

## LPL Financial Holdings (LPLA)

**\$94.86** (As of 02/21/20)

Price Target (6-12 Months): **\$111.00**

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: B

### Summary

Shares of LPL Financial have outperformed the industry over the past year. Its earnings surpassed the Zacks Consensus Estimate in all the trailing four quarters. Its fourth-quarter 2019 results benefited from growth in revenues along with an increase in brokerage and advisory assets, partly offset by higher costs. The company's recruiting efforts and solid advisor productivity will likely continue to aid revenues. Its inorganic growth efforts look impressive and will aid the top line. While mounting 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 are major concerns, its efficient capital-deployment activities reflect solid balance sheet position and will likely enhance shareholder value.

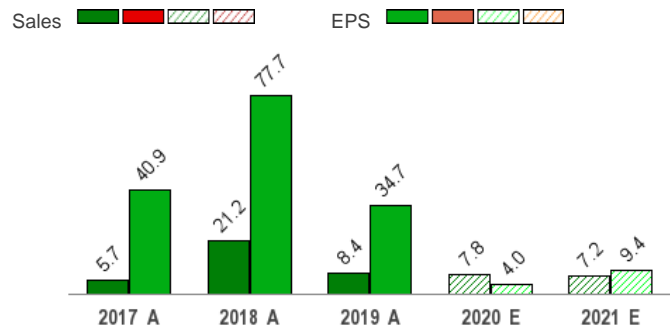
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$99.60 - \$67.11
20 Day Average Volume (sh)	542,900
Market Cap	\$7.7 B
YTD Price Change	2.8%
Beta	1.40
Dividend / Div Yld	\$1.00 / 1.1%
Industry	<a href="#">Financial - Investment Bank</a>
Zacks Industry Rank	Top 31% (80 out of 255)

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



Last EPS Surprise	3.7%
Last Sales Surprise	0.3%
EPS F1 Est- 4 week change	0.4%
Expected Report Date	NA
Earnings ESP	0.0%

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					6,499 E
2020	1,484 E	1,507 E	1,533 E	1,554 E	6,064 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	\$2.09 E	\$2.17 E	\$1.96 E	\$2.07 E	\$8.17 E
2020	\$1.90 E	\$1.95 E	\$1.77 E	\$1.90 E	\$7.47 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	13.2
P/E F1	12.7
PEG F1	0.9
P/S TTM	1.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/21/2020. The reports text is as of 02/24/2020.

## Overview

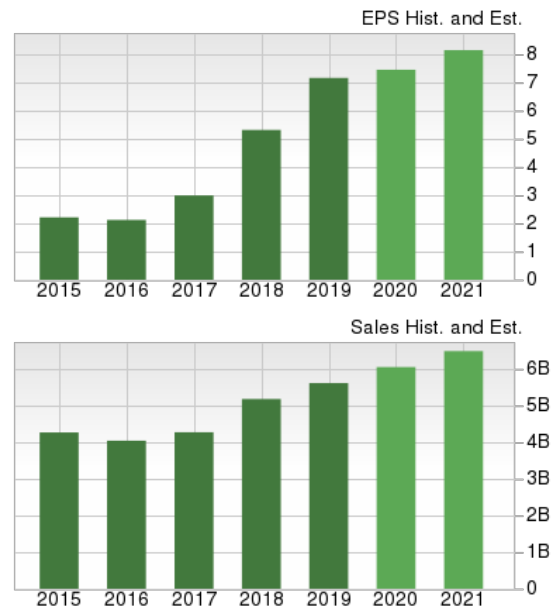
LPL Financial Holdings Inc. is based in Boston, MA. It was incorporated in Delaware in 2005. It is a clearing broker-dealer and an investment advisory firm that acts as an agent for its advisors, on behalf of their clients, by providing access to a broad array of financial products and services.

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 Dec 31, 2019, the company had total advisory assets of \$365.8 billion and brokerage assets of \$398.6 billion.



---

## Reasons To Buy:

- ▲ LPL Financial continues to benefit from efforts to increase client base. The company's advisory revenues (constituting 35.3% of net revenues in 2019) 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). 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 launch of a no-transaction-fee exchange-traded fund (ETF) network will likely increase the value of its advisory platform.
- ▲ 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 Dec 31, 2019, it was authorized to purchase up to \$499.8 million worth 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 59.60% compares favorably with 11.77% for the industry.
- ▲ Shares of LPL Financial have outperformed the industry over the past year. Moreover, its current-year earnings estimates have been revised 3.9% upward over the past 60 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.

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.

---

## Risks

- A large part of LPL Financial's revenues comes from commissions, which constituted 33.6% of its total net revenues in 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 2.2%, 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 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. 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 on LPL Financial's balance sheet are subject to annual impairment reviews. As of Dec 31, 2019, goodwill and net intangible assets were \$1.9 billion (accounting for 33.1% 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.
-

## Last Earnings Report

### LPL Financial Q4 Earnings Beat Estimates Despite Higher Costs

LPL Financial's fourth-quarter 2019 adjusted earnings of \$1.68 per share surpassed the Zacks Consensus Estimate of \$1.62. The figure reflects an increase of 13% from the prior-year quarter.

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

After taking into consideration non-recurring items, net income was \$126.7 million, increasing 5% year over year.

For 2019, adjusted earnings of \$7.17 per share surpassed the Zacks Consensus Estimate of \$7.12. The figure reflects an increase of 35% from the previous year. Net income was \$559.9 million, increasing 27% year over year.

Quarter Ending **12/2019**

Report Date	Jan 30, 2020
Sales Surprise	<b>0.30%</b>
EPS Surprise	<b>3.70%</b>
Quarterly EPS	<b>1.68</b>
Annual EPS (TTM)	<b>7.17</b>

### Revenues Improve, Expenses Rise

Total quarterly net revenues were \$1.45 billion, up 10% year over year. The rise was supported by an increase in almost all revenue components, except for transaction and fee income; and interest income, net of interest expenses. The reported figure marginally surpassed the Zacks Consensus Estimate of \$1.44 billion.

For 2019, total net revenues were \$5.62 billion, up 8% year over year. The figure surpassed the Zacks Consensus Estimate of \$5.56 billion.

Total quarterly operating expenses increased 11% year over year to \$1.25 billion. All expense components increased, except for professional services costs; brokerage, clearing and exchange-related costs; and other costs.

At the end of the fourth quarter, LPL Financial's total brokerage and advisory assets were \$764.4 billion, up 22% year over year.

Total net new assets were \$8.8 billion at the end of the quarter, up from \$5.9 billion recorded at the end of the prior-year quarter. Total client cash balances decreased 3% year over year to \$33.7 billion.

### Balance Sheet Position

As of Dec 31, 2019, the company had total assets of \$5.88 billion, up 7% from the Dec 31, 2018 level. As of the same date, cash and cash equivalents totaled \$590.2 million, up from \$511.1 million as of Dec 31, 2018.

Also, total stockholders' equity was \$1.02 billion as of Dec 31, 2019, up from \$974.1 million recorded as of Dec 31, 2018.

### Share Repurchase Update

LPL Financial repurchased \$120 million worth of shares during the quarter.

### Outlook

The launch of the no transaction fee ETF platform is expected to reduce transaction revenues by \$2-\$3 million per quarter.

The company expects insured cash account (ICA) yield of 2.10% for the first quarter of 2020.

For 2020, management expects core G&A expenses of \$915-\$940 million. In first-quarter 2020, core G&A expenses are expected to be in the range of \$230 million.

In the first quarter of 2020, promotional expenses are expected to increase to \$60 million.

The company expects interest expenses of \$30 million for the first quarter.

---

## Recent News

### Dividend Update

On Jan 30, LPL financial declared a regular quarterly dividend of 25 cents per share. The dividend will be paid out on Mar 31 to shareholders of record as of Mar 18.

---

## Valuation

LPL financial's shares are up 22.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 7.6% and 8%, respectively over the past year.

The S&P 500 index is up 18.6% in the past year.

The stock is currently trading at 12.53X forward 12 months earnings, which compares to 11.51X for the Zacks sub-industry, 14.89X for the Zacks sector and 19.09X 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 14.76X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$111 price target reflects 14.66X 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	12.53	11.51	14.89	19.09
	5-Year High	25.39	15.3	16.21	19.34
	5-Year Low	6.68	6.05	12.01	15.18
	5-Year Median	14.76	11.42	14.15	17.47
P/B TTM	Current	7.52	2.26	2.84	4.61
	5-Year High	7.84	3	2.89	4.68
	5-Year Low	2.19	1.47	1.83	2.85
	5-Year Median	4.76	2.21	2.51	3.62
P/S F12M	Current	1.25	4.12	6.55	3.51
	5-Year High	1.36	4.53	6.65	3.51
	5-Year Low	0.36	2.8	5.39	2.54
	5-Year Median	0.96	3.63	6.04	3

As of 02/21/2020

---

## Industry Analysis Zacks Industry Rank: Top 31% (80 out of 255)



## Top Peers

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

Industry Comparison Industry: Financial - Investment Bank				Industry Peers		
	LPLA Outperform	X Industry	S&P 500	AMTD Neutral	ETFC Neutral	SCHW Neutral
<b>VGM Score</b>	<b>A</b>	-	-	<b>D</b>	<b>A</b>	<b>B</b>
Market Cap	7.67 B	656.38 M	24.03 B	26.26 B	13.05 B	59.23 B
# of Analysts	4	2.5	13	7	6	7
Dividend Yield	1.05%	0.00%	1.76%	2.55%	1.05%	1.56%
<b>Value Score</b>	<b>A</b>	-	-	<b>C</b>	<b>B</b>	<b>B</b>
Cash/Price	0.20	0.34	0.04	0.41	0.24	0.60
EV/EBITDA	10.07	5.28	14.08	5.60	7.06	6.33
PEG Ratio	0.85	1.47	2.08	1.15	3.11	2.61
Price/Book (P/B)	7.52	2.11	3.29	3.00	2.23	3.25
Price/Cash Flow (P/CF)	12.95	9.75	13.42	10.35	10.67	14.38
P/E (F1)	12.70	11.83	19.00	15.90	14.50	17.65
Price/Sales (P/S)	1.36	1.58	2.64	4.53	4.52	5.52
Earnings Yield	7.87%	8.50%	5.26%	6.30%	6.90%	5.67%
Debt/Equity	2.56	0.40	0.70	0.41	0.24	0.40
Cash Flow (\$/share)	7.32	3.02	7.03	4.69	5.00	3.21
<b>Growth Score</b>	<b>A</b>	-	-	<b>F</b>	<b>C</b>	<b>C</b>
Hist. EPS Growth (3-5 yrs)	33.37%	14.18%	10.84%	29.83%	39.47%	29.67%
Proj. EPS Growth (F1/F0)	4.04%	15.23%	7.09%	-26.01%	-8.68%	-3.78%
Curr. Cash Flow Growth	57.32%	15.37%	6.72%	17.86%	-5.88%	-1.06%
Hist. Cash Flow Growth (3-5 yrs)	13.61%	13.89%	8.25%	21.50%	11.65%	20.15%
Current Ratio	1.33	1.33	1.22	1.11	0.29	0.30
Debt/Capital	71.92%	28.05%	42.37%	28.90%	17.73%	25.81%
Net Margin	9.95%	11.13%	11.56%	34.26%	33.09%	34.55%
Return on Equity	59.60%	11.77%	16.80%	24.24%	17.09%	20.22%
Sales/Assets	1.02	0.22	0.55	0.14	0.05	0.04
Proj. Sales Growth (F1/F0)	7.80%	3.93%	3.90%	-14.42%	-5.59%	0.01%
<b>Momentum Score</b>	<b>B</b>	-	-	<b>A</b>	<b>A</b>	<b>A</b>
Daily Price Chg	-4.00%	-0.81%	-0.83%	-4.78%	-2.52%	-4.92%
1 Week Price Chg	0.18%	0.47%	1.65%	0.47%	1.33%	-0.17%
4 Week Price Chg	-2.26%	0.00%	-0.37%	-4.20%	15.80%	-4.61%
12 Week Price Chg	2.97%	1.07%	3.74%	-6.88%	19.91%	-7.32%
52 Week Price Chg	23.69%	-0.88%	14.14%	-13.56%	10.62%	1.03%
20 Day Average Volume	542,900	55,624	1,992,841	3,620,648	4,664,927	8,248,015
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	1.13%	-0.09%	0.38%
(F1) EPS Est 4 week change	0.44%	0.00%	-0.02%	1.86%	1.05%	-0.33%
(F1) EPS Est 12 week change	3.93%	0.42%	-0.17%	1.97%	0.11%	1.89%
(Q1) EPS Est Mthly Chg	-0.70%	-1.07%	-0.48%	4.28%	2.54%	0.00%

## 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	B
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

**This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page.** Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.