

LPL Financial

Acquisition of Waddell & Reed's Wealth Management Business

December 2, 2020

Notice to Investors: Safe Harbor Statement

Statements in this presentation regarding LPL Financial Holdings Inc. (together with its subsidiaries, including LPL Financial LLC, the “Company” or “LPL Financial”) and its potential future levels of assets serviced, advisor headcount, additional run-rate EBITDA and EPS accretion, transaction multiple, future payments, onboarding costs and timing, growth, business strategy and plans, as well as any other statements that are not related to present facts or current conditions or that are not purely historical, constitute forward-looking statements. These forward-looking statements are based on the historical performance of the Company and Waddell & Reed Financial, Inc. (together with its subsidiaries, “Waddell & Reed”) and the Company’s plans, estimates and expectations as of December 2, 2020. The words “potential,” “anticipates,” “intends,” “believes,” “expects,” “may,” “plans,” “predicts,” “will” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Forward-looking statements are not guarantees that the future levels of assets serviced, results, plans, intentions or expectations expressed or implied by the Company will be achieved. Matters subject to forward-looking statements involve known and unknown risks and uncertainties, including economic, legislative, regulatory, competitive and other factors, which may cause levels of assets serviced, actual financial or operating results, levels of activity or the timing of events to be materially different than those expressed or implied by forward-looking statements. In particular, the Company can provide no assurance that the assets reported as serviced by financial advisors affiliated with Waddell & Reed (“Waddell & Reed Advisors”) will translate into assets serviced by LPL Financial, that Waddell & Reed Advisors will join LPL Financial, or that the benefits that are expected to accrue to LPL Financial, Waddell & Reed, Macquarie Group and their respective advisors and stockholders as a result of the transactions described herein will materialize. Important factors that could cause or contribute to such differences include: failure of the parties to satisfy the closing conditions applicable to the acquisitions described herein in a timely manner or at all, including the completion of the acquisition of Waddell & Reed by Macquarie, obtaining the required stockholder and regulatory approvals, and the retention by Waddell & Reed of minimum assets prior to closing; disruptions to the parties’ businesses as a result of the announcement and pendency of the merger, difficulties and delays in recruiting Waddell & Reed Advisors and/or onboarding the clients or businesses of Waddell & Reed Advisors; the inability by the Company to sustain revenue and earnings growth or to fully realize revenue or expense synergies or the other expected benefits of the transaction, which depend in part on the Company’s success in onboarding assets currently served by Waddell & Reed Advisors; disruptions of the Company’s or Waddell & Reed’s business due to transaction-related uncertainty or other factors making it more difficult to maintain relationships with its financial advisors and their clients, employees, other business partners or governmental entities; the inability to implement onboarding plans and other consequences associated with acquisitions; the choice by clients of Waddell & Reed Advisors not to open brokerage and/or advisory accounts at LPL Financial or move their assets from Waddell & Reed to LPL Financial; unforeseen liabilities arising from the acquisition of Waddell & Reed’s wealth management subsidiaries; changes in general economic and financial market conditions, including retail investor sentiment; fluctuations in the value of assets under custody; effects of competition in the financial services industry, including competitors’ success in recruiting Waddell & Reed Advisors; and the other factors set forth in Part I, “Item 1A. Risk Factors” in the Company’s 2019 Annual Report on Form 10-K and any subsequent SEC filing. Except as required by law, the Company specifically disclaims any obligation to update any forward-looking statements as a result of developments occurring after the date of this presentation, even if its estimates change, and you should not rely on those statements as representing the Company’s views as of any date subsequent to the date of December 2, 2020. Annualized, projected and estimated numbers are used for illustrative purpose only, are not forecasts and may not reflect actual results.

Notice to Investors: Non-GAAP Financial Measures

The management of the Company believes that presenting certain non-GAAP measures by excluding or including certain items can be helpful to investors and analysts who may wish to use some or all of this information to analyze the Company's current performance, prospects and valuation. Management uses this non-GAAP information internally to evaluate operating performance and in formulating the budget for future periods. Management believes that the non-GAAP measures and metrics discussed herein are appropriate for evaluating the performance of the Company.

Run-rate EBITDA is defined as net income plus interest expense, income tax expense, depreciation and amortization. The Company presents Run-rate EBITDA because management believes that it can be a useful financial metric in understanding the Company's earnings from operations. Run-rate EBITDA is not a measure of the Company's financial performance under GAAP and should not be considered as an alternative to net income or any other performance measure derived in accordance with GAAP, or as an alternative to cash flows from operating activities as a measure of profitability or liquidity. In addition, the Company's Run-rate EBITDA can differ significantly from EBITDA calculated by other companies, depending on long-term strategic decisions regarding capital structure, the tax jurisdictions in which companies operate and capital investments. [Although Run-rate EBITDA is presented on a forward-looking basis, the Company does not provide net income, the closest GAAP measure, on a forward-looking basis because it contains certain components, such as taxes, over which the Company cannot exercise control. Accordingly, a reconciliation of the Company's Run-rate EBITDA against net income on a forward-looking basis also cannot be made available without unreasonable effort.]

Run-Rate EPS prior to amortization of intangibles is a non-GAAP measure. The Company presents Run-Rate EPS prior to amortization of intangibles because management believes it can be a useful financial metric in understanding the Company's expectations for the cash flow generation of the acquisition transaction described herein. Run-Rate EPS prior to amortization of intangibles is not a measure of the Company's financial performance under GAAP and should not be considered as an alternative to GAAP EPS or any other performance measure derived in accordance with GAAP.

The acquisition of Waddell & Reed's wealth management business supports our first Strategic Play through expanded participation in the traditional independent space



Meeting advisors where they are in the evolution of their practices

Deepen our participation across traditional independent and 3rd party bank channels

Redefine our industry with our new, transformative independent employee and RIA-only models



Helping advisors differentiate and win end-clients

Create a leading end-to-end platform for advisors

Develop and enhance end-client experiences



Delight advisors and their clients with industry-leading experiences

Transform our service model into a Customer Care model

Drive performance, efficiency and scale with a real-time, digital operating model

Develop excellence in Continuous Improvement



Helping advisors run the most successful businesses in the industry

Raise quality of execution and likelihood of success through Business Solutions

Unlock growth, succession and protection through innovative Growth and Capital Solutions

A strategy to win in the marketplace

Transaction Summary

Transaction Overview

- Macquarie to acquire 100% of the equity of Waddell & Reed Financial, Inc.
- Immediately after the close of Macquarie's acquisition of Waddell & Reed, LPL will acquire the entities comprising Waddell & Reed's wealth management business from Macquarie
- LPL and Macquarie will enter into a long-term sponsor agreement

Key Terms

- Transaction structured primarily as an equity purchase with a price of \$300M
- LPL expects to onboard Waddell & Reed advisors and client assets onto its platform shortly after close
- Signed on December 2nd and anticipated close in the middle of 2021, subject to regulatory approvals, Waddell & Reed stockholder approval and other customary closing conditions

Business Overview

- Waddell & Reed's wealth management client assets⁽¹⁾ are ~\$63B, up ~10% year-over-year, and asset mix is ~45% advisory and ~55% brokerage, with client cash sweep balances of ~\$1B⁽¹⁾
- Waddell & Reed's wealth management business has ~900 advisors, serving ~\$70M of client assets per advisor⁽¹⁾

Strategic Rationale

- Provides Waddell & Reed's wealth management advisors and their clients with access to LPL's differentiated capabilities, technology, and service
- Strengthens relationship with Macquarie as a top tier product sponsor and through continued partnership between Waddell & Reed portfolio managers and advisors
- Increases LPL's scale and capacity to invest in capabilities, technology, and service to help existing advisors serve their clients and differentiate in the marketplace

Shareholder Value Creation

- We expect the transaction to be accretive to run-rate EPS prior to intangibles following asset transfer
- Estimated run-rate EBITDA accretion⁽²⁾ of \$50M+ by twelve months following close
- Onboarding and integration costs of ~\$85M expected to be completed by twelve months following close
- Estimated transaction multiple⁽³⁾ of ~6.5x or lower, which would be in the lower half or below management target range of 6–8x
- LPL anticipates financing this transaction with a combination of cash available for corporate use and debt

(1) Advisor headcount and asset numbers are as of 9/30/2020, and were reported by Waddell & Reed Financial, Inc. based on prior business, and have not been independently and fully verified by LPL Financial.

(2) Estimated run-rate EBITDA accretion of \$50M+ is based on Waddell & Reed assets as of 9/30/2020 and ~70% asset retention; increases with higher levels of asset retention; and is burdened by amortization from transition assistance loans.

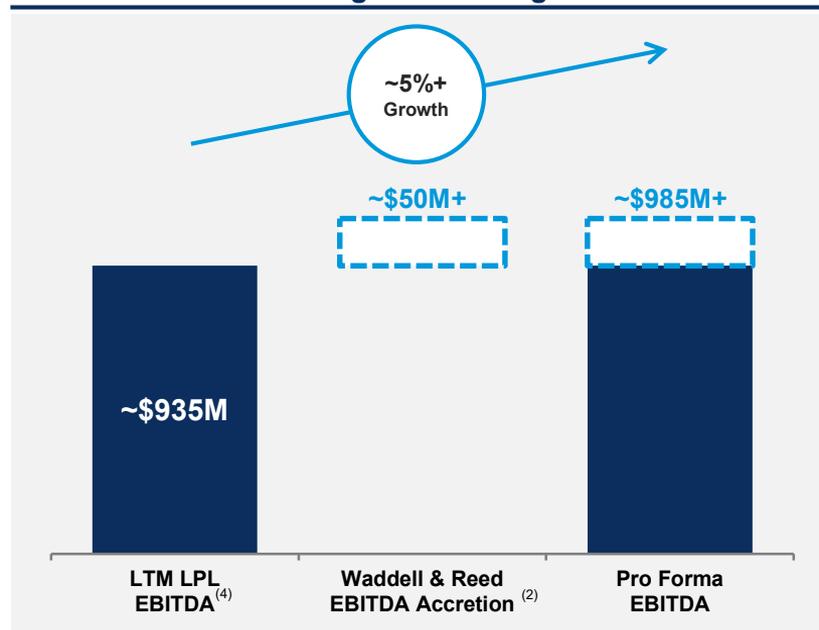
(3) Estimated transaction multiple of ~6.5x or lower based on estimated \$50M+ of run-rate EBITDA relative to ~\$335M total consideration (Includes purchase price plus onboarding and integration costs, net of capital related to Waddell & Reed's wealth management business.)

Acquisition of Waddell & Reed's wealth management business creates shareholder value and increases our scale

Key Financial Considerations

- Purchase price of **\$300M**
- Estimated onboarding and integration costs of **~\$85M** (over the twelve months following close)
- Total consideration of **~\$335M⁽¹⁾**
- Estimated Run-Rate EBITDA Accretion of **~\$50M+⁽²⁾** (by twelve months following close)
- Transaction multiple of **~6.5x or lower⁽³⁾**

Acquisition of Waddell & Reed's wealth management business drives meaningful EBITDA growth



(1) Total consideration includes purchase price plus onboarding and integration costs, net of capital related to Waddell & Reed's wealth management business.

(2) Estimated run-rate EBITDA accretion of \$50M+ based on Waddell & Reed assets as of 9/30/2020 and ~70% asset retention; increases with higher levels of asset retention; and is burdened by amortization from transition assistance loans.

(3) Estimated transaction multiple of ~6.5x or lower based on estimated \$50M+ of run-rate EBITDA relative to ~\$335M total consideration (See FN 1).

(4) The Company's LTM EBITDA includes results for the twelve months ending 9/30/2020 and is a non-GAAP measure. A reconciliation of LTM EBITDA to Net Income appears in the appendix of this presentation.

Waddell & Reed's wealth management advisors joining LPL benefit from continuity of experience, enhanced platform and economics, and simplified onboarding

Continuity of Advisor Experience

- Continued access to Waddell & Reed product offering and ongoing partnership between Waddell & Reed portfolio managers and advisors

Enhanced Platform

- Broader set of capabilities and technology offered through LPL's vertically integrated platform

Higher Payout

- Opportunity to earn higher payout rates with LPL than advisors receive today

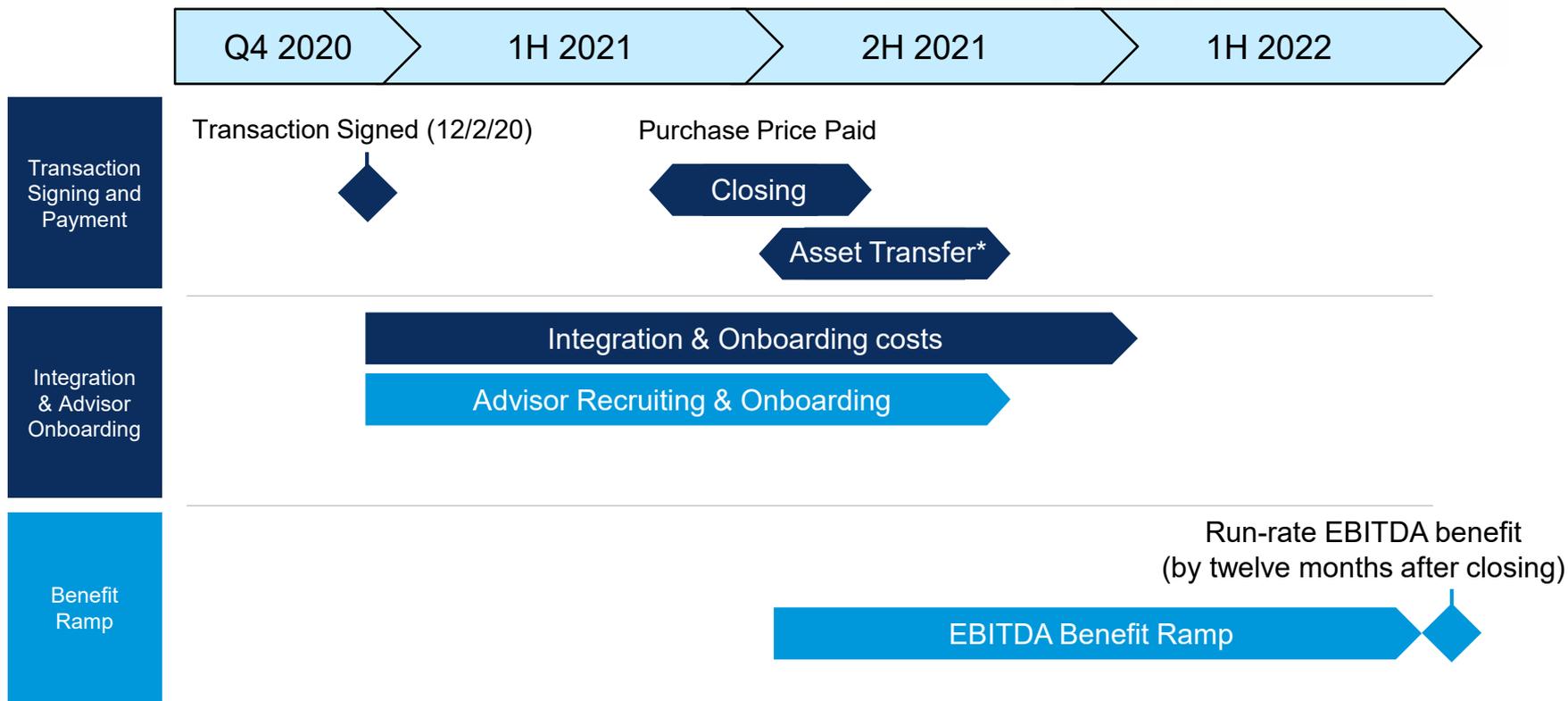
Simplified Onboarding Process

- Limited repapering, specialized transition teams, and personalized outreach and onboarding guidance

Competitive Transition Assistance

- Competitive transition assistance to support advisors financially through onboarding

Illustrative Transaction Timeline



*Tape-to-tape asset transfer soon after closing

APPENDIX

Reconciliation of Net Income to EBITDA

EBITDA is a non-GAAP measure. Please see a description of EBITDA under “Non-GAAP Financial Measures” on page 3 of this presentation for additional information.

Set forth below is a reconciliation of the Company’s net income to EBITDA for the periods presented:

\$ in millions	Q3'20 LTM	2019	2018	2017	2016
Net Income	\$488	\$560	\$439	\$239	\$192
Non-operating interest expense	112	130	125	107	96
Provision for income taxes	157	182	153	126	106
Depreciation and amortization	107	96	88	84	76
Amortization of intangible assets	67	65	60	38	38
Loss on extinguishment of debt	3	3	-	22	-
EBITDA	\$934	\$1,036	\$866	\$616	\$508