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## NEWS RELEASE

### *LPL KICKS OFF ITS IPO, IN MUCH ANTICIPATED MOVE*

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Amid extremely high expectations, shares of LPL Investment Holdings, the parent company of LPL Financial, began trading Thursday on the Nasdaq under the symbol LPLA.

More than 15 million shares representing a minority stake in the firm were offered during the independent broker-dealer's first IPO, which had been hotly anticipated for at least several years. The share price had been set at roughly \$28.50, with a price range of \$27-\$30, on Nov. 3, but late Wednesday, it was set at \$30.

Industry experts and advisors say that LPL's IPO is a positive development for the independent broker-dealer marketplace. However, many are also concerned about what it will mean for LPL advisors and shareholders in the long term.

"This will have a huge impact on the psyche of independent broker-dealers, their executives, their reps and the captive reps [at other broker-dealers] that may be considering independence," said Chip Roame, head of the consultancy Tiburon Strategic Advisors, via e-mail. "It validates the model and shows it's not some quiet side of the business."

Advisors concur. "It brings the independent RIA channel up into the eye of the public and gives it an equal status within the rest of the industry," said Bob Fragasso, CEO of Fragasso Financial Advisors, which is affiliated with LPL and based in Pittsburgh, in a phone interview.

"It helps guarantee the staying power of LPL and also elevates the level of services and infrastructure," explained Fragasso, a top-producing advisor who was expected to sell 23,000 shares Thursday.

"This has been a long-awaited offering," said Tim Murphy of Investors Capital, an independent broker-dealer with 575 advisors that went public in 2001, in a phone interview. "It is going to give credibility to the independent model. The success of this IPO is a vote of confidence to our business."

Some experts and LPL insiders, though, say that the future is less clear.

"There is a certain level of uncertainty," said a veteran LPL advisor in the Southeast, who wished to remain anonymous, in a phone interview. "LPL is unique and is a special culture. There is a little bit of concern among advisors. Is that culture going to change? And will they start answering to shareholders?"

## Growth History

In its amended Form S-1 filing, LPL touted the growth of its advisor force from “3,596 advisors in 2000 to 12,017 as of September 30, 2010, representing a CAGR of 13.2%,” though the filing says that past growth “does not guarantee that we will attract advisors at comparable rates in the future.”

Lead underwriters for the offering were Goldman, Sachs; Morgan Stanley; Bank of America/Merrill Lynch and JPMorgan Chase, which could purchase up to an additional 1.56 million shares from LPL Investment Holdings Inc. and a stockholder.

Todd Robinson, Dave Butterfield and Jim Putnam led the firm early on and in 1989, when Linsco merged with Private Ledger. They then handed the baton to Mark Casady, now CEO and chairman, and the firm's other leaders several years later.

“Robinson was truly a visionary,” said Mark Elzweig, an executive recruiter in New York, in a phone interview. “He founded LPL as a 32-year-old ex-broker in 1989 by merging Linsco and Private Ledger. It was an amazing innovation to found an independent brokerage firm that showcased its lack of proprietary products and in which advisors were empowered to give conflict-free advice.”

In late 2005, a majority stake of LPL Financial was sold to Hellman & Friedman of San Francisco and Texas Pacific Group of Fort Worth, a signal too many observers that the company's next financial move would be to go public. At the time, LPL Financial's advisor count was 6,800, and the firm was valued at \$2.5 billion. In 2007, it acquired three broker-dealers from Pacific Life.

Before the IPO, private equity firms Hellman & Friedman LLC and TPG Group each owned a 36% stake of LPL Financial. Their respective stakes are anticipated to shrink to about 31.5% on Thursday, analysts point out, and the company should have some 107 million shares outstanding.

## Future Focus

With its IPO, LPL is under more pressure than ever to keep up its aggressive growth trajectory.

“It will not necessarily be easy,” said John Rooney, the San Diego-based managing director of independent broker-dealer Commonwealth Financial, in a phone interview.

“It's the law of big numbers. To grow 10% when you're at 10,000-plus advisors is a real challenge,” he explained.

“They'd have to add a broker-dealer like us [with 1,300 advisors]” on a frequent basis. “And look at the industry demographics. We are not seeing the growth of young advisors without a bull market for them to grow on.”

The total number of financial advisors affiliated with the company as of Sept. 30, 2010, was 12,017, down slightly from 12,027 last year and 12,066 in the second quarter of 2010. This puts it behind Morgan Stanley, Bank of America-Merrill Lynch, Wells Fargo Advisors and Ameriprise Financial, but ahead of UBS-Americas.

LPL Financial, however, says it added 128 new financial advisors to its ranks in the past 12 months, excluding attrition in the fourth quarter of 2009 related to the consolidation of certain affiliates.

LPL is also expected to go through some cultural changes, says **Daniel Seivert**, CEO and managing partners of **Echelon Partners**, an investment bank and consulting firm in Manhattan Beach, Calif. "The management priorities change and frankly some employees and advisors won't like it," he said in a phone interview.

"The bottom line is that public companies face expectations from many people ... You are going to hit these expectations sometimes, and sometimes you aren't," Seivert explained.

However, with its 12,000-plus advisor force, the independent broker-dealer is well positioned for future growth, he says.

Still, the private-equity firms will still demand that LPL hit certain internal rate of return targets, which means boosting revenue. And while LPL's been successful with its profits, its revenue figures have been less than stellar, Seivert notes. "It's been a great ride so far, but it's not necessarily going to be that way going forward, and lots of insiders are concerned."

Veteran LPL advisor Carlo Panaccione of the Navigation Group in Redwood City, Calif., argues that keeping clients happy and shareholders happy will go hand in hand. "The independent model is based on being the client's advocate. Thus, to continue to be successful, even as it gets larger, LPL will need to do that," he said in a phone interview.

Plus, added Panaccione, "The IPO gives it more leverage to do what it's been doing for 25 years."

## **Pros vs. Cons**

Some experts argue that the advantages of the public offering far outweigh the disadvantages.

**On the pro side**, says Roame, it brings LPL money and stock to use in making more acquisitions – as well as for rewarding executives at firms being acquired. In other words, LPL can buy companies by issuing additional shares and giving options to executives and even advisors.

The independent broker-dealer can also pay down some debt and cut down on its interest payments. Plus, the IPO allows the private-equity owners to begin liquidating their holdings, shares Roame, "and it allows [LPL Chairman] Mark Casady to run a public company."

**As for the cons**, namely that the interests of advisors and clients will potentially lose out to shareholders, the consultant is skeptical. The private-equity firms have been acting as LPL's main shareholders for the past five years, he notes.

Plus, conflicts between shareholders and managers occur when these are diverse groups of people and interests, he points out, with disagreements over issues (like technology spending) that can materially affect the long-term future of the firm. However, the two private-equity firms invested in LPL are non-executive shareholders, so LPL's "already crossed this bridge" to a great extent, Roame says.

## Consolidator Culture?

LPL's IPO is expected to lead to more consolidation in the independent broker-dealer field, experts note. "The smaller broker-dealers are going to have to merge and get scale, or they are going to fall by the wayside," said Fragasso.

Non-LPL advisors agree. "This gives LPL greater financial flexibility and the ability to have stock and currency for potential broker acquisitions and to build the firm at a much quicker pace," said Donald Weidenfeld, an advisor with Raymond James & Associates in Boca Raton, Fla., in a phone interview.

"Smaller independent broker-dealers can become acquisition targets, because LPL has stock to buy them with," Weidenfeld said. "Now they'll be able to take them over with stock and cash as opposed to just cash."

But how will that growth most affect existing advisors and the overall independent broker-dealer channel?

"If the culture is not going to change, the future is very, very bright for LPL," said an LPL advisor in the Southeast.

But such a shift may already be taking place, says Elzweig. "As part of its growth, there's been a cultural shift at the firm. Many advisors no longer feel the same level of personal connection with senior management."

This, ironically, is a sign of its success.

"LPL has catapulted its salesforce to wirehouse levels," the executive-search consultant said. "Consequently, they share some of the same cultural issues. On one hand, it has a superb fee-based platform and a well-respected brand. With massive size however, comes a diminished sense of connection and loyalty on the part of advisors."

While the debate over LPL's growth will certainly continue, its significance as an industry standard-bearer is now undisputable.

"Having a large publicly traded company in your business model adds legitimacy to this channel," said Commonwealth's Rooney. "From our perspective, the economics of the [independent] channel will ebb and flow, and LPL will be the canary in the coal mine. It will be the most dramatically pure reflection of an independent broker-dealer's financial health."

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