8. But our operating leverage or our EBIT ROA is improving, right? 7.2 basis points in 2015 up to 8.5 in the last 4 quarters. And how did we do that? We've driven expenses down at a faster pace: 21.4 down to 18.3 basis points while investing for growth. All the things that you've heard about today, those areas we've invested more. So it's that productivity and efficiency that's coming through. And these again are another key concept to how we measure ourselves and whether we're being successful.

So let's turn to Slide 66. So I started the day talking through the 7 things that we wanted to leave you with today. And what I'm going to do in my section is I'm going to walk through how these 7 items drive financial outcomes for us. They're not surprising items, market growth, interest rates and market levels, drive value on our business. Organic growth, net new assets but also the return on those assets. And then bringing that down to discipline and expenses, delivering operating leverage. Then taking the capital that we generate to drive even more value and then capitalizing on the opportunity that we see in M&A. So this is what I'm going to go through.

So let's start, Slide 67, let's start on interest rates. Left-hand side of the screen. And you've seen us talk through this a lot. We have -- we are self-clearing. We have the benefit of cash and the benefit of our suite program that we capitalize on increases in those rates as interest rates go up. And we've talked a lot about the deposit beta, so sensitivity of the ultimate client on expecting a higher-interest rate when interest rates go up. And we've talked a lot of about that deposit beta being about 50% but us thinking it's a little bit better. So what we've done here today is give a little bit more precision on how we view that. And the takeaway here is in this first bullet, the lower deposit beta, the higher our earnings are. And the less sensitivity is on that cash. So if you look at the last couple of years, we've had 3 interest rate increases. We've seen how our advisors have behaved. We've seen how those clients have behaved and we've got a little bit more precision and a little bit more confidence that, that upside is better than that 50%. That, that upside is better than the \$35 million that 50% would imply.

Now I wouldn't take this as overall or take it too precisely that -- we don't think 24% is possible. If history is a guide you go back a decade probably a 20% deposit beta would be the most informative. But what I take away from this is we think there's, even more, upside on cash sweep given this dynamic. So that's interest rates.

Now let's move to the markets. So if you look at our overall assets, so that \$560 billion. Let's just use the S&P's as a proxy. As the S&P goes up 100 points. When you think through the sensitivity of our assets -- the mix of those assets, there's about a 60% correlation. And for those assets that go up, so that's 60% that's correlated to the S&P, about 50% of them have revenues driven off the AUM size. So we put all of that together, for each 100 point move in the S&P, it's about \$20 million of gross profit. So just think over the long-term about the market-driven benefit of our model, say Fed fund is up 100 basis points. So you're in the low 200s of Fed funds and the S&P up 400 basis points. You start to sniff [3,000] put those 2 numbers together before we've ever grown anything before we've driven any organic growth. It's pretty powerful. Now, let's talk about net new assets or organic growth. So this is something you should be pretty familiar with. This is -- we put this chart out each quarter, and it shows our growth in net new assets so overall assets. What's the key here? We are growing. And what's our best growth quarter in the last 2 years? Our most recent one.

Now if we dive into that, where are our assets coming from? Advisory: Blue bars at the center of the page; brokerage: Dark blue on the right. As you heard from Dan, our business is continuing to shift to more advisory. Gross flows: 75% coming in are coming into advisory. These are the net flows. Best advisory quarter in the last 2 years? Most recent one: \$6.9 billion. And when you look at the flows in the movement from brokerage to advisory, we showed those as outflows here, inflows here and you can see the numbers down the bottom, about \$2 billion a quarter. Now how does that translate in the financial outcome? So let's go to Slide 70. I want to do 2 things here. So if we take the percent of our assets that are in





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advisory, they're 45% today, and Dan talked through 2 things, when you look at where the industry is, it's about 65% advisory. Broadly, we earned 10 basis points more on advisory than brokerage. You heard Burt talk a lot about why, there's a lot more to do, a lot more value that's added. We generate more value for the advisors, more value for us. So just take our \$560 billion of assets at 65%, it's an incremental \$100 million of gross profit.

Then let's say where does this possibly end? Does it end at that 75% where we're seeing our flows today? Where the industry is projected to end. 10 basis points, \$150 million. Then say within that, let's talk about the mix and centrally managed. You heard a lot about that; where it is today, how we're investing that to make it even better. Centrally managed earns about an additional 10 basis points. So I think brokerage to advisory is 10. Advisory to centrally managed, another 10. About 12% of today's advisory assets are in centrally managed.

As Dan highlighted we got about \$1 billion of net new flows, actually a little bit over \$1 billion of net new flows per quarter. So say round that up to \$5 billion, it's about 2 percentage points. Let's just say that 12% goes to 20%, that's \$20 million of incremental gross profit.

Then bring all of this together, the interest rate increase, the market increases, the advisory shift, centrally-managed platforms, we've done all those independently. Imagine a world where the markets are going up, net new assets are going up, the advisory mix is going up, centrally-managed platforms are going up. You guys are very good at it you can do the math. It gets even better. This is a 1 plus 1 could equal 3.

So if we move to Slide 70, so we talked about the return on assets, we've talked a lot about how those returns are coming down and they've been supported by the growth in cash, which is the orange bar. So everything else has had a little bit of pressure. What are we doing to do grow that? So you heard Dan talk about the vision. You heard Burt talk about the specific things that we're doing. But where do those show up? So new solutions that transform the front office performance, virtual admin, new service, new returns. The ROA on that today is 0. It can only go up from there. Asset custody. So it's revenue sharing, recordkeeping. Revenue sharing in the mutual fund-only platform. That's us doing procured choice. So the revenue share from the sponsors will go up. Centrally-managed platforms so the record-keeping opportunity on the custody side, more mutual funds, more record -- more ability to take advantage of our record-keeping capabilities. So advisory services, the brokerage to advisory trend that we talked through. We've invested a lot of capabilities to make it easy to move from brokerage to advisory if it makes sense for the client. Portfolio construction, centrally-managed platforms; Burt spent a lot of time on that. Separately managed, where you can create a basically a unique mutual fund using single named stocks for our clients. Guided wealth portfolios, so the smaller accounts for our Robo platform. And then down to the bottom. So risk management. So the outsourcing of risk in operations; whether it be on the corporate platform at a compelling price or in the hybrid platform if you're a large advisor?

So there's a long list of things here. And if we can be successful in this, we feel confident we could improve with that trend. Maybe not tomorrow. There's a lot of things, a lot of things we talked about they're coming next year. But as we see and look at those items, and we look to the future of the advisor practice and us being able to serve it, we see this improving.

So let's move on to expenses. So Slide 71. So productivity and efficiency has been a big driver of this trend coming down, 21 to 18.3. And core G&A is the biggest part of it, so the blue bar on the page. So let's talk a little bit about that.

If you go to Slide 72. So our core G&A growth, left-hand side of the page, if you go to 2015 and prior, it was in this mid- to upper single-digit percent zone. We really focused using various things and mostly the management system that Dan walked through to really focus on making sure we were doing 2 things: Driving operating leverage but also prioritizing investments for the long term. We needed to do both. We can't just reduce costs to be able to print operating leverage and then sacrifice the future. We needed to do both.

And we did that in 2016 with keeping expenses relatively flat. We decided to spend a little bit more in 2017. You can see our initial plans were in the \$710 million to \$725 million zone. We made the investments we wanted to make this year but efficiency and productivity has gone better than we thought. So we are -- we expect to land in the low end of that range.

Now we talk about 2018. So it's a little bit early for us to have an outlook. We plan on having that at our next quarter earnings call. And you've heard the word investment a lot today. We are going to focus on investing while delivering operating leverage. So I won't give you an update but I think when you think about when you've heard are today, it's in this zone. It's in this zone of growth, we're not heading back there. It's going to be in



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this zone of growth. We just need a little bit more time given the size and complexity of bringing on NPH and make sure we're comfortable with those expenses.

All right. So let's turn now to capital allocation. So I want to start with a little bit of context on how we view our capital management principles. So at the top, the statement is obvious I think. It's disciplined capital management to drive long-term shareholder value. That's what we need to do for you.

Now how are we going to do that? First and foremost, look at the second bullet. Maintain a strong and flexible balance sheet. I'm going to go through this in a little bit more detail. We spent a lot of time this year on positioning the balance sheet to be ready to support growth, whether organically or inorganically. And we think it's there. We also want to prioritize investments that drive organic growth; whether it be net new assets or all the capabilities that we talked through today, we want to make sure the balance sheet is ready and positioned to do that and allocate capital to it.

Next position ourselves to take advantage of M&A. You've heard it several times today. We think that is an opportunity in our space. And what we've learned so far in the M&A that we're doing right now just furthers that conviction.

And then finally, we need to return capital to you, whether it be share repurchases or dividends. That is our construct. Now when we think about how we view the value of those things? When you look on the right-hand side of the page, organic growth, we see as the highest ROI, the highest. So we prioritize that first.

M&A a close second, right. M&A may come tomorrow may come a long time from now you can't predict that but we think the ROI on it can be quite high.

So let's go to Slide 74, let's talk a little bit about how we positioned the balance sheet looking specifically at our debt structure. So if we look at the left side of the page, if you go back a year ago and you look at the light gray bars in the page that was our debt structure then. We had near-term maturities. We were entirely in the Term Loan B market. It was expensive. We borrowed at LIBOR plus 400 and we had financial maintenance covenants that could restrict what we could do. So we did 2 refinancings. And if you look at the light blue bars, we're now in the bond market, \$900 million with maturity out in 2025. So we have access to twice the level of liquidity. Term Loan B is now at LIBOR plus 225 reduced by 175 basis points. And it's covenant-lite; meaning no financial maintenance covenants other than on our revolver, which is the blue dotted bar, which is \$500 million and remains undrawn to support future liquidity needs.

Then you look at our level of debt, so our leverage. So you look back a couple of years ago, we were targeting 4x leverage. We were just under that, went through a period of a bit of volatility in early 2016, repositioned ourselves or repositioned our target to 3.25x and 3.5x. And through disciplined focus on delivering operating leverage and EBITDA growth, we've nicely come down and we are now positioned right below our target range.

So if we turn to Slide 75 and just a little bit of history on where the capital is going. So we have been a consistent repurchaser of shares. If you look on the upper right-hand corner, so since we've been a public company we've returned \$1.3 billion and reduced our share count by 20%. And we paused a bit in 2016 with the volatility. But we started up again this year.

When you look at our dividends. \$1 per share per year has been our recent trend. Even with the earnings growth, that payout ratio is at 42%; twice the average of other financial institutions in the S&P. And then we got into the M&A market again, that \$325 million represents the initial payment we made on NPH. So we're disturbing a lot of our capital.

Now if we turn to Slide 76 and just to summarize how we view the capacity we have today. So let's start from the bottom-up on the left-hand side of the page. Let's start with just our excess cash. We had over \$0.5 billion in cash on our balance sheet at the end of the third quarter. We targeted keeping around \$200 million of that. So when you think about how much excess cash do we have? It's about \$300 million.

Then you move up to the lighter blue, we're under our target leverage ratio. So let's just use the upper end of that range, 3.5x, we've got incremental capacity of \$100 million.



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Then let's talk about NPH. So that range of expectations of EBITDA from \$75 million to \$100 million will increase our capacity 3.5x that by \$250 million to \$350 million. Then if you said okay, let's just think about M&A. What is the capacity we have to use all of our capital for M&A and you get the acquired EBITDA to support the debt structure for that. So we said, look, if we trade generally at 10x. We did a recent deal that it will be somewhere between 4x and 5x. So just for illustrative purposes, let's pick the midpoint, 6x to 8x. If you take all that capital. What does that inform or what does that mean for capital deployment. It adds between \$0.5 billion and \$1 billion for a total of \$1.2 billion to \$1.8 billion.

So let's connect this to Dan's point. We are focused on the acquisition that we're integrating right now. But from a balance sheet standpoint and positioning ourselves, if there's an opportunity there when the operational capacity is there, we are positioned to take advantage, we believe, of the things that we highlighted in the market today from a capital standpoint.

Okay, so one final item. So let's talk through clarity and transparency of our results. So we spent a lot of time on this the last couple of years. We made a lot of changes last year from things like ending adjusted earnings to starting monthly metrics. And then this year, we've made a few enhancements including expanding those monthly metrics to include net new assets. We want to continue to evolve to things that are important to you. And the one I want to talk about today is sliced in half, of course, but its EPS prior amortization of intangible assets.

So if we go to Slide 78, on the left-hand side and you look at our last -- our trailing 12-month EPS, it was \$2.35. But that included \$0.25 of intangible amortization from about a decade ago from our LPL. Noncash charge. Then you look at NPH, and again using the estimates that we laid out in August, we estimate \$0.25 to \$0.40 of EPS, but there's \$0.15 of intangible amortization there. So prior to that, it's \$0.40 to \$0.55. So when you look at our pro forma results together, you're starting to get a pretty meaningful percent of that. Amortization of intangibles. So when you think through the construct of our results, GAAP EPS is what we are accountable to. It is the bottom line results. But if you look over here on the right, just adding EPS prior to amortization, it gives a little more insight into our core performance. I know it's a pretty easy thing for you to calculate on your own. We'd like to make things a little bit easier, so we're going to add this to our metrics going forward just to make it clear that we think it's a way that we look at the business as well.

Okay. So bringing us home here, so Slide 79. So just a reminder, our strategy, where we started the day. It's simply to grow our core business and to do it while executing with us excellent. Delivering the efficiencies, embedding quality and innovation in what we do, it is unchanged. Everything that we've talked through today really supports a place on this page and we're excited about delivering it for you as we move forward.

So we got a little bit of time for Q&A, so I'll turn it over to you guys to fire away.

## QUESTIONS AND ANSWERS

### Unidentified Analyst

Matt, so you highlighted a lot of revenue levers and gave some earnings sensitivities which were quite helpful. But one of the items that you didn't really touch on in depth was the mutual fund-only solution. I don't know if you can give us some context as how we should think about the potential earnings benefit associated with that launch?

**Matthew J. Audette** - LPL Financial Holdings Inc. - CFO and MD

Yes, so we could -- a little directional. So I think when you think about mutual fund only, it's -- and think about in the construct of our direct business where if brokerage has an ROA in that low 20 zone within that, the assets that are held direct with the sponsors are on the low end of that average. So they're well below that 20 basis points. So when you think about mutual fund only, if we can get those assets onto that program or onto that platform, so put aside the net new assets that would come with it, just think about the \$50 billion that's on that platform, it's going to be an upside lift or revenue lift from there. So I don't have a specific number for you but I think if you think about the weighted average of the brokerage ROA in the 20 basis points, it would be a slight improvement to that overall if we can get that \$50 billion onto that platform.



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### Unidentified Analyst

When you gave the guidance for these on Page 69 here, I'm looking at the glide path issued to more towards centrally managed platform opportunity set in these portfolios, what are you assuming in terms of some of the premium services that was a thread throughout most of the discussion today? Is it just sort of today's economic times the change in the assets? Or is there any kind of build-up here for the opportunity sort of to cross-sell higher premium product?

**Matthew J. Audette** - LPL Financial Holdings Inc. - CFO and MD

Yes. So this is today's returns. So if we just take today's returns, brokers to advisories an incremental 10 basis points, within our current centrally managed an incremental 10 basis points. So the things that Burt talked through and those incremental value-adds will be above and beyond.

### Unidentified Analyst

Appreciate all the color on the leverage you have to improve the gross profit ROA. I think one of the points of confusion is that though those levers are there and have been the ROA has been coming down, maybe even more so if you exclude the cash sweep which is sort of I think it's at least a little bit separate. Can you just talk about what has been driving that? And what will lead to that inflection point? Because if we go through the numbers there are a lot of big drivers here and it's clearly being overwhelmed by the some of the other stuff, maybe on commissions. Can you just talk about that and what the timeline for them might be?

**Matthew J. Audette** - LPL Financial Holdings Inc. - CFO and MD

Yes, sure. I think when we -- if you look back to Slide 70. If you look at the bottom of the page, this is our -- this is basically the net commissions or GDC. That's where really where that brokerage to advisory shift or the specifically within brokerage that shift from upfront sales commissions to more trailing commissions over time. The shift out of alternative investment products, which had high upfront commissions, you've really seen that flow through. And where we're positioned today is the brokerage business has become more recurring. So that's a big driver of it. You also see that show up on the revenue share side, which is the component of the lighter blue bar. So from a record-keeping standpoint, you really see that grow with advisory. But from a broker side, you've really seen that -- you've seen that effect and that come down. So those are I think the big drivers of the history. I think the -- our optimism and excitement about how this moves forward is really grounded in how you heard everyone prior to me talk through those solutions. We don't have a timeline on it. I think we feel confident it's going to improve. Things like virtual admin that are in pilot today, a lot of the things Burt talked through that are going to be launched next year. So I think we need to deliver, and we need to show you, but that's what gives us the confidence and that's what gives us the excitement.

### Unidentified Analyst

Matt, just a question on the digital kind of Robo capability. I believe it's guided wealth. I guess, I'm just curious to hear some details on how advisor adoption on that platform has been. And then how on average has that changed the economics between the advisor and their clients?

**Matthew J. Audette** - LPL Financial Holdings Inc. - CFO and MD

Yes. So I think it's early. I think similar to how we talked through virtual admin, so we start with the pilot of the guided wealth portfolios last year. So I think it's early. I think the key thing I'd take away from it is what Burt talked about. When you think about from an advisor standpoint, the different choices and options that they have for their clients, guided wealth portfolios being smaller balances, lower-touch type of accounts to be able to have that as an option and for them to deliver I think is the key thing to take away from that. Dan, you're anxious to add something? Sure, fire away.

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**Dan H. Arnold** - LPL Financial Holdings Inc. - CEO, President and Director

So I think with respect to guided wealth portfolios, it's actually -- we have the first solution that is actually being leveraged or offered via advisors. So there is a learning on the part of the advisors as to how best position this within their practice, how to utilize it, does it give them access to new clients or is it a leverage point for their smaller clients? And we are seeing -- we rolled it out in late August so it's now available to all advisors and we took it out of the experiment mode. And I think you're beginning to see advisors try to figure out and learn how to best leverage the solution. And I think that is going to be a very deliberate path because there is a learning curve there. I think you're going to see certain advisors use it much, much more extensively than others. And I think like most services, I suspect, and Burt you can correct me if I'm wrong, but 80% of the assets will come from probably 30% of the people that use it, if that makes sense. And we don't know yet. So it's a learning mode. We do think it's a really important leverage point. We think it's a source of what I'm going to call first-generation artificial intelligence that will lead to greater and greater utilization of those types of capabilities in an advisors' practice to expand the value proposition and to drive a better experience for the client. And so I think we'll define success as we learn with advisors how to best leverage it and what it leads to in the future in terms of new capabilities. And I think we are seeing positive growth in terms of assets. But on a relative basis to these other platforms, it's very, very small at this point. Does that answer your question?

**Unidentified Analyst**

Matt, maybe just a question going back to the corporate RIA fee cut that you disclosed today. Which it's interesting, I'm sure some of the advisors in that program are going to like that. So I'm just curious how you feel like you now compared -- does that cut get you to kind of in line with some of your big peers there? Or kind of how you feel like competitively what position that puts you in? And then when you just think about kind of large RIAs, I'm just try to think about the cost. Because obviously there's a little bit more cost to them to be in this platform but their getting all the services, the risk management, some of the benefits. So is there kind of a breakpoint where it -- the cost if you have enough assets it's still too much? I'm just trying to think about kind of all that together in terms of what drove the change because it seems like it could be good in terms of bringing assets in?

**Matthew J. Audette** - LPL Financial Holdings Inc. - CFO and MD

Yes. I'll start. I think the architect over here on my left may want to add something onto that. But I think when you think about the cost of making the choice to be on the corporate platform, to outsource that risk, to outsource those operations. I think what we're focused on doing is making that a difficult choice to do it yourself. So broadly you think about the incremental cost around 10 basis points and apply that to the size of your practice where those returns of doing it yourself would need to be compelling. You start to -- you can start at the \$50 billion level. The cost to get a compliance person or someone to do that work at that level, you're almost breakeven depending on the market that you're in and the cost of those resources but you've taken on all the risk. So I think the main focus is just using our size and scale, making that a difficult choice to not be on the corporate platform.

**Dan H. Arnold** - LPL Financial Holdings Inc. - CEO, President and Director

And when we say difficult choice, that's not a negative thing. What we're actually trying to do is create a real opportunity for advisors not to have to take on the operational work or underwrite that risk themselves and be empowered by leveraging our scale to help them do that. It frees up again time for them to spend their time on perhaps bigger and more important activities. So when we say difficult choice, what we're meaning is really compelling value in our corporate RIA. That said, there are advisors that choose the hybrid RIA for a variety of different reasons. Some of it is economic in nature, and that's what this addresses. But some of it also is just the uniqueness of their solution and they want to actually have more flexibility in perhaps how they market their services or certain investment strategies that they use. And we realize that, that -- there's still a great demand for that. We want to be able to fulfill that and create value there. And so again, that's why we would have the hybrid RIA, complementing the corporate RIA. We want to make a compelling value from an economic standpoint on the corporate RIA, we want to have all the functionality and capability on the hybrid such that we're going to attract that wide diversity of advisors that may use any of the platforms for a variety of different

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reasons. But in this case, our investment is clearly to create a more compelling value on the corporate RIA, which is going to have advisors that have made the economic choice to use the hybrid think about that differently going forward. So hopeful that...

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#### Unidentified Analyst

Do you have any estimate in terms of how much hybrid could come over as a result of that, because it's obviously -- it seems like that's the calculation here and so, it could be potentially compelling in terms of bringing that rate down so I was just trying to think about that.

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#### Dan H. Arnold - LPL Financial Holdings Inc. - CEO, President and Director

Yes. I think we understand who's using it and the volumes that they're using it, it would be -- I would be remiss if we got out and had overly precise thoughts on exactly around what would come over. I will tell you some of the experiences that we've just seen in this first week of rolling it out, we've seen a number of advisors that were contemplating -- thinking about going hybrid RIA. Actually stopped that process because this solved an economic question for them, which is a way to generate returns on this. I think the other things that we've seen is some people that were already hybrid begin to ask the question, "Hey, can I come back to corporate now that you've closed that gap. This is a good trade for me to reduce the risk that I'm operating under and ultimately come back to the corporate." But it would be too early to be overly precise on that. But that is some sort of anecdotal evidence that we're seeing of that behavior shifting.

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#### Ravi Chopra - Azora Capital - Analyst

Ravi Chopra from Azora Capital. I have 2 questions. The first is this. You did a good job laying out growth prospects for the company going forward. I think as investors, we've appreciated that the company had a headwind from lower-interest rates. As they normalize, there's a big gross profit tailwind. We appreciate the cash flow that the company generates and now you have introduced this concept of M&A as potentially another growth avenue. So the question is this, ex-market as you laid it out on the slide really just organic growth, when you put together all the pieces you put on those slides, how do you think about over time what the organic revenue growth might be annually for the company ex-market and what the inorganic revenue growth might be for the company? That's my first question. And then the second one is you're now in the enviable position of pro forma for NPH being about half a turn below your target leverage levels. How do you get back to your target? Would it have to be through acquisition? Or could you see adding debt to your capital structure?

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#### Matthew J. Audette - LPL Financial Holdings Inc. - CFO and MD

Yes. So 2 great questions, [Ravi] I think on the revenue growth from here. We don't have guidance on that. We don't have precision on that at least from externally. You can imagine that we have a plan and what we're focused on delivering. And I think the key for us is to highlight the things that we're doing to improve that growth. That's been a lot about what today is. We need to execute on them. We need to deliver on them but the opportunity is absolutely there if we can execute a good product and a good service for our advisors that use it. I don't have a precise number, but I think we can improve it is our main goal. I think on capital allocation, we view leverage in the target leverage as the target. So if we're getting there through if you look at our EBITDA growth -- the only way -- in fact the only way or the primary way we can get there would be more debt to fund whatever activities we think might make sense. And I think they key, if we went -- go back to that slide is what the ROA that's going to come from it? We view organic growth as the primary driver of ROA. When you take organic growth in the investments you would make just in pure dollars, those are typically going to be the smaller things versus M&A would typically be larger. So it all just depends on where M&A comes through that. I think when we look at share repurchases and where our stock is trading, I don't know where it is at the moment but where it was yesterday, it is a compelling value from our perspective to buy back those shares and deliver value. So it's just -- it's dynamic. We'll see over time. But I think if ultimately the question is we think we've got a good way to deploy capital. And the only way to do that and to get to our leverage ratio is to borrow more well than be what. And the balance sheet is positioned to do that whether it be in the bond market or in the term loan market.

All right, we got time for one last question. All right I'll do 2 if you're both quick. Go Conor, that's the deal. Then you can mess with him by going long, so you guys have to work that out.

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**Conor Burke Fitzgerald** - Goldman Sachs Group Inc., Research Division - VP

I just want to ask on what type of cost we should assume for NPH? It looks like the gross profit for dollar assets is getting a little better based on the disclosure you gave today. I tried to back into what your operating costs is per dollar of asset acquired. It looks like its low to maybe mid-single digits in terms of basis points. It seems kind of conservative given some of the operating leverage in the business. Can you just talk about the ongoing expenses to service those assets?

**Matthew J. Audette** - LPL Financial Holdings Inc. - CFO and MD

Yes. I think we'll give you more precision likely at the Q4 earnings call. But I think what's embedded in our assumptions, so it's embedded in NPH and the concept, is incremental operating leverage. So the benefits of our size and scale. When we walk through how we are integrating NPH, we didn't buy the entities, we don't have to go figure out what the synergies are. We're doing the reverse and adding folks to our team. We estimated roughly 350 folks, most of those are in Tom's World. And if you look at just internally, we look at the op margin for that business, it would likely be better if we execute while the overall operating margin. So that's -- maybe something a little bit directional but that's the -- I think that's the opportunity we have there, and we'll give you more specifics in a couple of months. I didn't answer his question because his hand's still up.

**Unidentified Analyst**

I might do 2, but they're going to be really quick. So the first one is the mix shift to advisory from brokerage should be lowering your non-GDC sensitive payout ratio, do you know what I'm talking about? And this year on a year-to-date basis, it hasn't really gone down as much as I would have thought. Is that noise? And do you still expect that payout ratio to kind of be trending down on a consolidated basis? That the first one. And the second one is I just lost my train of thought.

**Matthew J. Audette** - LPL Financial Holdings Inc. - CFO and MD

I'll answer the first one and then we could see if it come back. So when we look at -- so that mix shift that you've seen and observed in the last couple of years. So the platform fees that we get from an advisory standpoint show up in that line. So it shows up as that lower payout on the advisory side. So as we've made pricing changes like on MWP on the corporate platform when we talked about today, it makes the difference between those 2 a little bit higher. So when the mix shift impacts on payout is just to get a little bit smaller over time and that's the dynamic when that does that.

**Unidentified Analyst**

On your target is there a thought process that, let's just say, rates get to 2 -- short rates get to 2%. You have a more variable EBITDA structure and a more symmetric risk to where rates could go, that you should be lowering your target-leverage range. Do you follow me?

**Matthew J. Audette** - LPL Financial Holdings Inc. - CFO and MD

Yes, I mean, I think what you're getting at is, look, this is a range based on EBITDA. You could also have a lens of what's just the right amount of debt to have actually absolute levels of debt? There's a bunch of different ranges I think where we are right now we think this is the right way to look at it. If we get on the -- if you think about our rate cycle from fed funds at near 0 to wherever you think it's going to max out, if we are in that zone maybe we'll have a little bit of a different view. So I'll take from this that we are always going to be dynamic in our thinking here. But right now, this is what we think is best.

All right, so anything else? No? Okay, cool. All right. So let me close this out here today.



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All right. So if we go to Slide 82, so just to end where we started the day of how do we as a management team see our opportunities and what do we want to leave you with here today, I hope we did that. So to quickly summarize. So attractive market with secular industry tailwinds. We talked about it a lot. Growth in asset seeking advice, growth in the mix of those within our space, the independent space and that mix shift over to advisory and hopefully over the long term, that mix shift even further into our centrally-managed platforms. We're a market leader with scale advantages. You've heard how we plan to take advantage of that including some recent pricing changes. We think that can lead to organic growth opportunities, not only in net new assets but in the return on those assets through all the different things that Burt talked through. The market environment, I think we're all well aware of in interest rates and equity markets, meaningful upside to our earnings. We're going to continue to be disciplined on our expenses and drive operating leverage while investing in all of these things. We've got a capital-light business model, generates more cash than we need, significant leverage capacity to deploy and we think that the M&A market, our fragmented core markets we can deploy that capital there and roll it up even further. We're excited about. I mean, I'm a shareholder, too. I was sitting over there watching Burt and Scott and Tom and Dan thunder away. I'm excited. I think we got a huge opportunity here.

So we are now at 3.5 hours, that's the end of the day. I just want to close by saying thank you. Thank you for investing a half a day. Thank you for entrusting I think all of you and those on the webcast and anyone that is reading this later, I think roughly about \$4.5 billion you've put in our trust to generate a return for you and the way that we are going about that is to deliver a compelling product and value proposition for advisors, for all of you.

So thanks so much. We're going to hang out in the back there is some boxed lunches, I'm happy to answer more questions.

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