

LPL Financial Holdings (LPLA)

\$80.30 (As of 08/18/20)

Price Target (6-12 Months): **\$84.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/31/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: B

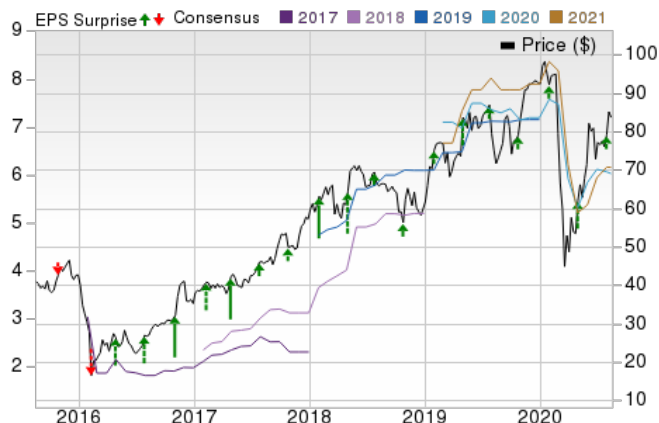
Growth: C

Momentum: C

Summary

Shares of LPL Financial have outperformed the industry over the past year. Its earnings surpassed the Zacks Consensus Estimate in each of the trailing four quarters. The second-quarter 2020 results reflect a rise in assets balance. Solid advisor productivity and recruiting efforts will likely continue to aid advisory revenues amid economic slowdown. Also, given a solid balance sheet and liquidity position, the company continues to grow inorganically and is expected to continue enhancing shareholder value through efficient capital deployments. However, persistently increasing expenses — mainly due to higher compensation and benefits costs — will hurt bottom-line growth. Additionally, uncertainty about the performance of capital markets and the presence of substantial amounts of goodwill on the company's balance sheet are major woes.

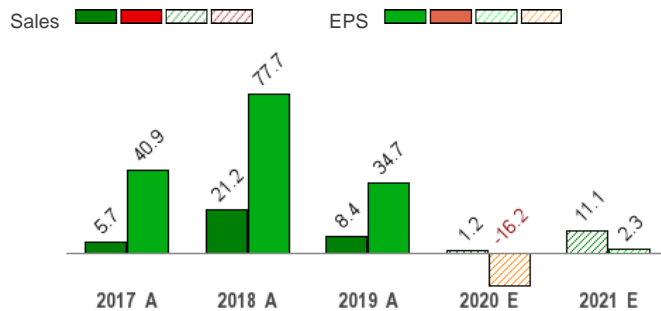
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$99.60 - \$32.01
20 Day Average Volume (sh)	665,162
Market Cap	\$6.4 B
YTD Price Change	-13.0%
Beta	1.55
Dividend / Div Yld	\$1.00 / 1.2%
Industry	Financial - Investment Bank
Zacks Industry Rank	Top 25% (62 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.4%
Last Sales Surprise	-1.0%
EPS F1 Est- 4 week change	-0.3%
Expected Report Date	10/22/2020
Earnings ESP	0.0%
P/E TTM	11.7
P/E F1	13.3
PEG F1	NA
P/S TTM	1.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					6,322 E
2020	1,463 A	1,367 A	1,440 E	1,461 E	5,691 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	\$1.56 E	\$1.62 E	\$1.50 E	\$1.68 E	\$6.16 E
2020	\$2.06 A	\$1.42 A	\$1.26 E	\$1.28 E	\$6.02 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.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/18/2020. The reports text is as of 08/19/2020.

Overview

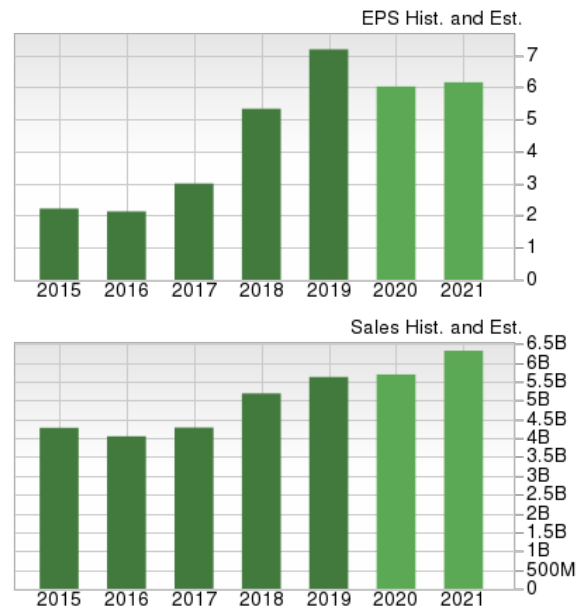
LPL Financial Holdings Inc. is based in Boston, MA. It was incorporated in Delaware in 2005. It is a clearing broker-dealer and an investment advisory firm that acts as an agent for its advisors, on behalf of their clients, by providing access to a broad array of financial products and services.

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. In August 2020, it acquired the assets of E.K. Riley Investments.

As of Jun 30, 2020, the company had total advisory assets of \$375.3 billion and brokerage assets of \$386.4 billion.



Reasons To Buy:

▲ LPL Financial continues to benefit from efforts to increase client base. The company's advisory revenues (constituting 39% of net revenues in first-half 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 half of 2020. Given the company's recruiting efforts and continued solid advisor productivity, advisory revenues are expected to improve further amid the 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 and solid advisor productivity will continue to aid advisory revenues. Also, the company continues to expand through acquisitions, given a solid balance sheet.

▲ As of Jun 30, 2020, LPL Financial had a total debt worth \$2.80 billion, while its cash and cash equivalents and due from banks, along with restricted cash totaled \$1.49 billion. 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 is enough to meet interest and debt obligations even if the economic situation worsens.

▲ Given a strong balance sheet position, LPL Financial has accomplished several strategic deals over the past few years. Recently, it acquired the assets of E.K. Riley Investments, LLC. In April 2020, 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, which has been currently paused in response to the concerns surrounding the coronavirus outbreak. Nevertheless, the company will likely be able to sustain efficient capital deployments in the future, given a solid capital position.

▲ Further, LPL Financial's trailing 12-month return on equity (ROE) reflects its superiority in terms of utilizing shareholders' fund. The company's ROE of 54.13% compares favorably with the industry's ROE of 12.32%.

Reasons To Sell:

- ▼ A large part of LPL Financial's revenues come from commissions, which constituted 32.9% of total net revenues in the first six months of 2020. Commission income is dependent on the overall performance of the capital markets. While commission revenues increased in 2018, it declined at a CAGR of 2.2% over the last six years (2014-2019). The trend persisted in the first six months of 2020. 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 half of 2020 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 Jun 30, 2020, goodwill and net intangible assets were \$1.9 billion (accounting for 32.3% 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.
- ▼ Shares of LPL Financial have outperformed the industry over the past 12 months. However, the company's earnings estimates for 2020 have been marginally revised downward over the past 30 days. Therefore, given the above-mentioned concerns and negative estimate revisions, the stock has limited upside potential.

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 Q2 Earnings Beat, Revenues Decline Y/Y

LPL Financial's second-quarter 2020 adjusted earnings of \$1.42 per share surpassed the Zacks Consensus Estimate of \$1.31. The figure reflected a decline of 23% from the prior-year quarter.

In the quarter, the company recorded growth in total brokerage and advisory assets. Moreover, the balance sheet position remained strong. However, a decline in revenues and higher expenses hurt results to some extent.

After taking into consideration non-recurring items, net income was \$101.7 million or \$1.27 per share, down from \$146.1 million or \$1.71 per share recorded in the year-ago quarter.

Revenues Decline, Expenses Rise

Total net revenues were \$1.37 billion, down 2% year over year. The fall was due to a decline in commissions, asset-based revenues, and interest income, net of interest expenses. The reported figure lagged the Zacks Consensus Estimate of \$1.38 billion.

Total operating expenses increased 4% year over year to \$1.20 billion. All expense components increased, except for professional services costs and other costs.

At the end of the second quarter, LPL Financial's total brokerage and advisory assets were \$761.7 billion, up 8% year over year.

Total net new assets were \$13 billion at the end of the quarter, up from \$6.2 billion recorded at the end of the prior-year quarter. Total client cash balances increased 50% year over year to \$45.3 billion.

Balance Sheet Position Strong

As of Jun 30, 2020, the company had total assets of \$5.91 billion, down 3.4% from the Mar 31, 2020 level. As of the same date, cash and cash equivalents totaled \$845.2 million, up from \$418.2 million as of Mar 31, 2020.

Also, total stockholders' equity was \$1.11 billion as of Jun 30, 2020, up from \$1.01 billion recorded at the end of the prior quarter.

Outlook

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

Promotional expenses are expected to be approximately \$60 million for the third quarter of 2020.

For third-quarter 2020, the company expects insured cash account (ICA) yield of 115 basis points on the assumption of no further changes in interest rates, client rates or cash balances and lower LIBOR rates.

For the third quarter, transaction revenues are expected to decline nearly \$5 million sequentially as volumes will return to normalized levels.

Quarter Ending 06/2020

Report Date	Jul 30, 2020
Sales Surprise	-0.97%
EPS Surprise	8.40%
Quarterly EPS	1.42
Annual EPS (TTM)	6.87

Recent News

LPL Financial Closes Deal to Buy Assets of E.K. Riley - Aug 18, 2020

LPL Financial along with its subsidiary has completed the acquisition of the assets of E.K. Riley Investments, LLC. The asset-purchase agreement was announced in May 2020.

Headquartered in Seattle, E.K. Riley is a broker-dealer and registered investment advisor. It provides independent financial advice to individuals, affluent families and business owners. It serves more than \$2 billion of client assets, which are expected to onboard to LPL Financial's platform by the end of this year.

Moreover, 90% of E.K. Riley's 35 independent advisors will likely join LPL Financial.

LPL Financial continues to expect a transaction multiple of 6 times post-synergy EBITDA.

Rich Steinmeier, managing director and divisional president, Business Development at LPL Financial, stated "It is a privilege and honor to welcome the E.K. Riley team to LPL. An established and successful firm, E.K. Riley recognized the value that a partnership with LPL could bring to their firm today as well as into the future. One way we demonstrate our commitment to our advisors is through the delivery of relevant resources and technology that help them thrive in today's competitive environment. And with our scale and unwavering advisor focus, our clients can be assured they have a partner who will invest in their success over the long run."

E.K. Riley's president, Brian Bertsch, said, "Our partnership with LPL is the result of overall cultural similarities between our organizations. We continue to be consistently impressed with their people-centric culture. We are excited to see our advisors thrive as part of the LPL family."

LPL Financial July Assets Up on Solid Equity Markets - Aug 13, 2020

LPL Financial's total brokerage and advisory assets of \$792 billion at the end of July 2020 grew 4% from the prior month and 11% year over year. Of the total assets, brokerage assets were \$399.2 billion and advisory assets totaled \$392.7 billion.

The rise resulted from improved equity markets, including a 5.5% rally in the S&P 500 Index from the prior month.

Total net new assets were \$2.9 billion for July. This was in line with the June 2020 level but compared unfavorably with \$5.4 billion in July 2019.

LPL Financial reported \$45.1 billion of total client cash balance, down 0.4% from June 2020 but up 50.8% from July 2019. Of the total, \$33.2 billion was insured cash and \$7.6 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 Jul 28, LPL Financial declared a regular dividend of 25 cents per share. The dividend will be paid out on Aug 28 to shareholders of record as of Aug 14.

Valuation

LPL Financial's shares are down 13% in the year-to-date period but up 9.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 9.6% and 16% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 9% but the sector is down 6.3%.

The S&P 500 index is up 4.8% in the year-to-date period and 16.7% in the past year.

The stock is currently trading at 13.15X forward 12 months earnings, which compares to 11.93X for the Zacks sub-industry, 16.64X for the Zacks sector and 22.86X 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 13.66X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$84 price target reflects 13.75X forward earnings.

The table below shows summary valuation data for LPLA

Valuation Multiples - LPLA					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.15	11.93	16.64	22.86
	5-Year High	25.39	15.31	16.64	22.86
	5-Year Low	5.93	6.02	11.6	15.25

P/B	5-Year Median	13.66	11.48	14.26	17.58
	Current	5.73	1.76	2.48	4.54
	5-Year High	7.81	3.02	2.91	4.56
	5-Year Low	2.19	1.28	1.72	2.83
	5-Year Median	5.15	2.17	2.53	3.75
P/S F12M	Current	1.04	3.55	6.22	3.71
	5-Year High	1.36	4.54	6.67	3.71
	5-Year Low	0.36	2.76	4.97	2.53
	5-Year Median	0.97	3.55	6.06	3.05

As of 08/18/2020

Industry Analysis Zacks Industry Rank: Top 25% (62 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
TD Ameritrade Holding Corporation (AMTD)	Outperform	1
BGC Partners, Inc. (BGCP)	Neutral	4
ETRADE Financial Corporation (ETFC)	Neutral	2
Evercore Inc (EVR)	Neutral	3
Interactive Brokers Group, Inc. (IBKR)	Neutral	2
Raymond James Financial, Inc. (RJF)	Neutral	4
The Charles Schwab Corporation (SCHW)	Neutral	3
Virtu Financial, Inc. (VIRT)	Neutral	3

Industry Comparison Industry: Financial - Investment Bank				Industry Peers		
	LPLA	X Industry	S&P 500	AMTD	IBKR	RJF
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	1	2	4
VGM Score	C	-	-	F	F	C
Market Cap	6.35 B	828.59 M	23.71 B	20.46 B	21.63 B	10.27 B
# of Analysts	4	2	14	7	1	2
Dividend Yield	1.25%	0.00%	1.63%	3.28%	0.77%	1.98%
Value Score	B	-	-	F	F	C
Cash/Price	0.23	0.71	0.07	1.02	2.55	0.90
EV/EBITDA	7.19	2.43	13.45	0.99	-27.98	2.43
PEG Ratio	NA	1.11	3.01	NA	NA	NA
Price/Book (P/B)	5.73	1.76	3.18	2.14	2.62	1.46
Price/Cash Flow (P/CF)	8.40	8.89	12.70	8.06	95.39	8.89
P/E (F1)	13.34	13.51	21.98	10.54	23.38	13.69
Price/Sales (P/S)	1.12	1.44	2.46	3.46	8.70	1.26
Earnings Yield	7.50%	7.30%	4.33%	9.49%	4.28%	7.30%
Debt/Equity	2.35	0.39	0.76	0.39	0.00	0.47
Cash Flow (\$/share)	9.56	2.30	6.94	4.69	0.54	8.43
Growth Score	C	-	-	F	F	D
Hist. EPS Growth (3-5 yrs)	39.33%	20.42%	10.44%	30.77%	24.33%	20.42%
Proj. EPS Growth (F1/F0)	-16.12%	-13.36%	-5.97%	-13.08%	-2.20%	-26.08%
Curr. Cash Flow Growth	21.74%	-0.49%	5.22%	17.86%	15.90%	13.40%
Hist. Cash Flow Growth (3-5 yrs)	18.26%	12.22%	8.52%	21.50%	28.50%	17.54%
Current Ratio	1.29	1.23	1.33	1.11	1.10	1.03
Debt/Capital	70.11%	27.82%	44.50%	28.08%	0.00%	32.18%
Net Margin	9.06%	9.74%	10.13%	32.88%	6.36%	10.75%
Return on Equity	54.13%	12.32%	14.59%	22.51%	2.23%	13.04%
Sales/Assets	0.96	0.19	0.51	0.12	0.03	0.19
Proj. Sales Growth (F1/F0)	1.18%	0.00%	-1.54%	-4.24%	5.14%	1.18%
Momentum Score	C	-	-	D	D	A
Daily Price Chg	-1.07%	0.00%	-0.41%	0.92%	-0.07%	-0.47%
1 Week Price Chg	-1.75%	0.76%	1.09%	3.01%	1.86%	1.60%
4 Week Price Chg	2.74%	0.00%	3.41%	-0.63%	1.06%	2.56%
12 Week Price Chg	10.53%	5.06%	9.80%	5.08%	28.04%	6.47%
52 Week Price Chg	9.98%	-2.31%	3.43%	-12.57%	11.05%	-2.27%
20 Day Average Volume	665,162	79,025	1,894,669	2,362,838	532,838	644,528
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.44%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.33%	6.85%	1.86%	14.75%	26.86%	7.05%
(F1) EPS Est 12 week change	3.17%	22.36%	2.86%	22.53%	12.69%	20.22%
(Q1) EPS Est Mthly Chg	-4.92%	1.83%	0.80%	30.05%	27.50%	5.05%

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.

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	B
Growth Score	C
Momentum Score	C
VGM Score	C

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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