

INDUSTRY IMPACT OF LPL'S IPO IS DEBATED

Originally Published By Daisy, Maxey, Dow Jones Newswires

A successful first stock offering by the parent of independent broker-dealer LPL Financial Corp. may accelerate consolidation of the broker-dealer industry, some experts say.

Others caution, however, against inferring too much from the initial public offering's outcome because of the Boston-based firm's unique business model.

Parent firm LPL Investment Holdings Inc. plans to offer 15.6 million shares at between \$27 and \$30 each, and will begin trading Thursday on the Nasdaq under the symbol LPLA. Some expect the firm to be valued around \$4.4 billion. With the IPO, the stakes of private-equity firms Hellman & Friedman LLC and TPG Group, will fall to about 32% each from their current 36.3%.

Having a publicly traded stock will make it easier for LPL to continue its strategy of growth through acquisition, said Doug Dannemiller, a senior analyst at Aite Group. The valuations of smaller private brokerages are two or three times revenue, while larger publicly traded firms get a higher multiple, Dannemiller said. "This sort of makes the acquisition process more efficient for LPL," he said. "It can take advantage of that multiple arbitrage between small firms and large."

LPL also could enhance its already impressive ability to recruit advisory teams and individual advisers, he said.

Dannemiller sees broader consequences: There are currently thousands of independent broker-dealers, and "I can see the pace of those smaller, successful firms getting merged up and acquired into the biggest structures accelerating, with firms like LPL having publicly traded stock on the scene and being sort of a serial acquirer," he said. "More buyers will probably raise the valuations across the spectrum."

LPL is much larger, however, than most brokerages, with 12,017 advisers spread nationwide and advisory and brokerage assets of \$293.3 billion as of Sept. 30. Its offices have their own brands, with LPL ownership generally only evident in the common technology, product and service platforms and other support.

Private-equity firms are already showing more interest in the brokerage industry, noted industry analyst Bing Waldert of Cerulli Associates. But he doesn't believe many broker-dealers can or will grow as fast as LPL has.

"The independent broker-dealer business is a very, very low-margin business," he said. "I don't know that there are a lot of large acquisition targets out there, but certainly, there's room for a lot of acquisitions of small firms that would be coming out of a pretty tough market, and probably pretty anxious to get out of the business."

Daniel Seivert, chief executive of Los Angeles investment banking firm **Echelon Partners**, said he doesn't see LPL's offering having a big industry impact.

"There's 3,000 broker-dealers, and there are about 40 that are public," Seivert said. While going public is an option for some who get to the right scale, he said, "for the vast majority of broker-dealers it's not really something that's relevant or that they aspire to."

Still, Seivert expects independent broker-dealers everywhere to watch LPL's valuation and recalculate their own worth based on the deal. As a public company, LPL will be offering up not only stock but a lot more information about its business. "It doesn't mean they can replicate it, but they're certainly going to have a playbook," he says.

Equity analyst Michael Gadin at Morningstar Inc., also cautions against reading too much about the industry into LPL's offering. LPL is unlike a number of other currently publicly traded firms in the space in that it's highly leveraged and that its "relatively subdued profitability" is quite different from many other firms, Gadin said.

As for consolidation, Gadin says, "Certainly, there's a lot of growth in this space. However, competition is very brutal so I'm not necessarily sure that wide-scale consolidation lies immediately ahead."

Some are looking to the offering to help further legitimize the independent model. "Traditional Wall Street and regional firms have perhaps looked at us as a hobby--they're cute and nice, but not really a credible business," said Tim Murphy, chief executive and president of Investors Capital, a publicly traded independent broker/dealer. "LPL is something that Wall Street needs to stand up and recognize as a real business."

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