What to Make of LPL Nearing A Successful IPO

Originally Published By Brooke Southall, RIABiz

Brooke's Note: I kept hearing from industry observers that LPL Financial's public offering bid was looking long-in-the-tooth as the months dragged by with no action. But when I checked [over recent weeks] with a key investment banking source, ***Dan Seivert****, he assured me that the whole idea is to file and then wait — sometimes for six months or more — for an opportune moment. Reading anything into the passing months was over-analyzing. Yesterday he told me he saw several factors that may pave the way for LPL to turn public including: the Dow Jones industrial index at a two-year high, GM's pending IPO energizing investors, a Federal stimulus of $600 billion and business-minded Republicans winning seats in Congress.*

LPL Investment Holdings has set pricing on its long-awaited public offering, but the amount raised, $445 million, would be about a quarter less than its SEC filings suggested it would strive to raise back in June.

The Boston-based independent broker-dealer will – if all goes well – sell 17,176,195 shares at $28.50 per share. The range is $30 at the high end and the $27 on the low end.

The lower-than-expected pricing is a hard-won understanding between the company, its investment bankers and investors around the country who have assented to purchase shares from day one.

Big differential

The $155 differential between the $600 million that LPL stated it was seeking in its S-1 filing on June 4 will mostly affect investors in the company who are selling their shares to cash out and may reduce the amount that the company can pay down its $1.4 billion of debt.

Still, a successful IPO at the price LPL is seeking will be a boon to the giant IBD and the industry, said one consultant.

"This has a huge positive psychological impact… this is the number one IBD — by a factor of 100%-plus — going public," says Charles "Chip" Roame, managing principal of Tiburon [Calif.] Strategic Advisors.

"The $445 versus $600 million is likely not the biggest issue… I think that the point is to make a partial public offering, frankly a minority one, create a public capital value and allow the firm to use additional stock to make acquisitions. All [effectively gets] accomplished at $445 as well as $600."

Debt factor

LPL explained its reasons for going public back in its S-1 filing. Chief among them: debt.

The company accumulated much of its debt when it bought out its previous owner, Todd Robinson in 2005 in a deal valued at $2.5 billion that included $1.3 billion of debt.

"Our indebtedness could adversely affect our financial health… [it could]require us to dedicate a substantial portion of our cash flow from operation to payments on our indebtedness and may limit our flexibility in planning for changes in our business and the industry in which we operate," says its S-1 filing.

Seivert says that debt levels are only significant when looked at in comparison to cash flow.

What matters is not the debt but the debt coverage but how many times cash flow exceeds the debt requirement. If current cash flow is 15 times the debt servicing requirement then the debt amount is very low risk, he says.

"If the debt were a real issue, the private equity firms [that own much of LPL] would restructure the debt prior to the offering," Seivert says.

Bring out the Hellman's

The two private equity firms — Hellman & Friedman LLC and TPG Group — each have 36.3% stakes in the company right now, according to the SEC filing. After the IPO, they will continue to own more than 31% each.

What LPL has working in its favor is its ability to grow, Roame says.

"I think they will continue to outgrow other similar players… If [hypothetically] LPL adds 2,000 reps on 12,000 rep base, one says 15% growth. I say, they added the fourth or fifth biggest IBD,— distancing themselves forever form their 'peers' who are falling far behind already."

Daniel Seivert

Managing Director

dseivert@echelon-group.com

mail 1500 Rosecrans Avenue, Suite 414 Manhattan Beach, CA 90266 phone | fax 888.560.9027 web echelon-group.com