

LPL Financial Holdings (LPLA)

\$98.14 (As of 01/17/20)

Price Target (6-12 Months): **\$115.00**

Long Term: 6-12 Months

Zacks Recommendation: **Outperform**
(Since: 01/02/20)

Prior Recommendation: Neutral

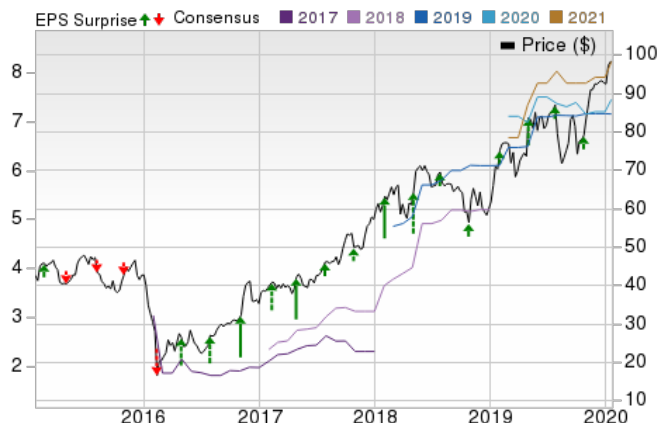
Short Term: 1-3 Months

Zacks Rank: (1-5) **2-Buy**
Zacks Style Scores: VGM:A
Value: A | Growth: A | Momentum: A

Summary

We are initiating coverage on LPL Financial. The company's shares have outperformed the industry over the past six months. Its earnings surpassed the Zacks Consensus Estimate in all the trailing four quarters. Estimates have been going down ahead of its fourth-quarter 2019 results. The company's recruiting efforts and solid advisor productivity will likely continue to aid revenues. Moreover, its inorganic growth efforts look impressive and will aid the top line. While mounting operating expenses mainly due to higher compensation and benefits costs, uncertainty about the performance of capital markets and the presence of substantial amounts of goodwill on the company's balance sheet remain major concerns, its efficient capital deployment activities reflect solid balance sheet position and will hence enhance shareholder value.

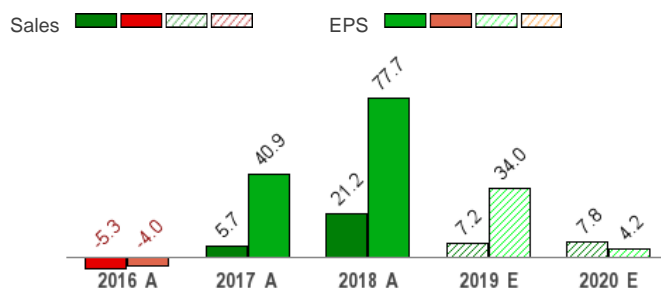
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$99.60 - \$67.11
20 Day Average Volume (sh)	400,385
Market Cap	\$7.9 B
YTD Price Change	6.4%
Beta	1.42
Dividend / Div Yld	\$1.00 / 1.0%
Industry	Financial - Investment Bank
Zacks Industry Rank	Bottom 37% (159 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.2%
Last Sales Surprise	-0.8%
EPS F1 Est- 4 week change	3.5%
Expected Report Date	01/30/2020
Earnings ESP	0.8%
P/E TTM	14.1
P/E F1	13.2
PEG F1	0.9
P/S TTM	1.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,459 E	1,474 E	1,496 E	1,514 E	5,992 E
2019	1,372 A	1,390 A	1,416 A	1,443 E	5,561 E
2018	1,242 A	1,299 A	1,332 A	1,317 A	5,188 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.91 E	\$1.89 E	\$1.74 E	\$1.88 E	\$7.44 E
2019	\$1.93 A	\$1.85 A	\$1.71 A	\$1.65 E	\$7.14 E
2018	\$1.01 A	\$1.30 A	\$1.32 A	\$1.49 A	\$5.33 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 01/17/2020. The reports text is as of 01/21/2020.

Overview

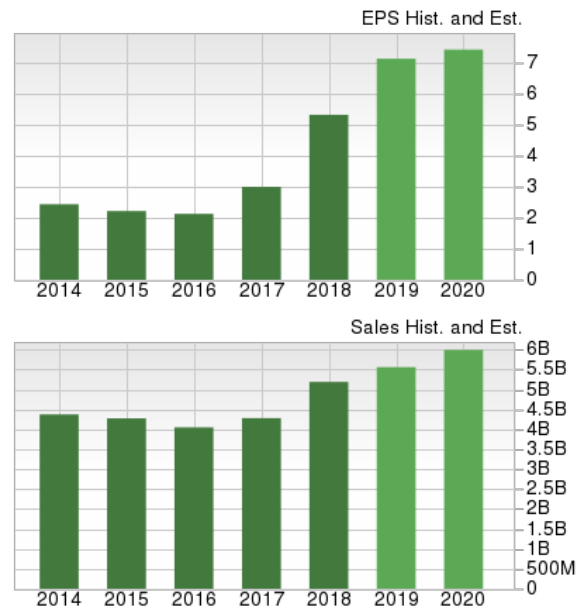
LPL Financial Holdings Inc. is based in Boston, MA. It was incorporated in Delaware in 2005. It is a clearing broker-dealer and an investment advisory firm that acts as an agent for its advisors, on behalf of their clients, by providing access to a broad array of financial products and services.

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 Sep 30, 2019, the company had total advisory assets of \$338 billion and brokerage assets of \$381.3 billion.



Reasons To Buy:

▲ LPL Financial continues to benefit from efforts to increase client base. The company's advisory revenues (constituting 34.7% of net revenues at the end of the first nine months of 2019) have been increasing over the past few years. While the same declined in 2016, it recorded a five-year CAGR of 7.6% (2014-2018), with the uptrend continuing in the first nine months of 2019. Given the company's recruiting efforts and continued solid advisor productivity, advisory revenues are expected to improve further. Moreover, the acquisition of Allen & Company is expected to further support LPL Financial's advisory revenues. Also, the company's recent 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.

▲ Given a strong balance sheet position, LPL Financial has accomplished several strategic deals over the past few years. In August 2019, the company acquired Allen & Company of Florida. 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 has an efficient share buyback program in place. As of Sep 30, 2019, it was authorized to purchase up to an additional \$619.8 million of shares. Also, the company pays dividends regularly. Given a solid capital position, it will be able to sustain capital deployments and continue enhancing shareholder value going forward.

▲ Further, LPL Financial's trailing 12-month return on equity (ROE) reflects its superiority in terms of utilizing shareholders' funds. The company's ROE of 59.56% compares favorably with 12.26% for the industry.

▲ Shares of LPL Financial have outperformed the industry over the past year. Moreover, its current-year earnings estimates have been revised 3.5% upward over the past 30 days. Further, the stock seems undervalued when compared with the broader industry. Its current PEG and price/sales ratios are below the respective industry averages. Also, it has a Value Score of A. Therefore, given the strength in fundamentals and positive estimate revisions, the stock has upside potential.

Risks

- A large part of LPL Financial's revenues comes from commissions, which constituted nearly 34% of its total net revenues at the end of the first nine months of 2019. Commission income is dependent on the overall performance of capital markets. While commission revenues increased in 2018, the same declined, witnessing a CAGR of 2.4%, over the last five years (2014-2018). The downward trend continued in the first nine months of 2019. Thus, given the cyclical nature of the capital markets, commission revenues will likely be hurt if there is a slowdown in market activities.
 - LPL Financial's expenses have been increasing rapidly over the past few years. Operating expenses witnessed a CAGR of 10.6% over the last three years (2016-2018), with the trend continuing in the first nine months of 2019. The rise can be attributed to an increase in almost all cost components. As the company continues to increase headcount, compensation and benefits costs will keep on rising, thus hurting the bottom line to an extent.
 - The goodwill and intangible assets in LPL Financial's balance sheet are subject to annual impairment reviews. As of Sep 30, 2019, goodwill and net intangible assets were nearly \$2 billion (accounting for 34.1% 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.
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Last Earnings Report

LPL Financial Q3 Earnings Beat Estimates Despite High Costs

LPL Financial's third-quarter 2019 earnings (before amortization of intangible assets) of \$1.71 per share beat the Zacks Consensus Estimate of \$1.61. Also, the bottom line increased 30% from the prior-year quarter.

Revenue growth and an increase in total brokerage and advisory assets aided the results. However, higher expenses acted as a headwind.

Net income was \$131.7 million, increasing 23% year over year.

Revenues Improve, Expenses Rise

Total net revenues were \$1.42 billion, up 6% year over year. The rise was supported by an increase in almost all revenue components, except for commissions and other revenues. However, the reported figure marginally lagged the Zacks Consensus Estimate of \$1.43 billion.

Total operating expenses increased 5% year over year to \$1.21 billion. All expense components increased, except for professional services costs and other costs.

At the end of the third quarter, LPL Financial's total brokerage and advisory assets were \$719.3 billion, up 6% year over year. Prior to the acquisition of Allen & Company, total brokerage and advisory assets were \$716.5 billion, up 5% year over year.

Total net new assets were \$9.9 billion at the end of the third quarter, up from \$4.4 billion recorded at the end of the prior-year quarter. Total client cash balances increased 11% year over year to \$31.2 billion.

Balance Sheet Position

As of Sep 30, 2019, the company had total assets of \$5.74 billion, up 5% from the Dec 31, 2018 level. As of the same date, cash and cash equivalents totaled \$929.5 million, up from \$511.1 million as of Dec 31, 2018.

Also, total stockholders' equity was \$1 billion as of Sep 30, 2019, up from \$974.1 million recorded as of Dec 31, 2018.

Share Repurchase Update

LPL Financial repurchased \$130 million worth of shares during the quarter.

Outlook

Management expects interest income and other revenues to decline \$2 million in the fourth quarter of 2019 due to lower rates.

The company now expects core G&A expenses of \$860-\$870 million for 2019, down from \$860-\$875 million mentioned earlier.

As a result, core G&A expenses in the fourth quarter are expected to be \$222-\$232 million.

The company expects to maintain its technology spend in the range of \$150 million in 2020.

In the fourth quarter, the company expects promotional expenses to decline to the low end of the \$50 million range.

Quarter Ending **09/2019**

Report Date	Oct 24, 2019
Sales Surprise	-0.75%
EPS Surprise	6.21%
Quarterly EPS	1.71
Annual EPS (TTM)	6.98

Recent News

LPL Financial November Brokerage & Advisory Assets Up – Dec 17, 2019

LPL Financial's total brokerage and advisory assets of \$747.8 billion at the end of November 2019 grew 2.2% from the prior month and 13.4% year over year. Of the total brokerage and advisory assets, brokerage assets were \$392.9 billion, while advisory assets were \$354.9 billion.

Total net new assets were an inflow of \$2.9 billion in November. This included \$0.1 billion of outflows related to a large hybrid firm. Prior to the outflows, total net new assets were an inflow of \$2.7 billion.

LPL Financial reported \$31.8 billion of total client cash sweep balance, up 0.6% from October 2019 and 6.4% from November 2018. Of the total, \$22.9 billion was insured cash and \$4.6 billion was deposit cash, while the remaining \$4.3 billion was money market balance.

LPL Financial October Brokerage & Advisory Assets Up – Nov 12, 2019

LPL Financial's total brokerage and advisory assets of \$731.7 billion at the end of October 2019 grew 1.7% from the prior month and 12.7% year over year. Of the total brokerage and advisory assets, brokerage assets were \$386.5 billion, while advisory assets were \$345.3 billion.

Total net new assets were an inflow of \$3.3 billion in October. This included \$0.1 billion of outflows related to a large hybrid firm. Prior to the outflows, total net new assets were an inflow of \$3.4 billion.

LPL Financial reported \$31.6 billion of total client cash sweep balance, up 1.3% from September 2019 and 8.6% from October 2018. Of the total, \$22.6 billion was insured cash and \$4.6 billion was deposit cash, while the remaining \$4.4 billion was money market balance.

LPL Financial Completes Allen & Company Acquisition – Aug 1, 2019

LPL Financial completed the acquisition of Lakeland, FL-based Allen & Company of Florida. The financial terms of the deal, announced in May 2019, remain undisclosed.

As part of the deal, all 33 advisors of Allen & Company have joined LPL Financial. Further, by the end of this year, nearly \$3 billion worth of client assets will be transferred to LPL Financial's platform.

Notably, Allen & Company, a registered investment advisor and a broker dealer, will continue to use its brand name.

The company expects its post-synergy EBITDA to be seven times compared with that before the acquisition.

Dan Arnold, LPL financial president and CEO noted, "We also look forward to collaborating as we innovate on our new model that preserves the principles of independence and wraps them in employee services."

Also, Ralph Allen, chairman of Allen & Company, stated, "And the firm's ability to invest in technology, resources and business solutions is an advantage we experience every day, allowing us to be more efficient and have capabilities that enhance our value with clients. We look forward to the opportunities ahead as part of the LPL team."

Dividend Update

On Oct 21, 2019, LPL financial declared a regular quarterly dividend of 25 cents per share. The dividend was paid out on Nov 21, 2019, to shareholders of record as of Nov 7.

Valuation

LPL financial's shares are up 41.7% over the trailing 12-month period. Stocks in both the Zacks sub-industry and the Zacks Finance sector are up 13% over the past year.

The S&P 500 index is up 25.6% in the past year.

The stock is currently trading at 13.12X forward 12 months earnings, which compares to 12.30X for the Zacks sub-industry, 14.73X for the Zacks sector and 19.20X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.39X and as low as 6.68X, with a 5-year median of 15.16X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$115 price target reflects 15.37X forward earnings.

The table below shows summary valuation data for LPLA

Valuation Multiples - LPLA				
	Stock	Sub-Industry	Sector	S&P 500
Current	13.12	12.3	14.73	19.2

P/E F12M	Current	13.12	12.3	14.13	13.2
	5-Year High	25.39	15.3	16.21	19.34
	5-Year Low	6.68	6.05	12.01	15.17
	5-Year Median	15.16	11.42	13.98	17.44
P/B TTM	Current	7.78	2.35	2.86	4.55
	5-Year High	7.84	3	2.89	4.55
	5-Year Low	2.19	1.47	1.83	2.85
	5-Year Median	4.71	2.2	2.51	3.61
P/S F12M	Current	1.32	3.63	6.53	3.57
	5-Year High	1.36	4.53	6.61	3.57
	5-Year Low	0.36	2.8	5.2	2.54
	5-Year Median	0.95	3.63	6.04	3

As of 01/17/2020

Industry Analysis Zacks Industry Rank: Bottom 37% (159 out of 254)



Top Peers

TD Ameritrade Holding Corporation (AMTD)	Outperform
E*TRADE Financial Corporation (ETFC)	Neutral
Evercore Inc (EVR)	Neutral
Interactive Brokers Group, Inc. (IBKR)	Neutral
Ladenburg Thalmann Financial Services Inc (LTS)	Neutral
Raymond James Financial, Inc. (RJF)	Neutral
The Charles Schwab Corporation (SCHW)	Neutral
Virtu Financial, Inc. (VIRT)	Neutral

Industry Comparison Industry: Financial - Investment Bank				Industry Peers		
	LPLA Outperform	X Industry	S&P 500	AMTD Outperform	ETFC Neutral	SCHW Neutral
VGM Score	A	-	-	C	C	B
Market Cap	7.93 B	544.43 M	24.65 B	27.37 B	11.44 B	61.99 B
# of Analysts	4	3	13	7	3	7
Dividend Yield	1.02%	0.70%	1.73%	2.45%	1.20%	1.41%
Value Score	A	-	-	D	B	B
Cash/Price	0.19	0.38	0.04	0.49	0.16	0.59
EV/EBITDA	10.38	5.31	14.11	5.31	6.58	6.86
PEG Ratio	0.88	1.58	2.08	1.50	1.65	3.07
Price/Book (P/B)	7.78	1.89	3.39	3.19	1.94	3.40
Price/Cash Flow (P/CF)	13.40	9.22	13.81	10.77	9.15	15.68
P/E (F1)	13.19	11.73	19.19	16.80	12.84	18.42
Price/Sales (P/S)	1.44	1.59	2.69	4.55	3.89	5.78
Earnings Yield	7.58%	8.53%	5.21%	5.96%	7.79%	5.42%
Debt/Equity	2.56	0.41	0.72	0.41	0.24	0.40
Cash Flow (\$/share)	7.32	2.72	6.94	4.69	5.11	3.08
Growth Score	A	-	-	C	D	C
Hist. EPS Growth (3-5 yrs)	28.91%	12.15%	10.56%	28.24%	39.06%	28.77%
Proj. EPS Growth (F1/F0)	4.13%	11.73%	7.57%	-27.15%	-6.54%	-3.52%
Curr. Cash Flow Growth	57.32%	31.63%	14.73%	17.86%	46.38%	38.26%
Hist. Cash Flow Growth (3-5 yrs)	13.61%	14.18%	9.00%	21.50%	11.88%	23.74%
Current Ratio	1.33	1.31	1.24	1.17	0.28	0.30
Debt/Capital	71.92%	27.30%	42.99%	29.23%	17.67%	25.81%
Net Margin	10.07%	5.73%	11.14%	36.72%	35.79%	34.55%
Return on Equity	59.56%	12.26%	17.16%	27.18%	18.41%	20.22%
Sales/Assets	1.00	0.23	0.55	0.15	0.05	0.04
Proj. Sales Growth (F1/F0)	7.76%	5.28%	4.16%	-12.15%	-8.60%	0.41%
Momentum Score	A	-	-	A	F	A
Daily Price Chg	-0.73%	0.00%	0.27%	-1.33%	0.39%	-1.35%
1 Week Price Chg	5.11%	0.78%	0.39%	1.55%	1.98%	1.68%
4 Week Price Chg	5.15%	0.34%	2.95%	0.90%	1.76%	0.29%
12 Week Price Chg	25.16%	10.58%	7.76%	31.18%	14.28%	17.93%
52 Week Price Chg	40.86%	0.00%	22.29%	-7.05%	-5.99%	3.03%
20 Day Average Volume	400,385	88,293	1,536,375	3,429,327	1,872,290	7,079,946
(F1) EPS Est 1 week change	3.48%	0.00%	0.00%	0.33%	-1.29%	2.25%
(F1) EPS Est 4 week change	3.48%	0.00%	0.00%	0.11%	-0.54%	2.70%
(F1) EPS Est 12 week change	2.55%	0.00%	-0.40%	4.39%	2.23%	2.08%
(Q1) EPS Est Mthly Chg	2.87%	0.00%	0.00%	-0.55%	-3.10%	2.78%

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	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.

Disclosures

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