

# Q1 2017 Earnings Key Metrics

LPL Financial Holdings Inc.

Q1 2017 Earnings

April 27, 2017

# Notice to Investors: Non-GAAP Financial Measures

The management of LPL Financial Holdings Inc. (“the Company”) believes that presenting certain non-GAAP 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 measures and metrics discussed below are appropriate for evaluating the performance of the Company.

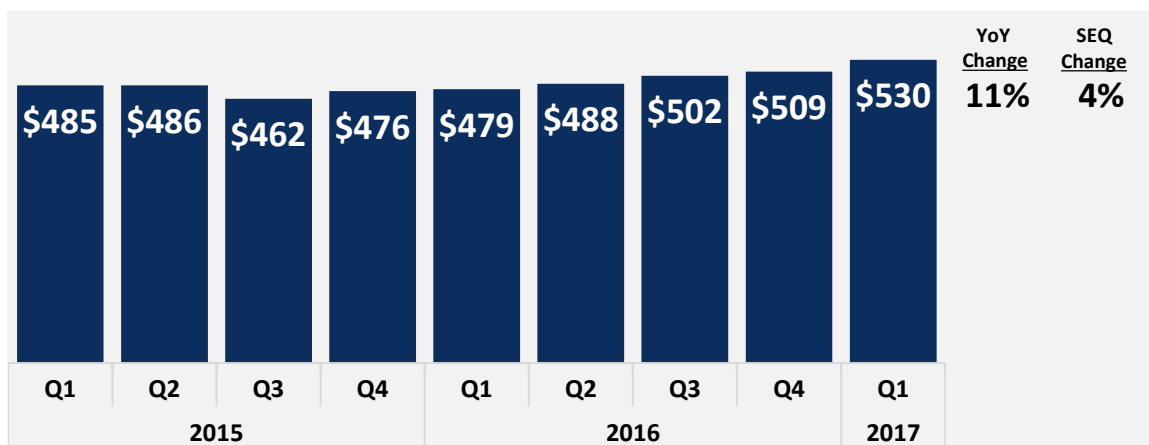
Gross Profit is calculated as net revenues, which were \$1,035 million for the three months ended March 31, 2017, less commission and advisory expenses and brokerage, clearing, and exchange fees, which were \$645 million and \$14 million respectively for the three months ended March 31, 2017. All other expense categories, including depreciation and amortization, 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 can be useful to investors because it shows the Company’s core operating performance before indirect costs that are general and administrative in nature.

Core G&A consists of total operating expenses, which were \$913.7 million for the three months ended March 31, 2017, excluding the following expenses: commission and advisory, regulatory charges (see FN 25), promotional (see FN 24), employee share-based compensation (see FN 26), depreciation and amortization, amortization of intangible assets, and brokerage, clearing, and exchange. The Company’s 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 against the Company’s total operating expenses, please see FN 7 on page 18 of the Company’s earnings press release, dated April 27, 2017, which is posted on the Company’s website ([investor.lpl.com](http://investor.lpl.com)). Prior to 2016, the Company calculated Core G&A as consisting of total operating expenses, excluding the items described above, as well as excluding other items that primarily consisted of acquisition and integration costs resulting from various acquisitions and organizational restructuring and conversion costs. Beginning with results reported for Q1 2016, Core G&A was presented as including these items that were historically adjusted out, and for periods prior to Q1 2016, reflects those items in employee share-based compensation and other historical adjustments for comparative purposes.

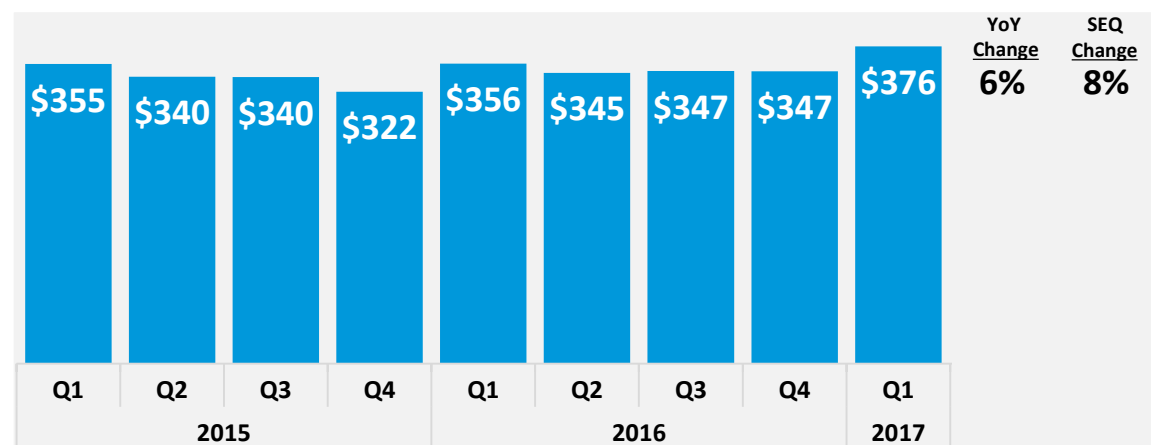
EBITDA is defined as net income plus interest expense, income tax expense, depreciation, and amortization. The Company presents EBITDA because management believes that it can be a useful financial metric in understanding the Company’s earnings from operations. EBITDA is not a measure of the Company’s 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. 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.

# Performance has steadily improved on four key metrics

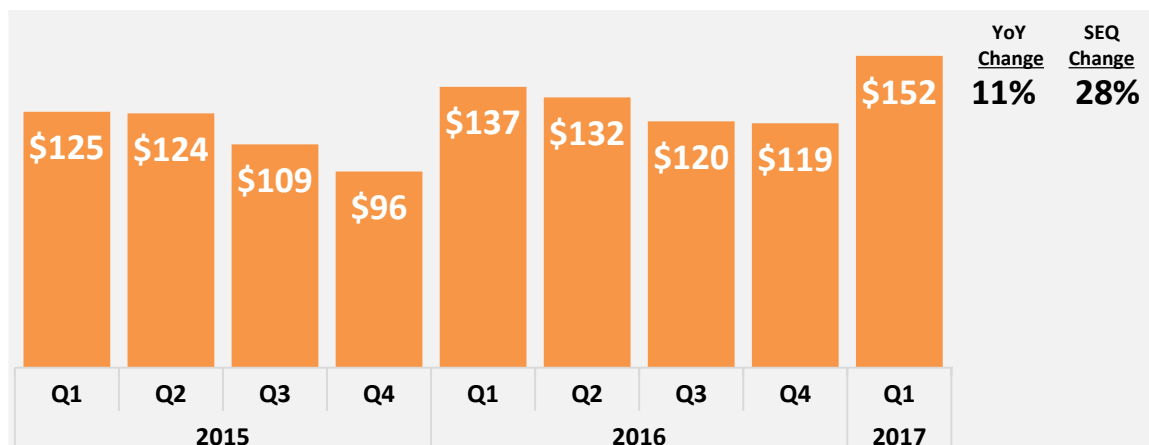
## Total Brokerage & Advisory Assets (\$ billions) <sup>(1)</sup>



## Gross Profit (\$ millions) <sup>(2)</sup>



## EBITDA (\$ millions) <sup>(3)</sup>



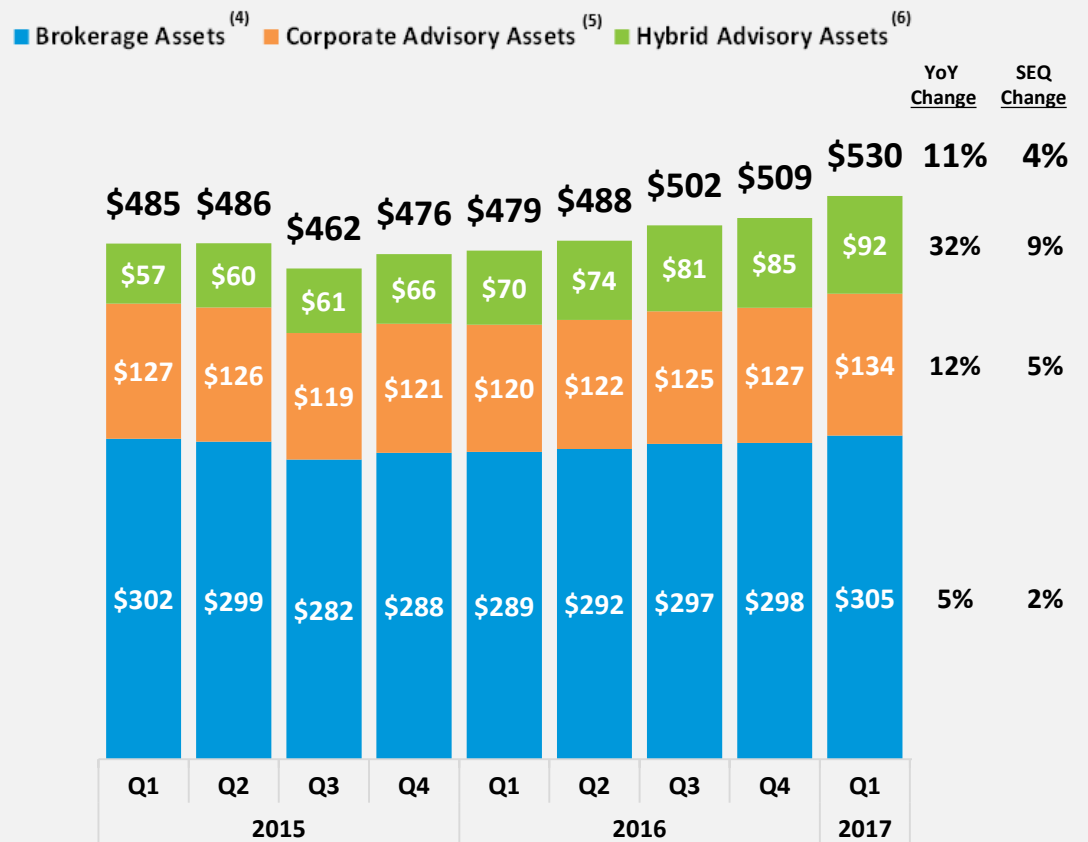
## Earnings per Share, Diluted (\$)



\*EPS for Q1 2017 includes a charge related to the Company's March 2017 debt refinancing that reduced its EPS by \$0.14. Excluding this charge, EPS was \$0.66, up 18% year-over-year and 43% sequentially.

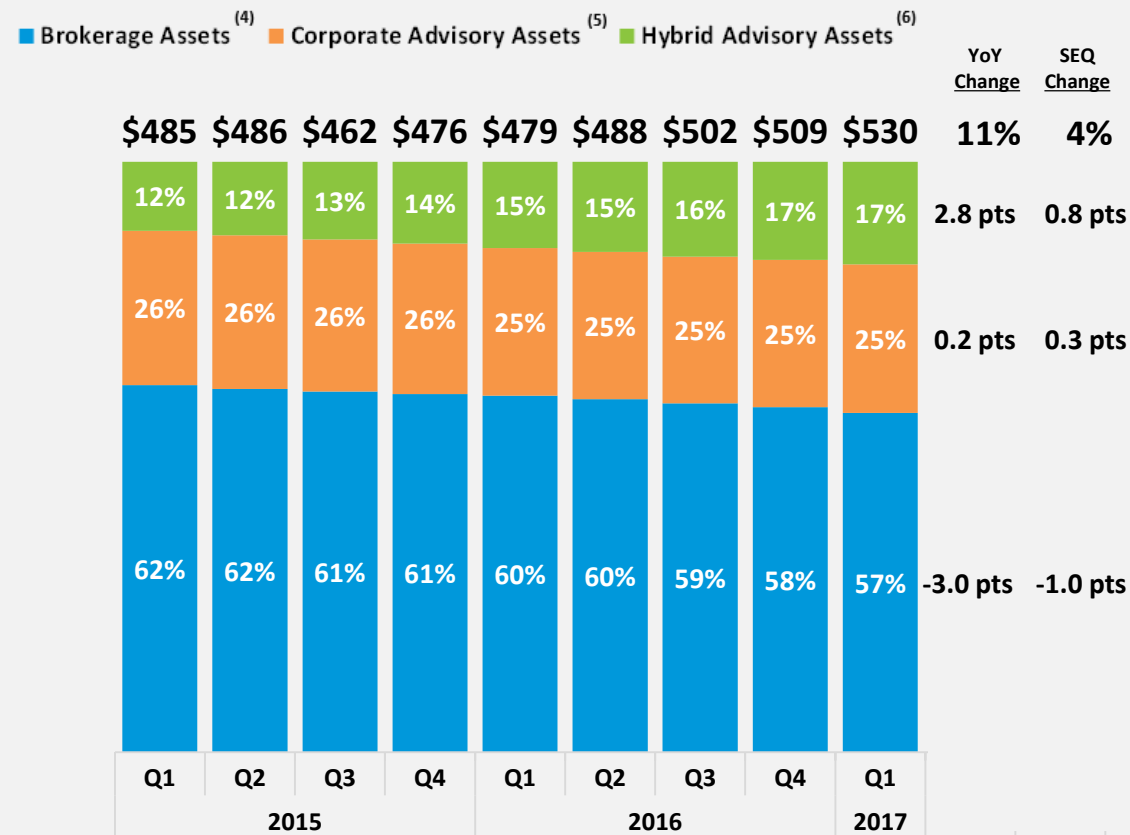
# Q1 Total Brokerage and Advisory Assets increased 11% year-over-year to \$530 billion, and increased 4% sequentially

## Total Brokerage and Advisory Assets (\$ billions)



Total Advisory Assets (\$B):	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	YoY Change	SEQ Change
	\$184	\$187	\$180	\$187	\$190	\$196	\$206	\$212	\$226	19%	7%

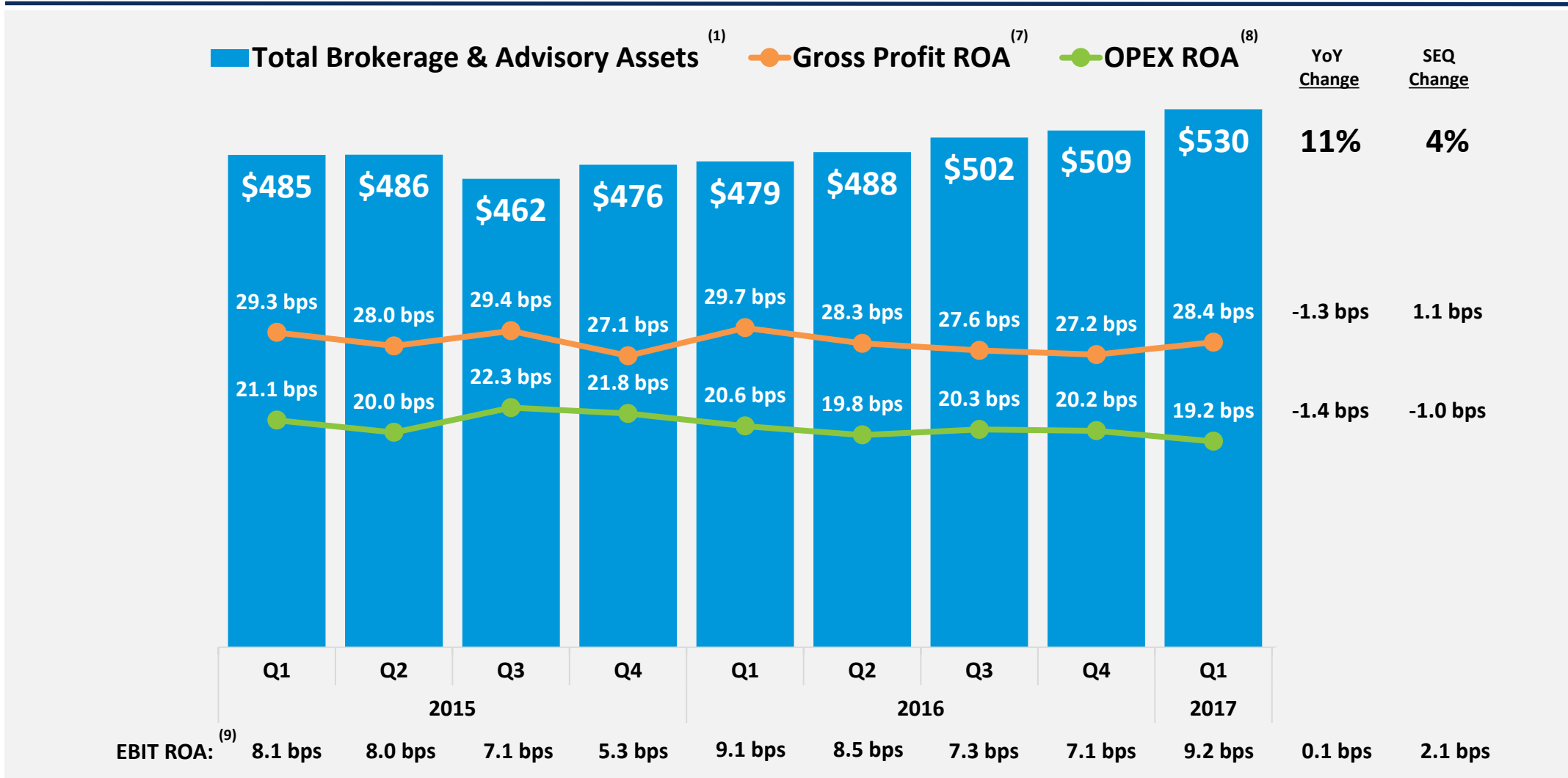
## Total Brokerage and Advisory Asset Mix



Advisory Percent of Total Assets:	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	YoY Change	SEQ Change
	38%	38%	39%	39%	40%	40%	41%	42%	43%	3.0 pts	1.0 pts

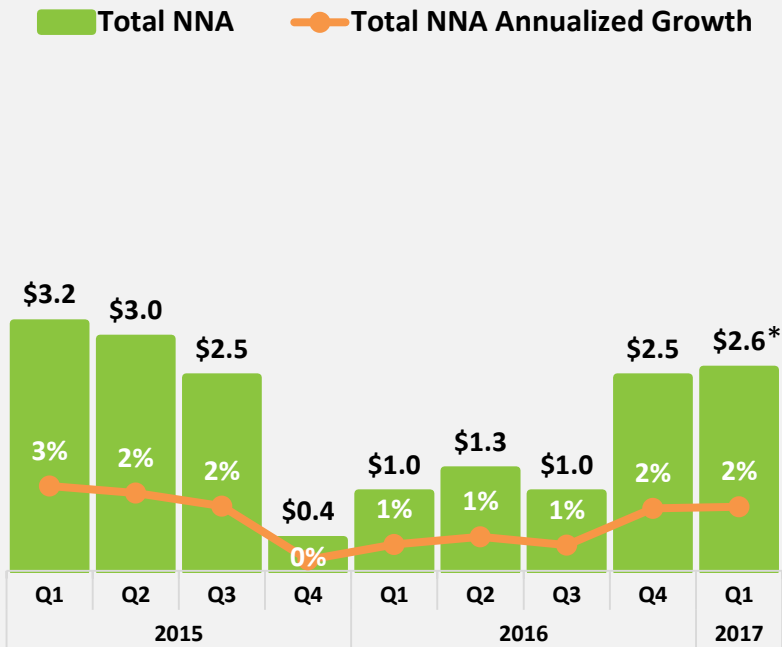
# Q1 EBIT ROA increased 0.1 bps year-over-year as OPEX ROA decreased more than Gross Profit ROA year-over-year

Total Brokerage & Advisory Assets (\$ billions)

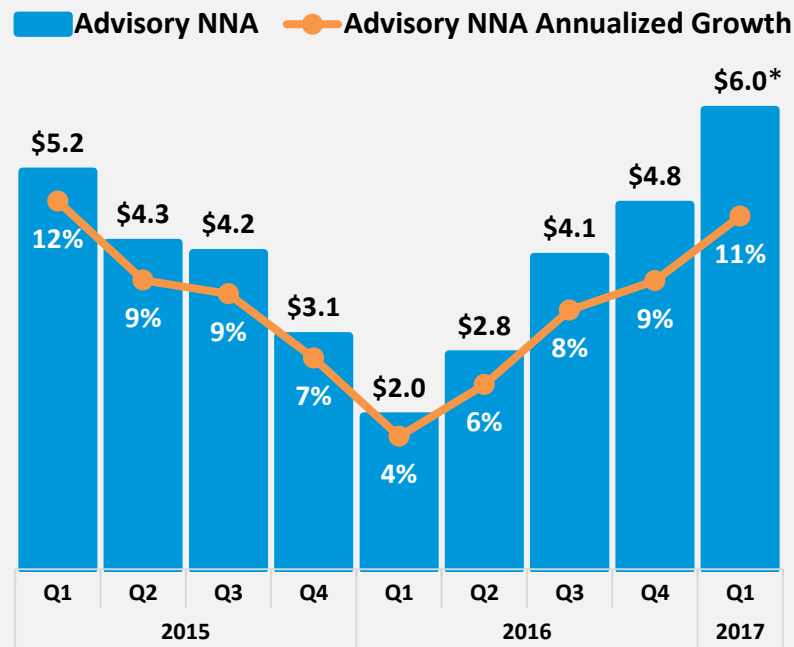


# Q1 Total Net New Assets were an inflow of \$2.6 billion

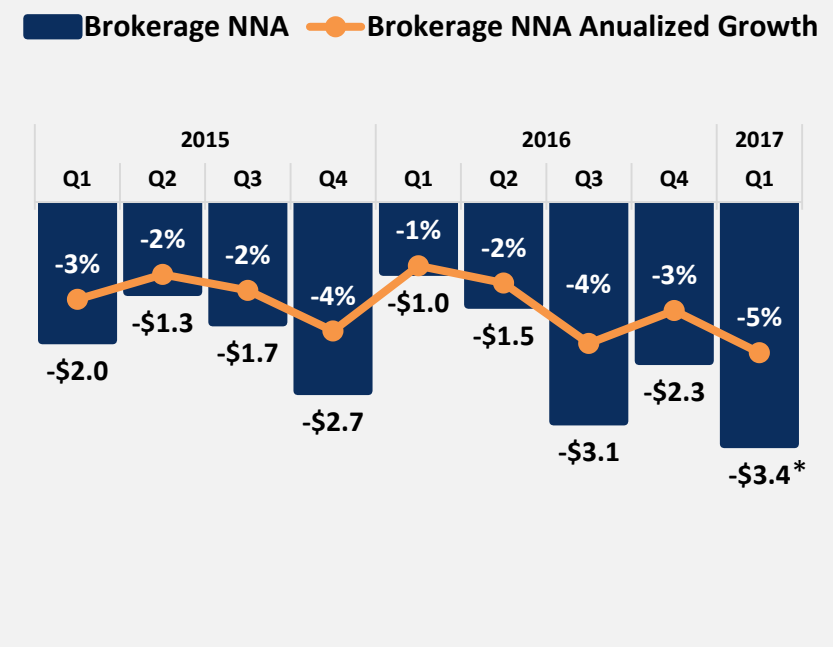
Total Net New Assets (\$ billions) <sup>(10)</sup>



Net New Advisory Assets (\$ billions) <sup>(11)</sup>



Net New Brokerage Assets (\$ billions) <sup>(12)</sup>



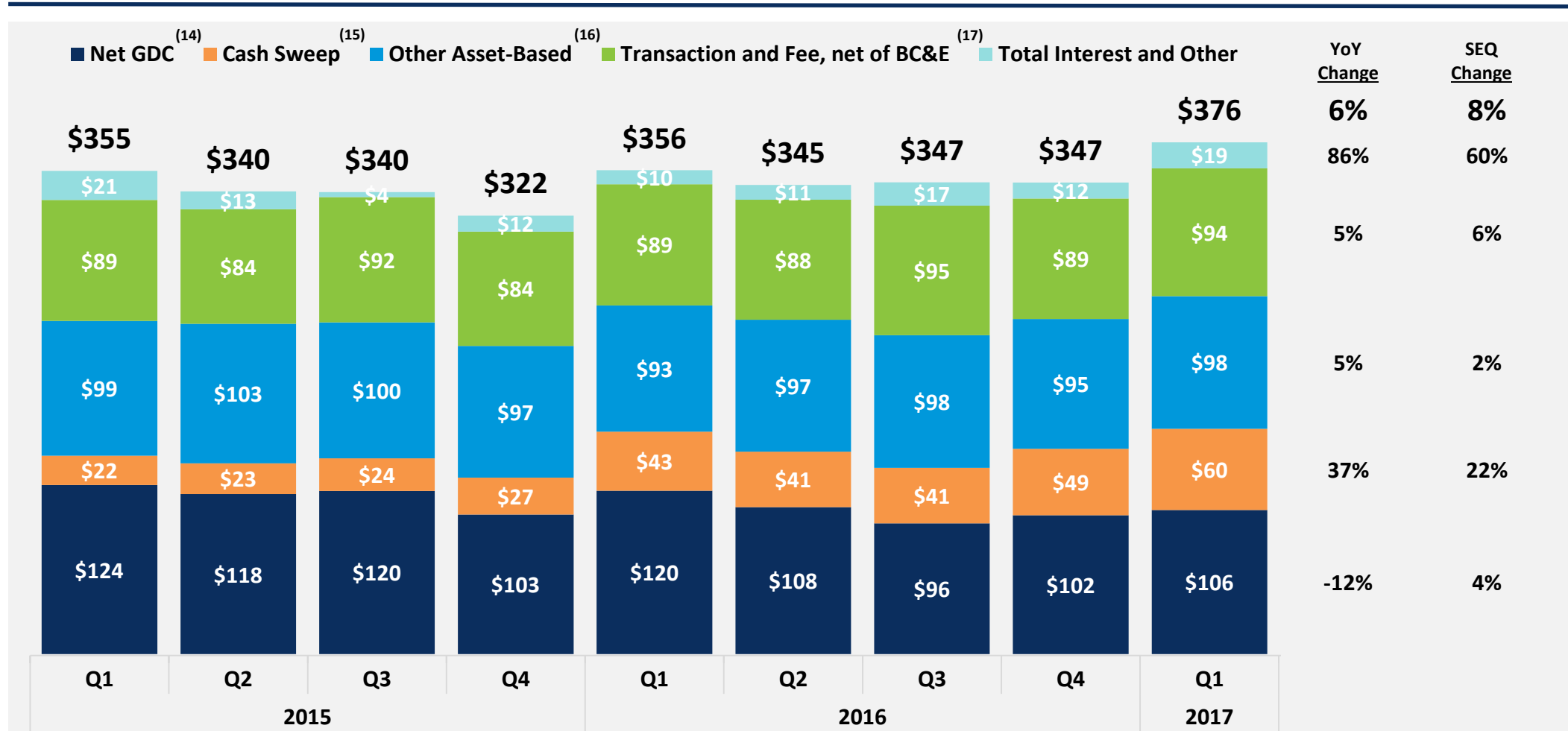
Net Brokerage to Advisory Conversions (billions): <sup>(13)</sup> \$1.2 \$1.2 \$1.0 \$0.8 \$1.0 \$1.4 \$1.3 \$1.7 \$2.3

Results excluding previously announced departures*:	2015	2016	2017
NNA:	\$3.2B	\$4.9B	\$6.5B
Advisory NNA:	\$4.7B	\$4.8B	\$7.1B
Brokerage NNA:	-\$1.5B	\$0.1B	-\$0.6B
Annualized Growth:	3%	4%	5%
	10%	9%	13%
	-2%	0%	-1%

\*The Company announced anticipated client departures on both its Q3 2016 and Q4 2016 earnings calls. The cumulative impact in Q1 of all announced client departures was \$3.9B (\$1.1B of advisory assets and \$2.8B of brokerage assets). The impact of the departure of an institutional client that was announced on the Q3 2016 earnings call was \$2.2B of assets in Q3 (\$0.6B of advisory and \$1.6B of brokerage) and \$2.4B of assets in Q4 (all brokerage).

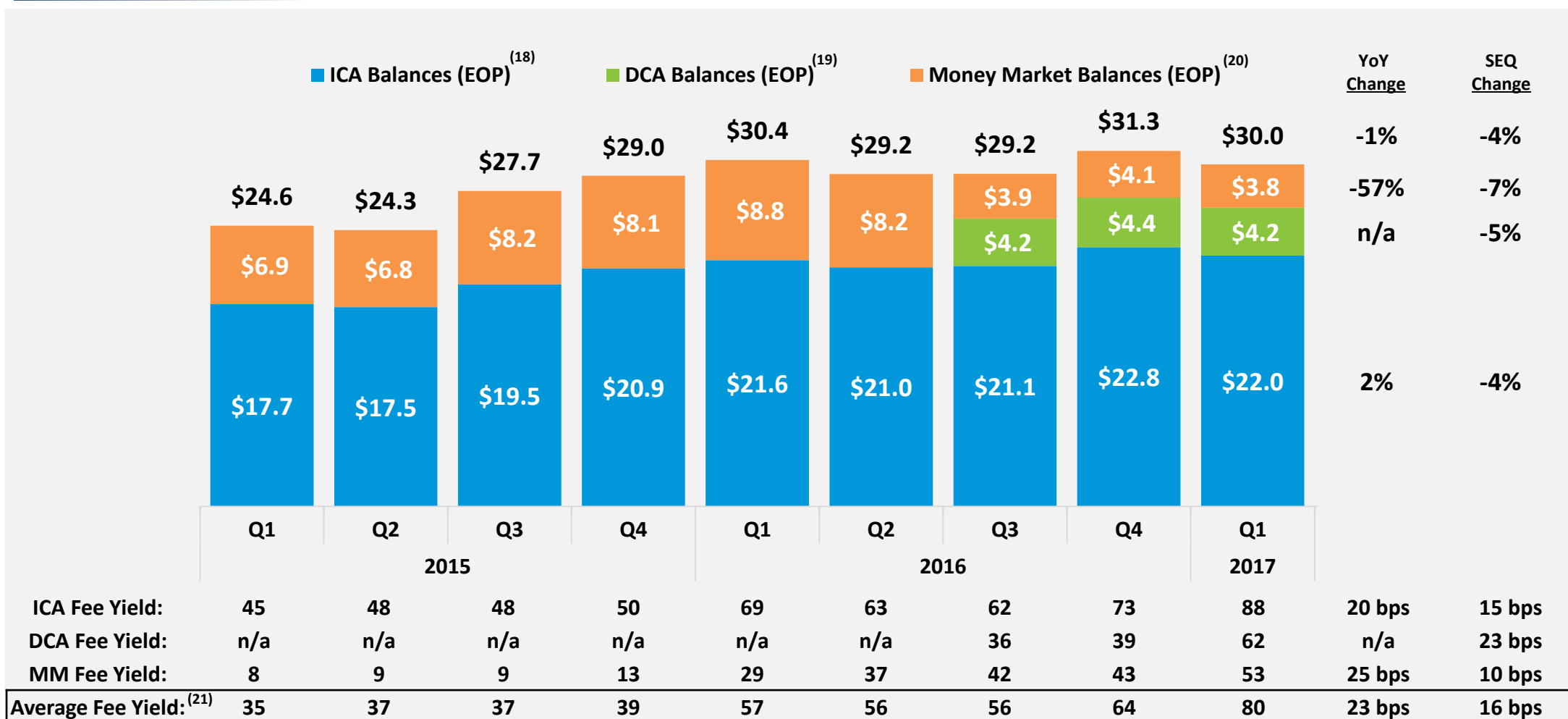
# Q1 Gross Profit increased 6% year-over-year and 8% sequentially

Gross Profit (\$ millions)<sup>(2)</sup>



# Q1 Cash sweep balances decreased 1% year-over-year and 4% sequentially, and yields increased 23 bps year-over-year and 16 bps sequentially

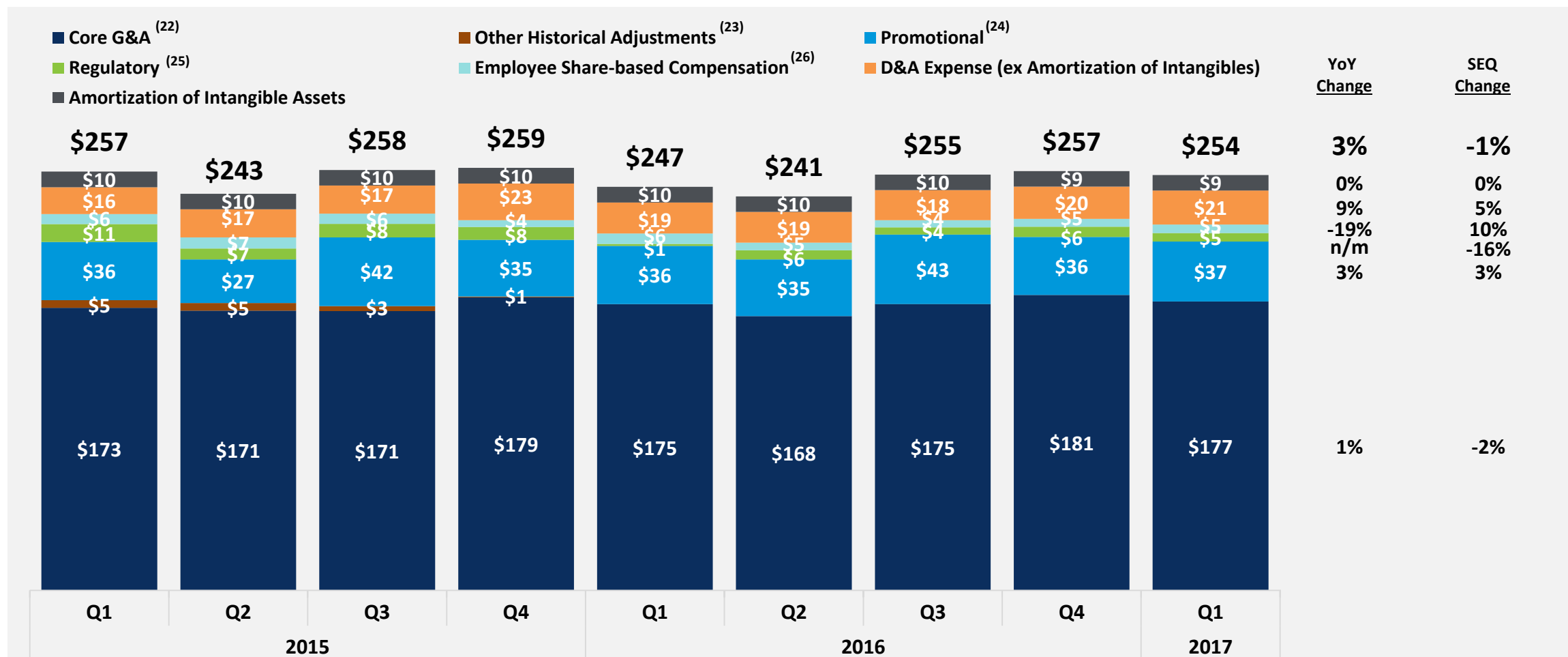
Client cash sweep balances (\$ billions)





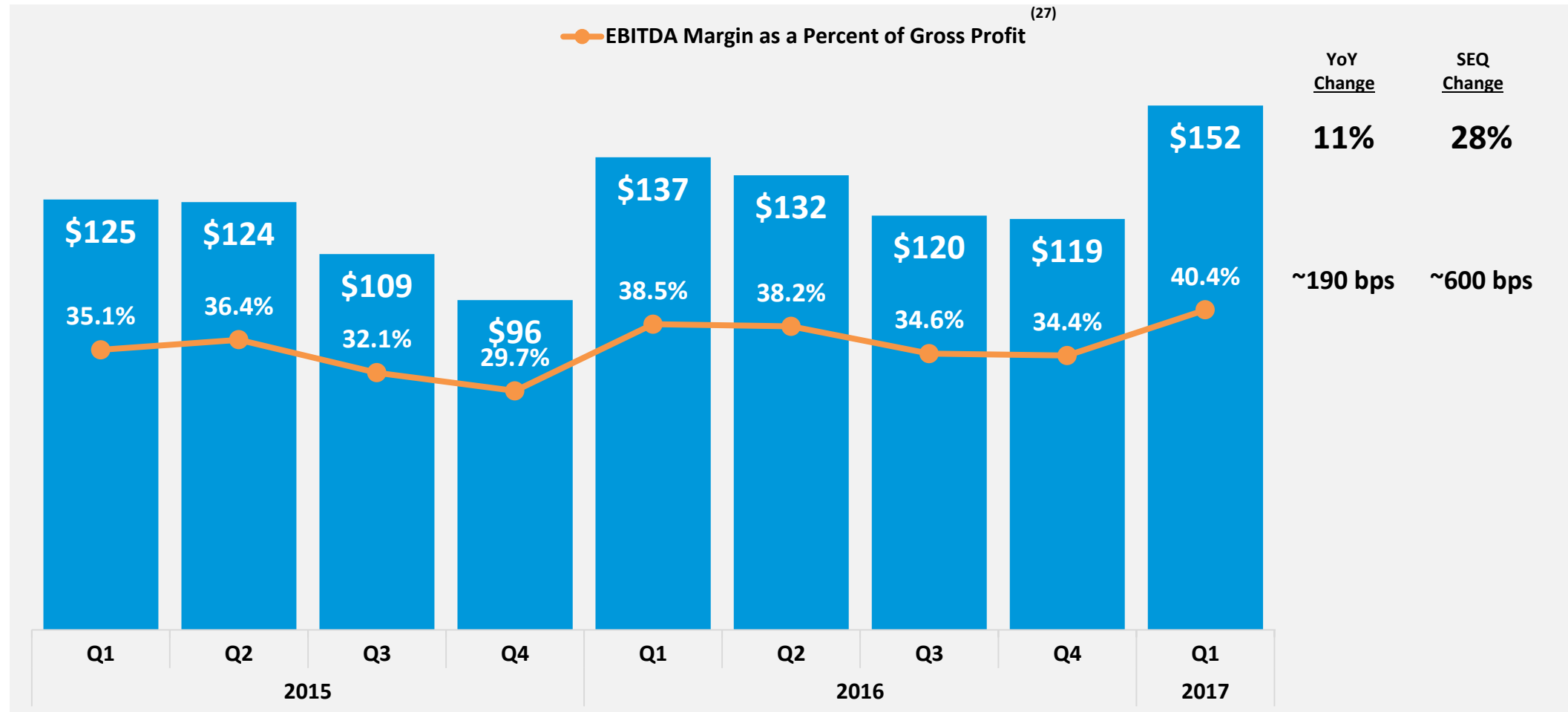
# Q1 Total OPEX increased 3% year-over-year and decreased 1% sequentially

Total OPEX (\$ millions) <sup>(8)</sup>



# Q1 EBITDA increased 11% year-over-year and 28% sequentially

EBITDA (\$ millions)<sup>(3)</sup>



# Footnotes

- (1) Total Brokerage and Advisory Assets are comprised of assets that are custodied, networked, and non-networked, and reflect market movement in addition to new assets, inclusive of new business development and net of attrition.
- (2) Gross Profit is a non-GAAP measure. Please see a description of Gross Profit under “Non-GAAP Financial Measures” on page 2 of this presentation for additional information.
- (3) EBITDA is a non-GAAP measure. Please see a description of EBITDA under “Non-GAAP Financial Measures” on page 2 of this presentation for additional information.
- (4) Brokerage Assets is a component of Total Brokerage and Advisory Assets (see FN 1) and consists of assets serviced by advisors licensed with the Company’s broker-dealer subsidiary LPL Financial LLC (“LPL Financial”) that are custodied, networked, and non-networked, and reflect market movement in addition to new assets, inclusive of new business development and net of attrition.
- (5) Corporate Advisory Assets is a component of Total Brokerage and Advisory Assets and consists of advisory assets managed on LPL Financial’s corporate advisory platform by advisors who are investment advisory representatives of LPL Financial.
- (6) Hybrid Advisory Assets is a component of Total Brokerage and Advisory Assets and consists of advisory assets managed or serviced by advisors associated with a Hybrid RIA firm that are custodied with LPL Financial. The Company serves independent Registered Investment Advisors (“RIAs”) that conduct their advisory business through separate entities (“Hybrid RIAs”) operating pursuant to the Investment Advisers Act of 1940 or through their respective states’ investment advisory licensing rules, rather than through LPL Financial.
- (7) Gross Profit ROA is calculated as Gross Profit for a period divided by Total Brokerage and Advisory Assets (see FN1) as of the end of such period.
- (8) OPEX ROA is calculated as Total Operating Expenses (OPEX) for a period divided by Total Brokerage and Advisory Assets (see FN1) as of the end of such period. OPEX includes Core G&A (see FN 22), Promotional (see FN 24), Regulatory (see FN 25), Employee Share Based Compensation (FN 26), Other Historical Adjustments (FN 23), Depreciation & Amortization, and Amortization of Intangible Assets.
- (9) EBIT ROA is calculated as Gross Profit ROA less OPEX ROA.
- (10) Total Net New Assets is equal to the sum of Net New Advisory Assets and Net New Brokerage Assets. Annualized growth is calculated as the Total Net New Assets as of the end of the period divided by Total Brokerage and Advisory Assets as of the end of the immediately preceding period and multiplying by four.
- (11) Net New Advisory Assets consists of total client deposits into advisory accounts less total client withdrawals from advisory accounts. We consider conversions from and to brokerage accounts as deposits and withdrawals respectively. Annualized growth is calculated as the Net New Advisory Assets as of the end of a period divided by Advisory Assets as of the end of the immediately preceding period and multiplying by four. Advisory Assets include Corporate Advisory Assets and Hybrid Advisory Assets.
- (12) Net New Brokerage Assets consists of total client deposits into brokerage accounts less total client withdrawals from brokerage accounts. We consider conversions from and to advisory accounts as deposits and withdrawals respectively. Annualized growth is calculated as the Net New Brokerage Assets as of the end of a period divided by Brokerage Assets as of the end of the immediately preceding period and multiplying by four.
- (13) Net Brokerage to Advisory Conversions consists of existing custodied assets that converted from brokerage to advisory, less existing custodied assets that converted from advisory to brokerage. Conversions to/from brokerage and advisory are undertaken when appropriate for investors.
- (14) GDC, or gross dealer concessions, a financial measure, is equal to the sum of Commission and Advisory revenues. Net GDC is calculated as GDC less commissions and advisory expense.
- (15) Cash Sweep consists of fees from the Company’s cash sweep program, specifically a money market sweep vehicle involving money market fund providers (see FN 20) and two insured bank deposit sweep vehicles (see FNs 18 and 19).
- (16) Other Asset-Based consists of revenues from the Company’s sponsorship programs with financial product manufacturers and omnibus processing and networking services, but not including fees from cash sweep programs.
- (17) Transaction and Fee, net of BC&E consists of Transaction and Fee revenue net of Brokerage, Clearing, and Exchange expense.
- (18) Insured Cash Account (ICA) Balances represents advisors’ clients’ account balances in one of LPL Financial’s two insured bank deposit sweep vehicles at the end of a period. These accounts are available to individuals, trusts (where beneficiaries are natural persons), and sole proprietorships, and these assets are included in Total Brokerage and Advisory Assets (see FN 1).
- (19) Deposit Cash Account (DCA) Balances represents advisors’ clients’ account balances in one of LPL Financial’s two insured bank deposit sweep vehicles at the end of a period. These accounts are available only to advisory individual retirement accounts (IRAs), and these assets are included in Total Brokerage and Advisory Assets (see FN 1).
- (20) Money Market Account Cash Balances (Money Market Balances) represents advisors’ clients’ account balances in money market fund providers at the end of a period. These assets are included in Total Brokerage and Advisory Assets (see FN 1).
- (21) With respect to the applicable cash sweep vehicle (ICA, DCA and/or Money Market), the average fee yield over the period is calculated as total fee revenue received from such vehicle divided by the average end of day balance level during the quarter in such vehicle.
- (22) Core G&A is a non-GAAP measure. Please see a description of Core G&A under “Non-GAAP Financial Measures” on page 2 of this presentation for additional information.
- (23) Other Historical Adjustments primarily consists of acquisition and integration costs resulting from various acquisitions and organizational restructuring and conversion costs. Beginning in Q1 2016, these items have been included in Core G&A expenses.
- (24) Promotional includes costs related to hosting of advisor conferences, business development costs related to recruiting, such as transition assistance, and amortization related to forgivable loans issued to advisors.
- (25) Regulatory consists of items that the Company’s management relates to the resolution of regulatory issues (including remediation, restitution, and fines).
- (26) Employee Share-based Compensation represents share-based compensation for equity awards granted to employees, officers, and directors.
- (27) EBITDA Margin is calculated as EBITDA divided by Gross Profit.