

# LPL Financial

Investor Presentation  
Q2 2019

September 11, 2019

# Notice to Investors: Safe Harbor Statement

Statements in this presentation regarding LPL Financial Holdings Inc.'s (together with its subsidiaries, the "Company") future financial and operating results, growth, opportunities, enhancements priorities, business strategies and outlook, including forecasts and statements relating to the Company's future capital deployment, shareholder value creation, service offering, models and capabilities, brokerage and advisory asset levels and mix, deposit betas (and related Gross Profit\* benefit), interest rate sensitivities, Core G&A\* and technology-related expenses (including outlooks for 2019), acquisition of Allen & Company of Florida, Inc. ("Allen & Co."), investments and capital returns, as well as any other statements that are not related to present facts or current conditions or that are not purely historical, constitute forward-looking statements. These forward-looking statements are based on the Company's historical performance and its plans, estimates, and expectations as of September 11, 2019. Forward-looking statements are not guarantees that the future results, plans, intentions, or expectations expressed or implied by the Company will be achieved. Matters subject to forward-looking statements involve known and unknown risks and uncertainties, including economic, legislative, regulatory, competitive, and other factors, which may cause actual financial or operating results, levels of activity, or the timing of events, to be materially different than those expressed or implied by forward-looking statements. Important factors that could cause or contribute to such differences include: changes in interest rates and fees payable by banks participating in the Company's client cash programs; the Company's strategy and success in managing client cash program fees; changes in general economic and financial market conditions, including retail investor sentiment; fluctuations in the levels of advisory and brokerage assets, including net new assets, and the related impact on revenue; effects of competition in the financial services industry; the success of the Company in attracting and retaining financial advisors and institutions, and their ability to market effectively financial products and services; whether retail investors served by newly-recruited advisors choose to move their respective assets to new accounts at the Company; changes in the growth and profitability of the Company's fee-based business; the effect of current, pending and future legislation, regulation and regulatory actions, including disciplinary actions imposed by federal and state regulators and self-regulatory organizations and the implementation of Regulation BI (Best Interest); the costs of settling and remediating issues related to regulatory matters or legal proceedings, including actual costs of reimbursing customers for losses in excess of the Company's reserves; changes made to the Company's services and pricing, and the effect that such changes may have on the Company's gross profit\* streams and costs; execution of the Company's plans and its success in realizing the synergies, expense savings, service improvements and/or efficiencies expected to result from its investments, initiatives and programs, and the other factors set forth in Part I, "Item 1A. Risk Factors" in the Company's 2018 Annual Report on Form 10-K, as may be amended or updated in the Company's Quarterly Reports on Form 10-Q or other filings with the SEC. Except as required by law, the Company specifically disclaims any obligation to update any forward-looking statements as a result of developments occurring after September 11, 2019, even if its estimates change, and statements contained herein are not to be relied upon as representing the Company's views as of any date subsequent to September 11, 2019.

**THIS PRESENTATION PRESENTS DATA AS OF JUNE 30, 2019, UNLESS OTHERWISE INDICATED.**

# \*Notice to Investors: Non-GAAP Financial Measures

Management believes that presenting certain non-GAAP financial measures by excluding or including certain items can be helpful to investors and analysts who may wish to use some or all of this information to analyze the Company's current performance, prospects, and valuation. Management uses this non-GAAP information internally to evaluate operating performance and in formulating the budget for future periods. Management believes that the non-GAAP financial measures and metrics discussed herein are appropriate for evaluating the performance of the Company. **Specific Non-GAAP financial measures have been marked with an \* (asterisk) within this presentation. Management has also presented certain non-GAAP financial measures further adjusted to reflect the impact of the Company's acquisitions of AdvisoryWorld and the broker/dealer network of National Planning Holdings, Inc. ("NPH"). Reconciliations and calculations of such measures can be found on page 35.**

Gross profit is calculated as net revenues, which were \$1,390 million for the three months ended June 30, 2019, less commission and advisory expenses and brokerage, clearing, and exchange fees ("BC&E"), which were \$838 million and \$16 million, respectively, for the three months ended June 30, 2019. All other expense categories, including depreciation and amortization of fixed assets and amortization of intangible assets, are considered general and administrative in nature. Because the Company's gross profit amounts do not include any depreciation and amortization expense, the Company considers its gross profit amounts to be non-GAAP measures that may not be comparable to those of others in its industry. Management believes that gross profit amounts can provide investors with useful insight into the Company's core operating performance before indirect costs that are general and administrative in nature. For a calculation of gross profit, please see page 34 of this presentation.

EBITDA is defined as net income plus interest and other expense, income tax expense, depreciation and amortization, and amortization of intangible assets. The Company presents EBITDA because management believes that it can be a useful financial metric in understanding the Company's earnings from operations. EBITDA is not a measure of the Company's financial performance under GAAP and should not be considered as an alternative to net income or any other performance measure derived in accordance with GAAP, or as an alternative to cash flows from operating activities as a measure of profitability or liquidity. For a reconciliation of net income to EBITDA, please see page 36 of this presentation. In addition, the Company's EBITDA can differ significantly from EBITDA calculated by other companies, depending on long-term strategic decisions regarding capital structure, the tax jurisdictions in which companies operate, and capital investments.

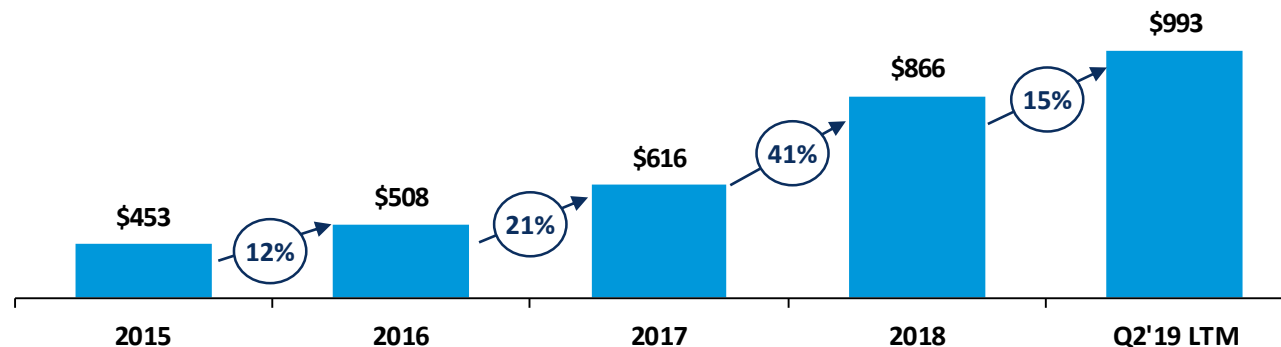
EPS Prior to Amortization of Intangible Assets is defined as GAAP earnings per share (EPS) plus the per share impact of amortization of intangible assets. The per share impact is calculated as amortization of intangible assets expense, net of applicable tax benefit, divided by the number of shares outstanding for the applicable period. The Company presents EPS Prior to Amortization of Intangible Assets because management believes the metric can provide investors with useful insight into the Company's core operating performance by excluding non-cash items that management does not believe impact the Company's ongoing operations. EPS Prior to Amortization of Intangible Assets is not a measure of the Company's financial performance under GAAP and should not be considered as an alternative to GAAP EPS or any other performance measure derived in accordance with GAAP. For a reconciliation of EPS Prior to Amortization of Intangible Assets to GAAP EPS, please see page 37 of this presentation.

Core G&A consists of total operating expenses, which were \$1,161 million for the three months ended June 30, 2019, excluding the following expenses: commission and advisory, regulatory charges, promotional, employee share-based compensation, depreciation and amortization, amortization of intangible assets, and brokerage, clearing, and exchange. Management presents Core G&A because it believes Core G&A reflects the corporate operating expense categories over which management can generally exercise a measure of control, compared with expense items over which management either cannot exercise control, such as commission and advisory expenses, or which management views as promotional expense necessary to support advisor growth and retention including conferences and transition assistance. Core G&A is not a measure of the Company's total operating expenses as calculated in accordance with GAAP. For a reconciliation of Core G&A to the Company's total operating expenses, please see page 35 of this presentation. The Company does not provide an outlook for its total operating expenses because it contains expense components, such as commission and advisory expenses, that are market-driven and over which the Company cannot exercise control. Accordingly a reconciliation of the Company's outlook for Core G&A to an outlook for total operating expenses cannot be made available without unreasonable effort.

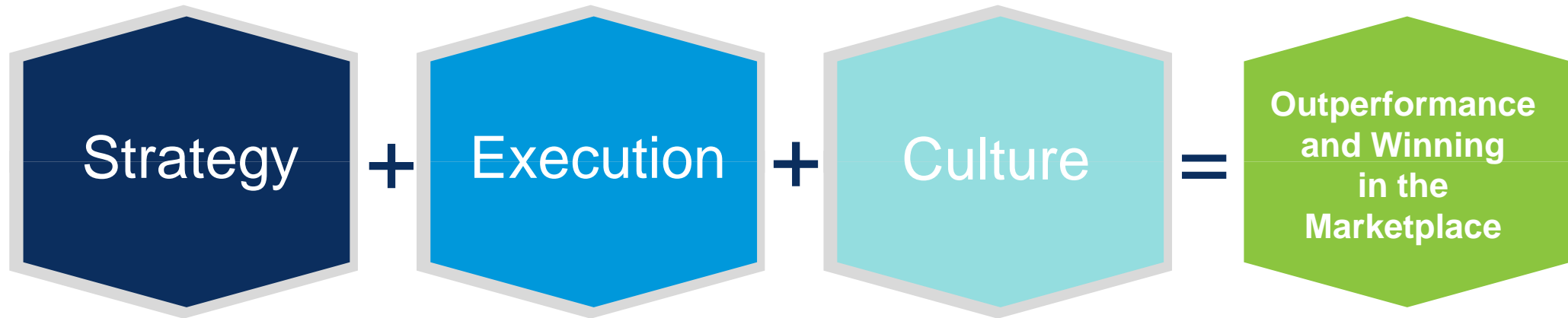
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# LPL Overview

| Mission   | Key Markets and Services   | Q2 2019 Metrics  |          |                     |  |                       |  |             |        |                 |        |                                   |        |                |        |                 |        |               |        |                  |          |                                     |       |            |       |                     |        |
|---|--|--|----------|---------------------|--|-----------------------|--|-------------|--------|-----------------|--------|-----------------------------------|--------|----------------|--------|-----------------|--------|---------------|--------|------------------|----------|-------------------------------------|-------|------------|-------|---------------------|--------|
| <p><b>We take care of our advisors so they can take care of their clients</b></p>   | <p><b>\$700B+ Client Assets:</b></p> <ul style="list-style-type: none"> <li>• <b>Brokerage:</b> \$379B</li> <li>• <b>Corporate Advisory:</b> \$202B</li> <li>• <b>Hybrid Advisory:</b> \$125B</li> </ul> <p><b>16K+ advisors:</b></p> <ul style="list-style-type: none"> <li>• <b>Independent Advisors:</b> 8,600+</li> <li>• <b>Hybrid RIA:</b> 4,900+ (430+ firms)</li> <li>• <b>Institutional Services:</b> 2,500+ (790+ banks and credit unions)</li> </ul>  | <table border="0"> <thead> <tr> <th colspan="2" data-bbox="1587 348 2007 379">Q2 Business Metrics</th> <th colspan="2" data-bbox="2015 348 2382 379">LTM Financial Metrics</th> </tr> </thead> <tbody> <tr> <td>Assets:</td> <td>\$706B</td> <td>Average Assets:</td> <td>\$672B</td> </tr> <tr> <td>Recruited Assets<sup>(2)</sup>:</td> <td>\$8.5B</td> <td>Gross Profit*:</td> <td>\$2.1B</td> </tr> <tr> <td>Advisors:</td> <td>16,161</td> <td>EBITDA*:</td> <td>\$993M</td> </tr> <tr> <td>Accounts:</td> <td>5.5M</td> <td>EPS Prior to</td> <td></td> </tr> <tr> <td>Employees:</td> <td>4,364</td> <td>Intangible Assets*:</td> <td>\$6.59</td> </tr> </tbody> </table> |          | Q2 Business Metrics |  | LTM Financial Metrics |  | Assets:     | \$706B | Average Assets: | \$672B | Recruited Assets <sup>(2)</sup> : | \$8.5B | Gross Profit*: | \$2.1B | Advisors:       | 16,161 | EBITDA*:      | \$993M | Accounts:        | 5.5M     | EPS Prior to                        |       | Employees: | 4,364 | Intangible Assets*: | \$6.59 |
| Q2 Business Metrics   |  | LTM Financial Metrics  |          |                     |  |                       |  |             |        |                 |        |                                   |        |                |        |                 |        |               |        |                  |          |                                     |       |            |       |                     |        |
| Assets:   | \$706B   | Average Assets:  | \$672B   |                     |  |                       |  |             |        |                 |        |                                   |        |                |        |                 |        |               |        |                  |          |                                     |       |            |       |                     |        |
| Recruited Assets <sup>(2)</sup> :   | \$8.5B   | Gross Profit*:   | \$2.1B   |                     |  |                       |  |             |        |                 |        |                                   |        |                |        |                 |        |               |        |                  |          |                                     |       |            |       |                     |        |
| Advisors:   | 16,161   | EBITDA*:   | \$993M   |                     |  |                       |  |             |        |                 |        |                                   |        |                |        |                 |        |               |        |                  |          |                                     |       |            |       |                     |        |
| Accounts:   | 5.5M   | EPS Prior to   |          |                     |  |                       |  |             |        |                 |        |                                   |        |                |        |                 |        |               |        |                  |          |                                     |       |            |       |                     |        |
| Employees:  | 4,364  | Intangible Assets*:  | \$6.59   |                     |  |                       |  |             |        |                 |        |                                   |        |                |        |                 |        |               |        |                  |          |                                     |       |            |       |                     |        |
| <p><b>Value Proposition</b></p> <p>We are a leader in the retail financial advice market and the nation's largest independent broker-dealer<sup>(1)</sup>.</p> <p>Our scale and self-clearing platform enable us to provide advisors with the capabilities they need, and the service they expect, at a compelling price, including:</p> <ul style="list-style-type: none"> <li>• <b>Open architecture offering</b> with no proprietary products</li> <li>• <b>Choice of advisory platforms</b> between corporate and hybrid, as well as <b>centrally managed solutions</b> to support portfolio allocation and trading</li> <li>• <b>Enhanced capabilities, ease of doing business, ClientWorks technology, and service model</b></li> <li>• <b>Industry-leading advisor payout rates</b></li> <li>• <b>Growth capital</b> to expand or acquire other practices</li> </ul> | <table border="0"> <thead> <tr> <th colspan="2" data-bbox="1587 639 2007 671">Q2 Debt Metrics</th> <th colspan="2" data-bbox="2015 639 2382 671">Ratings &amp; Outlooks</th> </tr> </thead> <tbody> <tr> <td>Credit Agr.</td> <td></td> <td>S&amp;P Rating:</td> <td>BB+</td> </tr> <tr> <td>EBITDA (TTM)*:</td> <td>\$1.0B</td> <td>S&amp;P Outlook:</td> <td>Stable</td> </tr> <tr> <td>Total Debt:</td> <td>\$2.4B</td> <td>Moody's Rating:</td> <td>Ba1</td> </tr> <tr> <td>Cost of Debt:</td> <td>5.07%</td> <td>Moody's Outlook:</td> <td>Positive</td> </tr> <tr> <td>Net Leverage Ratio<sup>(3)</sup>:</td> <td>1.99x</td> <td></td> <td></td> </tr> </tbody> </table> | Q2 Debt Metrics  |          | Ratings & Outlooks  |  | Credit Agr.           |  | S&P Rating: | BB+    | EBITDA (TTM)*:  | \$1.0B | S&P Outlook:                      | Stable | Total Debt:    | \$2.4B | Moody's Rating: | Ba1    | Cost of Debt: | 5.07%  | Moody's Outlook: | Positive | Net Leverage Ratio <sup>(3)</sup> : | 1.99x |            |       |                     |        |
| Q2 Debt Metrics   |  | Ratings & Outlooks   |          |                     |  |                       |  |             |        |                 |        |                                   |        |                |        |                 |        |               |        |                  |          |                                     |       |            |       |                     |        |
| Credit Agr.   |  | S&P Rating:  | BB+      |                     |  |                       |  |             |        |                 |        |                                   |        |                |        |                 |        |               |        |                  |          |                                     |       |            |       |                     |        |
| EBITDA (TTM)*:  | \$1.0B   | S&P Outlook:   | Stable   |                     |  |                       |  |             |        |                 |        |                                   |        |                |        |                 |        |               |        |                  |          |                                     |       |            |       |                     |        |
| Total Debt:   | \$2.4B   | Moody's Rating:  | Ba1      |                     |  |                       |  |             |        |                 |        |                                   |        |                |        |                 |        |               |        |                  |          |                                     |       |            |       |                     |        |
| Cost of Debt:   | 5.07%  | Moody's Outlook:   | Positive |                     |  |                       |  |             |        |                 |        |                                   |        |                |        |                 |        |               |        |                  |          |                                     |       |            |       |                     |        |
| Net Leverage Ratio <sup>(3)</sup> :   | 1.99x  |  |          |                     |  |                       |  |             |        |                 |        |                                   |        |                |        |                 |        |               |        |                  |          |                                     |       |            |       |                     |        |
| <p align="center"><b>LTM EBITDA* History (\$ millions)</b></p>  |  |  |          |                     |  |                       |  |             |        |                 |        |                                   |        |                |        |                 |        |               |        |                  |          |                                     |       |            |       |                     |        |



# Our Framework for Driving Outperformance



# We are creating the next generation of the Independent Model



## Position Our Model Across the Entire Wealth Management Market

Extend our leadership in our place of strength (IBD and Bank)

Expand our affiliation models to compete across more segments of the wealth management market



## Create an Industry-Leading Service Experience, at Scale

Develop excellence in Continuous Improvement

Turn ClientWorks into an industry-leading technology platform

Transform our Service model into a Customer Care model



## Extend Our Vertical Integration and Develop a New Layer of Capabilities

Digitize advisors' practices and enable evolution of their value proposition

Shift portions of practice management execution from advisors to LPL

Develop end-to-end solutions at each stage of the advisor lifecycle

**A strategy to win in the marketplace**

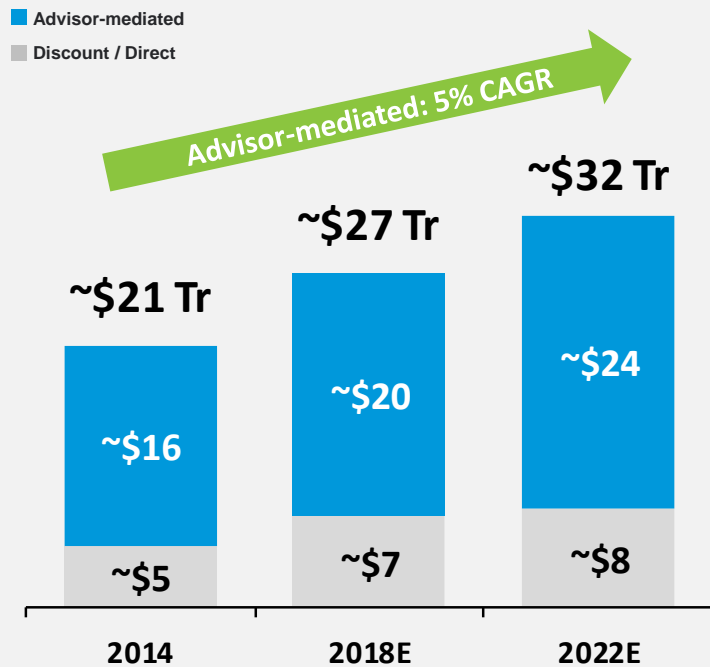
# LPL Investment Highlights: Significant opportunities to grow and create long-term shareholder value

- 1 Established market leader with scale advantages and structural tailwinds**
- 2 Investments in capabilities to enhance the advisor value proposition**
- 3 Organic growth opportunities through net new assets and ROA**
- 4 Resilient business model with natural hedges to market volatility**
- 5 Disciplined expense management driving operating leverage**
- 6 Capital light business model with significant capacity to deploy**
- 7 Opportunity to consolidate fragmented core markets through M&A**

# We are a market leader with scale advantages and industry tailwinds

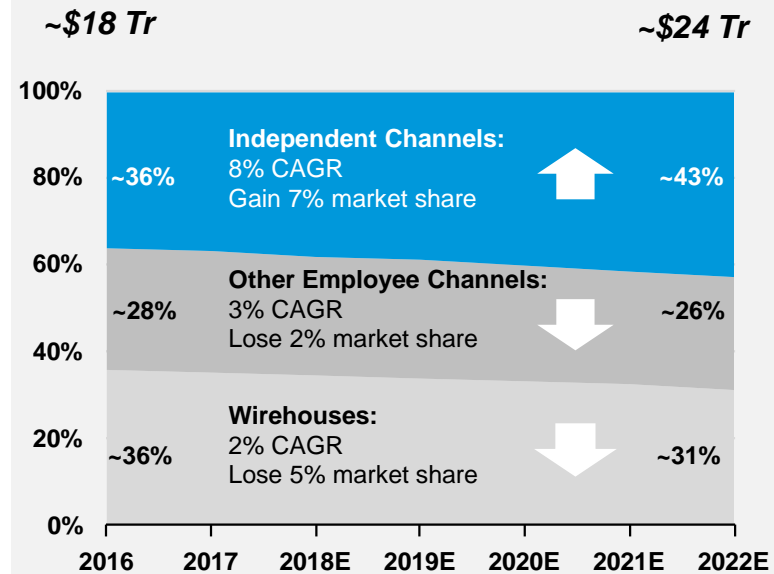
## Growing demand for advice

Projected Growth in US Retail Investment Market



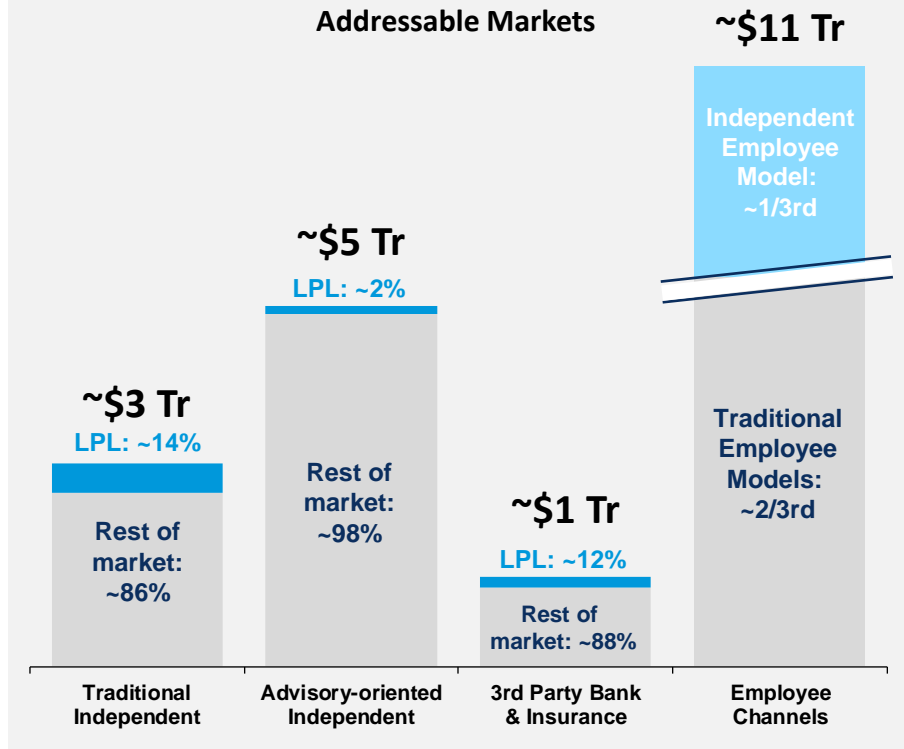
## Independent Channel gaining share

Total Advisor-mediated Assets



## Leading position in traditional markets

Addressable Markets

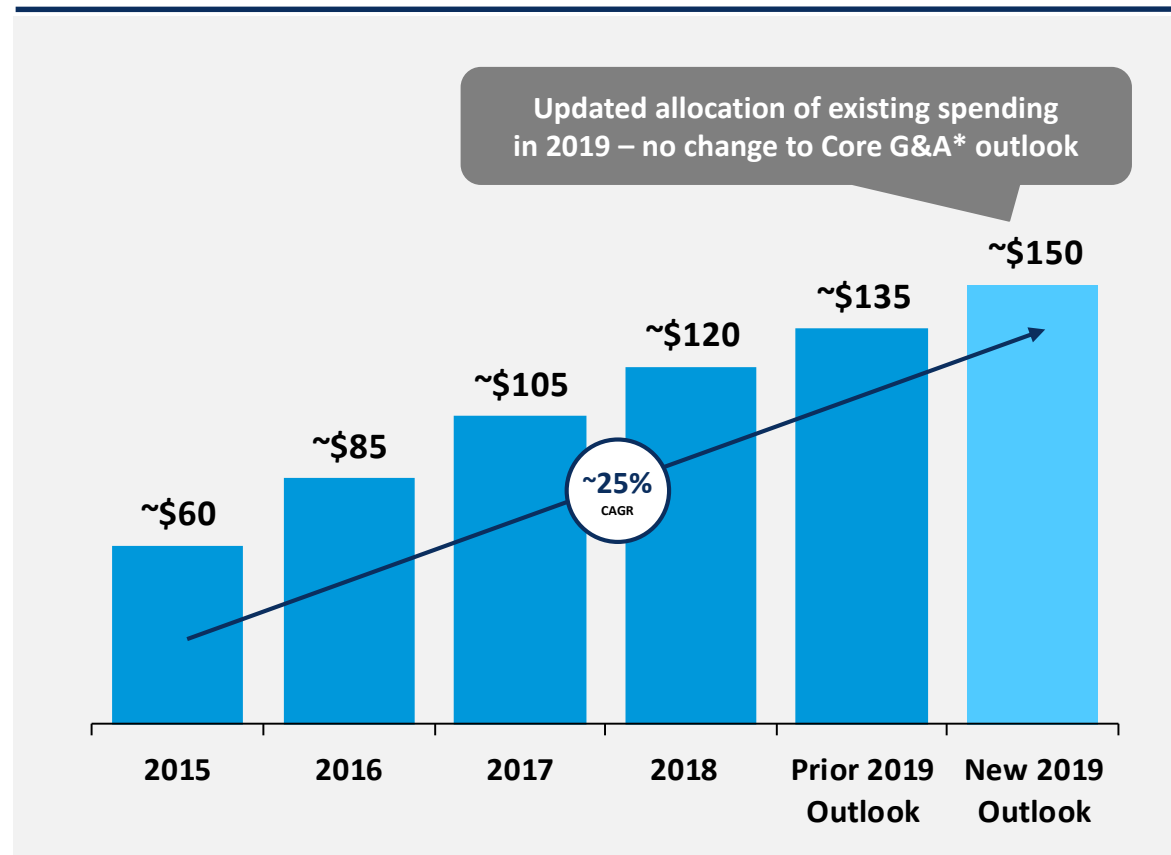


Note: LPL estimates based on 2018 Cerulli channel size and advisory share estimates and include market adjustment for 2018.



# We have increased our investments in capabilities to enhance our advisor value proposition and drive growth

## Technology Portfolio Spend (in millions)

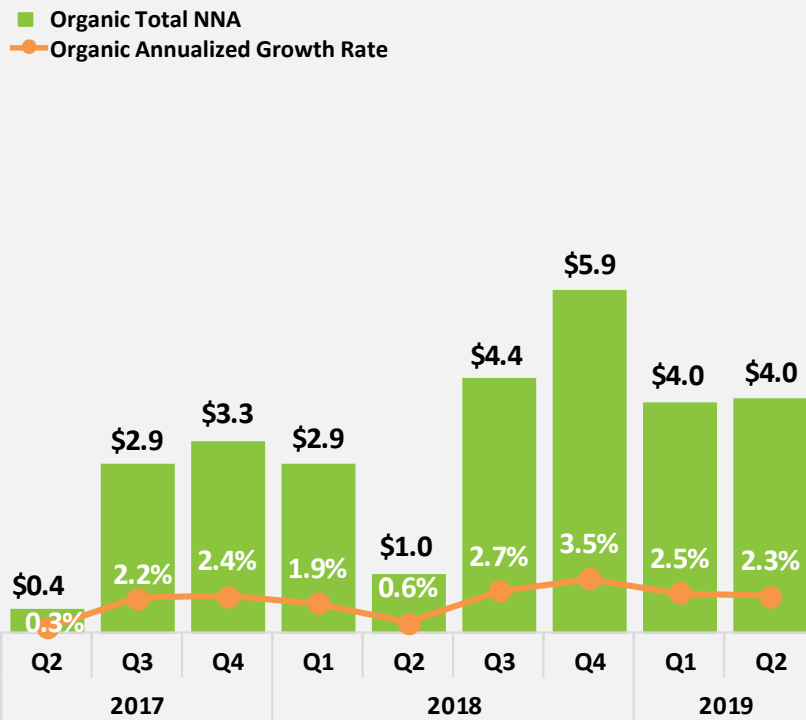


## Key Points

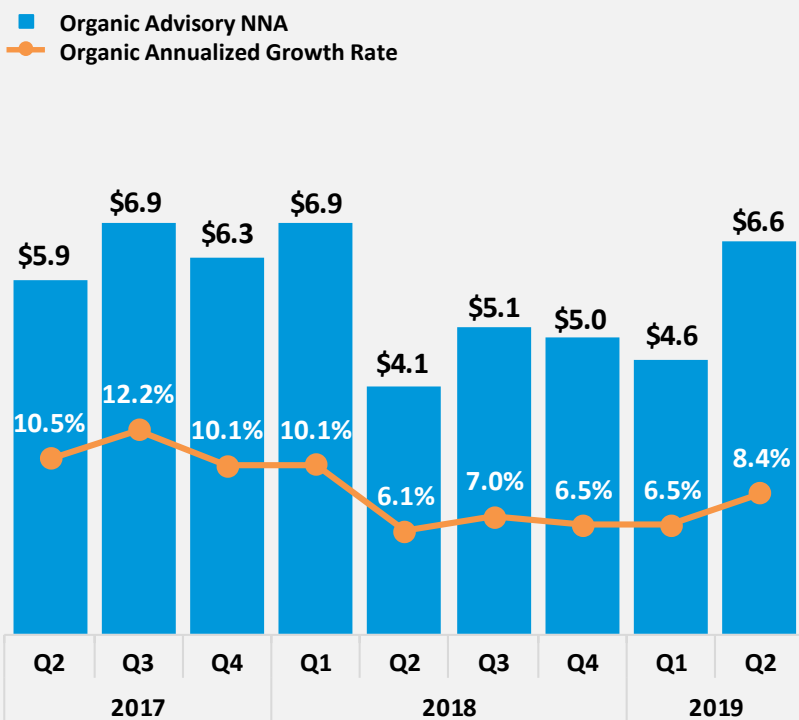
- Enhancing our capabilities can make our platform more appealing to existing and prospective advisors
- As a result, we have increased our technology investments over time
- Our spend is primarily focused on turning our existing competitive offering into a industry-leading platform

# Total Net New Assets continued to grow organically in Q2 2019

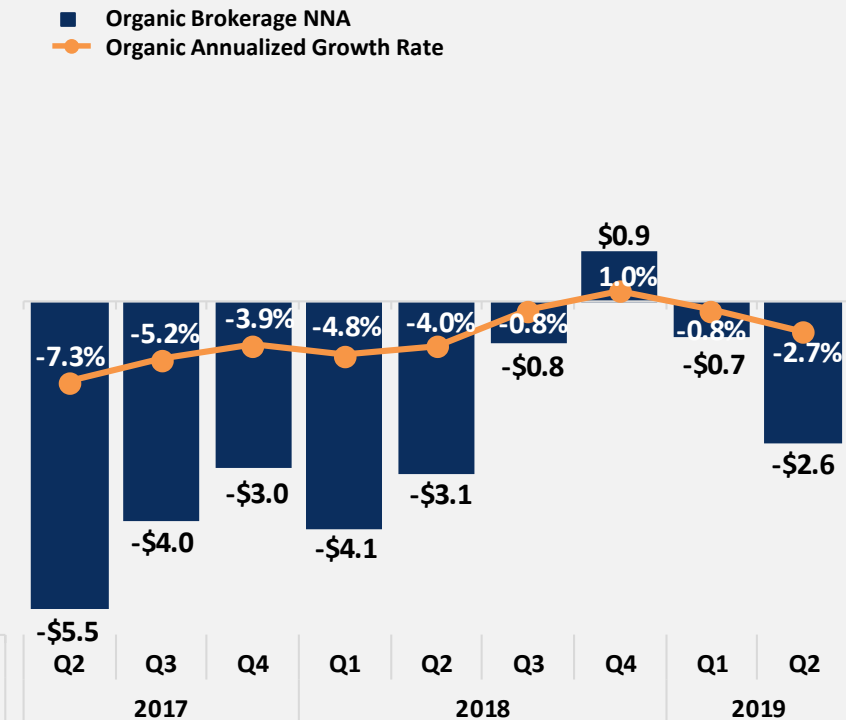
Total Net New Assets (\$ billions)



Net New Advisory Assets<sup>(4)</sup> (\$ billions)



Net New Brokerage Assets<sup>(5)</sup> (\$ billions)

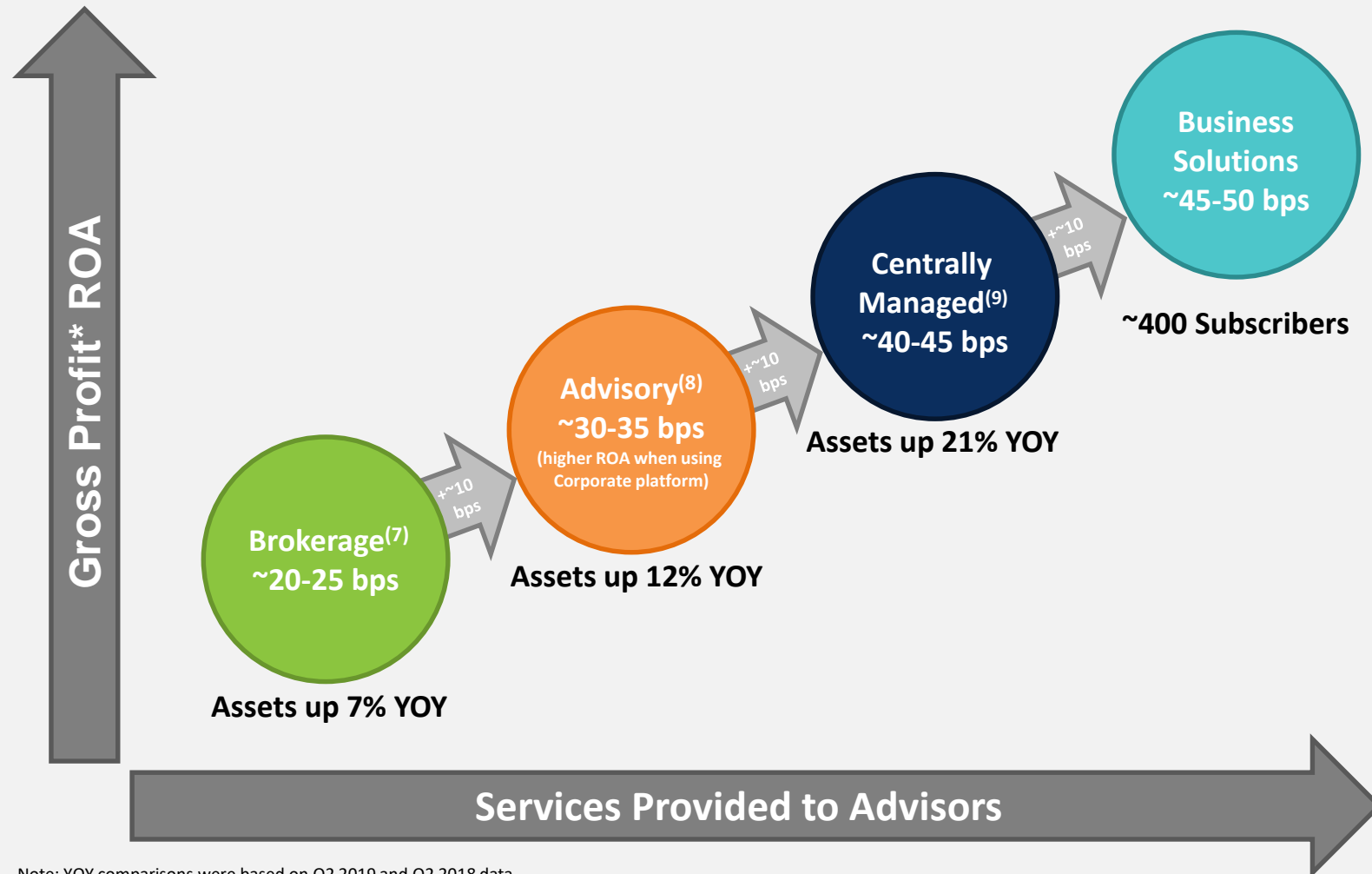


Net Brokerage to Advisory Conversions (billions)<sup>(6)</sup>: \$2.0 \$1.9 \$2.1 \$2.5 \$1.8 \$1.7 \$1.4 \$1.4 \$1.8

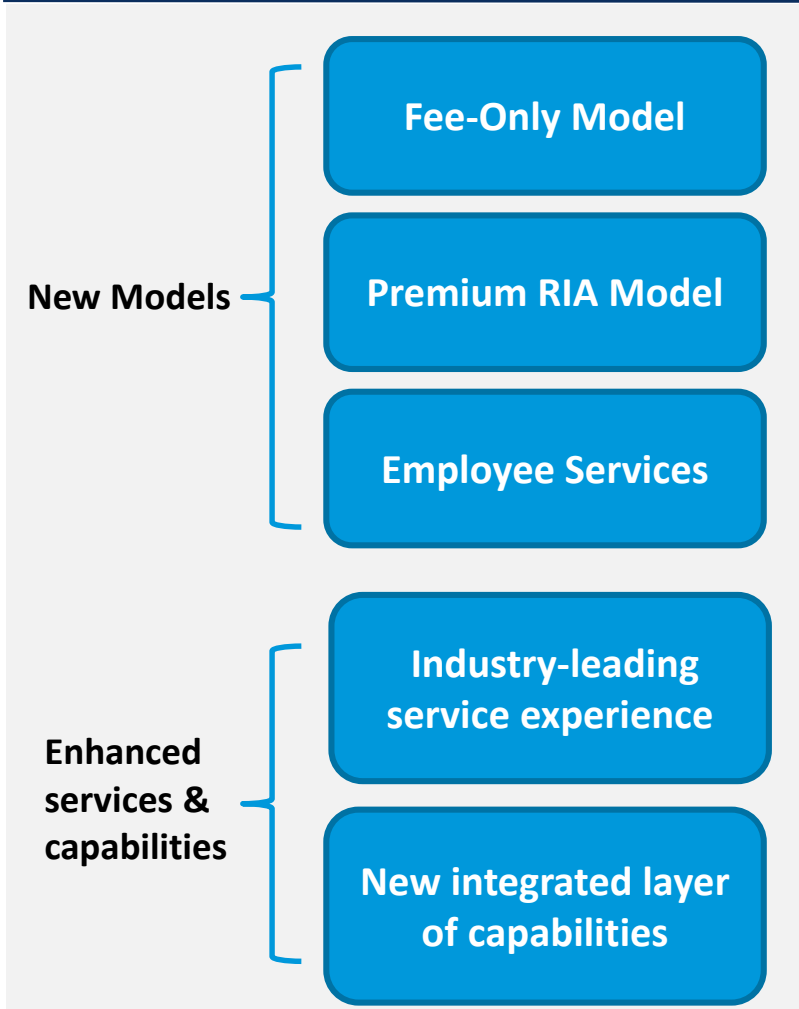
Note: Q1 2019 includes \$0.6 billion of outflows (of which \$0.3 billion was advisory) and Q2 2019 includes \$1.2 billion of outflows (of which \$0.8 billion was advisory) related to a hybrid firm that formed its own broker-dealer and departed, consistent with the Company's expectations as discussed on its Q1 2019 earnings call. Prior to these outflows, total net new assets were \$4.6 billion, a 2.9% annualized growth rate in Q1 2019, and \$5.2 billion, a 3.0% annualized growth rate in Q2 2019

# As advisors use more of our services, our returns increase

We have seen a favorable mix shift in our platforms



Additional drivers of growth



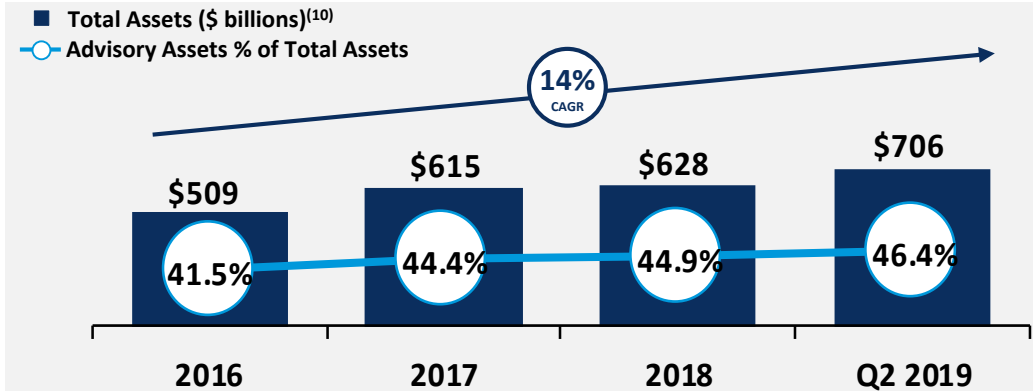
Note: YOY comparisons were based on Q2 2019 and Q2 2018 data.

# Our business has continued to shift from brokerage to advisory

## Key points

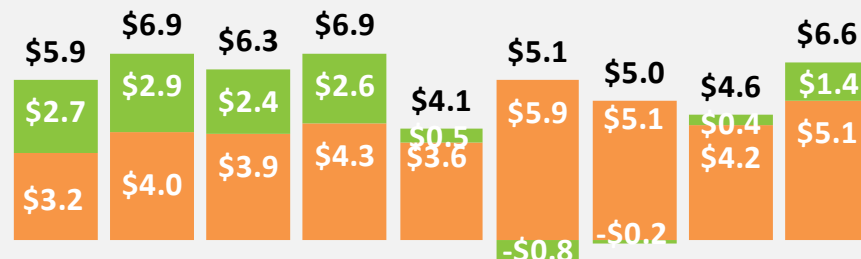
- Our business has been shifting from Brokerage to Advisory, consistent with industry trends
- While the pace of our mix shift has increased, our average mix is still below industry levels
- Advisory ROA is ~10 bps higher than Brokerage ROA

## Our business has shifted towards Advisory



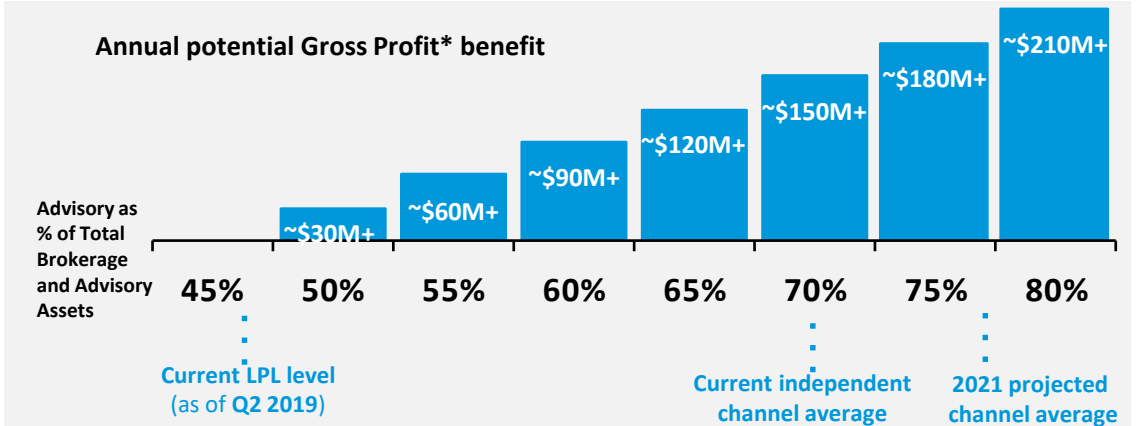
## Corporate platform has now been driving most advisory growth

- Organic Hybrid Advisory NNA <sup>(11)</sup>
- Organic Corporate Advisory NNA <sup>(12)</sup>



| Annualized NNA Growth              | Q2 2017 | Q3 2017 | Q4 2017 | Q1 2018 | Q2 2018 | Q3 2018 | Q4 2018 | Q1 2019 | Q2 2019 |
|------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Hybrid Advisory <sup>(11)</sup>    | 12%     | 12%     | 9%      | 9%      | 2%      | -3%     | -1%     | 1%      | 5%      |
| Corporate Advisory <sup>(12)</sup> | 10%     | 12%     | 11%     | 11%     | 9%      | 14%     | 11%     | 10%     | 11%     |

## Greater use of advisory services could drive value



Note: Gross profit\* benefit for greater use of advisory services is estimated based on 5 percentage point mix shift, or ~\$30B in assets, at incremental ~10 bp ROA

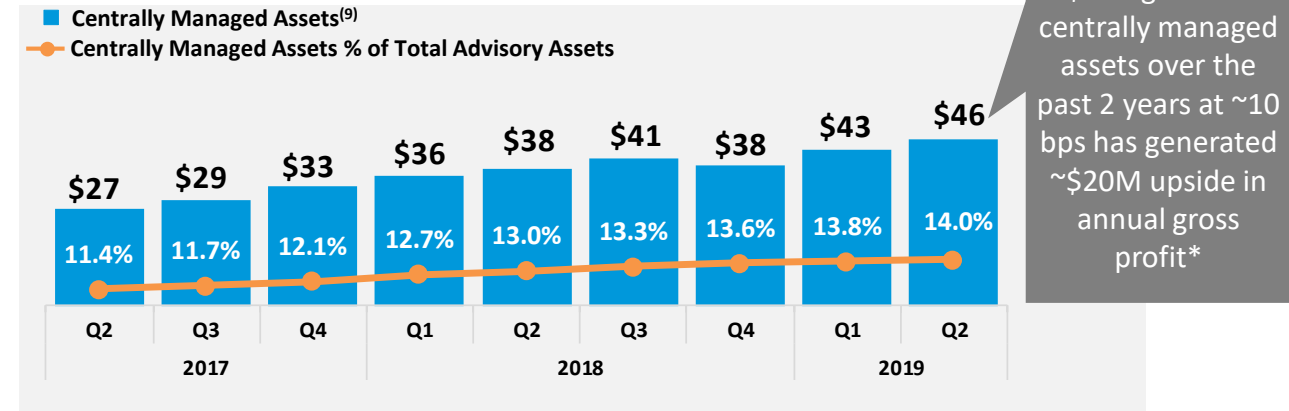
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# Centrally managed services have grown organically following pricing and capability enhancements

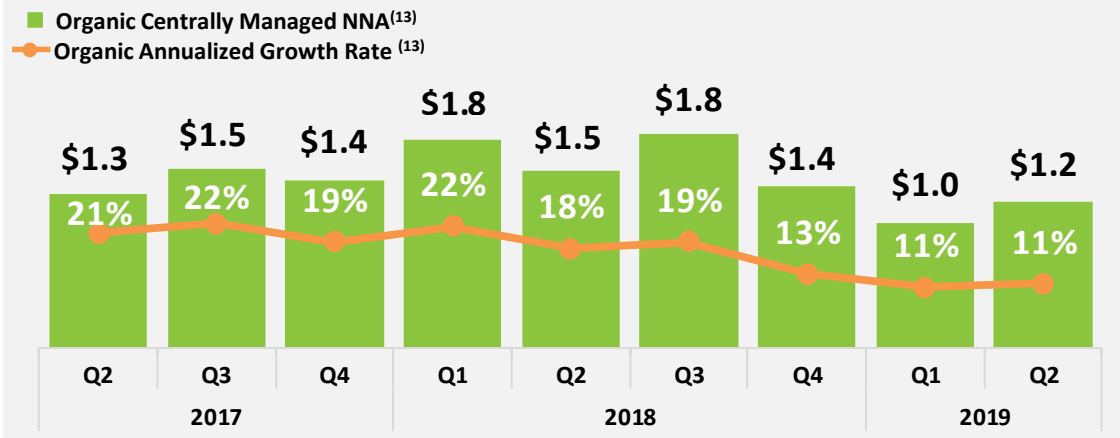
## Key points

- Centrally managed platforms enable our advisors to outsource portfolio construction and trading to us, which can free up time to serve clients and grow their practices
- Inflows have increased to a ~2% annual increase as a percentage of total advisory assets
- Centrally managed ROA is ~10 bps higher than Advisory overall

## Centrally managed assets have grown

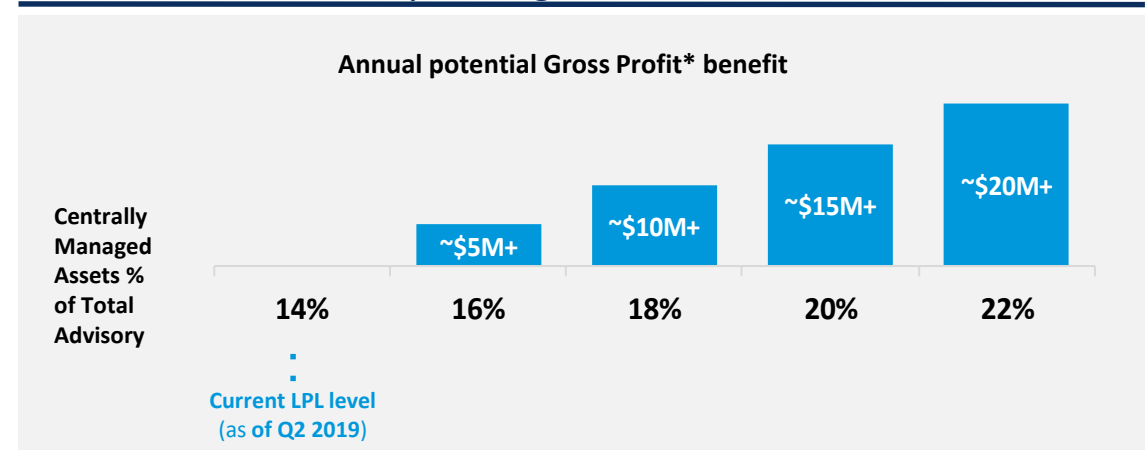


## Organic growth has picked up



Note: Centrally managed NNA does not include conversions from other LPL advisory accounts.

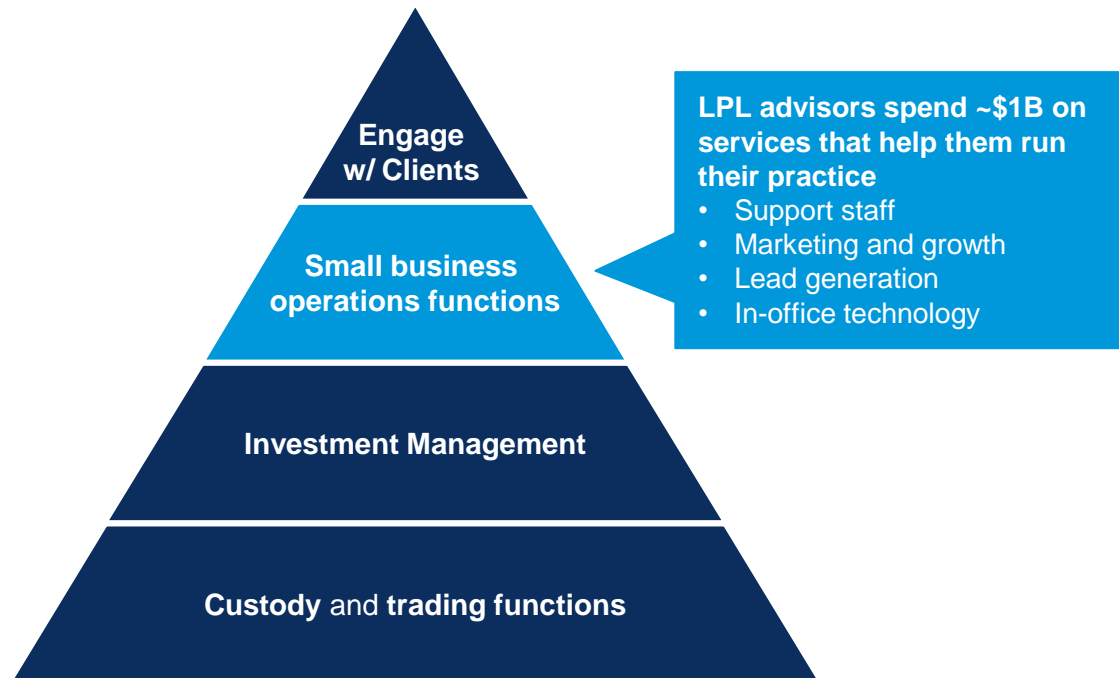
## Greater use of centrally managed services can create value



Note: Gross Profit\* benefit for greater use of centrally managed platforms has been estimated based on 2 percentage point mix shift, or ~\$5B in assets, at an incremental ~10 bps ROA

# We are leveraging technology and our scale to bring innovation and enhanced performance to the front office

## Development of New LPL Front Office Services

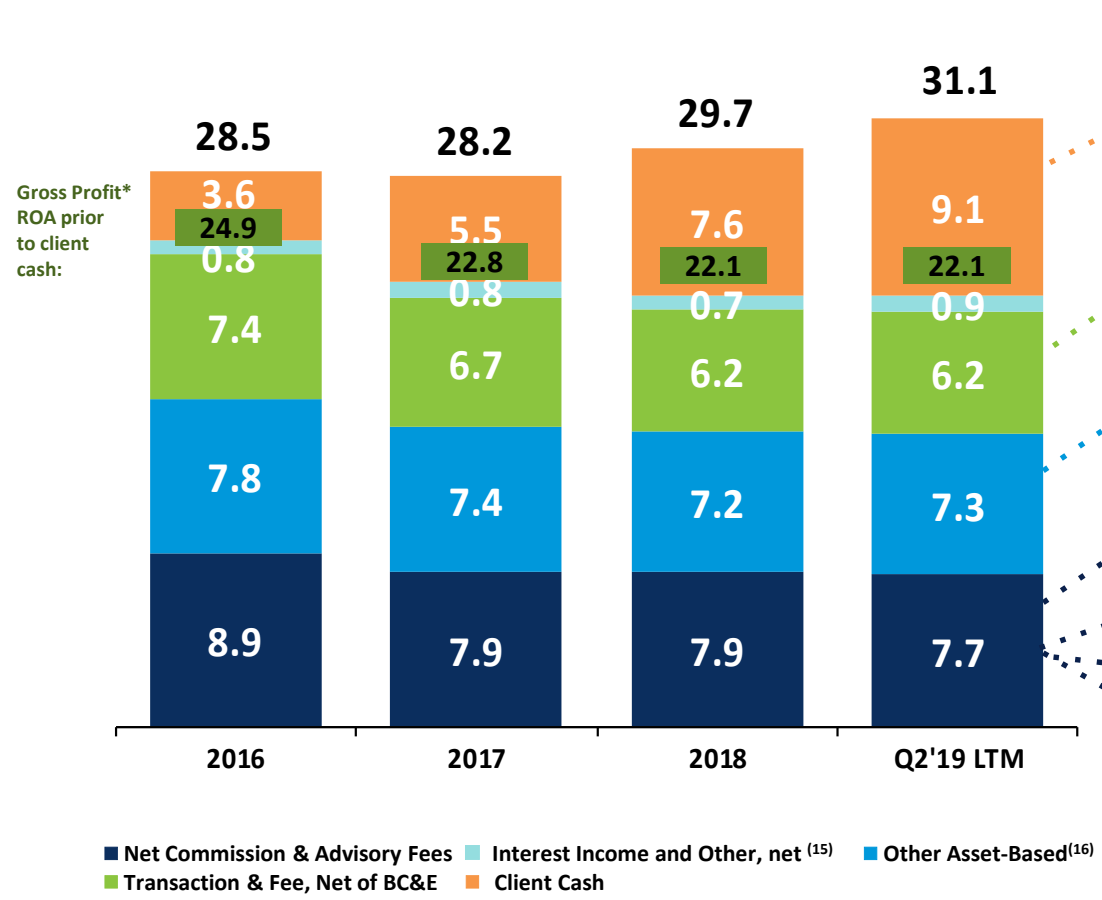


## We are developing Business Solutions that enable efficiency and support growth



# Our assets have continued to move towards advisory, primarily driven by new client investment

Gross Profit\* ROA <sup>(14)</sup>

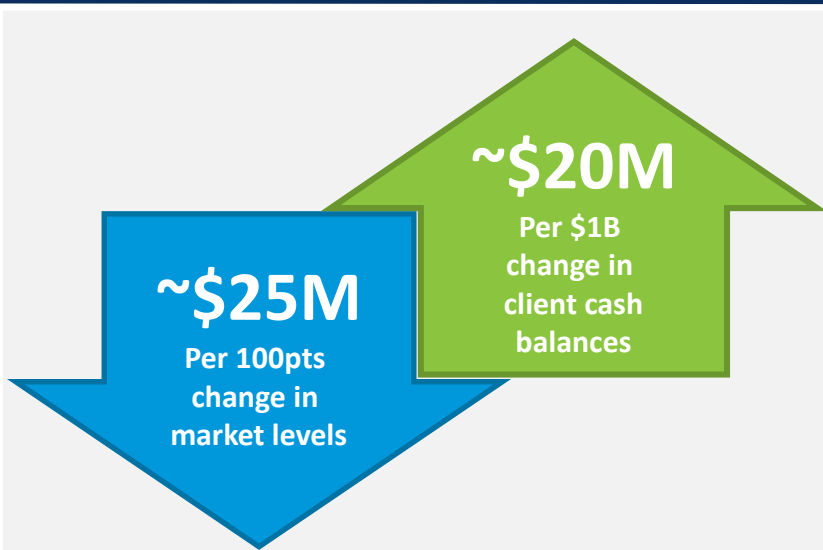


## Key drivers of gross profit\* ROA growth going forward

- Client Cash Offerings**  
(e.g. deposit betas in the 25-50% range, extending ICA duration)
- Modernize Practice Management**  
(e.g. Business Solutions, advisor lifecycle solutions)
- Asset Custody**  
(e.g. sponsor programs, centrally managed platforms)
- Advisory Services**  
(e.g. secular brokerage to advisory trend, enhanced hybrid capabilities)
- Portfolio Construction**  
(e.g. centrally managed, separately managed, Guided Wealth Portfolios)
- Risk Management**  
(e.g. corporate vs hybrid mix shift, increased use of compliance capabilities)
- New Models**  
(e.g. Premium RIA, Fee-Only, Employee Services)

# The stability of our business model positions us to continue investing and deploying capital

Changes in market levels and client cash balances tend to offset each other



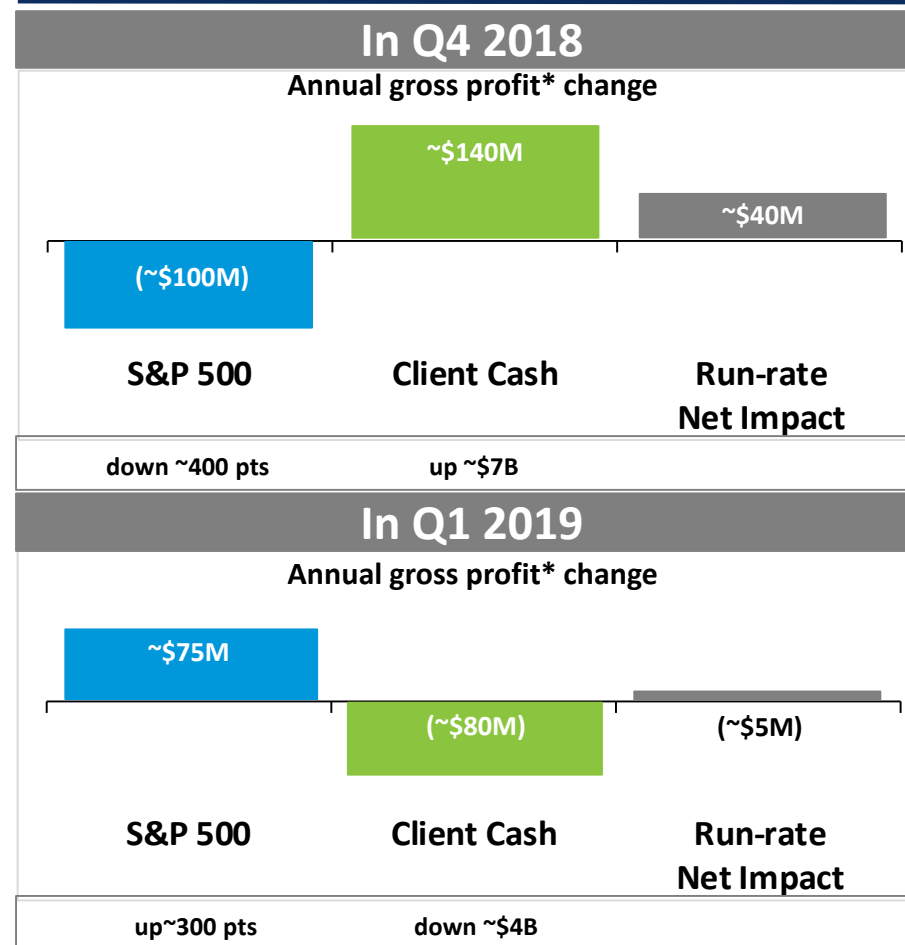
## Market Levels (S&P 500)

Rising market levels drive growth in assets and related revenues including Advisory Fees, Trailing Commissions, and Sponsor Revenues

## Client Cash Balances

Increased market volatility drives higher client cash balances with average yield of ~200 bps as of Q2 2019

### Two recent case studies



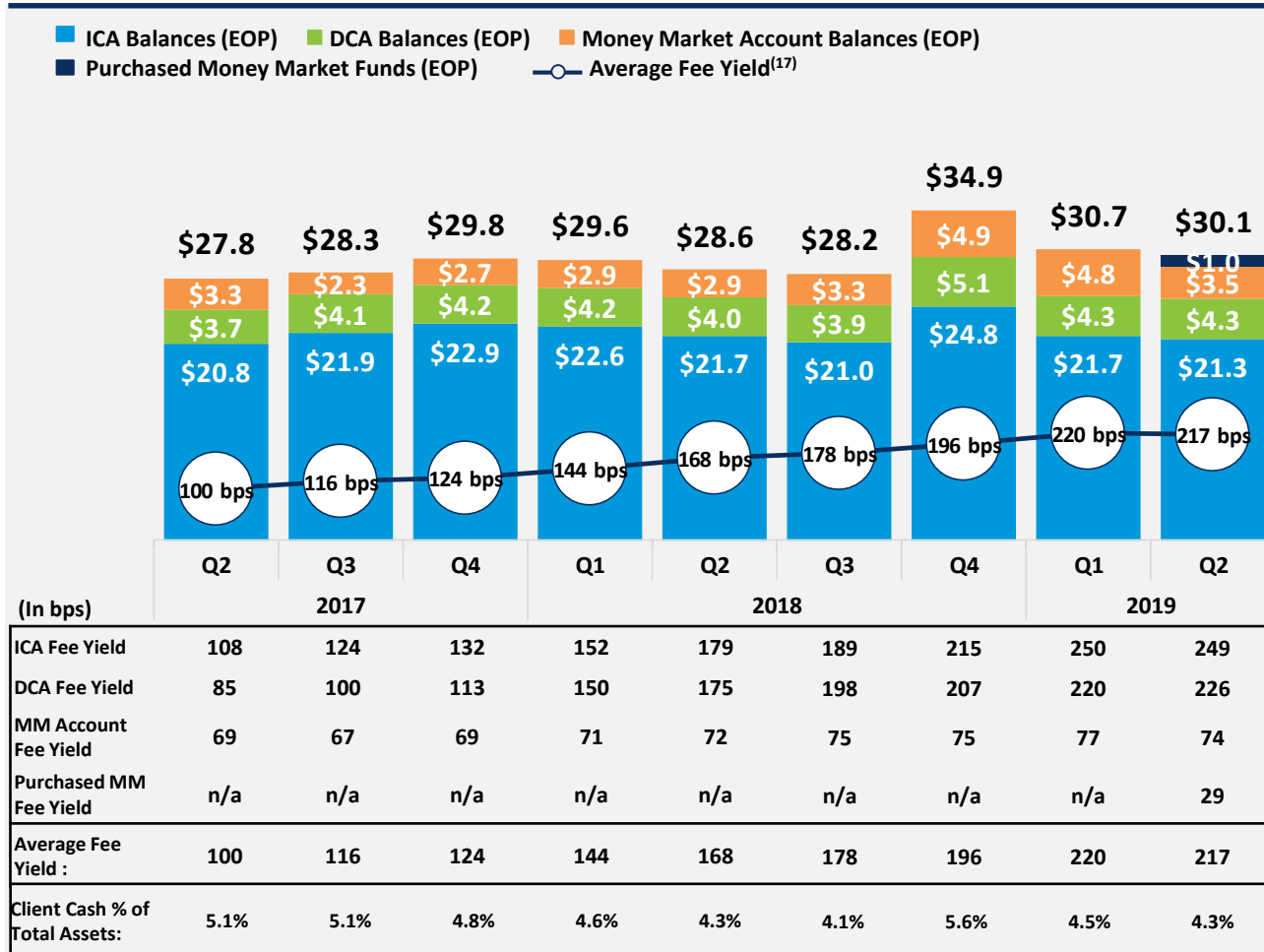
### Key Points

- In the long-term, we benefit from rising equity markets which drive growth in assets and cash balances
- In the short-term, our business model has natural hedges to market volatility
- This helps create stability in earnings in the short-run which improves our ability to invest for growth across different macro environments

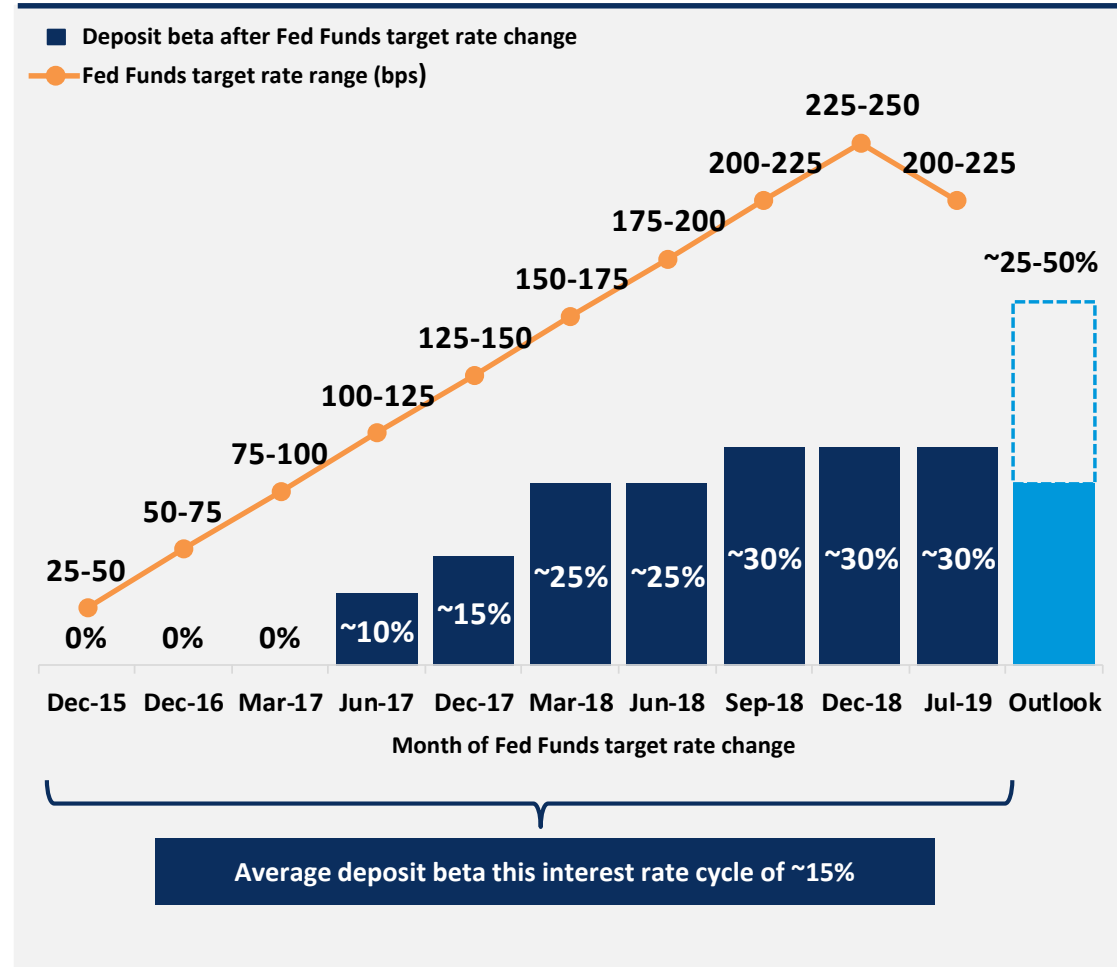


# Client cash balances total ~\$30B, and recent deposit betas have been ~30%

## Client Cash balances (\$ billions)

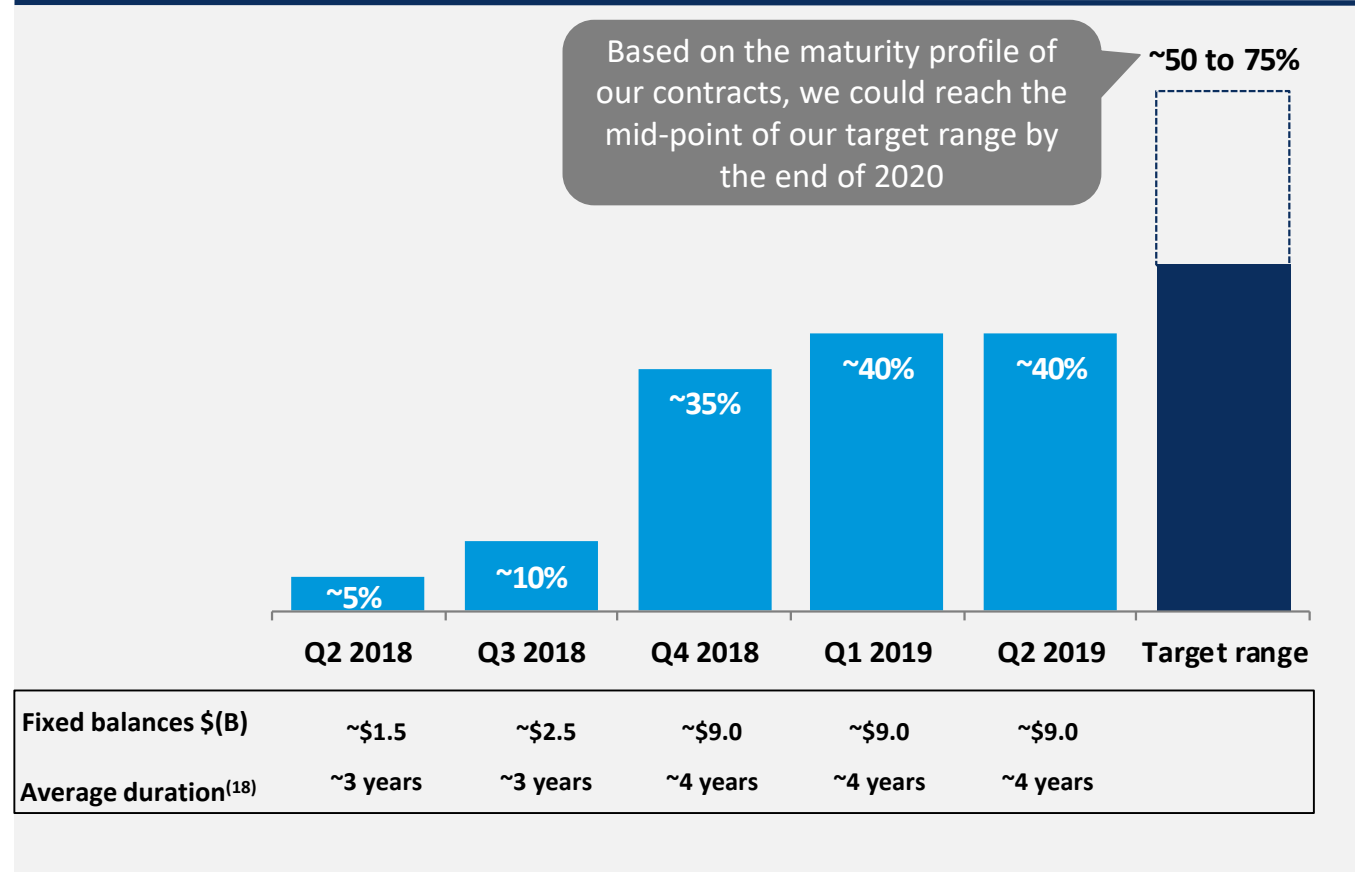


## ICA deposit beta history and outlook

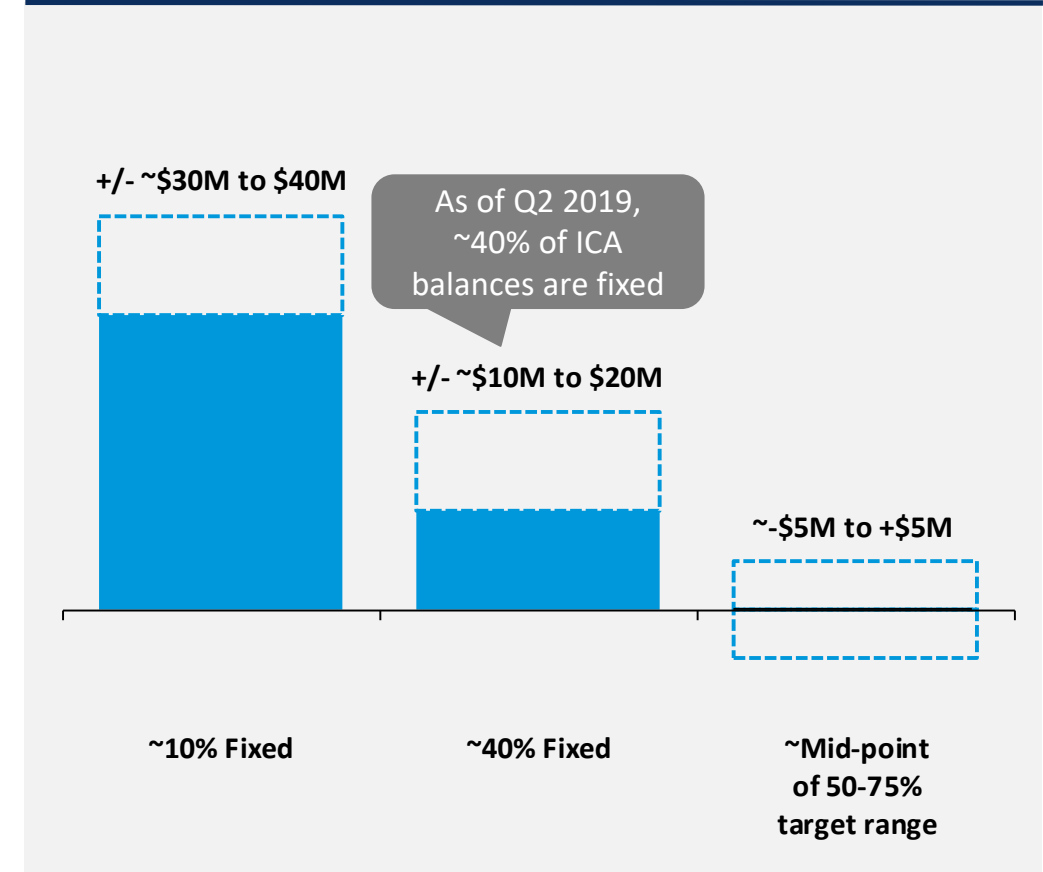


# We are moving ICA balances to fixed rates over time, reducing our sensitivity to movements in short-term rates

## Fixed rate portion of ICA portfolio



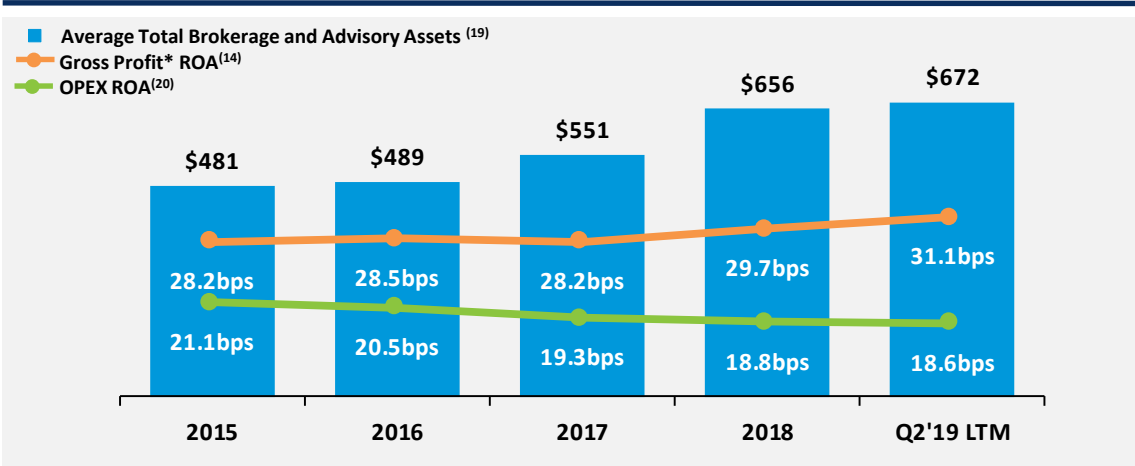
## Annual financial impact of a Fed rate hike or cut



Note: assumes change based on ICA floating rate balances, deposit betas of 25-50%, ~\$5M change in DCA revenue, and ~\$5M change in interest expense on floating rate debt

# We are focused on generating operating leverage

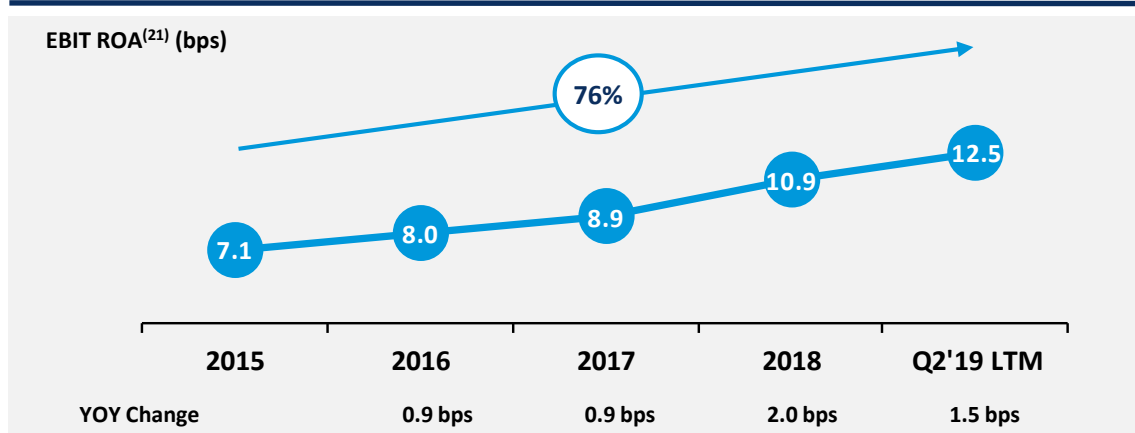
Gross Profit\* ROA increased, and OPEX ROA continued to decline



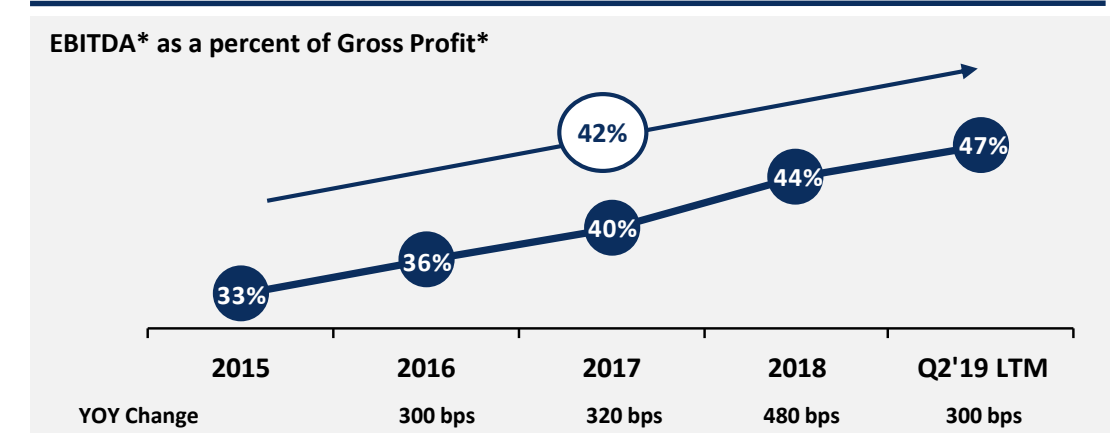
Long-term expense and investment strategy remains unchanged

- Focus on delivering operating leverage
- Prioritize investments that drive organic growth
- Drive productivity and efficiency
- Adapt cost trajectory as environment evolves

As a result, EBIT ROA has grown



EBITDA\* margin expanded over time



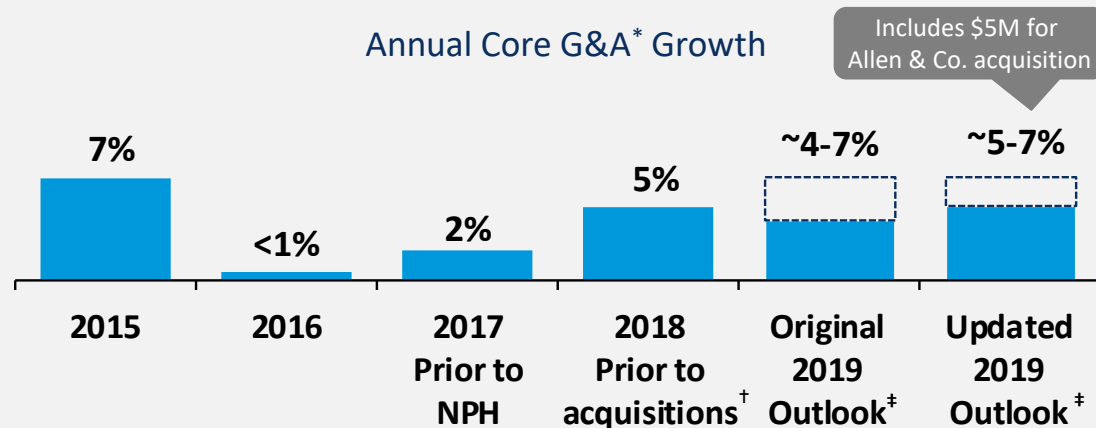
Note: Q2 2019 YOY change for EBIT ROA and EBITDA margin are calculated relative to full year 2018 results

# We plan to continue investing for growth in 2019

## Long-term cost strategy

- Focus on delivering operating leverage
- Prioritize investments that drive organic growth
- Drive productivity and efficiency
- Adapt cost trajectory as environment evolves

## Lower recent expense trajectory, prior to acquisitions



## Core G&A\* context (as of July 25, 2019)

- We are executing well on our investment and efficiency plans
- Given results year-to-date, we tightened the Core G&A\* range by \$10M
- As we expected to close our acquisition of Allen & Co. in Q3, we added \$5M to the outlook range for onboarding and operating expenses in 2019
- Taken together, we updated our 2019 outlook range to \$860M to \$875M

## Core G&A\* outlook (as of July 25, 2019)

**Original 2019 Outlook: \$850 to \$875 million**

**Tightened 2019 Outlook: \$855 to \$870 million**

**Allen & Co. Expense: + \$5 million**

**Updated 2019 Outlook: \$860 to \$875 million**

<sup>†</sup> Based on the Company's 2018 Core G&A\* prior to NPH and AdvisoryWorld related expenses compared to the Company's 2017 Core G&A prior to NPH-related expenses.

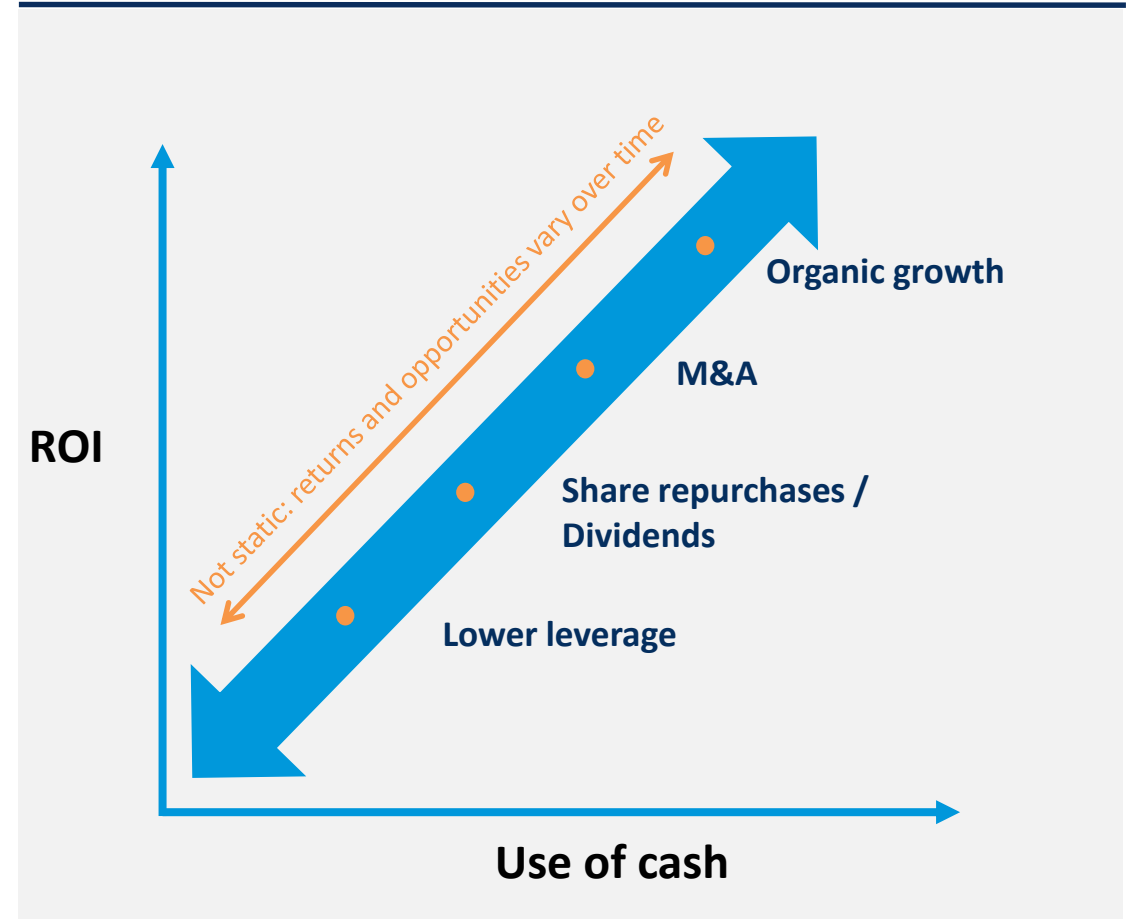
<sup>‡</sup> Based on the Company's total 2018 Core G&A\*.

# Our capital management strategy is focused on driving growth and maximizing shareholder value

## Our capital management principles

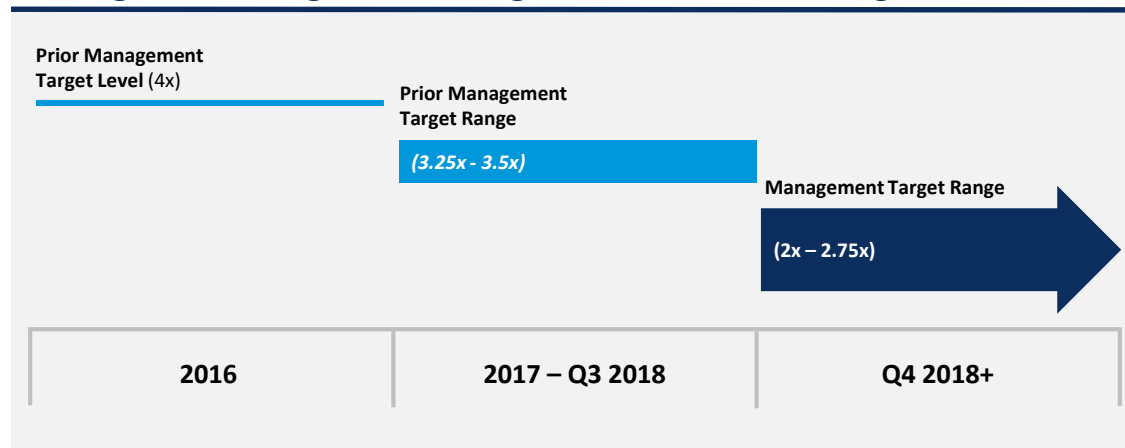
- **Disciplined capital management to drive long-term shareholder value**
- **Maintain a strong and flexible balance sheet**
  - Management target net leverage ratio range of 2x to 2.75x
  - Debt structure was refinanced to be more flexible and support growth
- **Prioritize investments that drive organic growth**
  - Recruiting to drive net new assets
  - Capability investments to add net new assets and drive ROA
- **Position ourselves to take advantage of M&A**
  - Potential to consolidate fragmented core market
  - Stay prepared for attractive opportunities
- **Return excess capital to shareholders**
  - Share repurchases
  - Dividends

## Dynamic capital allocation across options

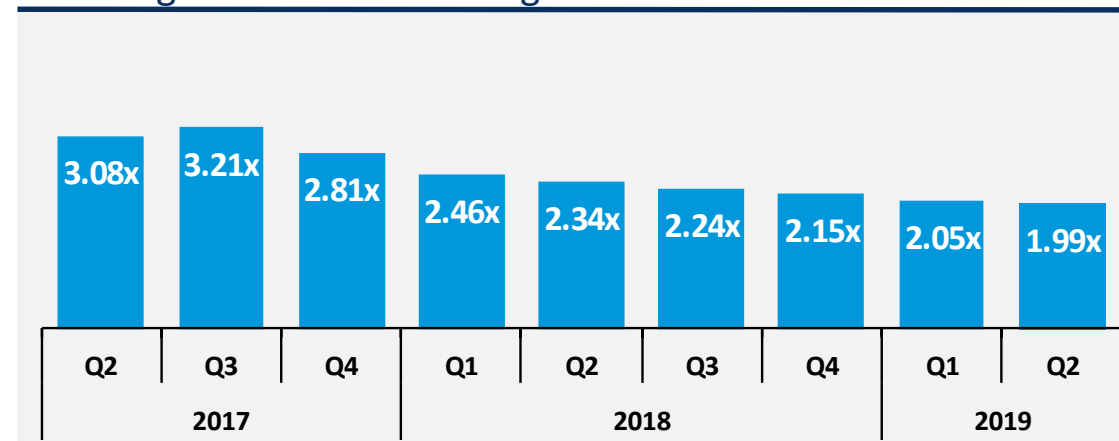


# Our balance sheet strength is a key driver of our organic growth

## Management Target Credit Agreement Net Leverage Ratio<sup>†</sup>



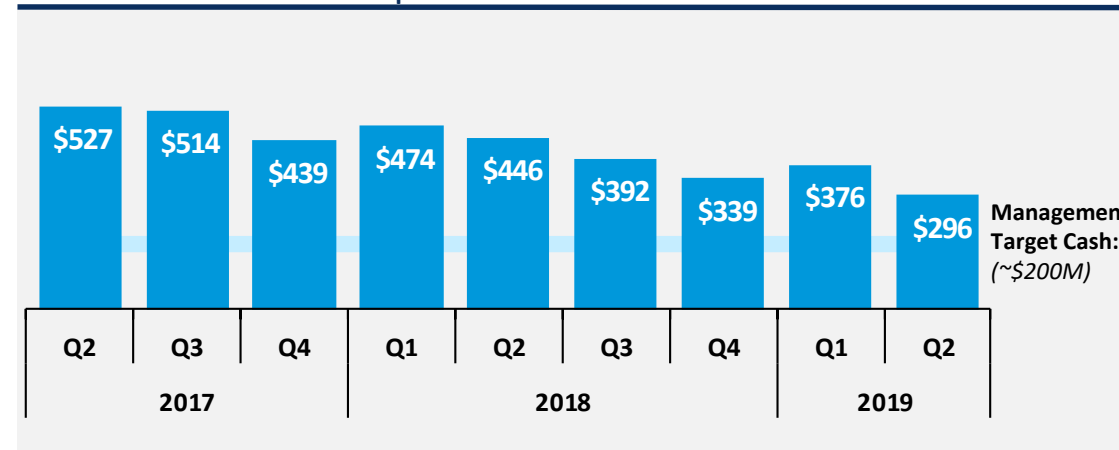
## Credit Agreement Net Leverage Ratio



## Balance Sheet Principles

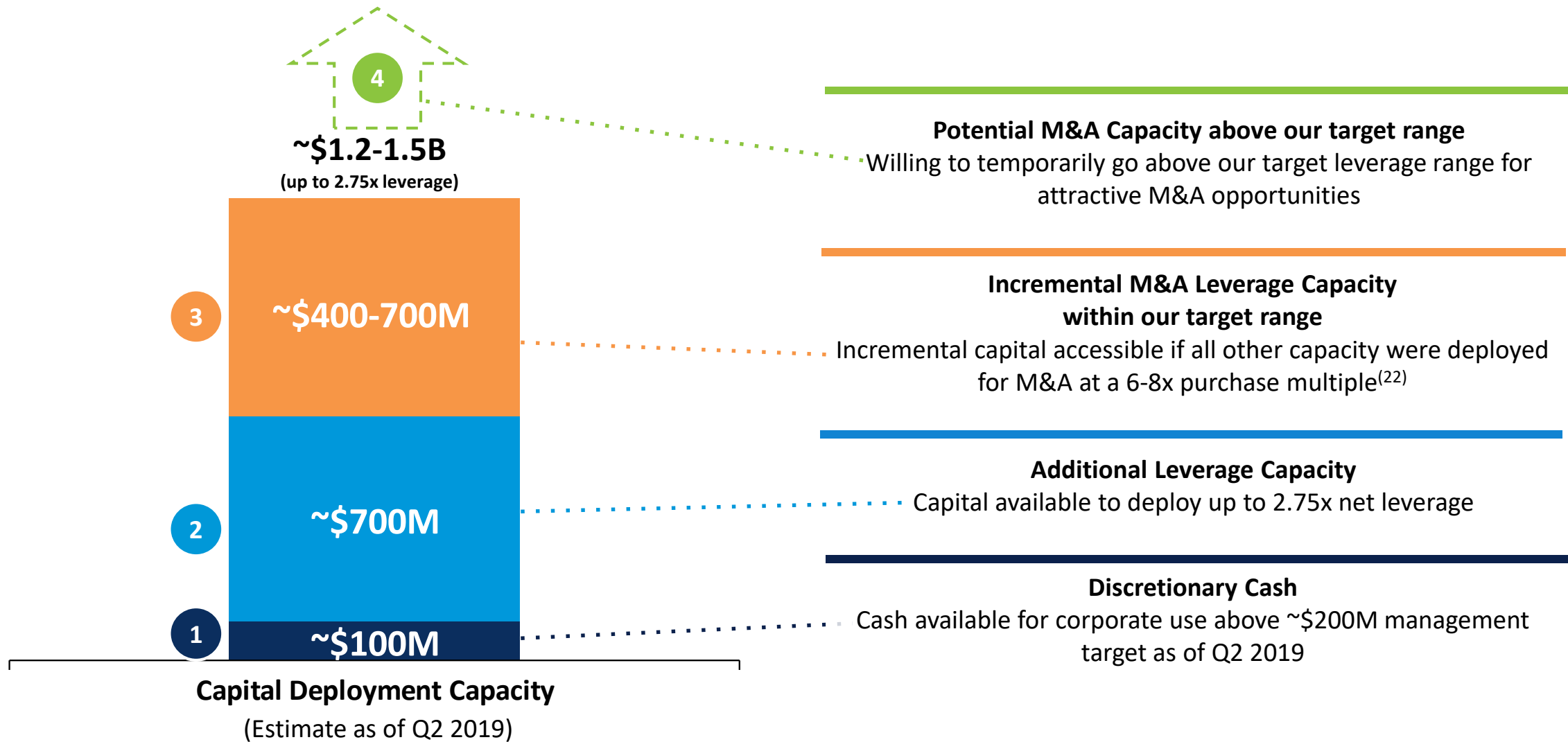
- We want to maintain a strong balance sheet that can absorb market volatility while having the capacity to invest for growth
- As a result, our target leverage range is 2x to 2.75x, which we believe positions our balance sheet well
- At the same time, we are comfortable operating above or below this range temporarily if attractive M&A opportunities arise and as we continue to grow earnings

## Cash Available for Corporate Use



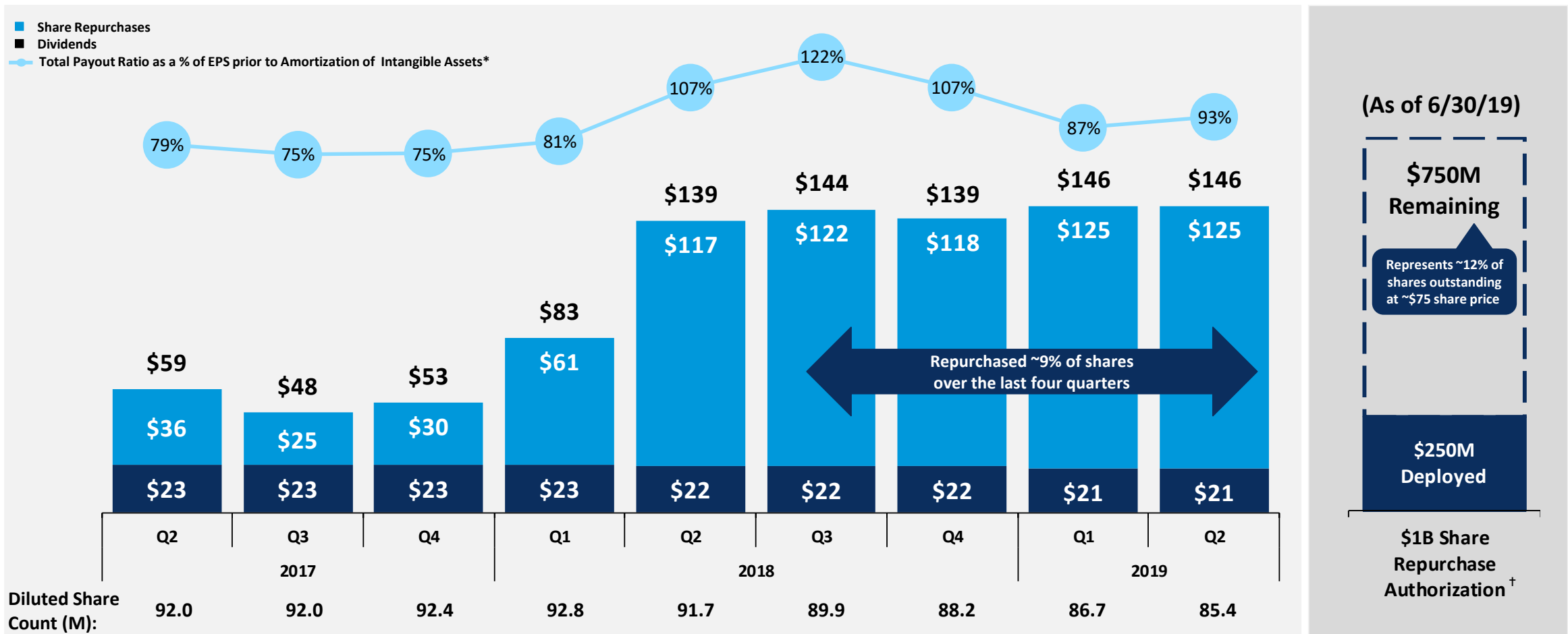
<sup>†</sup> Note that the Credit Agreement Net Leverage Ratio only applies to the Company's revolving credit facility, which was undrawn as of June 30, 2019

# We have a significant amount of capital deployment capacity



# ...And we have continued to return capital to shareholders

## Shareholder Capital Returns (\$ millions)

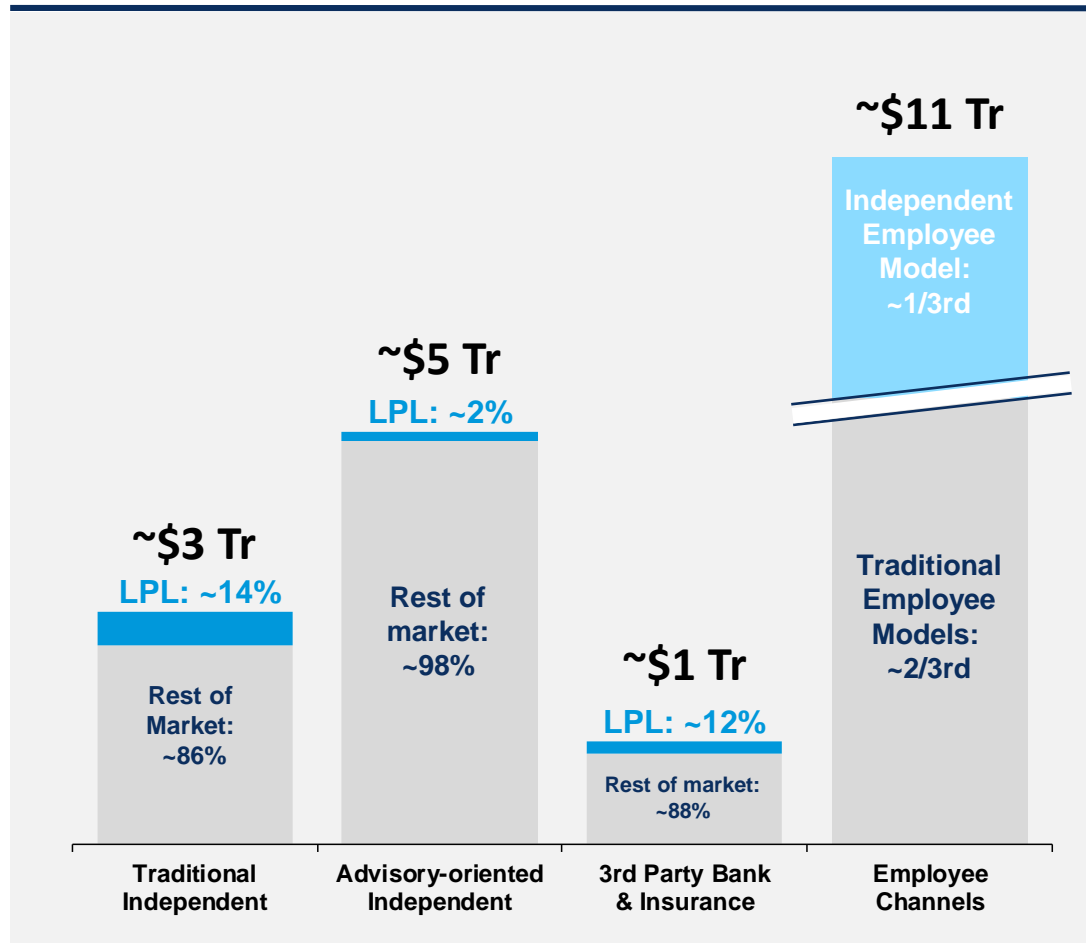


† As of December 31, 2018



# Our core markets are fragmented, with potential for consolidation

## Addressable markets



## Growth potential from consolidation

- Our scale, capabilities, and economics give us **competitive advantages in M&A**
- The **traditional and advisory-oriented markets are fragmented** with consolidation opportunities
- Rising cost and complexity** is making it **harder for smaller players** to compete
- Therefore, **we believe consolidation can drive value** by adding scale, increasing our capacity to invest in capabilities, and creating shareholder value

# Recent acquisitions

## Traditional markets



**2017**

~\$70B Assets transferred  
~4X EBITDA purchase multiple

- Large independent broker/dealer network
- Added to our scale and leadership position
- Increased our capacity to invest in the advisor value proposition and return capital to shareholders

## Capabilities



**2018**

Industry-leading capabilities  
\$28M purchase price

- Leading provider of digital tools for advisors that serves more than 30,000 U.S. financial advisors and institutions
- Capabilities include proposal generation, investment analytics, and portfolio modeling
- Enables our efforts to digitize workflows that help advisors grow and drive efficiency in their practices

## New markets



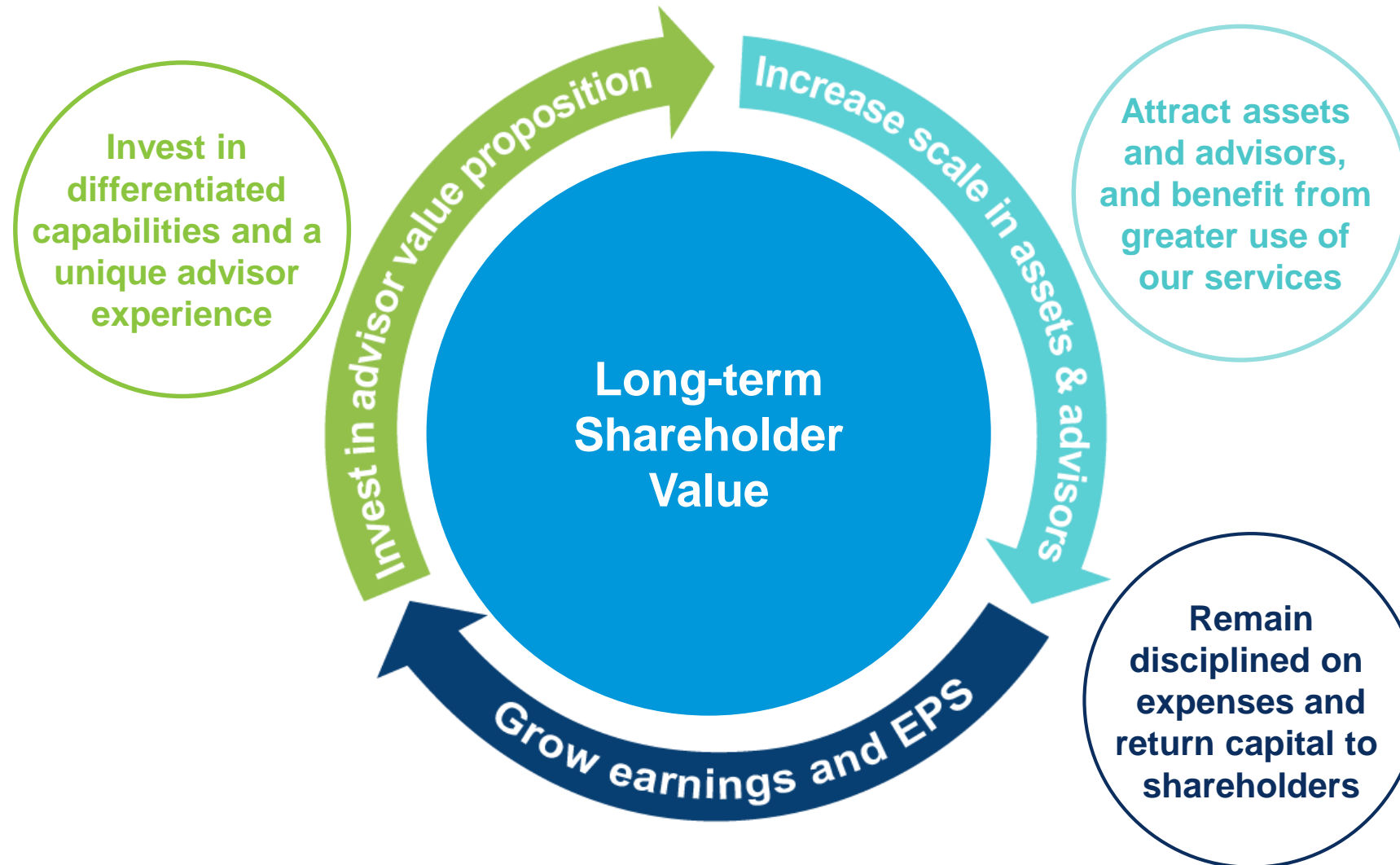
**2019**

~\$3B Assets  
~7X EBITDA\* purchase multiple

- Leading Florida practice with client base and culture that are good fits for LPL
- Transaction closed in August 2019
- Projected to add ~\$5M of post-synergy EBITDA by early 2020 for a purchase price in the mid-\$20M to mid-\$30M range<sup>†</sup>
- Will affiliate under an employee model

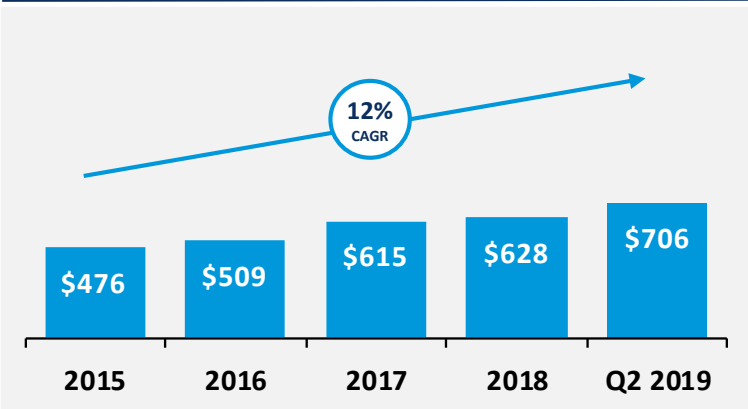
<sup>†</sup> Based on 80% to 100% asset transfer to LPL's platform

As we continue to invest and increase our scale, we enhance our ability to drive further growth

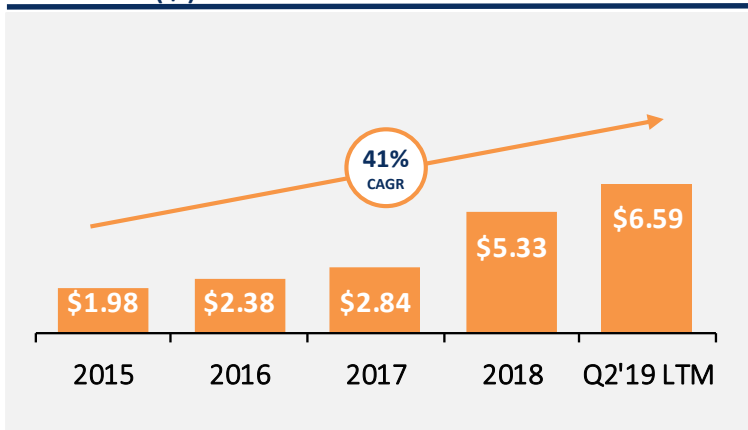


# We are focused on executing our strategy and delivering results

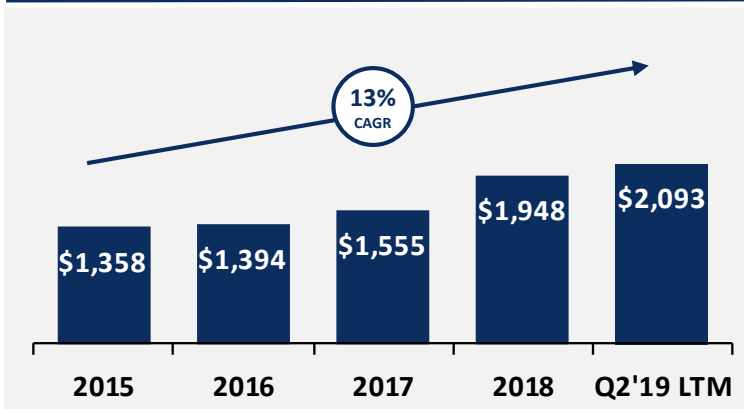
Total Brokerage and Advisory Assets<sup>(10)</sup> (\$B)



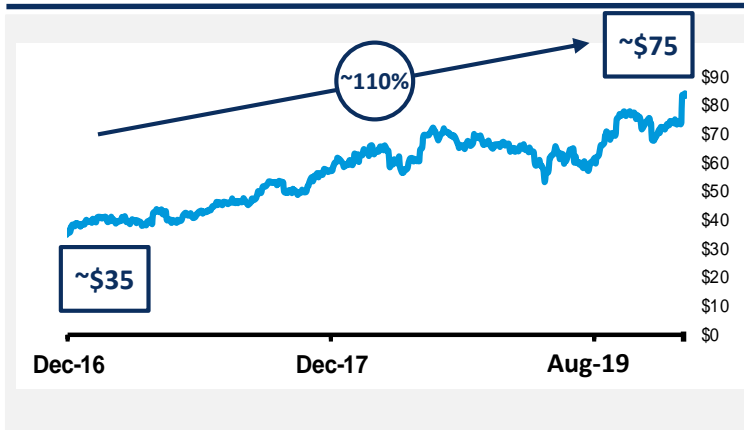
EPS Prior to Amortization of Intangible Assets\* (\$)



Gross Profit\* (\$M)



LPLA Stock Price



Incremental earnings growth opportunities

## Enhanced Advisor Value Proposition

(Capabilities, Technology, Service)

## Greater Use of our Services

(Advisory, Corporate, Centrally Managed, Business Solutions)

## New Models

(Advisory-oriented, Employee Services)

## Increased Organic NNA

## Continued Operating Leverage

## Excess Capital Deployment

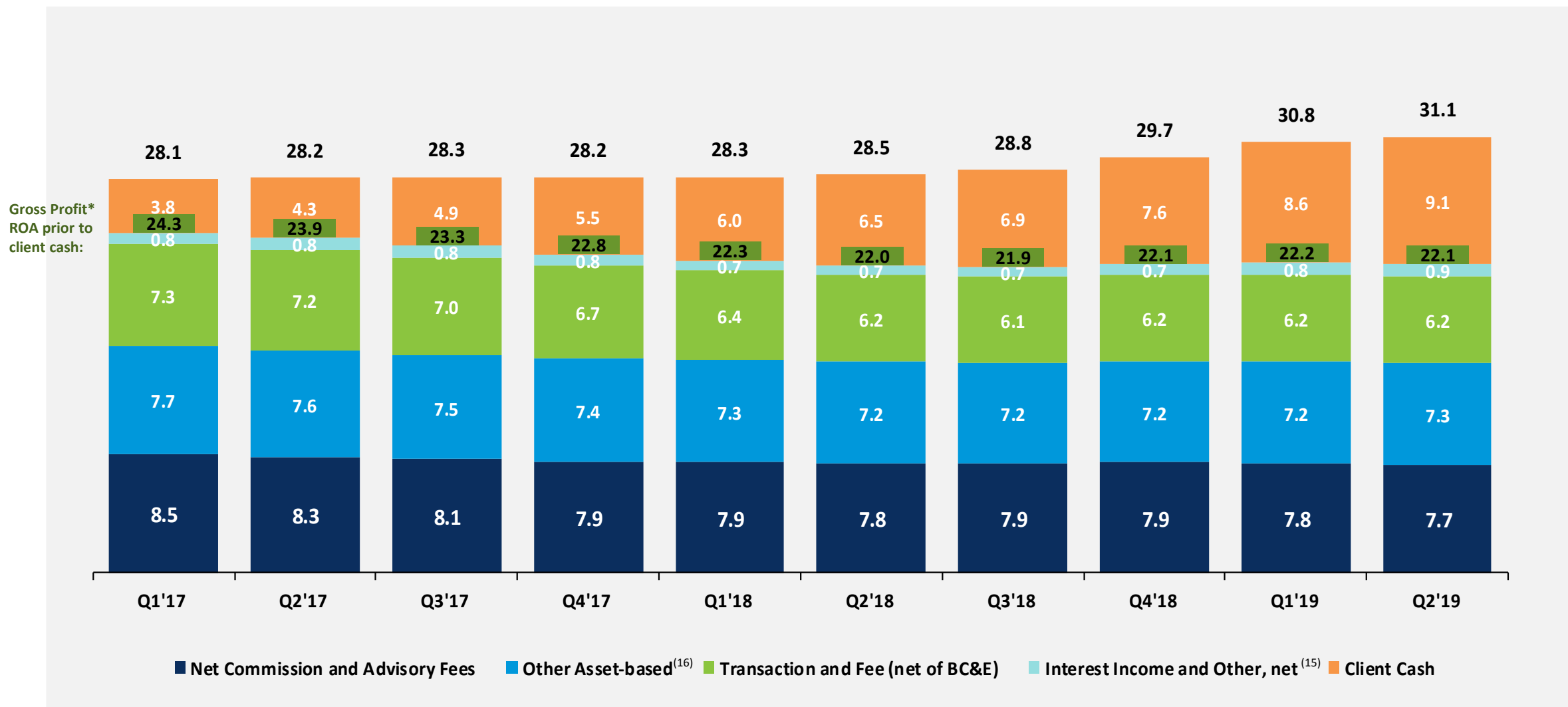
(Technology, Advisor Capital, M&A, returning capital to shareholders)

# LPL Investment Highlights: Significant opportunities to grow and create long-term shareholder value

- 1 Established market leader with scale advantages and structural tailwinds**
- 2 Investments in capabilities to enhance the advisor value proposition**
- 3 Organic growth opportunities through net new assets and ROA**
- 4 Resilient business model with natural hedges to market volatility**
- 5 Disciplined expense management driving operating leverage**
- 6 Capital light business model with significant capacity to deploy**
- 7 Opportunity to consolidate fragmented core markets through M&A**

# Appendix

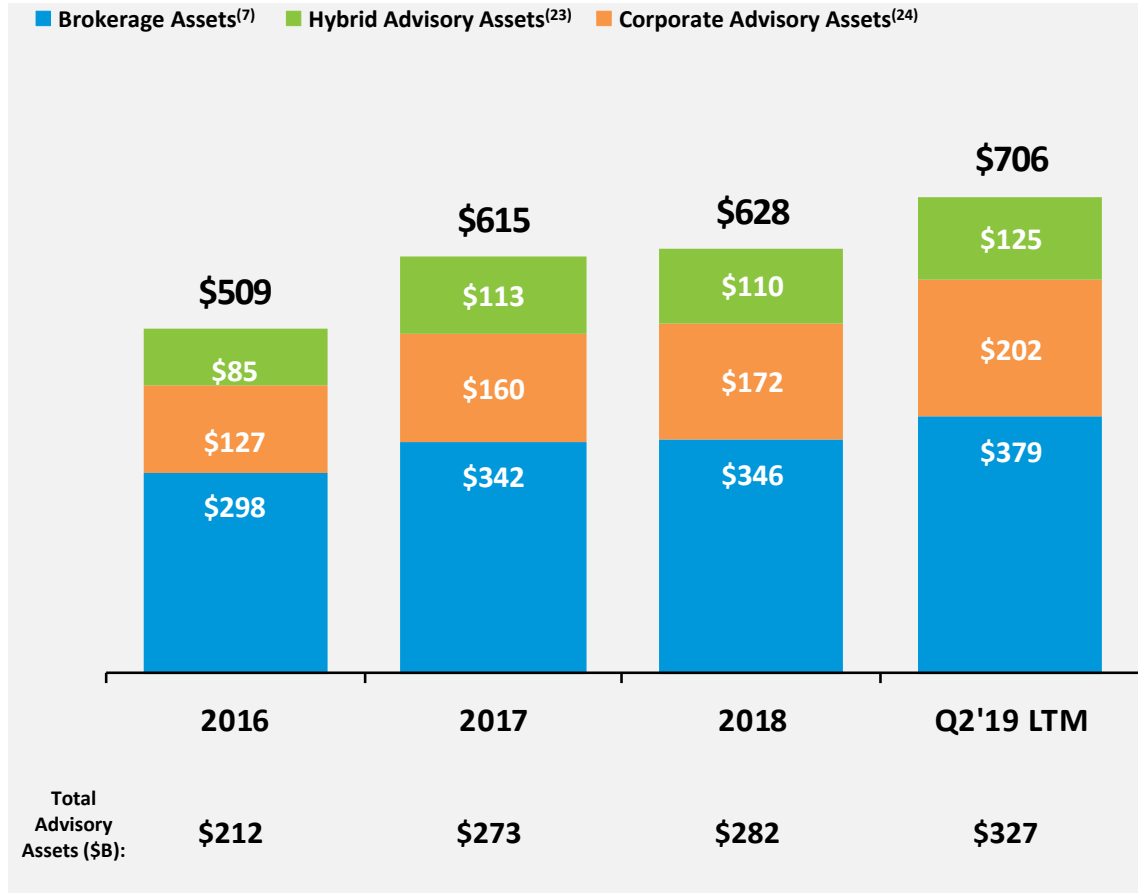
# Over the past year, we have seen an improving trend in ROA



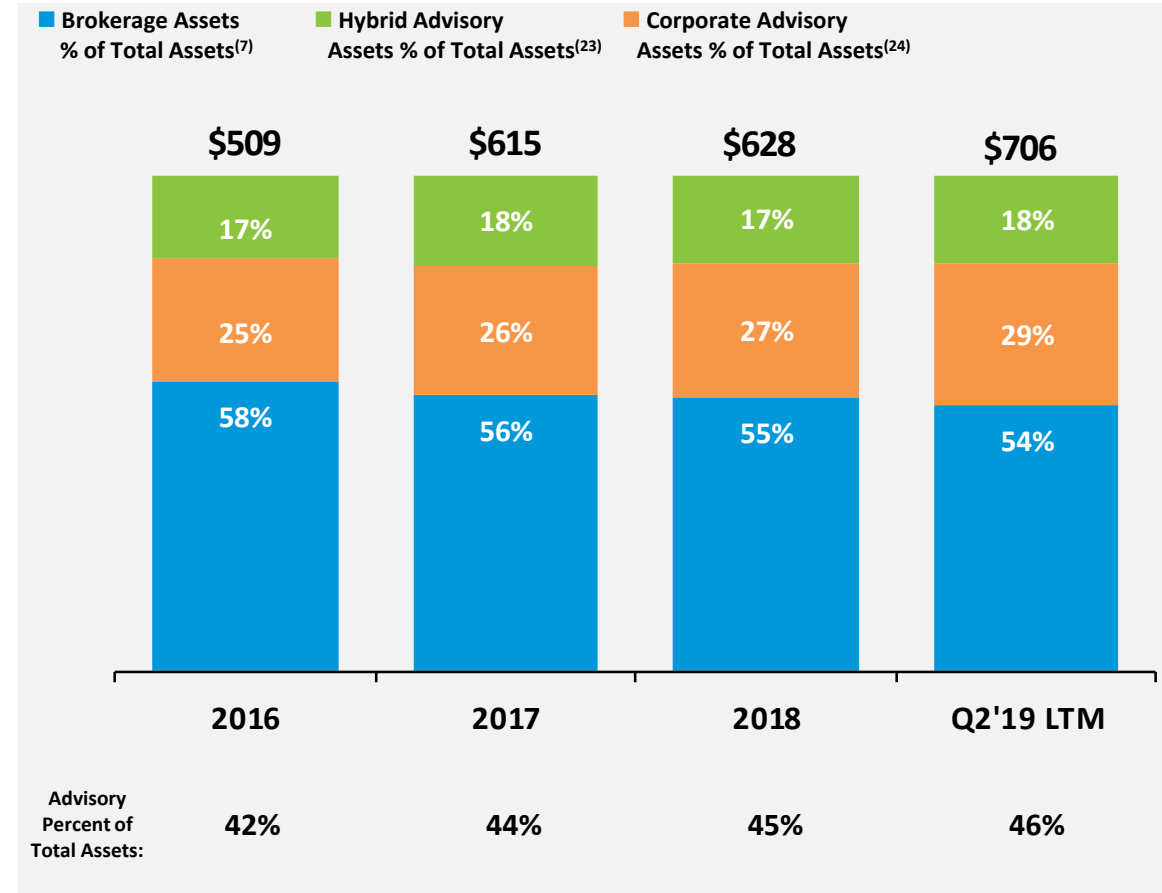
Note: All periods were based on the last trailing twelve months.

# Total assets have continued to increase driven by advisory growth

## Both brokerage and advisory assets have grown over time



## The mix of assets has continued to shift towards advisory

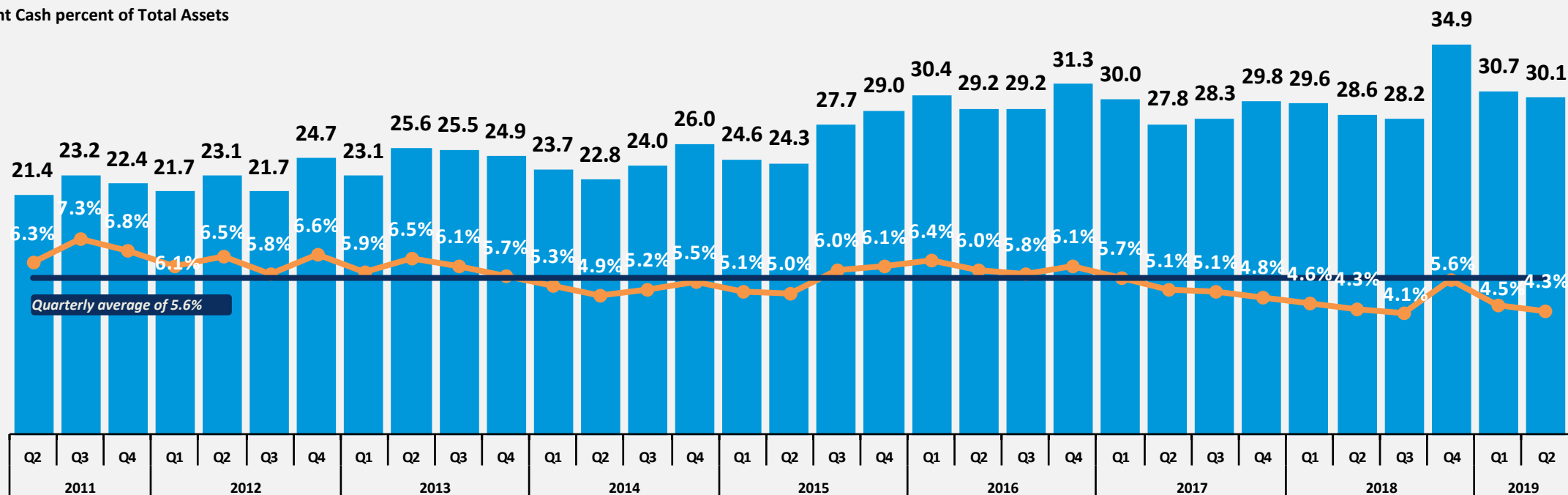




# Client cash as a percent of total assets has been lower than our long-term average, as clients have been highly engaged in the market

## Client cash balances (\$ billions)

Client Cash percent of Total Assets



Over the past decade, client cash as a percent of total assets has averaged ~6%, with a high of 9.6% (Q4 2008) and a low of 4.1% (Q3 2018)

# Calculation of Gross Profit

Gross profit is a non-GAAP financial measure. Please see a description of gross profit under “Non-GAAP Financial Measures” on page 3 of this presentation for additional information.

Set forth below is a calculation of Gross Profit for the periods presented on page 4 and 28:

| \$ in millions                   | Q2'19 LTM      | 2018           | 2017           | 2016           | 2015           |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Total Net Revenue</b>         | <b>\$5,409</b> | <b>\$5,188</b> | <b>\$4,281</b> | <b>\$4,049</b> | <b>\$4,275</b> |
| Commission & Advisory Expense    | 3,253          | 3,178          | 2,670          | 2,601          | 2,865          |
| Brokerage, Clearing and Exchange | 64             | 63             | 57             | 55             | 53             |
| <b>Gross Profit</b>              | <b>\$2,093</b> | <b>\$1,948</b> | <b>\$1,555</b> | <b>\$1,394</b> | <b>\$1,358</b> |

# Reconciliation of Core G&A to Total Operating Expense

Core G&A is a non-GAAP financial measure. Please see a description of Core G&A under “Non-GAAP Financial Measures” on page 3 of this presentation for additional information.

Below are reconciliations of Core G&A to the Company’s total operating expenses for the periods presented on page 20, and of Core G&A, prior to the impact of the acquisitions of NPH and AdvisoryWorld, against the Company’s total operating expense for the same periods:

| \$ in millions                    | Q2'19 LTM      | 2018           | 2017           | 2016           | 2015           |
|-----------------------------------|----------------|----------------|----------------|----------------|----------------|
| Core G&A                          | \$848          | \$819          | \$727          | \$700          | \$695          |
| Regulatory charges                | 34             | 32             | 21             | 17             | 34             |
| Promotional                       | 190            | 209            | 172            | 149            | 139            |
| Employee share-based compensation | 27             | 23             | 19             | 20             | 23             |
| Other historical adjustments      | -              | -              | -              | -              | 13             |
| <b>Total G&amp;A</b>              | <b>1,099</b>   | <b>1,082</b>   | <b>938</b>     | <b>886</b>     | <b>904</b>     |
| Commissions and advisory          | 3,253          | 3,178          | 2,670          | 2,601          | 2,865          |
| Depreciation & amortization       | 91             | 88             | 84             | 76             | 73             |
| Amortization of intangible assets | 64             | 60             | 38             | 38             | 38             |
| Brokerage, clearing and exchange  | 64             | 63             | 57             | 55             | 53             |
| <b>Total operating expense</b>    | <b>\$4,571</b> | <b>\$4,471</b> | <b>\$3,787</b> | <b>\$3,655</b> | <b>\$3,933</b> |

| \$ in millions   | 2018         | 2017         |
|--|--------------|--------------|
| Core G&A   | \$819        | \$727        |
| NPH related Core G&A                                     | 65           | 15           |
| AdvisoryWorld related Core G&A                           | 2            | -            |
| <b>Total Core G&amp;A prior to NPH and AdvisoryWorld</b> | <b>\$752</b> | <b>\$712</b> |

# Reconciliation of Net Income to EBITDA

EBITDA is a non-GAAP financial measure. Please see a description of EBITDA under “Non-GAAP Financial Measures” on page 3 of this presentation for additional information.

Below are reconciliations of the Company’s net income to EBITDA for the periods presented on page 4:

| \$ in millions                    | Q2'19 LTM    | 2018         | 2017         | 2016         | 2015         |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>NET INCOME</b>                 | <b>\$529</b> | <b>\$439</b> | <b>\$239</b> | <b>\$192</b> | <b>\$169</b> |
| Non-operating interest expense    | 130          | 125          | 107          | 96           | 59           |
| Provision for Income Taxes        | 180          | 153          | 126          | 106          | 114          |
| Depreciation and amortization     | 91           | 88           | 84           | 76           | 73           |
| Amortization of intangible assets | 64           | 60           | 38           | 38           | 38           |
| Loss on Extinguishment of debt    | -            | -            | 22           | -            | -            |
| <b>EBITDA</b>                     | <b>\$993</b> | <b>\$866</b> | <b>\$616</b> | <b>\$508</b> | <b>\$453</b> |

# Reconciliation of EPS Prior to Amortization of Intangible Assets to GAAP EPS

EPS Prior to Amortization of Intangible Assets is a non-GAAP financial measure. Please see a description of EPS Prior to Amortization of Intangible Assets under “Non-GAAP Financial Measures” on page 3 of this presentation for additional information.

Below are the following reconciliations of EPS Prior to Amortization of Intangibles to GAAP EPS for the periods presented on pages 4 and 28 of this presentation.

|  | Q2'19 LTM     | 2018          | 2017          | 2016          | 2015          |
|--|---------------|---------------|---------------|---------------|---------------|
| <b>GAAP EPS</b>  | <b>\$6.05</b> | <b>\$4.85</b> | <b>\$2.59</b> | <b>\$2.13</b> | <b>\$1.74</b> |
| Amortization of Intangible Assets (\$ millions)            | 64            | 60            | 38            | 38            | 38            |
| Tax Expense (\$ millions)                                  | (18)          | (17)          | (15)          | (15)          | (15)          |
| Amortization of Intangible Assets Net of Tax (\$ millions) | 46            | 43            | 23            | 23            | 23            |
| Diluted Share Count (millions)                             | 85            | 88            | 92            | 90            | 97            |
| EPS Impact   | 0.54          | 0.48          | 0.25          | 0.26          | 0.24          |
| <b>EPS Prior to Amortization of Intangible Assets</b>      | <b>\$6.59</b> | <b>\$5.33</b> | <b>\$2.84</b> | <b>\$2.38</b> | <b>\$1.98</b> |

# Endnotes

- (1) Based on total revenues, Financial Planning magazine June 1996-2019.
- (2) Represents the estimated total brokerage and advisory assets expected to transition to the Company's broker-dealer subsidiary, LPL Financial LLC ("LPL Financial"), associated with advisors who transferred their licenses to LPL Financial during the period. The estimate is based on prior business reported by the advisors, which has not been independently and fully verified by LPL Financial. The actual transition of assets to LPL Financial generally occurs over several quarters including the initial quarter of the transition, and the actual amount transitioned may vary from the estimate.
- (3) The Company calculates its Net Leverage Ratio in accordance with the terms of its credit agreement.
- (4) Consists of total client deposits into advisory accounts less total client withdrawals from advisory accounts. The Company considers conversions to and from advisory accounts as deposits and withdrawals respectively. Annualized growth is calculated as the current period Net New Advisory Assets divided by preceding period total Advisory Assets, multiplied by four.
- (5) Consists of total client deposits into brokerage accounts less total client withdrawals from brokerage accounts. The Company considers conversions to and from brokerage accounts as deposits and withdrawals respectively. Annualized growth is calculated as the current period Net New Brokerage Assets divided by preceding period total Brokerage Assets, multiplied by four.
- (6) Consists of existing custodied assets that converted from brokerage to advisory, less existing custodied assets that converted from advisory to brokerage. This included \$0.2 billion of assets from NPH in Q4 2017, and \$0.3 billion of assets from NPH in each of Q1 and Q2 2018.
- (7) Consists of brokerage assets serviced by advisors licensed with LPL Financial.
- (8) Consists of total assets on LPL Financial's corporate advisory platform serviced by investment advisor representatives of LPL Financial and total assets on LPL Financial's independent advisory platform serviced by investment advisor representatives of separate investment advisor firms ("Hybrid RIAs"), rather than of LPL Financial.
- (9) Represents those advisory assets in LPL Financial's Model Wealth Portfolios, Optimum Market Portfolios, Personal Wealth Portfolios, and Guided Wealth Portfolios platforms.
- (10) Consists of total brokerage and advisory assets under custody at LPL Financial.
- (11) Consists of total client deposits into advisory accounts on LPL Financial's independent advisory platform less total client withdrawals from advisory accounts on its independent advisory platform. Annualized growth is calculated as the current period Net New Hybrid Advisory Assets divided by the preceding period total Hybrid Advisory Assets, multiplied by four.
- (12) Consists of total client deposits into advisory accounts on LPL Financial's corporate advisory platform less total client withdrawals from advisory accounts on its corporate advisory platform. Annualized growth is calculated as the current period Net New Corporate Advisory Assets divided by the preceding period total Corporate Advisory Assets, multiplied by four.
- (13) Consists of total client deposits into Centrally Managed Assets (see FN9) accounts less total client withdrawals from Centrally Managed Assets accounts. Annualized growth is calculated as the current period Net New Centrally Managed Assets divided by the preceding period total Centrally Managed Assets, multiplied by four. The Company does not consider conversions from or to advisory accounts as deposits or withdrawals, respectively.
- (14) Represents annualized Gross Profit\* for the period, divided by average month-end Total Brokerage and Advisory Assets for the period.
- (15) Consists of interest income, net of interest expense plus other revenue, less advisor deferred compensation expense.
- (16) Consists of revenues from the Company's sponsorship programs with financial product manufacturers and omnibus processing and networking services, but does not include fees from client cash programs. Other asset-based revenues are a component of asset-based revenues and are derived from the Company's Unaudited Condensed Consolidated Statements of Income.
- (17) Calculated by dividing client cash program revenue for the period by the average client cash program balances during the period.
- (18) Average duration is calculated as the weighted average life of the fixed rate contracts.
- (19) Represents the average month-end Total Brokerage and Advisory Assets for the period.
- (20) Represents annualized operating expenses for the period, excluding production-related expense (OPEX), divided by average month-end Total Brokerage and Advisory Assets for the period. Production-related expense includes commissions and advisory expense and brokerage, clearing and exchange expense. For purposes of this metric, operating expenses includes Core G&A\*, Regulatory, Promotional, Employee Share Based Compensation, Depreciation & Amortization, and Amortization of Intangible Assets.
- (21) Calculated as Gross Profit ROA less OPEX ROA.
- (22) Additional leverage capacity is assumed to be generated by acquired EBITDA from an M&A opportunity at a 6-8x purchase multiple for which capital was deployed up to 2.75x net leverage.
- (23) Consists of total assets on LPL Financial's independent advisory platform serviced by investment advisor representatives of Hybrid RIAs, rather than of LPL Financial.
- (24) Consists of total assets on LPL Financial's corporate advisory platform serviced by investment advisor representatives of LPL Financial.