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LPLA.OQ - Q1 2024 LPL Financial Holdings Inc Earnings Call

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OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

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

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

CONFERENCE CALL PARTICIPANTS

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

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

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

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

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

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

William Raymond Katz *TD Cowen, Research Division - Senior Analyst*

PRESENTATION

Operator

Good afternoon, and thank you for joining the First Quarter 2024 Earnings Conference Call for LPL Financial Holdings Inc. Joining the call today are the President and Chief Executive Officer, Dan Arnold; and Chief Financial Officer and Head of Business Operations; Matt Audette. Dan and Matt will offer introductory remarks, and then the call will be open to the questions.

The company would appreciate if analysts would limit themselves to 1 question and 1 follow-up, each. The company has posted its earnings press release and supplementary information on the Investor Relations section of the company's website, investor.lpl.com.

Today's call will include forward-looking statements, including statements about LPL financials, future financial and operating results, outlook, business strategies and plans as well as other opportunities and potential risks of management foresees. Such forward-looking statements reflect management's current estimates and beliefs and are subject to known and unknown risks and uncertainties that may cause actual results or the timing of events to differ materially from those expressed or implied in such forward-looking statements.

For more information about such risks and uncertainties, the company refers listeners to the disclosures set forth under the caption Forward-Looking Statements in the earnings press release as well as the risk factors and other disclosures contained in the company's recent filings with the Securities and Exchange Commission.

During the call, the company will also discuss certain non-GAAP financial measures. For a reconciliation of non-GAAP financial measures to the comparable GAAP figures, please refer to the company's earnings release which can be found at investor.lpl.com.

With that, I would now like to turn the call over to Mr. Arnold.

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

Thank you, Michelle, and thanks to everyone for joining our call today. Over the past quarter, our advisors continue to provide their clients with personalized financial guidance on the journey to help them achieve their life goals and dreams. To help support that important work, we remain focused on our mission: taking care of our advisors so they can take care of their clients.

During the first quarter, we continued to see the appeal of our model grow due to a combination of our robust and feature-rich platform, the stability and scale of our industry-leading model, and our capacity and commitment to invest back into the platform. As a result, we continue to make solid progress and helping advisors and institutions solve challenges and capitalize on opportunities better than anyone else and thereby serve as the most appealing player in the industry.

With respect to our performance, we delivered another quarter of solid results while also continuing to make progress on the execution of our strategic plan. I'll review both of these areas, starting with our first quarter business results. In the quarter, total assets increased to $1.4 trillion as continued solid organic growth was complemented by higher equity markets. Regarding organic growth, first quarter organic net new assets were $17 billion, representing 5% annualized growth. This contributed to organic net new assets over the past 12 months of $96 billion, representing approximately an 8% growth.

In the first quarter, recruited assets were $20 billion, which represents a quarterly record, excluding periods when onboarding large institutions. This outcome was driven by the ongoing enhancements to our model as well as our expanded addressable markets.

Looking at same-store sales, Our advisors remain focused on taking care of their clients and delivering a differentiated experience. As a result, our advisors are both winning new clients and expanding wallet share with existing clients, a combination that drove solid same-store sales in Q1. At the same time, we continue to enhance the advisor experience through the delivery of new capabilities in technology and the evolution of our service and operations functions. As a result, asset retention for the first quarter was approximately 97% and 98% over the last 12 months.

Our first quarter business results led to solid financial outcomes with adjusted EPS of $4.21.

Let's now turn to the progress we made on our strategic plan. Now as a reminder, our long-term vision is to become the leader across the advisor center marketplace. To do that, our strategy is to invest back into the platform, provide unprecedented flexibility in how advisors can affiliate with us. And to deliver capabilities and services to help maximize advisors' success throughout the life cycle of the businesses.

Doing this well gives us a sustainable path to industry leadership across the advisor experience, organic growth and market share.

Now to execute on our strategy, we organize our work into 2 strategic categories: horizontal expansion, where we look to expand the ways that advisors and institutions can affiliate such that we are positioned to compete for all 300,000 advisors in the marketplace. And vertical integration, where we focus on delivering capabilities, technology and services, to help our advisors differentiate and win in the marketplace to be great operators of their businesses.

And with that as context, let's start with our efforts around horizontal expansion. Now over the first quarter, we saw strong recruiting in our traditional independent market, reaching a new quarterly high of approximately $15 billion in assets. At the same time, due to the ongoing appeal of our model and the evolution of our go-to-market approach, we maintained our industry-leading win rates while also expanding the breadth and depth of our pipeline. With respect to our new affiliation models, strategic wealth, employee and our enhanced RIA offering, we delivered another solid quarter, recruiting roughly $2 billion in assets. And as we look ahead, we expect that the increasing awareness of these models in the marketplace and the ongoing enhancements to our capabilities will drive a sustained increase in their growth.

Next, in Q1, we added approximately $3 billion of recruited assets in the traditional bank and credit union space which continues to be a consistent contributor to organic growth.

During the quarter, we also continued to make progress with the large institution marketplace where we announced that Wintrust Financial will onboard 2 of its wealth management businesses for our institution services plan.

And at the same time, we continued our preparation to onboard the retail wealth management business of Prudential Financial. Collectively, these 2 deals will add approximately $66 billion of brokerage and advisory assets by early 2025.

Now as a complement to our organic growth, we also announced the planned acquisition of Atria Wealth Solutions, which supports approximately 2,400 advisors and 150 banks in credit unions, managing approximately $100 billion in client assets. This transaction will give Atria advisors access to our differentiated capabilities, technology and service. We are on track to close the transaction in the back half of this year and complete the conversion in mid-2025.

And finally, we're seeing solid momentum with our liquidity and succession solution as demand continues to build with existing LPL advisors while also creating interest with advisors outside our ecosystem, including our first signed external deal in the quarter.

Now within our vertical integration efforts, we remain focused on investing back into the model to deliver a comprehensive platform of capabilities, services and technology that help our advisors differentiate and win in the marketplace and run thriving businesses. As a part of this effort, we continue to make progress across several key areas of focus, including our ongoing journey to build a world-class wealth management platform.

And within that body of work, we are focused on meeting the evolving investment needs of our advisors and their clients, including the increasing interest for non-traditional investment products. To help solve for that demand, we are reimagining the end-to-end experience of our alternatives platform, including enhancing our custodial and operational capabilities for alternative investments, making it simpler and easier to utilize, manage and transact these products. And at the same time, expanding our alternative investment product offering, where over the last year, we have more than doubled the number of products available for advisors to utilize.

Another key area within our vertical integration efforts is the continued enhancement of the experience our advisors deliver to their clients. One of the primary ways we do that is providing increased flexibility for advisors to tailor their ideal client experience. For example, we designed Account View, our end-client digital platform, so an advisor can personalize access to features on a client-by-client basis.

In addition, we recently launched a series of enhancements to our end-client statement which provides increased flexibility in the channel of delivery and the cadence that clients receive the information, also adding a unique interactive digital experience to further enrich the traditional statement.

Now our continued work on our services portfolio is also a key area of our vertical integration strategy. And as a reminder, these services help solve for a broad spectrum of advisors and institutions' need, and in doing so, help position them to deliver great advice and be great operators of the businesses. In that spirit, we are developing a number of solutions that help advisors expand the breadth and depth of their advice, including the more effective utilization of financial planning, catering to the more complex needs of high-net-worth investors and delivering more personalized investment research. For example, as a part of our efforts to enrich our planning capabilities, last year, we introduced our tax planning service, which is seeing strong demand in the market. And more recently, we expanded our high-net-worth services to enhance our advisor support of their high-net-worth prospects and clients through complex case design, estate planning and investment product analysis. And the early indications have been favorable.

Finally, we're in pilot with our latest innovation, our new Outsourced Chief Investment Officer service, which provides advisors with personalized investment expertise powered by LPL Research. And based on the initial feedback, this is unlocking additional growth and efficiency in our advisors' practices.

Collectively, these services help expand our advisors' value proposition to their clients, enable them to win new prospects, and increase the differentiation and appeal of our platform. And as we move forward, we will continue to solve for our advisors' needs at every stage of their practice in order to help them build the perfect businesses for themselves, and ultimately maximize their success.

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

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

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

Alright. Thank you, Dan, and I'm glad to speak with everyone on today's call. As we move into 2024, we remain focused on serving our advisors, growing our business and delivering shareholder value. This focus led to another quarter of strong organic growth in both our traditional and new markets, and we are preparing to onboard the wealth management businesses of Prudential and Wintrust.

In addition, we continue to build momentum in our liquidity and succession solution, including our first signed deal with an external practice. We also entered into an agreement to acquire Atria Wealth Solutions, which we plan to onboard to our platform in mid-2025. So as we look ahead, we remain excited by the opportunities we have to serve and support our nearly 23,000 advisors while continuing to invest in our industry-leading value proposition and drive organic growth.

Now let's turn to our first quarter business results. Total advisory and brokerage assets were $1.4 trillion, up 6% from Q4 as continued organic growth was complemented by higher equity markets. Total organic net new assets were $17 billion or approximately a 5% annualized growth rate.

Our Q1 recruited assets were $20 billion, which, prior to large institutions, was the highest quarter on record. Looking ahead to Q2, our momentum continues, and we are on pace to deliver another strong quarter of recruiting.

As for our Q1 financial results, the combination of organic growth and expense discipline led to adjusted EPS of $4.21.

Gross profit was $1.66 billion, up $59 million sequentially. As for the components, commission advisory fees net of payout were $260 million, up $41 million from Q4, primarily driven by higher advisory fees and a seasonally lower production bonus.

Our payout rate was 86.6%, down 100 basis points from Q4, largely due to the seasonal reset of the production bonus at the beginning of the year. Looking ahead to Q2, we anticipate our payout rate will increase to approximately 87.5%, primarily driven by the typical seasonal build in the production bonus.

With respect to client cash revenue, it was $373 million, down roughly $1 million from Q4.

Looking at overall client cash balances, they ended the quarter at $46 billion, down $2 billion sequentially, driven by advisory fees paid during the quarter. Outside of those fees, cash balances were flat to Q4.

As for our ICA portfolio, the mix of fixed rate balances increased to roughly 65%, within our target range of 50% to 75%. Looking more closely at our ICA yield, it was 323 basis points in Q1, up 6 basis points from Q4. As for Q2, based on our client cash balances and interest rates are today, we expect our ICA yield to decline by a few basis points.

As for service and fee revenue, it was $132 million in Q1, up $1 million from Q4. Looking ahead to Q2, we expect service and fee revenue to be roughly flat sequentially.

Moving on to Q1 transaction revenue, it was $57 million, up $3 million sequentially as trading volume increased slightly. As we look ahead to Q2, based on typical seasonality and activity levels to date, we would expect transaction revenue to decline by a few million from Q1.

Now let's turn to expenses starting with core G&A. It was $364 million in Q1. For the full year, we continue to anticipate core G&A to be in a range of $1.455 billion to $1.490 billion. As a reminder, this is prior to expenses associated with Prudential and Atria.

Moving on to Q1 promotional expense. It was $132 million, down $6 million from Q4 due to lower onboarding costs for large institutions. Looking ahead to Q2, we expect promotional expense to increase by approximately $10 million sequentially due to increased transition assistance resulting from strong recruiting and large institution onboarding as we prepare for Prudential to join us in the fourth quarter.

Looking at share-based compensation expense, it was $23 million in Q1, up $7 million from Q4. As we look ahead, we anticipate this expense to be at a similar level in Q2.

Turning to depreciation and amortization. It was $67 million in Q1, down $1 million sequentially. Looking ahead to Q2, we expect depreciation and amortization to increase by roughly $5 million sequentially, which includes technology development for Prudential.

Regarding capital management, our balance sheet remains strong. We ended Q1 with corporate cash of $311 million, up $127 million from Q4. Our leverage ratio was 1.6x, flat with Q4.

As a reminder, we expect to close our acquisition of Atria in the second half of this year and plan to finance the transaction through a combination of cash and debt. Following the close, we continue to expect leverage to be approximately 2.0x, near the midpoint of our target leverage range.

As for capital deployment, our framework remains focused on allocating capital aligned with the returns we generate: investing in organic growth first and foremost, pursuing M&A where appropriate and returning excess capital to shareholders.

In Q1, we deployed capital across our entire framework as we continue to invest to drive and support organic growth, allocated capital to M&A within our liquidity and succession solution, and return capital to our shareholders, repurchasing $70 million of shares in January. We paused share repurchases for the last 2 months of the quarter to ensure we maintain a strong and flexible capital position when we close on our acquisition of Atria. Following the close expected in the second half of this year, we will evaluate restarting share repurchases consistent with our existing capital framework.

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

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Our first question is going to come from the line of Devin Ryan with Citizens JMP.

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

First question. I just wanted to dig a little bit on recruited assets, had a really nice quarter, up 57% year-over-year, but also a bit stronger than the net new asset trend and maybe that's just a January dynamic. But just want to maybe dig in a little bit about the divergence that you saw this quarter between these 2 metrics. And then more broadly on recruited assets and the outlook, it sounds like you're still seeing a really good recruiting pipeline. So just love to get a little more context on that and kind of what you're seeing between both legacy channels and some of the newer affiliation channels.

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

Yes. So Devin, it's Dan. Let me try to go in maybe a sequential order around those questions if that is helpful. So first, maybe let me just take Q1, I think, organic growth, which I heard inside your question. So during the quarter, we posted 5% organic growth. And given the seasonality we typically see in Q1, we would have expected that to be more like 7%. And while the underlying drivers of the business were strong, there were a couple of things in the quarter that drove the roughly 2% difference.

The first was some impact from the timing of onboarding recruiting, which equated to roughly 1% to Q1 organic growth. And that's just really a function of the recruiting, as we mentioned, I think, back in January's call, a lot of it happening in the second half of the quarter. And that gives you a little tailwind going into the second quarter.

And then the second thing that we mentioned last quarter as well was that there were 2 acquired practices that departed in January which accounted for a 1% impact to our attrition. So outside of those impacts, which we would categorize as a bit of noise, the underlying drivers that set us up well for the rest of the year remain intact and that's where you were getting at that record level of recruiting, the strongest pipelines that we've had ever historically and our continued low levels of advisor attrition that was consistent with the experience over the last couple of years. So we feel good coming out of the quarter and how we see that opportunity emerge over the remainder of the year.

I think you mentioned a bit of the -- perhaps some -- how we think about new stores specifically or recruiting going forward, maybe it was second part of your question. And I think, look, we had a really nice quarter, $20 billion in recruited assets. You see significant growth year-on-year across all affiliation models. And at the same time, an expanded addressable market, our increasing win rates, it's driving that deep pipeline that I mentioned as we -- as deep a pipeline as we've seen and certainly is supportive of where we head going forward. And that gives us a really solid conviction that we're well positioned to continue to win a larger share of advisors in motion with respect to recruiting. And I think when you add them to the committed wins we have in the large institution marketplace, that sets up with a solid opportunity with respect to new store sales as we move forward. So hopefully, that gives you a little color on the quarter and then a little color around the recruiting as well.

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

Yes thanks, Dan. Really helpful. And just a follow-up, this is kind of interrelated, but just on the economics of all that. So the theme of competition in the space has continually been coming up. I know it's always a competitive market, so nothing necessarily new. But we look at transition assistance, it's up 6% sequentially, 25% year-over-year. I know that's directionally trending with growth. But can you maybe just talk a little bit about kind of the competitive dynamics and kind of the economics around recruiting and transition assistance? And how you feel like LPL is positioned around kind of those economics, let's say, transition deals are maybe a little bit higher than they have been.

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

Yes. Let me start that and then, Matt, you add any color on economics you think would be helpful. So look, I think with respect to the recruiting environment, right, we always start with the opportunity set. Advisor movement over the last 12 months has hovered around 5%, which remains lower than the historical norms. That said, despite the low overall movement, our win rates continue to move higher. And certainly, that's an encouraging trend relative to how we think about the opportunity set.

And then two, I think when we think about the environment, we look at the competitive landscape and the participants have remained largely the same. As do the priorities that advisors are looking for when they evaluate their options to potentially move. And as a reminder, the first priority is around capabilities, technology and service. That's where we continue to further distinguish ourselves as we invest back into our model.

Next is the ongoing economics, which haven't changed significantly over time. And I think in the independent space, especially create a compelling and interesting scenario for advisors. And then lastly, you get transition assistance rates, which we've seen pretty stable over the last year and feel good about how we're well positioned across our portfolio of different affiliation models in terms of how we support that advisor to make that transition.

So given all of that, the strength of our overall value proposition continues to resonate, and we remain really confident that the ongoing appeal of our model positions us well to sustain our industry-leading win rates and market share. I don't know, you want to add anything to that, Matt?

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

I wouldn't, not really, add to that. I'd just underscore the point, I think on, Devin, on capabilities is really what matters from a decisioning standpoint on advisors and where they're joining firms. And I think from a TA standpoint, as Dan said, the rates have really been stable for quite a while. I think it's for us and the growth there, it's more about the recruited AUM itself that's coming on board, which I know you see and follow the numbers. But Q1, which is typically the seasonally lowest quarter of the year, bringing in $20 billion prior to any large financial institutions, I think is the driver there. So it's about the level of recruiting. TA rates have been pretty stable.

Operator

And our next question is going to come from the line of Alex Blostein with Goldman Sachs.

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

You guys mentioned liquidity and succession a couple of times this afternoon, and it's been coming up in prior calls as well. So maybe level set for us kind of where that business sits today, just maybe in terms of size or AUM, however you want to frame it? And how meaningful do you expect this to be to your organic growth targets, which I guess, continue to be in the high single-digit range in terms of M&A over the next couple of years?

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

Yes, Alex, I'll start there just on some of the -- maybe the economics and capacity parts of your question. I think we're quite bullish on this offering and the solution. The economics are compelling. And I think from a capacity standpoint, I think there are ultimately limitations on the number of deals we can do in a given year. So if you look at what we've done since we launched the program, it's been 27 to date, I think when we look at our team and capacity and how you bring these practices on board, I think probably max capacity per year, I would think about in the 30 to 40 zone. So then when you put the financial aspects against that from a capital standpoint, we're applying capital consistent with our M&A framework. So they will deploy capital here at about the 6 to 8x EBITDA range. These deals are relatively small in the $10 million to $20 million zone, I would say, skewed towards -- closer to the $10 million side of it.

And then financially, the economics are pretty attractive in that the ROA of these firms effectively doubles when we purchase them. So if you're in the thick of the 30 basis point zone, we'd be earning 60 basis points once we own the practice. And that's largely a function of the reduced payout to advisors. So that's where you would see those economics show up.

So those are the economics. So I think it's really financially compelling, but I think maybe even more exciting or more compelling is really the strategic value of this solution. Maybe, Dan, may be better, if you want to jump in there?

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

(inaudible).

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

Dan, I'm sorry, I don't think we could hear you, unfortunately. I don't know if it's my phone or maybe other people are having the same issue.

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

It was user error on my part. Sorry about that. So let me start over. And again, I think as we've discussed before, our opportunity set is really driven by trying to solve that big strategic question of how do we help potentially as many as 1/3 of advisors retire and transition their businesses over the next 10 years. And while there are a variety of options that are available in the marketplace, we think ours is really differentiated and a compelling one in a very elegant way to help these advisors transition their practices to take care of them, to take care of their team, to take care of their clients and ultimately create a bridge to the next entrepreneurial leader or owner.

And in that spirit, I think since we've rolled it out to our advisors, it's been -- which was late in 2022, it's been very, very appealing for those that are exploring those possibilities. And as Matt said, we closed roughly 27 deals to date. And given the success with our existing advisors, now we've extended the question to the external marketplace and in the fourth quarter, began to explore how we could help those advisors that aren't on the LPL platform with the same type of solution to that big question of how do they transition their practices. And as we mentioned, we were fortunate enough to close our first deal in Q1, and we've got a pretty solid pipeline building there.

So I think we see it as this multidimensional opportunity of supporting and helping our existing advisors which extend those assets on our platform for another generation of advisors and then, two, also, as a catalyst for growth to complement the other opportunities that we focus on and have to drive growth. And we think it's a compelling differentiated solution. A little hard to replicate. So we think it will resonate in the external market. I hope that helps.

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

Great. No, that's very helpful. So my second question, kind of related, I guess, to some of the new initiatives. You guys have been super busy in the last few months with a number of deals, Atria obviously being on the larger size. How should we think about the capacity for incremental M&A, call it, over the next 12 months as we're sort of waiting for Atria close? And then obviously, you guys have to integrate it. And then as part of this Atria conversation, maybe you can hit on the competitive dynamics in the bank channel post this deal, given that they're a pretty sizable player there.

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

Yes. So I think -- listen, relative to onboarding these programs and making sure that we have the ability to support and scale them, I think it is something that we've been working on since the good fortune of onboarding some of the larger financial institutions, BMO and M&T in 2021. And so our guiding principle when we explore any growth initiative, whether it's organic win, like large institutions or even an acquisition like Atria is to ensure that we're going to continue to deliver an exceptional experience to our existing advisors and that then we provide a seamless transition for advisors that are joining our platform. And in that spirit, we've continued to evolve our transition approach because we've iterated, we've improved and gotten a lot better over the last few years. We established a disciplined operating rigor. We use seasoned run books and automation, all in the spirit of delivering a high-quality successful outcomes that are repeatable and sustainable. And with each iteration, as I mentioned, we continue to enhance the efficiency and efficacy of how we execute the onboarding process.

Now the important part about that is that certainly then improves and enhances the quality that we deliver but also the pace at which we can deliver these. And I think as we continue to go forward with each iteration, we adopt new ideas, new concepts, new ways of which to do them in a simpler and faster way, and we'll continue to work on that and iterate that I think will help us not only deliver an industry-leading onboarding experience but do it in the simplest and fastest way possible in the market place. So that's sort of the context of how we think about increasing the capacity to support that ongoing opportunity.

I think -- and then your second question, remind me what it was.

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

Sorry. Just the competitive positioning in the banks channel, institutions channel after you guys integrate Atria because they're a sizable player there, and now you have obviously more presence in that channel with them eventually under your umbrella.

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

Yes. So again, I think we've seen that marketplace as sort of an emerging opportunity where we took a novel concept back in 2020 as we began to offer it to the marketplace and establish a significant advantage from just having market share developing and growing IP around how to support and serve those clients. And then ultimately, continuing to evolve our capability set to make sure that we can help them in terms of their risk profile or muster around this business line or service, increase or enhance financial results or manage the performance of their programs to create operational efficiency and scalability into their programs and then ultimately, to support them with growth. If we can do that within this value proposition and then have the advantage of the history and the experience of operating and working with these clients, the better practice at onboarding through the change management. A very complex effort. But that gives us a distinctive advantage in the marketplace that we think really resonates when we go out and share that with any prospective new clients.

So I think we feel great about our positioning in the marketplace, the insights and perspectives that we've been bringing forward that have enriched our value proposition that again, it's hard to do if you hadn't had the experience from doing so. That's how we think about that leadership. We think it's pretty durable and an interesting ongoing growth opportunity.

Operator

And our next question is going to come from the line of Steven Chubak with Wolfe Research.

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

So I wanted to start with a follow-up on just the liquidity and succession discussion. Matt, you alluded to some of the limitations on the pace of deployment. But I was hoping you could just speak to the cadence now that this has been launched externally that we should be contemplating. And given the higher year-on-year payout ratio guide for 2Q, when should we expect to see those reductions in the advisor payout rate as some of that liquidity and succession accretion really starts to come through?

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

I think on -- so on that last point, right? I think when you look at the payout, there's a handful of things going on. But I think you're already seeing it within the payout rate just based on the 27 deals we've done so far. So maybe, if you just looked at payout rate year-over-year for Q1, so just to eliminate kind of seasonal production build. And as a reminder, the Q1 payout for last year had a 40 basis point kind of catch-up one-timer. So overall, payout was flat year-over-year.

And there are 2 things in there that actually drove out up a little bit. The first is, and kind of building on what Dan was just talking through, the institutions channel and the growth in the institutional channel, which I think you know has a much higher payout than the average, also has a much lower cost to serve, lower TA rates. When you get down to things, bottom line economics like op margins quite compelling. But if you're just looking at the payout rate, you're going to see that grow as that business grows.

And then we had some pricing reductions or pricing investments on our corporate advisory platform. We had announced those last year. Those took effect on the first quarter. So had those 2 things, that bias payout up. But then liquidity and succession did drive payout down to offset that. So there are moving parts in there, but you are absolutely starting to see that show up in the payout rate. Maybe not on an individual quarter-to-quarter just given the size of our overall business, but you are starting to see that over time.

I think on the capacity point, and not sure where you're specifically going with that. So maybe just a follow up if we're not hitting that. But I think overall, when you look at whether it's internal or external, and you think through the process to onboard these teams, make sure we're putting the proper field management in place, all the complexities associated with it, that's really where the 30 to 40 deals per year comes from just to make sure that we're bringing those on board in a way that really delivers the strategic value that Dan was describing earlier.

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

Really helpful color, Matt. And for my follow-up, just a question on cash levels and expectations around reinvestment, just given the significant number of fixed-rate contracts coming due, I believe, roughly $6 billion over the next 3 quarters. Where are those fixed contracts going to get renewed relative to that 240 basis point back book? And should we expect that that's all going to be renewed in fixed rate contracts, given that we are starting to see some signs of cash stabilization?

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

Yes. I mean I think on the plans to renew, I think we like being in the center of that range, that 50% to 75% range, which is where we are now. So we'll make decisions and judgments about that. But I think with a stable cash balance and being at 65%, I think it's a fair assumption to assume our plans would be to renew.

When you look, maybe just to look at the next quarter, so not have to go too far out, the maturities, that $2 billion of maturities are towards the end of next quarter and those specifically are at 200 basis points right now. So they're kind of below that average for the year. And if you look at where we would typically place in the 3- to 5-year range, where that marketplace is, I think in today's market, you can assume in the 450 basis point range is where we place those. So of course, things can move between now and the end of Q2. But where we're sitting right now, you'd be going from 200 basis points up to the mid-450s on that $2 billion.

Operator

And our next question is going to come from the line of Michael Cyprys with Morgan Stanley.

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

Maybe just circling back to the enterprise channel. You guys have had a lot of success there over the past couple of years. I'm just hoping you could talk a little bit about the pipeline for new mandates, how those conversations are evolving. And then on the Pru platform, more broadly on that. I was hoping maybe you could speak a little bit to the platform that you've customized and built for Pru, just how that differs from what you've done with other enterprise clients and how you might be able to take the sort of capability set into other channels or markets over time?

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

Yes. So with respect to the institution pipeline, we have continued opportunity to get swings in the batter's box in the large bank space. Obviously, we've had established a series of a number of years of success in bringing those clients on and a success that those institutions are having once on the platform from a financial performance standpoint, from new capabilities and solutions and features, I think certainly reinforces the value that the model can provide them and thus helps us in those ongoing dialogues with other opportunities within the bank space. That's about a $1 trillion opportunity or a marketplace. And so there's a number of opportunities that remain out there, and we're encouraged by the dialogue we're having in that part of the marketplace.

And then I think also with the win with Pru, right, we expanded that market to include kind of wealth management solutions that are owned or operated by product manufacturers and specifically insurance companies. And I think that's -- certainly that win created the opportunity to have a number of dialogues that companies that are similar in nature to a Prudential and certainly exploring the possibility of outsourcing, where an outsourcing solution wasn't always available in that part of the marketplace. And so a longer sales cycle and sort of longer iterative consultative approach to that. We are encouraged by the emerging dialogue and discussions we're having in that part of the markets.

I think that's your first question. Your second one, ask again, please?

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

Sorry, the first part was just on the pipeline for new mandates and conversations. And then the second part was just around the Pru custom-built platform and opportunities to take that elsewhere to other markets or channels over time.

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

Yes. Thank you. Sorry. So I think I answered the first one. So on the second half, with respect to some of the capabilities that we're thinking about relative to Pru, part of the opportunity in exploring that and solving for that was I think creating what I think are 2 interesting applications that are somewhat novel in the marketplace today. The first one is the expansion of our platform that will enable the product manufacturer and the LPL suite of products to exist in a single experience.

And if you think about that relative to insurance, as an example, that can be a really important element and differentiator where you get a really seamless integrated solution set across your entire product offering in. Again, that's kind of a novel concept and a hypothesis of a lot of folks thinking, wow, that would be a really interesting thing to solve for and I think inside this opportunity, we're solving for that. So we're really encouraged about that. And again, once you do that, that can be valuable to any a number of other different larger institutions that might value that.

Second one would be an integrated operating platform that embeds workflows and connectivity, not only through our systems, but to the parent and third-party systems. And so it's kind of a cool operational efficiency, again, across the landscape of business they do, that makes it easy for them to collaborate, operate and work with us in a very integrated way. So those are just 2 examples there. I think we think are really, again, interesting and differentiating them but also applicable to other potential prospects. I hope that helps. Thanks.

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

Just a follow-up question, if I could, just on client cash. Just curious what you're seeing in terms of underlying client behavior. I realize the cash allocation a bit lower today versus historical. But when you look at the customer behavioral trends under the hood with cash going in and out of the account, just curious if there's anything different now that you're seeing relative to historical. And as you kind of look out from here, is there a certain macro or rate environment that you think would be helpful in terms of catalyzing cash allocations to grind higher?

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

Michael, yes, I think -- I mean, the headline is -- and I think you can see it in our metrics. I think we've seen stability in the category of near full deployment for quite some time now, right? Look at Q1 results and cash balances kind of remained in that just above 3% zone, largely coming down just by fees in the quarter. So I think you're starting to get to that place where you're really at full deployment. And I think from an environment standpoint, and where things could go, I think history is the best guide. I think we're in a place where clients are fully deployed, the equity markets are rising. Interest rates are high, and they're fully deployed in the market. And I think when we've seen environments that are the opposite of that, where they're in more of a defensive position, you see cash balances come back up, right? That doesn't feel like that, of course, in the moment, but I think that is the behavior we've seen time and time again. And I think that's the dynamic we would expect to continue.

All that being said, I'd just emphasize, we are seeing that stability where cash is really coming down for things like paying fees and things as opposed to deployment in the marketplace has gotten pretty stable in the last quarter or so.

Operator

And our next question is going to come from the line of Dan Fannon with Jefferies.

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

Matt, was hoping you could talk to the factors that are going to get us -- or get you towards the low or the high end of your G&A growth for this year and now that we're 4 months in, kind of where you think you're tracking based upon current trends.

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

Yes. I mean, I think when you look at just the first quarter, right, from an annualized rate, we're at the low end of that guidance. And I think when you look ahead to Q2 we'd probably be something in a similar zone. So I think we're -- we feel good that we are tracking towards our guidance overall. I think the things that can move us within that range are similar to things that are in the prior years, which is more about our levels of organic growth, opportunities that we see during the year that really drive, whether it be variable cost, variable compensation, or the costs associated with that growth.

But the headline I would give is, we feel comfortable of landing within that zone. And just a reminder, that is prior to expenses associated with Pru and Atria and to the extent that those impact core G&A, we'll give updates later in the year on that. The headline is we feel good.

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

Understood. And then, Dan, I was hoping you could provide some updated thoughts around the DOL rule. Obviously, we got the full proposal last week. Any changes to how you were thinking about it and what you said previously?

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

Yes. So as we said, it's been a hot topic over the last week since the release. But look, the headline is that I think the final rule reflects some hopeful changes from the original proposal and generally better aligns with the SEC's Reg BI, which we believe is a good thing for investors. And as you probably have seen, the rules is scheduled to become effective in September, although there is a 1-year transition period for firms that acknowledge fiduciary status and comply with specified conduct standards. So that's probably a long-winded way to say there's probably a year timeline in and around getting any changes that need to be required or made in your compliance programs in place such that you can build those new responsibilities.

That said, our team is working to finalize the design and implementation of our compliance program. And again, we feel good about that preparation and the ability to execute around the effective framework -- effective dates and framework that we've seen thus far. We're able to leverage some of the work we did in 2016, which ultimately wasn't implemented, in addition to some work that we've already done connected to Reg BI. So at the same time, there are a few areas like around rollovers where we'll have to deploy new approaches and solutions, again, we can come -- they're solvable for us.

All that said, it's safe to assume that there will be litigation challenging the rule as there was a case with successful litigation we saw back in response to the 2016. All of that could potentially impact both the compliance approach that any of us take in the timeline. So we draw out on that, but we do think it was a better landing spot than originally.

Operator

And our next question is going to come from the line of Bill Katz with TD Cowen.

William Raymond Katz - *TD Cowen, Research Division - Senior Analyst*

So just coming back to cash for a moment. To the extent that we follow the forward curve from here, and I appreciate your comments, Matt, that there's some cyclicality longer looking on this. But just sort of using your current AUM base, even if I sort of apply an 8% growth rate against that and sort of assume a 3% allocation and I adjust for quarterly billings, should we be thinking of a scenario of sort of flatter client cash here until a more strident change of interest rates as we sort of think of through our models?

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

Well, I think -- yes, you're walking through your model there, Bill. I think the headline point is if you're assuming the environment remains the same, I think assuming cash is fully deployed in the market, I think, is a good assumption. I think the -- I think the point you're making is we continue to grow, that growth does come with cash. So I think modeling that versus the fees we pay and things of that nature, I think is a good way to look at it. And maybe the bottom line, I think when you look at the cash as a percent of AUM, where we are in that low kind of 3% zone, you're certainly getting to the point of friction from going below that when you've got to have a certain amount of cash to manage rebalancing, paying fees, facilitating withdrawals or just a natural resistance when you get down to the levels that we are.

So I think that was where you were probing, but those levels would be what makes sense to us, and there's certainly cash that comes along with growth, if that's what you're trying to confirm.

William Raymond Katz - *TD Cowen, Research Division - Senior Analyst*

Okay. That's helpful. And then just 1 clarification and 1 question. You mentioned that your ICA yield might be down a couple of basis points quarter-on-quarter. And I guess, I'm a little surprised just given the high reinvestment rates and you're getting more favorable gross spread on the Fed fund on the variable side. So can you just maybe explain that? The broader question I have is going on to just the liquidity and services opportunity -- succession, excuse me. Can you talk a little bit about, maybe the external one, Dan, you sort of highlighted that you sort of secured the first one, so congrats on that. What's the same size of that look like? And then just from a devil's advocate perspective, if you're getting 60 basis points on that incremental deployment, why not ratchet that up and slow some of the lower gross profit ROA, larger transactions in the enterprise side? Maybe help me understand the puts and takes as you think about allocation.

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

All right. Well, I'll start with part one of your 7-part question there. I think on the ICA yield, just the timing. So I think when you look at the decline quarter-over-quarter, the fixed-rate maturity that I think we would reinvest at from 200 basis points to 450, that comes at the very end of the quarter. So if you just look at where cash balances are at the moment, you would just have a movement of those variable ones. I think the point I would hit is that truly that maturity, just coming at the end of the quarter. So you'll see that benefit pull through assuming it comes in at the rates that we talked through, they're in the marketplace right now. You just see that come through in the third quarter.

I think on the L&S economics, maybe I'll just give a comment there and then turn it over to Dan. I think it's not necessarily about pure decisions on capital allocation where to put it. I think it's about these advisors in finding a succession offering that works for them and doing it in a way that is very thoughtful and helpful and lands them on our platform and really hits the marks of the really strategic benefits of the transaction itself. And I think that's what leads to our thoughts on the capacity of 30 to 40 a year, as opposed to just some financial choice. And maybe, Dan, if there's anything you want to add to that.

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

Yes. So Bill, you were speaking to the opportunity set. Again, it goes back to, in many cases, what we're solving for is the succession for these advisors. And I think given the size of that need has driven the proliferation of maybe innovation in that area to try to solve for it. And so if it's -- there's 300,000 advisors in the marketplace and 1/3 of them are going to retire over the next 10 years, that would be a total opportunity set.

I think, for now, a lot of these transactions have been targeted for larger practices because to do these transactions, it's just -- it could be a complex administrative process to work through it. And so it's probably not fair to say then it's all 100,000 that are retiring in the next 10 years as the opportunity set.

That said, the constraints around the administrative complexity to do these deals will certainly get easier as everyone in the marketplace learns, iterates, evolves on how to do that. And that constraint then will allow that capacity to go up. And as firms learn how to onboard these folks and do it in a highly successful way, then again, I think that constraint will go up and you'll see increased number and sizes of these over time. And so that's how we think at least about how we think about the opportunity set and make sure that we have a compelling value proposition to support these folks once they transition over. And once we serve them in the context and the capacity that they are being served in as an employee of LPL and thus as part of a transition of the succession plan over the 5-year period of time, we're delivering value and capabilities that we've built in a lot of our affiliation models that enable us to do that really in an efficient and effective way.

And so we can scale that where we couldn't have if we didn't have the 3 or 4 years of experience in building those capabilities. And so I think it's just that front-end administrative operational work from doing these deals, and those again, as we can get more efficient at them, we'll scale that up. We do think, again, it's a compelling opportunity that is some relevant for folks that are in traditional employee-based models. It's relevant for anyone that has their own independent business, just trying to explore how to transition the business and create a succession outcome that's good for them. So it is a relevant business across the -- sorry, a relevant opportunity across the industry, and again, I think we'll continue to innovate, evolve and get better and better at it. I suspect we'll have competition out in the marketplace because it's a big problem to solve. But we think we've got a good head start and good infrastructure of which to leverage and scale.

Operator

And our last question is going to come from the line of Benjamin Budish with Barclays.

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

I wanted to -- first maybe, one more follow-up on cash levels, but maybe asking about the April update more holistically. So on cash, it sort of sounds like your comment about the variable piece moving with given the timing of advisor payments and taxes, perhaps cash continues to decline in April, but you also sound quite optimistic on the recruiting pipeline. Any color you can give in terms of what you're seeing there in terms of net new assets in April? I know the month is almost at an end.

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

Yes, you bet. I mean, I think we've got 1 more day of data to see. But the headline I'd give you on April is, it's shaping up, to be a bit better than you would expect, especially given the seasonality that you hinted at in your question of what you see in April.

So starting first on client cash balances. The 2 seasonal factors that do hit April are, first, to your point, taxes, right, taxes get paid in April. That for us typically reduces cash by about $1.5 billion. And then the second factor is advisory fees. Those primarily come out in the first month of the quarter, April, obviously, being the first month of Q2. That reduces cash by about $1 billion a quarter. So those 2 seasonal factors together, all else equal would drive a decline of nearly $3 billion in cash sweep for the month.

But to the point on stability outside of those factors, we actually have seen cash balances grow by over $1 billion. So you net it all out, and cash balances for the month of April are down just $1.5 billion where we sit right now. And then to your point on organic growth. We're continuing to see the strength that we've talked about in Q1. Those same dynamics, taxes and advisory fees do hit NNA in the month of April. That would -- so it would reduce NNA by about $3 billion or about 3%. But outside of that, when you factor in the recruiting levels that we've had that have -- that ramp -- that's come into April as well as we continue to see from a strength in the month of April, we're seeing organic growth in the 5% to 6% zone which, as a reminder, April is typically the slowest month of the year from a growth standpoint. So at 5% to 6% for that month, I think it's a solid start to the quarter.

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

Great. And then my follow-up. Just in terms of promotional expenses, I guess 2 questions. One, can you unpack a little bit the Prudential related expenses? I guess, how much was in Q1? And then for the step-up you indicated in Q2, how much are you expecting that's Pru specific versus the increase in the TA side?

And then at a high level, can you kind of just walk us through what happens over the next, like, year, say, with Prudential and Atria, Prudential, I understand there are promo expenses coming off. For Atria, presumably, there's separate M&A spend, but TA, should be ramping up. So how are you thinking about the growth in that line over the next, say, 4 quarters?

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

Yes. You bet. I mean, I think when you look at specific to Q1 and Pru, we had about $17 million of promo-related expense related to Pru in Q1. We'd actually expected it in a low $20 million range. It's a little bit why promotional came in a little bit better than we had guided and the reason why next quarter is up by about $10 million. It's really a shifting of the timing of spend related to Pru.

I think when you look at the overall year to your question on what's going to drive promotional, and I'll get to the Pru specific pieces of that. But I think there's really 3 factors when you look at the full year. And the first in Q1 is organic growth, right, it's in specifically from recruiting that we talked a little bit about earlier in the call, primarily the level and amount of recruited AUM that comes on to the platform with Q1 at a record prior to large financial institutions. The good momentum we have going into Q2, I think we feel like that will be a key driver of promotional expense going up this year for a very good reason that it's the recruited assets coming on the platform, with TA rates really stable.

The other item is our conference spend, right? So that is really in line with the size and the table of the firm. Our conferences are where we get together, we connect with our advisors. They're really important, really valuable, and we would scale that with the size of the firm.

And then lastly, to deploy in your question on Prudential. Atria really wouldn't impact promotional this year. But Prudential would. And just as a reminder, for that deal overall, we estimate $325 million of spend to bring them on. $200 million of that is in technology spend that Dan gave a little bit of color on earlier. And then the other $125 million is really onboarding integration costs. That's what shows up in promotional. We've incurred a little over $40 million so far through the first quarter. So the remaining $80 million to $85 million, that will primarily come through in the remainder of this year. So those are the drivers. And hopefully, that gives you a little bit of a double click on Prudential itself.

Operator

And I would now like to hand the conference back to Dan Arnold for any closing remarks.

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

Yes. I just want to thank everyone for making the time to join us this afternoon, and we look forward to speaking with you again next quarter.

Operator

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