

Equities

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LPL Investment Holdings (LPLA)

4Q11 EPS Miss; 2012 Off to a Better Start but Priced So

- Company Update
- Estimate Change

- **4Q EPS miss** — Reported \$0.44 adjusted EPS versus our \$0.48 E and \$0.46 FC consensus; including stock-based compensation, adjusted EPS = \$0.41 vs \$0.46-E. Relative to us, EPS shortfall reflects top line revenue miss following lower than expected FA productivity and advisory fees combined with tighter margins.
- **Revenue led shortfall** — 4Q11 revenue of \$829M fell 6% below our forecast owing to 8% Q/Q decline in commissions and 6% decline in advisory fees with top line softness reflecting declines in advisor activity and sustained volatility with flattish mature advisor same-stores sales growth per management versus low double digit gains during 1Q-3Q of 2011. Operating income ex restructuring totaled \$88M vs \$93M-E, but backing out \$10M pre-tax settlement gain, adjusted operating income of \$78M fell 16% below view.
- **Mixed call takeaways** — Positively: 1) FA pipeline strong; 2) activity levels improving into 2012 reflecting seasonality and building client re-engagement; and, 3) favorable asset and FA mix shifts underway. Negatively: 1) uncertainty in cash sweep rate given expiration of favorable (and higher rate) contracts; and, 2) mixed FCF leverage.
- **Tweaking higher 2012 EPS; lowering 2013; introduce 2014** — Raise 2012 adjusted EPS (including SBC) \$0.03 to \$1.96 following higher markets partially offset by lower FA productivity and reduced cash sweep yield. Lower 2013 EPS \$0.17 to \$2.11 on lower cash sweep revenue. Introduce 2014 EPS at \$2.50.
- **Maintain Neutral** — Expect stock to be weak on 2/8 reflecting 4Q EPS miss against 18% rise in stock price YTD. Valuation appears elevated, in our view, at 18x and 17x revised 2012-13 EPS particularly as asset growth is lagging peers. Prefer AMTD among B/D coverage where investors get lower valuation with stronger B/S and superior leverage to improving economy.
- **Laterals** — 1) Greater explicit pricing pressure in 401k business could present margin pressure over time for TROW (though nothing appears imminent), and, 2) capital buffer most likely money market reform measure to address redemption run risk, generally consistent with recent news article suggesting SEC is near to releasing initial set of proposals, though incrementally negative for FII should reform take more onerous measure(s) — see our 2/7 note, [Money Market Reform Begins To Take Shape - Or Does It? WSJ Article Leaves Open Tail Risk](#).

Neutral	2
Price (07 Feb 12)	US\$35.90
Target price	US\$28.00
Expected share price return	-22.0%
Expected dividend yield	0.0%
Expected total return	-22.0%
Market Cap	US\$3,963M

Price Performance (RIC: LPLA.O, BB: LPLA US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.50A	0.50A	0.44A	0.41A	1.85A	1.97A
2012E	0.49E	0.56E	0.44E	0.47E	1.96E	2.15E
Previous	na	na	na	na	1.93E	na
2013E	na	na	na	na	2.11E	2.56E
Previous	na	na	na	na	2.28E	na
2014E	na	na	na	na	2.50E	na
Previous	na	na	na	na	na	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Fiscal year end 31-Dec	2010	2011	2012E	2013E	2014E
Valuation Ratios					
P/E adjusted (x)	22.1	19.4	18.4	17.0	14.4
P/E reported (x)	nm	23.6	21.3	19.0	15.7
P/BV (x)	4.8	4.1	3.5	3.0	2.6
P/Adjusted BV diluted (x)	na	na	na	na	na
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Per Share Data (US\$)					
EPS adjusted	1.63	1.85	1.96	2.11	2.50
EPS reported	-0.60	1.52	1.68	1.89	2.29
BVPS	7.46	8.79	10.22	11.90	13.92
Tangible BVPS	-9.06	-7.94	-5.78	-3.34	-0.58
Adjusted BVPS diluted	na	na	na	na	na
DPS	0.00	0.00	0.00	0.00	0.00
Profit & Loss (US\$m)					
Net interest income	0	0	0	0	0
Fees and commissions	2,481	2,782	2,988	3,218	3,555
Other operating Income	632	697	706	754	840
Total operating income	3,113	3,479	3,694	3,972	4,395
Total operating expenses	-3,074	-3,128	-3,314	-3,550	-3,896
Oper. profit bef. provisions	39	351	380	421	499
Bad debt provisions	0	0	0	0	0
Non-operating/exceptionals	-128	-69	-67	-66	-65
Pre-tax profit	-89	283	313	356	434
Tax	32	-112	-125	-142	-173
Extraord./Min. Int./Pref. Div.	0	0	0	0	0
Attributable profit	-57	170	188	213	260
Adjusted earnings	164	207	219	238	284
Growth Rates (%)					
EPS adjusted	23.0	13.5	5.8	7.8	18.6
Oper. profit bef. prov.	-78.4	789.9	8.3	10.8	18.3
Balance Sheet (US\$m)					
Total assets	3,646	3,669	3,724	3,780	3,837
Avg interest earning assets	0	0	0	0	0
Customer loans	0	0	0	0	0
Gross NPLs	0	0	0	0	0
Liab. & shar. funds	3,646	3,669	3,724	3,780	3,837
Total customer deposits	0	0	0	0	0
Reserve for loan losses	0	0	0	0	0
Shareholders' equity	811	981	1,157	1,371	1,631
Profitability/Solvency Ratios (%)					
ROE adjusted	19.8	23.0	20.8	18.8	19.0
Net interest margin	na	na	na	na	na
Cost/income ratio	98.7	89.9	89.7	89.4	88.7
Cash cost/average assets	88.0	85.3	89.7	94.6	102.3
NPLs/customer loans	na	na	na	na	na
Reserve for loan losses/NPLs	na	na	na	na	na
Bad debt prov./avg. cust. loans	na	na	na	na	na
Loans/deposit ratio	na	na	na	na	na
Tier 1 capital ratio	na	na	na	na	na
Total capital ratio	na	na	na	na	na

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Investment Summary

We affirm our Neutral rating, refine our 2012-13 EPS estimates, and introduce 2014 EPS following 4Q11 EPS shortfall and subsequent mixed conference call on 2/7. We expect the stock to react negatively on 2/8 reflecting the EPS miss and strong YTD run-up in the stock price, or +18% through 2/7.

We see mixed takeaways. To the positive: 1) FA pipeline building; 2) activity levels improving into 2012 reflecting seasonality and building client re-engagement; and, 3) favorable asset and FA mix shifts underway. To the negative: 1) uncertainty in cash sweep rate given expiration of favorable (and higher rate) contracts; and, 2) FCF leverage uneven.

While we continue to like LPLA's fundamental positioning, valuation appears full, in our opinion, with LPLA trading at 18x and 17x our revised 2012-13 adjusted EPS estimates particularly as asset growth is lagging peers (Figure 1). No question, LPLA is leveraged to an improving economy, but we prefer AMTD among B/D coverage where investors get deeper value appeal with stronger B/S and more active FCF deployment, in our view.

Figure 1. LPLA's Client Asset Growth Lagged Peers In 4Q

	Total Client Assets (\$B)			% Change	
	C4Q10	C3Q11	C4Q11	Q/Q	Y/Y
AMTD	386.4	378.7	406.3	7.3%	5.2%
SCHW	1,574.5	1,576.4	1,677.7	6.4%	6.6%
LPLA	315.6	316.4	330.3	4.4%	4.7%
Median	386.4	378.7	406.3	7.3%	5.2%

Source: Company reports, Citi Investment Research and Analysis

Adjusting 2012-13 EPS; Introduce 2014

We raise our 2012 adjusted EPS estimate (including SBC) \$0.03 to \$1.96 following higher markets partially offset by lower FA productivity and reduced cash sweep yield. We lower 2013 EPS \$0.17 to \$2.11 on reduced cash sweep revenue (and fee rates). Introduce 2014 adjusted EPS at \$2.50.

Revenue Led 4Q11 Shortfall

4Q11 revenue totaled \$829M (-6% Q/Q) and fell 6% below our \$883M forecast owing to 8% Q/Q decline in commissions and 6% decline in advisory fees to \$404M and \$251M, respectively, versus our \$442M and \$260M forecasts. The top line softness reflected declines in advisor activity and sustained volatility with flattish mature advisor same-stores sales growth per management versus low double digit gains during 1Q-3Q. Operating income ex restructuring totaled \$88M vs \$93M-E, but backing out \$10M pre-tax settlement gain, adjusted operating income of \$78M fell 16% below view. Production payout totaled 88%, up 100 bps Q/Q and versus our 87.5% though partially impacted by increase in deferred comp and option plan tied to (rising) LPLA stock price.

Key Takeaways

We see the following key takeaways post 4Q:

1. **FA pipeline strong:** Management noted: a) there are more advisors in the pipeline relative to 18 to 24 months ago; and, b) turnover is returning toward a more normalized level, which bodes well for attracting breakaway brokers, though management careful not to chase with large transition packages versus certain competitors. To be sure, management added 172 new advisors in 4Q before giving effect to attrition of 124 advisors pertaining to the UVEST conversion;
2. **Activity levels improving into 2012 reflecting seasonality and building client re-engagement:** Following declines in FA productivity and deceleration in mature advisor same-store sales during 4Q, management indicated activity rates are higher into 2012 reflecting favorable seasonality combined with early signs of renewed investor confidence as macro-economic risks fade and market volatility stabilizes;
3. **Favorable asset and FA mix shifts underway:** LPLA is benefiting from favorable mix shifts from: a) more profitable advisory assets; and, b) higher producing new(er) advisors. Here, advisory based AUM totaled \$102B at 12/31 and 31% of total client assets at YE11 versus 29.5% at YE10 and management believes LPLA's enhanced platform is yielding higher producers and larger business, all else equal. Additionally, management expects the decline in advisory fee yield to reverse into 1Q12 given markets;
4. **Ongoing efficiencies:** Management affirmed their annual EBITDA margin improvement goal of 30 to 50 bps over the long term while estimated operating income will improve by \$10M to \$12M per year through cost and revenue synergies from the UVEST conversion;
5. **Cash sweep uncertainty:** Negatively, management noted they expect a moderation in the cash sweep spread and are actively negotiating extensions on certain bank contracts in light of the continued low interest rate environment. As a result, more favorable higher rate contracts are expiring and management is attempting to mitigate reductions in rates. The cash sweep rate totaled 59 bps in 4Q as LPLA currently earns approximately 90 bps on insured cash accounts (ICA) and 10 bps on money markets. While details are limited around timing and specific contracts/rates, management affirmed the cash sweep program is: a) diversified; b) across a number of relationships; and, c) valuable to banking partners given predictable balances;
6. **Capital management discussion mixed:** On the one hand, there is still \$60M remaining on management's \$70M repurchase authorization. On the other hand, management is mostly using buyback to manage dilution and keep share count around 113M shares. No repurchases were made in 4Q.

Laterals

We note the following:

1. **Greater explicit pricing pressure in 401k business:** Deeper disclosure and transparency around 401k fees could present margin pressure over time for TROW, for instance, though nothing appears imminent either;

2. **Capital buffer most likely money market reform measure to address redemption run risk:** Management suggested capital buffers are the most likely scenario in order to maintain viability of the industry, with discussion generally consistent with recent news article suggesting SEC is near to releasing initial set of proposals. That said, more onerous reform measures would be a negative for FII, in our view – see also our 2/7 note, [Money Market Reform Begins To Take Shape - Or Does It? WSJ Article Leaves Open Tail Risk](#).

Figure 2. 4Q11 EPS Shortfall

	3Q11	4Q11 reported	4Q11 CIRA est.	Act vs Est.	% Variance
Revenues:					
Gross Commissions	438.3	404.4	442.4	-38.0	-8.6%
Advisory Fees	267.9	251.2	260.0	-8.7	-3.4%
Asset-based Revenues	89.7	89.7	91.1	-1.4	-1.6%
Transaction Revenues	78.5	71.2	79.2	-8.0	-10.1%
Other Revenues	8.5	12.1	10.9	1.2	11.5%
Gross Revenues	882.9	828.7	883.6	-55.0	-6.2%
Expenses:					
Production (rebates)	614.1	576.9	614.6	-37.7	-6.1%
<i>Payout Ratio</i>	<i>87.0%</i>	<i>88.0%</i>	<i>87.5%</i>	<i>0.5%</i>	<i>N/A</i>
Compensation & Benefits	77.3	79.2	80.8	-1.5	-1.9%
General & Administrative	78.4	67.9	68.5	-0.5	-0.8%
Depreciation & amortization	19.2	16.9	19.0	-2.1	-10.8%
Restructuring charges	7.7	8.4	15.0	-6.6	-44.2%
Other (includes T&E post 2Q11)	7.4	-0.1	8.0	-8.1	-101.8%
Total Expense	804.2	749.2	805.8	-56.6	-7.0%
Operating Income	78.7	79.4	77.8	1.6	2.1%
<i>Operating Income ex restructuring</i>	<i>86.3</i>	<i>87.8</i>	<i>92.8</i>	<i>-5.0</i>	<i>-5.4%</i>
Non Operating Income/(Expense)	16.6	15.8	16.9	-1.0	-6.2%
Income Before Tax	62.1	63.6	60.9	2.7	4.4%
Income Taxes	25.6	24.1	24.7	-0.5	-2.2%
Net Income	36.4	39.4	36.2	3.2	8.8%
Adjusted Net Income	51.6	48.8	53.3	-4.5	-8.4%
Average Fully Diluted Shares	111.2	111.1	111.4	-0.3	-0.3%
Reported GAAP Basic EPS (FD)	\$0.33	\$0.36	\$0.33	\$0.03	10.7%
Operating EPS (FD)	\$0.37	\$0.36	\$0.41	-\$0.05	-11.2%
Adjusted EPS (FD)	\$0.46	\$0.44	\$0.48	-\$0.04	-8.0%
Adjusted EPS (FD) including SBC	\$0.44	\$0.41	\$0.46	-\$0.05	-10.9%
Adjusted EBITDA reconciliation					
GAAP EBITDA	97.9	96.4	96.8	-0.4	NM
Share-based comp expense	3.8	3.9	3.4	0.4	NM
Acquisition & Integration expense	1.2	-8.0	0.1	-8.1	NM
Restructuring	8.1	8.5	15.0	-6.5	NM
Other	0.1	0.1	0.0	0.1	NM
<u>Equity issuance & IPO-related</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>NM</u>
Adjusted EBITDA	111.2	100.8	115.3	-14.5	-12.6%
Margins:					
Operating Income	9.8%	10.6%	10.5%	0.1%	N/A
Adjusted EBITDA	12.6%	12.2%	13.0%	-0.9%	N/A
Adjusted Net Income	5.8%	5.9%	6.0%	-0.1%	N/A
Compensation/Revenue(%)	8.8%	9.6%	9.1%	0.4%	N/A

Source: Company reports, Citi Investment Research and Analysis

Companies mentioned:

(AMTD.O; US\$17.06; 1); (FII.N; US\$18.03; 3); (TROW.O; US\$58.66; 3)

Figure 3. LPLA Summary Model

LPL Investment Holdings Inc.
Earnings Results and Forecasts
(\$ Millions, Except As Noted)

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	1Q11	2Q11	3Q11	4Q11	Forecast:				2010	2011	Forecast:			% Change				
					1Q12E	2Q12E	3Q12E	4Q12E			2012E	2013E	2014E	1QE/4Q	1QE/1Q	12E/11E	13E/12E	14E/13E
Revenues (\$ Millions):																		
Gross Commissions	452	460	438	404	443	475	452	439	1,621	1,754	1,810	1,919	2,019	9.6	-1.9	3.2	6.0	5.2
Advisory Fees	244	264	268	251	269	288	304	316	860	1,027	1,178	1,299	1,536	7.0	10.2	14.7	10.2	18.3
Total Gross Dealer Concessions (GDC)	696	724	706	656	712	764	757	755	2,481	2,782	2,988	3,218	3,555	8.6	2.3	7.4	7.7	10.5
Asset-based Revenues	90	91	90	90	86	88	89	91	318	360	354	378	441	-4.2	-4.4	-1.5	6.7	16.6
Transaction Revenues	74	69	78	71	77	82	77	74	274	292	311	330	347	8.5	4.8	6.4	6.0	5.2
Other Revenues	14	11	9	12	9	10	11	12	41	46	41	47	53	-24.8	-36.4	-9.1	12.4	13.1
Gross Revenues	874	894	883	829	885	944	934	932	3,113	3,479	3,694	3,972	4,395	6.7	1.2	6.2	7.5	10.7
Expenses:																		
Production (rebates)	595	625	614	577	609	657	659	661	2,363	2,410	2,585	2,791	3,084	5.5	2.4	7.2	8.0	10.5
Payout Ratio	85.4%	86.3%	87.0%	88.0%	85.5%	86.0%	87.0%	87.5%	95.2%	86.6%	86.5%	86.8%	86.8%					
Gross Margin (Net Revenues)	279	269	269	252	276	287	276	271	751	1,069	1,109	1,181	1,311	9.5	-1.3	3.8	6.4	11.1
% of Total GDC	31.9%	30.1%	30.4%	30.4%	31.2%	30.4%	29.5%	29.1%	24.1%	30.7%	30.0%	29.7%	29.8%					
Compensation & Benefits	84	81	77	79	84	84	83	83	309	322	334	354	382	5.6	-0.5	3.7	6.0	8.0
General & Administrative	74	68	78	68	69	67	80	70	268	288	285	305	328	1.9	-6.4	-0.9	6.8	7.7
Depreciation & amortization	18	18	19	17	17	17	17	17	86	73	68	67	67	-0.3	-7.0	-7.1	-0.9	0.0
Restructuring charges	1	5	8	8	6	4	0	0	14	21	10	0	0	-24.7	1073.2	-52.4	-100.0	N/A
Other (includes T&E post 2Q11)	3	3	7	0	8	8	8	8	35	13	32	34	35	-5579.5	197.8	137.9	5.0	5.0
Total Operating Costs	774	800	804	749	793	836	846	838	3,074	3,128	3,314	3,550	3,896	5.8	2.4	5.9	7.1	9.7
Operating Income	100	94	79	79	91	107	88	94	39	351	380	421	499	15.2	-8.3	8.3	10.8	18.3
Non Operating Income/(Expense)	18	18	17	16	17	17	17	17	128	69	67	66	65	6.3	-7.4	-2.4	-2.3	-0.8
Income Before Tax	82	75	62	64	75	90	71	77	-89	283	313	356	434	17.4	-8.4	10.9	13.5	21.9
Income Taxes	33	30	26	24	30	36	29	31	-32	112	125	142	173	23.7	-8.3	11.6	13.5	21.9
Tax Rate	39.9	39.7	41.3	38.0	40.0	40.0	40.0	40.0	41.4	39.7	40.0	40.0	40.0					
Net Income	49	46	36	39	45	54	43	46	-57	170	188	213	260	13.6	-8.6	10.4	13.5	21.9
Recurring Net Income	49	48	41	40	49	57	43	46	143	183	194	213	260	22.2	-1.5	5.9	10.0	21.9
Adjusted Net Income	59	59	52	49	57	65	51	55	173	219	229	248	295	17.0	-3.8	4.5	8.4	19.2
Average Fully Diluted Shares	113.2	113.2	111.2	111.1	111.3	111.7	112.0	112.0	101.0	112.1	111.8	112.8	113.8	0.2	-1.6	-0.3	0.9	0.9
Reported GAAP Basic EPS (FD)	0.43	0.40	0.33	0.36	0.40	0.49	0.38	0.41	-0.56	1.52	1.68	1.89	2.29	13.3	-7.0	10.7	12.5	20.8
Operating EPS (FD)	0.44	0.43	0.37	0.36	0.44	0.51	0.38	0.41	1.42	1.63	1.74	1.89	2.29	21.9	0.1	6.3	9.0	20.8
Adjusted EPS (FD)	0.52	0.52	0.46	0.44	0.51	0.58	0.46	0.49	1.71	1.95	2.04	2.20	2.60	16.7	-2.2	4.9	7.5	18.1
Adjusted EPS inc SBC (FD)	0.50	0.50	0.44	0.41	0.49	0.56	0.44	0.47	1.63	1.85	1.96	2.11	2.50	18.8	-1.7	5.8	7.8	18.6
Margins (%):																		
Operating Income	11.5%	11.0%	9.8%	10.6%	11.1%	11.8%	9.4%	10.0%	8.8%	10.7%	10.6%	10.6%	11.3%					
Adjusted EBITDA	14.2%	13.8%	12.6%	12.2%	13.4%	14.0%	11.7%	12.3%	13.3%	13.2%	12.9%	12.7%	13.3%					
Adjusted Net Income	6.8%	6.6%	5.8%	5.9%	6.5%	6.9%	5.5%	5.9%	5.5%	6.3%	6.2%	6.2%	6.7%					
Compensation/Revenue(%)	9.6%	9.1%	8.8%	9.6%	9.5%	8.9%	8.9%	8.9%	9.9%	9.3%	9.0%	8.9%	8.7%					
Adjusted EBITDA	124	123	112	101	119	132	109	115	413	460	475	506	584	17.9	-4.4	3.4	6.4	15.6
Free Cash Flow Per Share	\$0.56	\$0.48	\$0.39	\$0.44	\$0.46	\$0.55	\$0.44	\$0.47	\$0.06	\$1.88	\$1.93	\$2.04	\$2.35	10.5	-141.9	2.6	6.0	14.9

Source: Company reports, Citi Investment Research and Analysis

LPL Investment Holdings

Company description

LPL Financial (consolidated subsidiary of parent company LPL Investment Holdings) was formed in 1989 through the merger of Linsco (established in 1968) and Private Ledger (founded in 1973). By combining these two brokerage firms, the founders of LPL Financial sought to leverage their scale and expertise in the independent broker dealer channel. In 2005, two investment funds, Texas Pacific Group and Hellman & Friedman, acquired a majority 60% ownership, with the remaining owned by founders, senior management, and advisors. Over the years, LPLA has grown its business and organization both organically and through several acquisitions of other financial advisory firms. Today, LPLA is the largest independent broker-dealer in the U.S. (and 5th largest overall) with over 12,000 advisors with \$293 billion in brokerage and advisory assets and an additional 4,000 3rd party advisors making use of LPLA's services.

Investment strategy

We rate the shares of LPLA Neutral. Despite the positive underlying growth story, our caution reflects: 1) premium valuation; 2) potential for slowing FA growth, a key driver to the LPLA story; and, 3) adverse stress tests. At current prices, our stress tests suggest investors already discount above trend equities markets and/or sizable rate hikes well ahead of consensus.

Valuation

We value the shares of LPLA using a combination of the Target P/E method and sum-of-the-parts. Our \$28 12-month price target is derived by applying a target P/E multiple of ~14x to our adjusted 2012 EPS estimate which includes stock-based compensation, or \$27. We then add \$1 for interest rate leverage. Our 14x target P/E is in-line to higher than asset manager and online and regional broker-dealer peers.

Risks

LPLA has a history of acquisition-led growth and balance sheet leverage. The three central risks to our price target reflect above trend financial markets (equities & fixed income), better than expected organic and inorganic (M&A) growth, and higher interest rates.

In addition, if the impact from any of the following factors proves to be greater than we expect, the stock may have difficulty reaching our target price. If market conditions improve faster than anticipated, the stock may outperform our target.

Financial markets — Changes in markets have a direct impact on advisory and brokerage assets and in turn, advisory and commission revenue.

Organic and inorganic growth — LPLA has executed an acquisition-led growth strategy over the past several years. However, any slowdown in growth would likely temper the magnitude of future margin and profitability growth, and vice-versa. Stepped up competition could arise as wirehouses and regionals look to bolster market share.

Interest rates — The level of interest rates directly impact cash sweep revenue. A sustained low interest rate backdrop would delay a recovery in cash sweep revenues while higher rates would increase cash sweep revenues, all else equal.

TD Ameritrade Holding Corp

Valuation

We value the shares of TD Ameritrade using the Target P/E method. Our \$18.25 12-month target factors a target P/E multiple of 14x our estimate of "normalized" EPS discounted by a 10% cost of capital over two years. Over the past five years, AMTD has traded in a range of 11.0x-22.2x.

Risks

If the negative impact from any of the following factors proves to be greater than we expect, the stock may have difficulty reaching our target price. If conditions improve faster than anticipated, the stock may materially outperform our target price.

Trading volatility — AMTD is more exposed to volume risk vs. its peers as trading revenues comprised 43% of F2011 fiscal year revenue. According to management estimates, every 3,000 DARTs translates into \$0.01/share.

Equity markets — Market changes have a direct impact on client assets and investment product fees.

Interest rates — Net interest revenue increases when rates rise and decreases when rates fall as interest-earning assets re-price more quickly than liabilities. Management estimates every 25bps increase in Fed Funds impacts EPS by \$0.07/share.

Federated Investors, Inc

Valuation

We value the shares of Federated Investors using the target P/E method. Our \$16 12-month price target is derived by applying a 10.5x target P/E multiple to our 2012E EPS estimate. The 10.5x multiple is below FII's historical 14.5x FTM multiple.

Risks

Positive risks to our Sell rating include: 1) faster than expected rise in short term rate expectations, and 2) higher than expected money market volumes.

Additionally, if the impact from any of the following factors proves to be greater than we expect, the stock may have difficulty reaching our target price. If market conditions improve faster than anticipated, the stock may outperform our target.

Financial market risk — Changes in markets have a direct impact on AUM and investment advisory and services fees.

Performance risk — An inability to meet relevant investment benchmarks could result in clients withdrawing assets and in prospective clients choosing to invest with competitors. This could also result in lower investment management fees, which could result in a decline in revenue.

Redemption risk — Investors can redeem their investments without notice. A significant increase in redemption rates could have a material adverse effect on revenues, financial condition, results of operations and business prospects.

T Rowe Price Group Inc

Valuation

We value the shares of T. Rowe price using the Target P/E method. Our \$50 12-month price target is derived by applying a 16x target multiple to our 2012 EPS estimate. The 16x multiple compares to a historical 21x FTM P/E multiple in light of lower industry multiples at present.

Risks

If the impact from any of the following factors proves to be greater than we expect, the stock price may have difficulty reaching our target price. If market conditions improve faster than anticipated, the stock price may outperform our target.

Financial market risk — Changes in markets have a direct impact on AUM and investment advisory and services fees.

Performance risk — An inability to meet relevant investment benchmarks could result in clients withdrawing assets and in prospective clients choosing to invest with competitors. This could also result in lower investment management fees, which could result in a decline in revenue.

Redemption risk — Investors can redeem their investments without notice. A significant increase in redemption rates could have a material adverse effect on revenues, financial condition, results of operations and business prospects.

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

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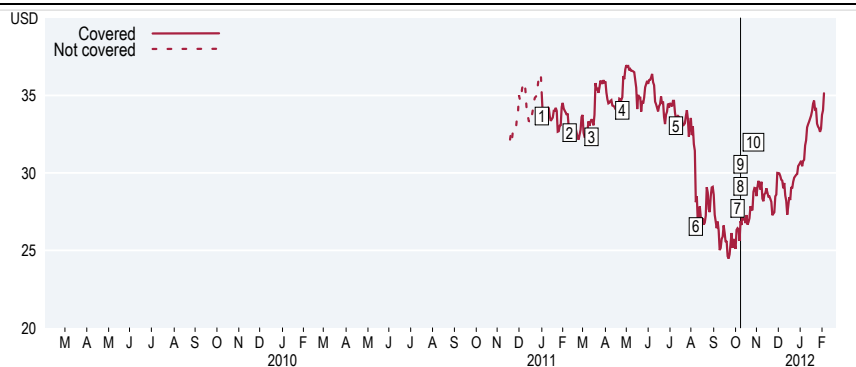
LPL Investment Holdings (LPLA)

Ratings and Target Price History

Fundamental Research

Analyst: William R Katz

Covered since January 3 2011



	Date	Rating	Target Price	Closing Price
1	3-Jan-11	*3M	*32.00	34.97
2	10-Feb-11	*2M	32.00	33.06
3	14-Mar-11	2M	*33.50	33.46
4	26-Apr-11	2M	*35.00	34.89

* Indicates change

	Date	Rating	Target Price	Closing Price
5	11-Jul-11	2M	*34.00	33.48
6	8-Aug-11	2M	*33.00	28.11
7	5-Oct-11	2M	*30.00	26.43
8	8-Oct-11	Stock rating system changed		

	Date	Rating	Target Price	Closing Price
9	8-Oct-11	*2	30.00	25.61
10	27-Oct-11	2	*28.00	28.78

Rating/target price changes above reflect Eastern Standard Time

LPL Investment Holdings (LPLA)

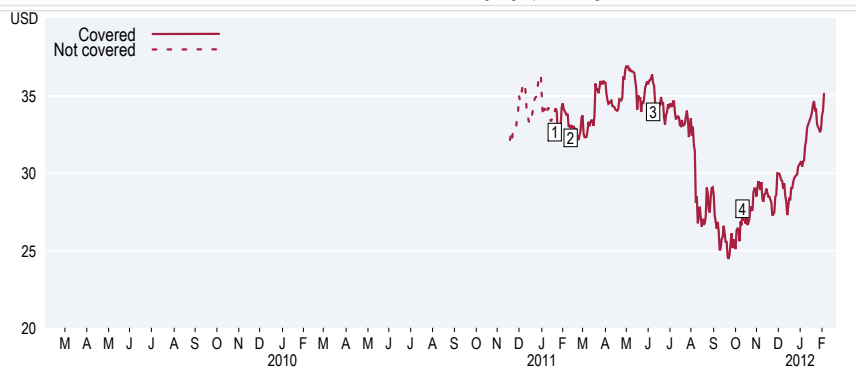
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: William R Katz

Covered since January 3 2011



	Date	Rating	Target Price	Closing Price
1	20-Jan-11	*ADD LP	-	34.01
2	11-Feb-11	*REM LP	-	32.95

* Indicates change

	Date	Rating	Target Price	Closing Price
3	8-Jun-11	*ADD LP	-	35.85
4	12-Oct-11	*REM LP	-	27.71

Rating/target price changes above reflect Eastern Standard Time

TD Ameritrade Holding Corp (AMTD)

Ratings and Target Price History

Fundamental Research

Analyst: William R Katz

Covered since July 6 2011



	Date	Rating	Target Price	Closing Price
1	11-Mar-09	*2H	*13.00	12.15
2	18-May-09	2H	*17.00	16.82
3	14-Jul-09	2H	*18.00	17.52
4	21-Jul-09	2H	*20.00	18.69
5	15-Oct-09	2H	*21.00	20.76

* Indicates change

	Date	Rating	Target Price	Closing Price
6	14-Jul-10	2H	*18.00	15.60
7	13-Apr-11	2H	*22.00	21.40
8	14-Apr-11	Coverage terminated		
9	6-Jul-11	*2M	*21.00	19.19
10	8-Aug-11	2M	*18.50	15.00

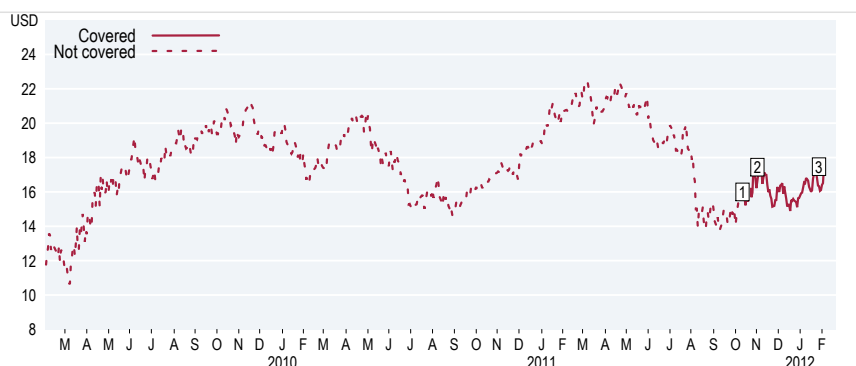
	Date	Rating	Target Price	Closing Price
11	16-Sep-11	*1M	18.50	14.98
12	8-Oct-11	Stock rating system changed		
13	8-Oct-11	*1	18.50	15.35
14	8-Nov-11	1	*19.50	17.32
15	18-Jan-12	1	*18.25	16.09

Rating/target price changes above reflect Eastern Standard Time

TD Ameritrade Holding Corp (AMTD)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: William R Katz
Covered since July 6 2011



	Date	Rating	Target Price	Closing Price
1	12-Oct-11	*ADD MP	-	15.97

* Indicates change

	Date	Rating	Target Price	Closing Price
2	2-Nov-11	*REM MP	-	16.66

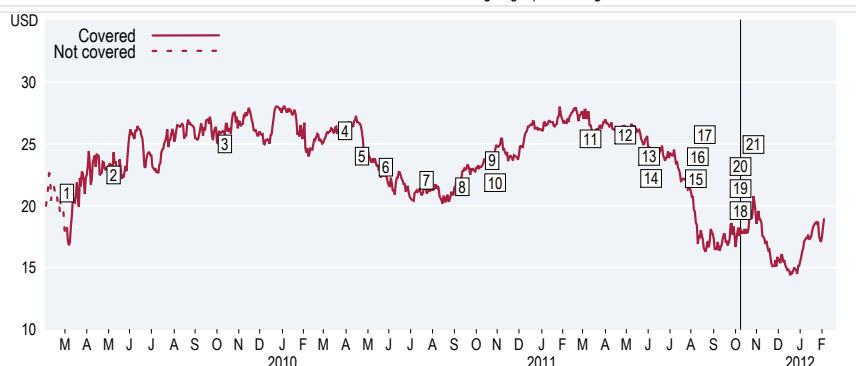
	Date	Rating	Target Price	Closing Price
3	27-Jan-12	*ADD MP	-	16.33

Rating/target price changes above reflect Eastern Standard Time

Federated Investors, Inc (FII)

Ratings and Target Price History Fundamental Research

Analyst: William R Katz
Covered since March 31 2010



	Date	Rating	Target Price	Closing Price
1	4-Mar-09	2M	*18.00	18.24
2	8-May-09	2M	*24.00	24.31
3	13-Oct-09	2M	*26.00	25.74
4	31-Mar-10	2M	*28.00	26.38
5	23-Apr-10	2M	*27.00	25.90
6	27-May-10	2M	*24.00	22.73
7	23-Jul-10	2M	*22.00	20.98

* Indicates change

	Date	Rating	Target Price	Closing Price
8	13-Sep-10	2M	*24.00	22.78
9	25-Oct-10	2M	*26.00	24.14
10	28-Oct-10	2M	*27.00	24.48
11	11-Mar-11	2M	*26.00	26.54
12	29-Apr-11	2M	*25.00	25.78
13	2-Jun-11	2M	*24.00	24.78
14	6-Jun-11	2M	*23.50	23.99

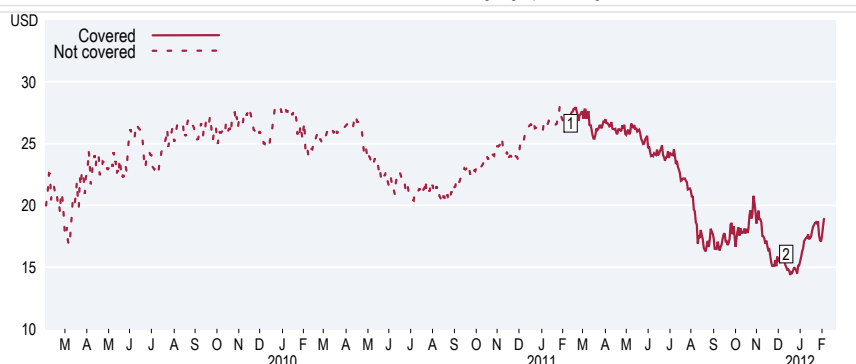
	Date	Rating	Target Price	Closing Price
15	8-Aug-11	2M	*21.00	18.63
16	10-Aug-11	*3M	*16.00	16.91
17	19-Aug-11	3M	*15.00	16.39
18	8-Oct-11	Stock rating system changed		
19	8-Oct-11	*3	15.00	17.56
20	10-Oct-11	3	*15.50	18.15
21	27-Oct-11	3	*16.00	20.78

Rating/target price changes above reflect Eastern Standard Time

Federated Investors, Inc (FII)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: William R Katz
Covered since March 31 2010



	Date	Rating	Target Price	Closing Price
1	11-Feb-11	*ADD LP	-	27.32

* Indicates change

	Date	Rating	Target Price	Closing Price
2	13-Dec-11	*REM LP	-	15.02

Rating/target price changes above reflect Eastern Standard Time

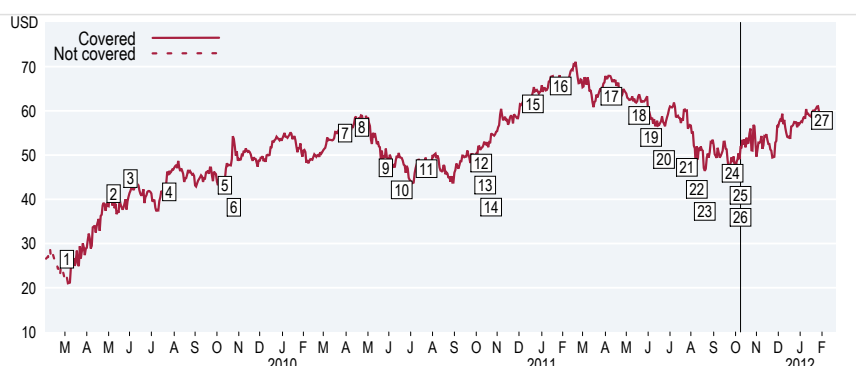
T Rowe Price Group Inc (TROW)

Ratings and Target Price History

Fundamental Research

Analyst: William R Katz

Covered since March 31 2010



	Date	Rating	Target Price	Closing Price
1	4-Mar-09	2M	*23.00	22.27
2	8-May-09	2M	*39.00	40.94
3	2-Jun-09	*1M	*48.00	41.95
4	26-Jul-09	1M	*52.00	45.45
5	13-Oct-09	1M	*54.00	44.41
6	26-Oct-09	1M	*63.00	53.65
7	31-Mar-10	*1L	*62.00	54.97
8	23-Apr-10	1L	*66.00	58.88
9	27-May-10	1L	*60.00	51.47

* Indicates change

	Date	Rating	Target Price	Closing Price
10	18-Jun-10	1L	*57.00	49.34
11	23-Jul-10	1L	*56.00	47.85
12	8-Oct-10	*2L	*53.00	51.62
13	14-Oct-10	2L	*54.00	52.52
14	22-Oct-10	2L	*57.00	54.89
15	21-Dec-10	2L	*63.00	64.27
16	28-Jan-11	2L	*67.00	65.85
17	11-Apr-11	2L	*70.00	67.30
18	19-May-11	2L	*67.00	63.73

	Date	Rating	Target Price	Closing Price
19	6-Jun-11	2L	*63.50	58.04
20	23-Jun-11	2L	*60.00	57.08
21	26-Jul-11	2L	*63.00	60.06
22	9-Aug-11	2L	*53.00	51.99
23	19-Aug-11	2L	*47.00	46.44
24	28-Sep-11	2L	*49.00	48.42
25	8-Oct-11	Stock rating system changed		
26	8-Oct-11	*2	49.00	49.06
27	1-Feb-12	*3	*50.00	58.62

Rating/target price changes above reflect Eastern Standard Time

T Rowe Price Group Inc (TROW)

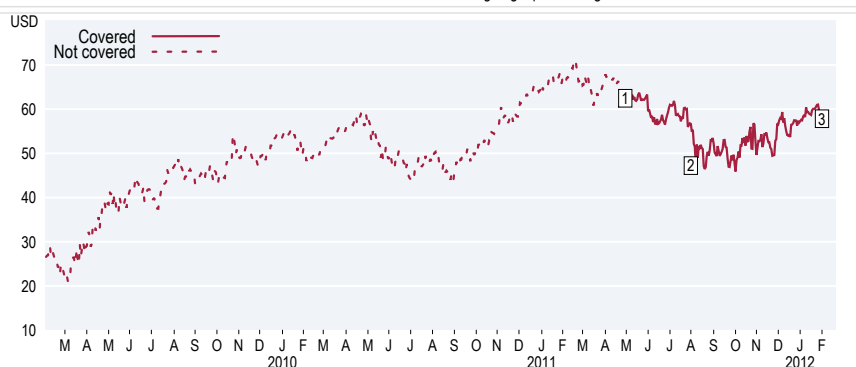
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: William R Katz

Covered since March 31 2010



	Date	Rating	Target Price	Closing Price
1	29-Apr-11	*ADD LP	-	64.25

* Indicates change

	Date	Rating	Target Price	Closing Price
2	1-Aug-11	*REM LP	-	56.67

	Date	Rating	Target Price	Closing Price
3	1-Feb-12	*ADD LP	-	58.62

Rating/target price changes above reflect Eastern Standard Time

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<i>Data current as of 31 Dec 2011</i>	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
Citi Investment Research & Analysis Global Fundamental Coverage	57%	34%	9%	10%	79%	10%
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Analysts may place covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and / or trading in the company's securities (e.g. trading suspension). As soon as practically possible, the analyst will publish a note re-establishing a rating and investment thesis. To satisfy regulatory requirements, we correspond Under Review and Neutral to Hold in our ratings distribution table for our 12-month fundamental rating system. However, we reiterate that we do not consider Under Review to be a recommendation.

Relative three-month ratings: CIRA may also assign a three-month relative call (or rating) to a stock to highlight expected out-performance (most preferred) or under-performance (least preferred) versus the geographic and industry sector over a 3 month period. The relative call may highlight a specific near-term catalyst or event impacting the company or the market that is anticipated to have a short-term price impact on the equity securities of the company. Absent any specific catalyst the analyst(s) will indicate the most and least preferred stocks in the universe of stocks under consideration, explaining the basis for this short-term view. This three-month view may be different from and does not affect a stock's fundamental equity rating, which reflects a longer-term total absolute return expectation. For purposes of NASD/NYSE ratings-distribution-disclosure rules, most preferred calls correspond to a buy recommendation and least preferred calls correspond to a sell recommendation. Any stock not assigned to a most preferred or least preferred call is considered non-relative-rated (NRR). For purposes of NASD/NYSE ratings-distribution-disclosure rules we correspond NRR to Hold in our ratings distribution table for our 3-month relative rating system. However, we reiterate that we do not consider NRR to be a recommendation.

Prior to October 8, 2011, the firm's stock recommendation system included a risk rating and an investment rating. **Risk ratings**, which took into account both price volatility and fundamental criteria, were: Low (L), Medium (M), High (H), and Speculative (S). **Investment Ratings** of Buy, Hold and Sell were a function of CIRA's expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating. Additionally, analysts could have placed covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and/or trading in the company's securities (e.g. trading suspension). Stocks placed "Under Review" were monitored daily by management and as practically possible, the analyst published a note re-establishing a rating and investment thesis. For securities in developed markets (US, UK, Europe, Japan, and Australia/New Zealand), investment ratings were: Buy (1) (expected total return of 10% or more for Low-Risk stocks, 15% or more for Medium-Risk stocks, 20% or more for High-Risk stocks, and 35% or more for Speculative stocks); Hold (2) (0%-10% for Low-Risk stocks, 0%-15% for Medium-Risk stocks, 0%-20% for High-Risk stocks, and 0%-35% for Speculative stocks); and Sell (3) (negative total return). For securities in emerging markets (Asia Pacific, Emerging Europe/Middle East/Africa, and Latin America), investment ratings were: Buy (1) (expected total return of 15% or more for Low-Risk stocks, 20% or more for Medium-Risk stocks, 30% or more for High-Risk stocks, and 40% or more for Speculative stocks); Hold (2) (5%-15% for Low-Risk stocks, 10%-20% for Medium-Risk stocks, 15%-30% for High-Risk stocks, and 20%-40% for Speculative stocks); and Sell (3) (5% or less for Low-Risk stocks, 10% or less for Medium-Risk stocks, 15% or less for High-Risk stocks, and 20% or less for Speculative stocks).

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Citigroup Global Markets Inc

William R Katz; Neil Stratton, CFA; Ashley Hartigan

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