

May 20, 2014



# Ladenburg Thalmann Sends Annual Letter to Shareholders

MIAMI-- Ladenburg Thalmann Financial Services Inc. (NYSE MKT:LTS, LTS PrA) today announced that the Company sent the following annual letter to its shareholders from the Chairman of the Board, Dr. Phillip Frost, and the Company's President and Chief Executive Officer, Richard J. Lampen:

May 8, 2014

## Dear Fellow Shareholder:

2013 was an important year for Ladenburg Thalmann. Our revenues, profitability and capital position were substantially enhanced and we achieved significant growth in revenues and adjusted EBITDA across all of our businesses. Our strategy — to combine the more stable and recurring revenue and cash flows of the Independent Brokerage and Advisory Services (IBD) business with the more volatile, but potentially profitable, capital markets and investment banking business — is now hitting on all cylinders. The size and synergies of our business and the value of our subsidiaries and divisions — all of which experienced top and bottom line growth — make us optimistic about our prospects. We are pleased to review the business developments and financial highlights of 2013, and provide our outlook for our future.

## 2013 Overview

- 2013 revenues increased 22% to \$793.0 million compared to 2012. Revenues in our IBD segment, which includes Securities America, Triad, Investacorp and Premier Trust, increased by 21% year-over-year, and revenues in our investment banking business increased by 43%.
- 2013 EBITDA, as adjusted, grew to \$51.6 million, a 69% increase from \$30.5 million in 2012. Importantly, this significant gain was driven by growth across all of our businesses. Key drivers included enhanced production from all our IBD subsidiaries and their success in recruiting new high-producing advisor teams, as well as a particularly strong year for our investment banking business.
- We retired over \$140 million of debt during 2013 with proceeds from our preferred stock offerings and cash from operations.
- Shareholders' equity grew to \$193.4 million at year end.
- In 2013, we repurchased 3,767,790 shares of our common stock at a cost of approximately \$6.4 million, representing an average price per share of \$1.71.
- We satisfied conditions for \$5.0 million forgiveness of principal and interest on our loan from National Financial Services LLC, a Fidelity Investments® company, our primary

clearing firm.

- By the end of 2013, we had over \$85 billion in client assets firm-wide and over 2,700 financial advisors on our platform, underscoring our strong position among leading companies in the industry.
- For 2013, recurring revenues including advisory fees, trailing commissions, cash sweep fees and certain other fees, represented approximately 64.7% of revenues from our IBD business.
- We enhanced our already-strong platform of technology and practice management tools while advancing our suite of wealth management products to better support our independent financial advisors.
- Our new fixed income trading desk provided vital assistance to our network of independent advisors.
- Ladenburg Thalmann & Co. Inc. (Ladenburg) revenues were up approximately 54% year-over-year, with 20% adjusted EBITDA margins.
- Our investment banking group had an outstanding year, participating in 115 underwritten offerings, raising over \$28 billion, and placed 22 registered direct and PIPE offerings that raised an aggregate of approximately \$379 million, for clients in healthcare, biotechnology, energy, real estate, specialty finance and other industries. We continue to enhance our highly-productive investment banking business by attracting top talent and senior industry specialists in energy, healthcare and technology.
- Ladenburg's internal wealth management division Ladenburg Thalmann Asset Management (LTAM) also recorded a record year, with over \$1.7 billion in assets under management.
- Premier Trust, our advisor-friendly trust company, had record growth and reached \$749 million in assets under administration at year end.

### **Ladenburg's Independent Brokerage and Advisory Services (IBD) Business**

Ladenburg's IBD franchise continued to register robust growth with revenues in 2013 increasing 21% over its excellent results in 2012. Our IBD business is the mainstay of our company, contributing 91% of our revenues. It has proven to be a very advantageous focus. The IBD business is one of the fastest growing sectors of the financial services industry. It is driven by the powerful trends of the retirement of nearly 80 million baby boomers (10,000 a day over a 20 year period, according to the Social Security Administration), and the expected mass transition of their assets from group plans to individual plans and the accompanying need to seek independent financial management and advice with respect to these retirement assets. Several other collateral factors also empower the vibrancy of this sector. Advisors continue to migrate to the IBD channel due to the appeal of the IBD's more entrepreneurial culture. Similarly, there is a growing preference by clients to seek the truly independent financial advice provided by an IBD advisor who has the freedom to focus on the best investments for his clients from an open architecture with a wide variety of products and services, without regard to company mandates. The independent model creates a greater sense of trust between client and advisor.

The long-term prognosis for the IBD industry is very strong. According to Cerulli Associates, total retirement assets in the United States are projected to grow by approximately 6.5% per year through 2017. Assets moving from group to individual plans are expected to almost double from \$231.5 billion in 2009 to \$451.1 billion in 2017. Total assets under management in the independent channel are anticipated to grow by 10% per year through 2017. The growth prospects for this sector may extend far beyond 2017, as only the 1945-52 portion of the 1945-64 baby boomer generation will have reached the age of 65 by then.

A significant factor in Ladenburg's success in this sector has been its decision to allow each of its IBD businesses to retain its own management and culture — the unique strengths and character that have made them successful companies — while still taking advantage of the scale and savings created from the parent company providing under one roof such things as technology and other back office services. It has been a very successful combination and has made Ladenburg a very attractive home for sizable IBD businesses as well as smaller groups, who can no longer afford the growing costs of compliance, supervision and compliance and are looking for a new home.

Ladenburg's IBD franchise also continues to be an industry leader in innovation. In 2013, Securities America won the BISA Technology Innovation Award for its advisor workstation dashboard, the e\*Office Advantage Dashboard, and Securities America's chief information officer, Doreen Griffith, was named to Computerworld's list of Premier 100 IT leaders. Also in 2013, Ladenburg created an inter broker-dealer continuity, succession and acquisition listing site, an easy-to-use, internet accessed match-making website where all the advisors in Ladenburg's network can list their advisory business for sale, find an advisory business to buy, or obtain a succession partner, as well as acquire knowledge and resources to help an advisor develop a succession plan — all vital elements of an advisor's business.

Along with preeminent technology and practice management tools, value-additive innovations and a full suite of wealth management products, Ladenburg's IBD advisors also have the unique competitive advantages afforded by access to services from its sister companies. These services include Ladenburg's syndicate/capital market products, investment banking services, proprietary equity research (currently covering over 200 companies), dedicated fixed income trading desk, the advisor-friendly trust services of Ladenburg subsidiary, Premier Trust, Inc., and LTAM's asset management services.

For the IBD industry, the last few years have seen a reduction in the number of smaller broker-dealers as larger firms have gained market share. It has also been a period of industry consolidation at valuations that attest to the sector's growing appeal. However, we have been able to leverage the power of our IBD network's supportive programs and the unique advantages of our LTCO services to attract to our IBD network numerous high-performing advisory groups. While we have been concentrating on smaller and mid-sized companies this past year, we remain ready to aggressively pursue larger opportunities on the right terms.

### **Ladenburg's Investment Banking and Capital Markets Business**

2013 was a strong year for Ladenburg's investment banking business. Its revenues were 43% higher than the strong results it achieved in 2012. Although, Ladenburg's investment banking business provides less than 10% of our revenues, it can make a more substantial contribution to our profits during periods of strong capital markets activity like 2013.

Ladenburg's 18 investment bankers participated in 115 underwritten offerings raising an aggregate of approximately \$28 billion and placed 22 registered direct and PIPE offerings that raised an aggregate of approximately \$379 million. Ladenburg's current success has been in diverse sectors as healthcare, biotechnology, energy and specialty finance. Ladenburg also continued its success in yield-oriented offerings in the three verticals of Mortgage and Property Real Estate Investment Trusts (REITs), Business Development Companies (BDCs) and Energy Master Limited Partnerships (MLPs). Since 2010, Ladenburg has participated in 174 yield-oriented offerings, with a cumulative transaction value over \$25 billion.

Ladenburg's 14 research analysts cover over 200 companies in such areas as MLPs, REITs and specialty finance, as well as technology, healthcare and energy. Ladenburg's approximately 30 institutional sales and trading personnel cover investors worldwide, helping our clients maximize their potential.

Ladenburg's Fixed Income Trading Desk (LFIX), which was established in 2012, is now in demand with our network of independent advisors, to whom they provide assistance in portfolio analysis, and competitive pricing, as well as help win new fixed income-focused clients. LFIX has become an important example of how Ladenburg's differentiated services and products benefit our advisors and their clients and create a competitive edge.

LTAM, our internal wealth management division, grew substantially during the year, and has over \$1.7 billion in assets under management and over 13,000 accounts. LTAM applies the core investment principles of portfolio diversification, risk management, and disciplined, long-term investing in the management of its four proprietary programs. The resources of LTAM support our independent advisors in growing their advisory business and have allowed many to compete successfully for higher net worth clients.

### **Ladenburg's Net Income, Recurring Revenues and Stock Repurchase Program**

Net loss for fiscal 2013 was \$0.5 million compared to a net loss of \$16.4 million in 2012. This improvement was generated by the elevated performance of all our business units. The \$0.5 million net loss was primarily due to interest expense and the non-cash charges for depreciation, amortization and stock-based compensation, and amortization of retention loans related to the Securities America acquisition in 2011 — an industry-leading company that has made a major contribution to Ladenburg's growth in recent years and which we expect will enhance our business for many years to come.

Along with the powerful trends driving the long-term growth of the IBD sector, we were also attracted by this industry's ability to generate recurring revenues. We define recurring revenues as advisory fees, trailing commissions, cash spread fees, sponsorship revenues and advisor affiliation fees. Recurring revenues have always been an important determinant of a company's value, and they are especially highly-regarded in today's more volatile marketplace. In 2013, approximately 64.7% of the revenues in our IBD business were recurring in nature and we expect that percentage to grow in the future.

In 2013, we repurchased 3,767,790 shares of our common stock at a cost of approximately \$6.4 million. Since March 2007, we have repurchased 11,249,757 shares at a total cost of approximately \$13.8 million, including purchases of 7,500,000 shares outside of our stock repurchase program. We may repurchase an additional 3,750,243 shares under our current

repurchase plan. Importantly, our Board of Directors and senior leadership team are major shareholders in the firm and aligned with Ladenburg's investors in building shareholder value.

### **Ladenburg's Continued Recognition and Support for the Women in our Company**

In 2013, we hosted our second annual Ladenburg Institute of Women & Finance (LIWF) symposium in Miami, Florida. The mission of LIWF is to educate and empower women advisors and investors to control their financial futures. At this year's symposium, Ladenburg introduced our LIFT mentoring program, which pairs experienced advisors from each of our broker-dealers with an up-and-coming woman advisor. All of us are very proud of the many women in our company and honor the contribution they have made to our success.

### **Ladenburg's Outlook**

In last year's annual shareholders' letter, we conveyed our belief that our business model — combining the more stable and recurring revenue and cash flows of our IBD business with the more volatile, but potentially profitable, capital markets and investment banking businesses — had gained the synergies and critical mass that could achieve growth and profitability. Our substantial gains in revenue and profitability in 2013, the fact that we achieved these top and bottom line improvements in all our businesses, and that this growth has been reflected in our first quarter 2014 results, solidifies that belief and makes us confident about our future.

Due to the recent improvements of our business and the size of our current financial metrics, it is easy to forget just how far and fast Ladenburg has come in a short period of time. Since our current leadership took the helm in 2006, Ladenburg has added a significant number of new businesses and grown revenues approximately 1,600%. It has been gratifying that these new businesses have fit so readily and supportively into our company and significantly improved our results. However, we believe that these businesses will continue to grow, and that there are still many synergies between these businesses that we have not yet taken full advantage of.

Looking ahead, we expect continued organic growth from all parts of our company. We also remain interested in opportunities to selectively add additional manpower and companies within the industries in which we are presently involved, but we are also open to complementary businesses within the financial services industry that are harmonious and additive to our current platform.

We at Ladenburg have always taken great pride in our company's distinguished heritage and the important role it has played in advancing American industry. While we continue to pay homage to this illustrious past and seek to emulate its accomplishments and contributions, there is a new awareness within our company that the most momentous days of our venerable 138 year-old company may be ahead of us.

We would like to take this opportunity to extend our sincere gratitude to our shareholders, financial advisors and employees for their role in establishing the firm and positioning us for long-term success. We are grateful for your dedication and look forward to a strong 2014.

Sincerely,

Phillip Frost, M.D.

Richard J. Lampen

Chairman of the  
Board

President & Chief Executive  
Officer

## **About Ladenburg**

Ladenburg Thalmann Financial Services is engaged in independent brokerage and advisory services, investment banking, equity research, institutional sales and trading, and asset management services through its principal subsidiaries, Ladenburg Thalmann & Co. Inc., Investacorp, Inc., Triad Advisors, Inc. and Securities America, Inc., which together have approximately 2,800 financial advisors and approximately \$90 billion in client assets. Founded in 1876 and a New York Stock Exchange member since 1879, Ladenburg Thalmann & Co. is a full service investment banking and brokerage firm providing services principally for middle market and emerging growth companies and high net worth individuals. Investacorp, Inc., a leading independent broker-dealer headquartered in Miami, Florida, has been serving the independent registered representative community since 1978. Founded in 1998, Triad Advisors, Inc. is a leading independent broker-dealer and registered investment advisor headquartered in Norcross, Georgia that offers a broad menu of products, services and total wealth management solutions. Securities America, based in Omaha, Nebraska, was founded in 1984 and is one of the largest and most successful independent broker-dealers in the country. Ladenburg Thalmann Financial Services is based in Miami, Florida. Ladenburg Thalmann & Co. is based in New York City, New York with regional offices in Miami, Naples and Boca Raton, Florida; Melville, New York; Boston, Massachusetts; Houston, Texas; and Calabasas, California. For more information, please visit [www.ladenburg.com](http://www.ladenburg.com)

*This press release includes certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding future financial performance, future growth, future growth on the independent broker dealer industry, growth of our independent broker dealer and investment banking businesses and future synergies. These statements are based on management's current expectations or beliefs and are subject to uncertainty and changes in circumstances. Actual results may vary materially from those expressed or implied by the statements herein due to changes in economic, business, competitive and/or regulatory factors, and other risks and uncertainties affecting the operation of the Company's business. These risks, uncertainties and contingencies include those set forth in the Company's annual report on Form 10-K for the fiscal year ended December 31, 2013 and other factors detailed from time to time in its other filings with the Securities and Exchange Commission. The information set forth herein should be read in light of such risks. Further, investors should keep in mind that the Company's quarterly revenue and profits can fluctuate materially depending on many factors, including the number, size and timing of completed offerings and other transactions. Accordingly, the Company's revenue and profits in any particular quarter may not be indicative of future results. The Company is under no obligation to, and expressly disclaims any obligation to, update or alter its forward-looking statements, whether as a result of new information, future events, changes in assumptions or otherwise.*

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Source: Ladenburg Thalmann Financial Services Inc.