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## NEWS RELEASE

### MOVE OVER, MERRILL

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These are ugly times in the stock brokerage business. Two years ago collapsing markets around the world dealt a lethal blow to Wall Street firms, killing off Lehman Brothers and Bear Stearns. Once mighty Merrill Lynch scrambled into the arms of Bank of America, now itself reeling from foreclosure woes. Goldman Sachs has hired a crisis public relations firm, presumably to help it persuade the public that it doesn't epitomize greed and self-dealing.

To the average retail stockbroker the last few years have been a nightmare. Add to this an endless onslaught of digital competition from discounters and do-it-yourself websites and there is only one conclusion: Once great brokerage brands are in trouble. Investors simply don't trust Wall Street anymore.

From this rubble emerges a little-known brokerage powerhouse named LPL Financial. Who? That is a good question, and it's also exactly the point. It's the biggest retail brokerage firm you have never heard of, and if its owners have their way, it will stay that way. Think of LPL as a franchisor for financial advisers, only unlike McDonald's the corporate parent stays in the background and takes orders from its franchisees.

The Boston-based, privately held brokerage firm has more than 12,000 financial advisers under its national umbrella--and not a penny's worth of bailout money on its books. Unlike its big-name competitors on Wall Street, LPL doesn't sell a single proprietary investment product nor does it own an investment bank that could be in conflict with its retail operations.

LPL franchisees go by names like Marks Group Wealth Management in Minnetonka, Minn.; James E. Bashaw & Co. of Houston, Tex.; and Pollack Financial Group of Upper Montclair, N.J. Their target customers are the "mass affluent"--people with investable assets from \$100,000 to \$1 million.

Growth has been steady. Net revenues have jumped at an 18% compound annual rate since 2005. For the fiscal year ending this Dec. 31, LPL will have revenues of about \$3 billion and net income of \$70 million. Its assets under management are modest at \$293 billion, compared to Merrill's \$1.5 trillion. LPL is considering an initial public offering that, if completed, could place a \$4.5 billion valuation on the firm.

LPL Financial is the creation of a former Smith Barney broker named Todd Robinson, who created the firm in 1989 by combining two smaller advisory firms, Linsco Financial, based in Boston, and Private Ledger of San Diego. In late 2005 Robinson and partners sold 60% of LPL Financial to private equity outfits Hellman & Friedman and TPG Capital, valuing the company at \$2.5 billion. LPL is now being run by Mark Casady, 50, Robinson's handpicked successor.

Robinson's most important innovation was to create a culture in which the stockbroker was the one and only customer. "We treated our representatives like they were kings," says Herb Morgan, chief executive of Efficient Market Advisors and former senior manager at LPL. This contrasts sharply to most big Wall Street firms, where brokers are at the bottom of the pecking order relative to investment bankers and traders. Happy brokers translate into growing revenues and, ultimately, happy clients.

Perhaps even more influential was the compensation structure. LPL offers advisers the chance to take home from 80% to 98% of the revenues they generate, versus 30% to 50% for firms like Merrill Lynch and Morgan Stanley Smith Barney. LPL advisers are independent contractors and, as such, pay their own expenses, including office space, computers, Internet, marketing, phone lines. "I look at LPL as a firm I've retained to do all my back-office work," says Dave Armstrong, a Merrill Lynch refugee who's now an LPL adviser in Alexandria, Va. with \$250 million under management.

Make no mistake, this is a high-stakes battle. According to the latest number from Cerulli Associates, more than \$10.4 trillion in retail assets are professionally managed. Yet assets under management at the top four brand-name brokerages dropped 16% to \$4.75 trillion from 2007 through 2009, according to consultancy Aite Group. During the same period assets jumped almost 14% to \$1.54 trillion at independent firms like LPL.

LPL ranks fourth in terms of sales force, behind Merrill Lynch, UBS and Morgan Stanley Smith Barney. In terms of growth, it is dominant. While big firms continue to lose brokers, LPL attracts reps. In 2009 LPL added a record 750 advisers while rival UBS lost 18% of its adviser force. Overall LPL's ranks have swelled from 3,569 to 12,017 in the last decade, a 237% increase.

The company is clearly gunning for Wall Street firms still reeling from the financial crisis. Old wirehouse firms like Merrill are easy prey because their brand names are in decline. But LPL would also appear to have Charles Schwab and Fidelity in its sights, as it now offers services to both brokers and independent advisers who earn fees from assets under management.

Described by others as affable and unflappable, Mark Casady was brought in in 2002 as chief operating officer from Scudder Investments. The son of a minister, Casady was raised in the Midwest and has few of the qualities one normally associates with Wall Street hotshots.

Like Robinson, Casady goes out of his way to make sure his reps are happy. Says Houston's James Bashaw, who joined LPL from UBS in 2001, "I won't forget Robinson standing there [talking to advisers] while his assistant took notes of every conversation. Mark does the same exact thing. He doesn't care if you do \$100,000 in revenue or \$1 million in revenue."

Casady and others at LPL declined to comment for this story. In June 2010 LPL filed a preliminary offering statement with the intention of raising \$600 million and creating an exit for its private equity owners, whose stakes are now 36.3% each.

**Daniel Seivert**, chief executive of Los Angeles investment banking firm **Echelon Partners**, worries that going public could spoil LPL's winning formula. "They are a great company, but there are benefits to being private," he says, noting that recruiters have begun poaching LPL talent. Only a small percentage of its reps stand to make a windfall on the IPO. Ironically the firm might have to answer to the same public critics that plague Merrill and Goldman on a daily basis.

## ABOUT ECHELON PARTNERS

ECHELON Partners (ECHELON) was formed in 2001 to offer investment banking and consulting to a subset of the financial services industry known as "investment product developers and distributors" (IPDADs). Since that time, ECHELON's professionals have helped hundreds of senior executives envision, initiate, and execute a multitude of complex business strategies and transactions. ECHELON's business is making companies more valuable through delivering advice and orchestrating transactions. Accordingly, ECHELON measures its success in the enterprise value it creates for its clients. Companies that strive to outperform their peers choose to work with ECHELON because we are as passionate about their results as they are.

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