LPL Suitors Most Likely PE Firms

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The most likely potential buyer for LPL Financial -- assuming a deal is done -- would be a private equity firm, observers say.

And LPL reps say they'd be fine with that.

Reuters reported Tuesday that LPL, the largest independent broker-dealer in the United States, is exploring strategic alternatives, including a potential sale. The news service cited unnamed sources who were familiar with the matter.

LPL is working with investment bank Goldman Sachs Group Inc. on a sale process that has attracted other companies and private equity firms, Reuters reported.

LPL and Goldman Sachs both declined to comment.

As owners, private equity firms would solve LPL's difficulty in trying to meet Wall Street's growth expectations, said **Dan Seivert**, chief executive of **Echelon Partners**, a mergers and acquisitions consultant.

"The goal for the [LPL] board is to be private," said Seivert, who is not involved in the sale process at this time but has been following the situation.

LPL is "a great example of why these [wealth management] companies have a hard time being public," he said, because shareholders' demands for growth, dividends and stock buybacks make investing in long-term growth difficult.

"That constant pressure is difficult for a board, because it causes them to under-invest in the growth of the company," Seivert said.

The news about LPL shopping itself comes at a time when the firm faces a challenging business environment and higher compliance costs.

The company's stock was hammered in February after LPL reported disappointing earnings due to a slowdown in commission revenue, much of it from a drop in sales of alternative investments and a shift away from traditional products, in anticipation of the Department of Labor's fiduciary rule.

Seivert counts about 10 big private equity firms with experience in the financial services industry that could be part of any deal, including Summit Partners, TA Associates and one of LPL's former owners, Hellman & Friedman.

Other sources cited Donald Marron's Lightyear Capital, which bought Cetera and sold it to Nick Schorsch's Reality Capital for $1.1 billion in 2014, as a potential buyer. Earlier this year Lightyear acquired AIG's broker-dealer network, The Advisor Group, for an undisclosed amount. Lightyear probably would need to raise additional capital or partner with other PE firms, but given Marron's long track record in the business, the firm could do it.

In 2010, Hellman & Friedman and TPG Capital took LPL public at $30 per share -- five years after acquiring a majority stake in the brokerage firm. The firms retained their stakes in LPL at the time.

In 2013, Hellman & Friedman's investment funds distributed shares to the funds' partners. And over the past few years, LPL bought back shares from TPG, which had a 9.8 percent stake at yearend, according to SEC filings.

Early this year, Marco Hellman, founder of HMI Capital, and former managing director at Hellman & Friedman, joined LPL's board. He is the son of Hellman & Friedman's co-founder, Warren Hellman.

A number of other private equity shops and activist hedge funds also have stakes in LPL.

The most notable, Marcato Capital Management, led by activist investor Richard McGuire, disclosed late last year that it had accumulated a stake in LPL. The hedge fund said then that it might enter into discussions with LPL about mergers or acquisitions. As of January 2016, Marcato and its related entities controlled 9.8 percent of LPL's shares, according to SEC filings.

Of course, any buyer of LPL would have to take steps to ensure that the bulk of the firm's 14,000 affiliated advisors -- and their clients' assets -- would stick around after a sale.

New owners "could end up being a trigger for [advisor] flight," said recruiter Jon Henschen.

Henschen agrees that the most likely buyers of LPL would be private equity firms. But he warns that they "usually want more profits, which equates to higher expenses for reps and clients."

Nevertheless, several LPL reps tell Financial Advisor that they'd welcome a return to private ownership.

"I don't care what they do to get the best set up for the company, as long as [the buyer] doesn't end up being something like a big insurance company … and six months later we have [proprietary] products" being pushed, said Doug Flynn, co-founder of Flynn Zito Capital Management in Garden City, N.Y., which is affiliated with LPL.

"I consider myself fiercely independent, and I know many people at [LPL] feel the same," he added.

"I would view anything other than going private again … negatively," said another LPL rep who asked not to be named. Being part of a public company creates too much focus on meeting quarterly numbers, he said.

Meanwhile, LPL reps on Wednesday received a message from LPL president Dan Arnold, which acknowledged the media reports about a possible sale, but repeated a statement given to the media that as a matter of policy the firm would not comment on "rumors or speculation." Arnold also assured the troops that LPL would continue to support their businesses.