

## LPL Financial Holdings (LPLA)

**\$78.40** (As of 06/30/20)

Price Target (6-12 Months): **\$82.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 05/11/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**2-Buy**

Zacks Style Scores:

VGM:A

Value: A

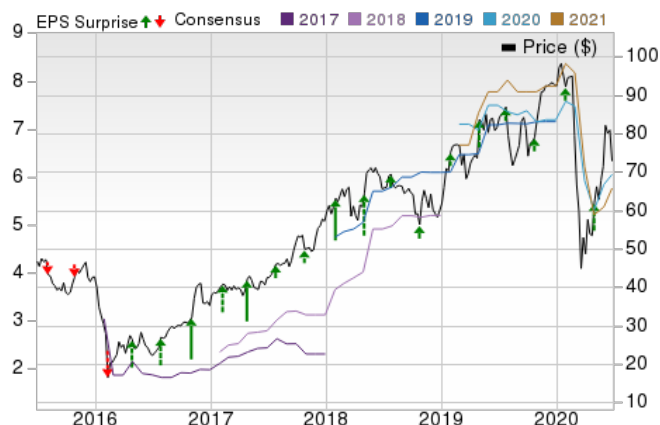
Growth: A

Momentum: A

### Summary

Shares of LPL Financial have outperformed the industry over the past twelve months. Its earnings have surpassed the Zacks Consensus Estimate in each of the trailing four quarters. Persistently increasing expenses mainly due to higher compensation and benefits costs are expected to hurt the company's bottom line to an extent in the near term. Moreover, uncertainties about the performance of the capital markets remains a concern. The presence of substantial amounts of goodwill on the company's balance sheet makes us apprehensive as goodwill impairment might adversely affect its financials. However, its solid advisor productivity and inorganic growth efforts are expected to continue supporting top-line growth in the quarters ahead. Further, the company's efficient capital deployment activities indicate a strong balance sheet position.

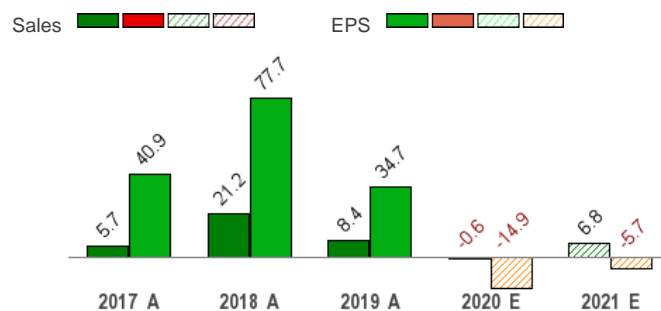
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$99.60 - \$32.01
20 Day Average Volume (sh)	1,067,007
Market Cap	\$6.2 B
YTD Price Change	-15.0%
Beta	1.59
Dividend / Div Yld	\$1.00 / 1.3%
Industry	<a href="#">Financial - Investment Bank</a>
Zacks Industry Rank	Top 20% (51 out of 253)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	21.2%
Last Sales Surprise	6.0%
EPS F1 Est- 4 week change	4.7%
Expected Report Date	07/23/2020
Earnings ESP	-3.4%

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					5,977 E
2020	1,463 A	1,358 E	1,376 E	1,390 E	5,594 E
2019	1,372 A	1,390 A	1,416 A	1,448 A	5,625 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.41 E	\$1.49 E	\$1.39 E	\$1.54 E	\$5.76 E
2020	\$2.06 A	\$1.40 E	\$1.31 E	\$1.34 E	\$6.11 E
2019	\$1.93 A	\$1.85 A	\$1.71 A	\$1.68 A	\$7.18 A

\*Quarterly figures may not add up to annual.

P/E TTM	10.7
P/E F1	12.8
PEG F1	NA
P/S TTM	1.1

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/30/2020. The reports text is as of 07/01/2020.

## Overview

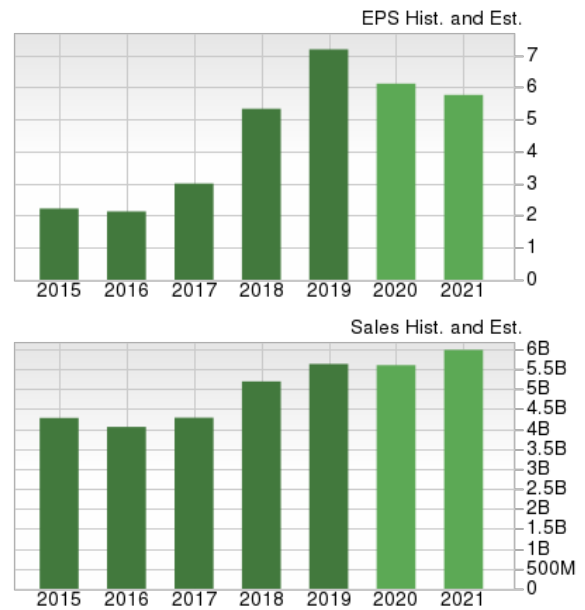
LPL Financial Holdings Inc. is based in Boston, MA. It was incorporated in Delaware in 2005. It is a clearing broker-dealer and an investment advisory firm that acts as an agent for its advisors, on behalf of their clients, by providing access to a broad array of financial products and services.

LPL Financial conducts business through its subsidiaries. Its broker-dealer subsidiary, LPL Financial LLC, began operations in 1989. Through Private Trust Company, N.A., it offers trust administration, investment management oversight and Individual Retirement Account (IRA) custodial services. Another subsidiary, AdvisoryWorld, offers technology products — including proposal generation, investment analytics and portfolio modeling — to advisors and external clients in the wealth management industry.

Through Fortigent Holdings Company, the company provides solutions and consulting services to registered investment advisors (RIA), banks and trust companies serving high-net-worth clients. Its subsidiary, LPL Insurance Associates, Inc., operates as a brokerage general agency that offers life and disability insurance sales and services.

In 2011, LPL Financial acquired Concord Capital Partners, Inc. and certain assets of National Retirement Partners. In 2012, it purchased Fortigent. In 2017, the company acquired certain assets and rights of National Planning Holdings, Inc. In 2018, it acquired all of the outstanding shares of AdvisoryWorld. In 2019, it acquired Allen & Company of Florida.

As of Mar 31, 2020, the company had total advisory assets of \$322.3 billion and brokerage assets of \$347.6 billion.



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## Reasons To Buy:

▲ LPL Financial continues to benefit from efforts to increase client base. The company's advisory revenues (constituting 39.6% of net revenues in the first quarter of 2020) have been increasing over the past few years. While the same declined in 2016, it witnessed a six-year CAGR of 8.2% (2014-2019). The uptrend continued in the first quarter. Given the company's recruiting efforts and continued solid advisor productivity, advisory revenues are expected to improve further amid the coronavirus-induced economic slowdown. Moreover, the acquisition of Allen & Company is expected to further support LPL Financial's advisory revenues. Also, the company's launch of a no-transaction-fee exchange-traded fund (ETF) network will likely increase the value of its advisory platform.

LPL Financial's recruiting efforts along with solid advisor productivity will continue to aid advisory revenues. The company continues to expand through acquisitions given a solid balance sheet.

▲ As of Mar 31, 2020, LPL Financial had total debt worth \$2.87 billion, while its cash and cash equivalents and due from banks along with restricted cash totaled \$1.70 billion. The company's total debt to total capital of 72.9% for the first quarter of 2020 is lower than the industry average of 73.9%, which indicates that while the company is highly leveraged, it has less credit risk compared to peers. Moreover, its current times-interest-earned ratio of 6.9 has improved sequentially and is also higher than the industry average of 2.8. The earliest principal maturity date for the company's long-term borrowings is 2025, while for its revolving credit facility is 2024. Thus, the company's current liquidity position is enough to meet its interest and debt obligations even if economic situation worsens.

▲ Given a strong balance sheet position, LPL Financial has accomplished several strategic deals over the past few years. In May 2020, it announced a deal to acquire the assets of E.K. Riley Investments, LLC, while in April it agreed to acquire the assets of Lucia Securities. In 2019, the company acquired Allen & Company of Florida, while in 2018, it acquired all of the outstanding shares of AdvisoryWorld. In 2017, the company acquired certain assets and rights of National Planning Holdings, Inc. These deals along with the other completed deals in the past poise LPL Financial well for future growth.

▲ We remain encouraged by LPL Financial's meaningful capital deployment activities. The company pays dividends on a quarterly basis. Also, it has a share buyback program in place. As of Mar 31, 2020, it was authorized to purchase up to \$349.8 million worth of shares. While the company has currently paused share buybacks in response to the concerns surrounding the coronavirus outbreak, it will likely be able to sustain efficient capital deployments in the future given its solid capital position.

▲ Shares of LPL Financial have outperformed the industry so far this year. Moreover, its earnings estimates for 2020 have been revised 3.6% upward over the past 30 days. Further, the stock seems undervalued currently when compared with the broader industry. Its current price/sales and price/earnings (F1) ratios are below the respective industry averages. The stock has a Value Score of A. Therefore, given the strength in fundamentals and positive estimate revisions, the stock has upside potential.

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## Reasons To Sell:

- ▼ A large part of LPL Financial's revenues comes from commissions, which constituted 34.4% of total net revenues in first-quarter 2020. Commission income is dependent on the overall performance of the capital markets. While commission revenues increased in 2018 and the first three months of 2020, it declined at a CAGR of 2.2%, over the last six years (2014-2019). Thus, given the cyclical nature of the capital markets, commission revenues will likely be hurt if there is a further slowdown in market activities.
- ▼ LPL Financial's expenses have been increasing rapidly over the past few years. Operating expenses witnessed a CAGR of 9.1% over the last four years (2016-2019). The rise can be attributed to an increase in almost all cost components. The uptrend continued in the first quarter as well. As the company continues to increase headcount, compensation and benefits costs are expected to keep on rising, thus hurting the bottom line to an extent.
- ▼ The goodwill and intangible assets on LPL Financial's balance sheet are subject to annual impairment reviews. As of Mar 31, 2020, goodwill and net intangible assets were \$1.9 billion (accounting for 31.5% of total assets). Several factors may initiate the impairment of the book value of such assets due to which their value may have to be written down. This might adversely affect the company's financials.

Higher expenses due to a rise in compensation costs will likely hurt LPL Financial's profits. Uncertainty related to the performance of capital markets is a woe and might hurt commission revenues.

## Last Earnings Report

### LPL Financial Q1 Earnings Beat Estimates, Expenses Rise

LPL Financial's first-quarter 2020 adjusted earnings of \$2.06 per share surpassed the Zacks Consensus Estimate of \$1.70. The figure reflected an increase of 7% from the prior-year quarter.

Revenue growth partly offset by an increase in operating expenses aided results. Moreover, the balance sheet position remained strong in the quarter. However, lower total brokerage and advisory assets acted as headwinds.

After taking into consideration non-recurring items, net income was \$155.6 million or \$1.92 per share, increasing from \$155.4 million or \$1.79 per share recorded in the year-ago quarter.

### Revenues Improve, Expenses Rise

Total net revenues were \$1.46 billion, up 7% year over year. The rise was supported by an increase in almost all revenue components, except for asset-based revenues, and interest income, net of interest expenses. The reported figure surpassed the Zacks Consensus Estimate of \$1.38 billion.

Total operating expenses increased 8% year over year to \$1.23 billion. All expense components increased, except for professional services costs, communications and data processing costs, and other costs.

At the end of the first quarter, LPL Financial's total brokerage and advisory assets were \$669.9 billion, down 2% year over year.

Total net new assets were \$12.5 billion at the end of the quarter, up from \$4 billion recorded at the end of the prior-year quarter. Total client cash balances increased 56% year over year to \$47.8 billion.

### Balance Sheet Position Strong

As of Mar 31, 2020, the company had total assets of \$6.11 billion, up 4% from the Dec 31, 2019 level. As of the same date, cash and cash equivalents totaled \$418.2 million, down from \$590.2 million as of Dec 31, 2019.

Also, total stockholders' equity was \$1.01 billion as of Mar 31, 2020, down from \$1.02 billion recorded as of Dec 31, 2019.

### Share Repurchase Update

LPL Financial repurchased \$150 million worth of shares during the quarter.

### Outlook

For 2020, management expects core G&A expenses in the lower half of \$915-\$940 million.

Conference expenses are expected to decrease by \$10 million sequentially in the second quarter of 2020.

In second-quarter 2020, the company expects insured cash account (ICA) yield of 120 basis points on the assumption of no further changes in interest rates, client rates or cash balances.

Quarter Ending 03/2020

Report Date	Apr 30, 2020
Sales Surprise	5.97%
EPS Surprise	21.18%
Quarterly EPS	2.06
Annual EPS (TTM)	7.30

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## Recent News

### **LPL Financial May Assets Rise on Solid Equity Markets - Jun 16, 2020**

LPL Financial's total brokerage and advisory assets of \$745.9 billion at the end of May 2020 grew 3.9% from the prior month and 10.1% year over year. Of the total assets, brokerage assets were \$381 billion and advisory assets totaled \$364.9 billion.

The rise resulted from improved equity markets, including a 4.5% rally in the S&P 500 Index from the prior month.

Total net new assets were \$4.2 billion in May. This compared favorably with \$3.4 billion in April 2020 and \$2 billion in May 2019. Of the total net new assets, \$3.1 billion was total net new advisory assets.

LPL Financial reported \$46.2 billion of total client cash balance, down 1.7% from April 2020 but up 55% from May 2019. Of the total, \$33.5 billion was insured cash and \$8 billion was deposit cash, while the remaining was money market balance.

### **LPL Financial Agrees to Buy Assets of E.K. Riley Investments - May 27, 2020**

LPL Financial Holdings Inc.'s subsidiary, LPL Financial LLC, has agreed to acquire the assets of E.K. Riley Investments, LLC. The asset-purchase agreement is expected to close in the second half of this year.

Headquartered in Seattle, E.K. Riley Investments is a broker-dealer and registered investment advisor ("RIA"). It provides independent financial advice to individuals, affluent families and business owners.

LPL Financial expects a transaction multiple of 6 times post-synergy EBITDA. Per the terms of the deal, payment will be made at closing along with potential contingent payments.

Rich Steinmeier, managing director and divisional president, Business Development at LPL Financial, stated, "We welcome E.K. Riley Investments' experienced team of advisors to the LPL family. They share our commitment to clients and passion for independence. We are committed to their success, offering the benefits of LPL's scale as well as access to integrated technology, an innovative wealth management platform and resources to help them run efficient and productive businesses."

E.K. Riley Investments' president, Brian Bertsch, said, "We chose to partner with LPL as a result of the overall cultural similarities between our two organizations. Over the last few months we have been consistently impressed with their people-centric culture."

### **LPL Financial April Assets Improve on Solid Equity Markets - May 18, 2020**

LPL Financial's total brokerage and advisory assets of \$718 billion at the end of April 2020 grew 7.2% from the prior month and 2.7% year over year. Of the total brokerage and advisory assets, brokerage assets were \$369.1 billion and advisory assets totaled \$348.9 billion.

The sequential rise resulted from improved equity markets, including a 12.7% rally in the S&P 500 Index.

Total net new assets were \$3.4 billion in April. This compared unfavorably with \$5.6 billion in March 2020 but favorably with \$0.9 billion in April 2019. LPL Financial reported \$47 billion of total client cash balance, down 1.7% from March 2020 but up 12.7% from April 2019. Of the total, \$33.9 billion was insured cash and \$8.5 billion was deposit cash, while the remaining was money market balance.

### **LPL Financial Agrees to Buy Lucia Securities - Apr 28, 2020**

LPL Financial announced a deal to acquire broker-dealer and RIA firm, Lucia Securities. The deal, structured as an asset purchase agreement, is expected to close in the second half of 2020.

Per the terms of the deal, payment will be made at closing along with potential contingent payments. The company projects a transaction multiple of 6 times post-synergy EBITDA.

Rich Steinmeier, LPL Financial's managing director and divisional president of business development, stated, "We are honored and excited to have this terrific group of experienced advisors joining LPL. At LPL, Lucia Securities' advisors and their clients will benefit from the strength and breadth of our capabilities, technology and services."

### **Dividend Update**

On May 6, LPL financial declared a regular quarterly dividend of 25 cents per share. The dividend was paid out on Jun 12 to shareholders of record as of May 28.

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## Valuation

LPL financial's shares are down 15% in the year-to-date period and 3.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 16.5% and 22.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 6.1% and 17.4%, respectively.

The S&P 500 index is down 5.2% in the year-to-date period but up 3.3% in the past year.

The stock is currently trading at 13.28X forward 12 months earnings, which compares to 12.38X for the Zacks sub-industry, 15.90X for the Zacks sector and 21.87X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.39X and as low as 5.93X, with a 5-year median of 13.90X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$82 price target reflects 13.90X forward earnings.

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The table below shows summary valuation data for LPLA

Valuation Multiples - LPLA					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.28	12.38	15.9	21.87
	5-Year High	25.39	15.31	16.18	22.14
	5-Year Low	5.93	6.04	11.57	15.25
	5-Year Median	13.9	11.57	14.06	17.52
P/B	Current	6.17	1.71	2.28	4.18
	5-Year High	7.81	3.01	2.91	4.56
	5-Year Low	2.19	1.27	1.71	2.83
	5-Year Median	4.99	2.19	2.53	3.69
P/S F12M	Current	1.07	3.45	6	3.42
	5-Year High	1.36	4.53	6.66	3.44
	5-Year Low	0.36	2.74	4.96	2.53
	5-Year Median	0.96	3.54	6.06	3.02

As of 06/30/2020

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## Industry Analysis Zacks Industry Rank: Top 20% (51 out of 253)



## Top Peers

Company (Ticker)	Rec	Rank
Raymond James Financial, Inc. (RJF)	Outperform	2
Virtu Financial, Inc. (VIRT)	Outperform	1
TD Ameritrade Holding Corporation (AMTD)	Neutral	3
BGC Partners, Inc. (BGCP)	Neutral	3
Evercore Inc (EVR)	Neutral	2
The Charles Schwab Corporation (SCHW)	Neutral	3
ETRADE Financial Corporation (ETFC)	Underperform	3
Interactive Brokers Group, Inc. (IBKR)	Underperform	3

Industry Comparison Industry: Financial - Investment Bank				Industry Peers		
	LPLA	X Industry	S&P 500	AMTD	IBKR	RJF
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Outperform
Zacks Rank (Short Term)	2	-	-	3	3	2
VGM Score	A	-	-	A	C	B
Market Cap	6.18 B	552.39 M	21.75 B	19.68 B	17.35 B	9.43 B
# of Analysts	4	2	14	7	1	1
Dividend Yield	1.28%	0.00%	1.93%	3.41%	0.96%	2.15%
Value Score	A	-	-	A	D	B
Cash/Price	0.30	0.76	0.07	1.26	3.14	1.66
EV/EBITDA	6.92	2.35	12.71	0.42	-29.02	-1.30
PEG Ratio	NA	1.63	2.86	1.63	NA	NA
Price/Book (P/B)	6.17	1.66	2.97	2.15	2.13	1.40
Price/Cash Flow (P/CF)	8.20	8.20	11.71	7.75	76.78	8.17
P/E (F1)	12.83	14.18	21.23	12.34	23.87	14.96
Price/Sales (P/S)	1.08	1.23	2.30	3.38	6.98	1.14
Earnings Yield	7.79%	6.88%	4.48%	8.11%	4.19%	6.68%
Debt/Equity	2.69	0.36	0.76	0.54	0.00	0.49
Cash Flow (\$/share)	9.56	2.30	7.01	4.69	0.54	8.43
Growth Score	A	-	-	A	A	B
Hist. EPS Growth (3-5 yrs)	36.96%	15.61%	10.93%	30.56%	32.89%	21.84%
Proj. EPS Growth (F1/F0)	-14.87%	-20.12%	-9.77%	-28.64%	-22.91%	-37.84%
Curr. Cash Flow Growth	21.74%	2.06%	5.51%	17.86%	15.90%	13.40%
Hist. Cash Flow Growth (3-5 yrs)	18.26%	13.28%	8.62%	21.50%	28.50%	17.54%
Current Ratio	1.31	1.31	1.30	1.15	1.11	1.06
Debt/Capital	72.89%	28.51%	44.41%	35.07%	0.00%	32.97%
Net Margin	9.80%	9.77%	10.62%	33.18%	6.36%	11.64%
Return on Equity	59.55%	14.28%	15.75%	23.05%	2.12%	14.55%
Sales/Assets	0.99	0.29	0.55	0.13	0.04	0.20
Proj. Sales Growth (F1/F0)	-0.54%	-1.08%	-2.43%	-13.80%	-3.33%	-1.63%
Momentum Score	A	-	-	A	F	B
Daily Price Chg	2.52%	0.85%	1.41%	2.80%	1.06%	0.63%
1 Week Price Chg	-9.97%	-2.78%	-3.90%	-13.41%	-3.20%	-9.86%
4 Week Price Chg	3.92%	0.00%	-1.62%	-6.26%	-2.63%	-5.71%
12 Week Price Chg	49.39%	13.94%	15.67%	0.89%	-4.98%	7.70%
52 Week Price Chg	-3.77%	-16.08%	-8.07%	-27.21%	-21.06%	-18.60%
20 Day Average Volume	1,067,007	110,902	2,699,706	6,094,240	778,669	1,168,703
(F1) EPS Est 1 week change	1.07%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	4.71%	0.07%	0.00%	0.59%	-11.17%	1.10%
(F1) EPS Est 12 week change	4.62%	-16.52%	-10.28%	2.63%	-24.89%	-39.39%
(Q1) EPS Est Mthly Chg	2.76%	0.33%	0.00%	2.00%	-42.31%	0.00%



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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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### Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	A
Momentum Score	A
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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### Disclosures

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