Q1

Fiscal 2018 Quarter 1 Results

Management Commentary

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About TD Ameritrade Holding Corporation

TD Ameritrade provides investing services and education to more than 11 million client accounts totaling more than $1 trillion in assets, and custodial services to more than 6,000 registered investment advisors. We are a leader in U.S. retail trading, executing more than 700,000 trades per day for our clients, nearly a quarter of which come from mobile devices. We have a proud history of innovation, dating back to our start in 1975, and today our team of 10,000-strong is committed to carrying it forward. Together, we are leveraging the latest in cutting edge technologies and one-on-one client care to transform lives, and investing, for the better. Learn more by visiting TD Ameritrade's newsroom at www.amtd.com, or read our stories at Fresh Accounts.

CEO Remarks

We are very pleased with the results from our first quarter. This was, as you recall, our first full quarter with Scottrade results, following the September acquisition. We made a great deal of progress in preparation for our upcoming client, or “clearing,” conversion. Big wins included standing up a service center in St. Louis, redirecting Scottrade’s online account opening to TD Ameritrade, and introducing some enhancements on the TD Ameritrade side that will help smooth the transition for Scottrade clients.

The conversion remains on track for completion this quarter. We’re seeing positive trends with respect to client retention, and we like the progress we’re seeing on achieving synergy targets. We have all hands on deck to deliver a positive experience – both operationally for our clients, and culturally for our Associates. We’re learning a lot from each other. And, while we’ve been very focused on the tactical elements surrounding the integration, we’ve also spent a fair bit of time over the last 12 months discussing something much more foundational.

TD Ameritrade and Scottrade are two companies with equally proud legacies of changing lives through investing. And, as we came together through this integration, we really wanted to get down to that one thing that unites us – something that recognizes the work we’ve done, and inspires the work we have yet to do.

That one thing – after looking inward at our own cultures, and outward at others – is transformation. TD Ameritrade exists **to transform lives and investing for the better**.

Whether it’s something more short term, like delivering on the Scottrade integration, or something bigger and all-encompassing, like competing on the client experience, everything we do ultimately ladders back up to that one thing – transformation. It’s this purpose that acknowledges the history of disruption and innovation that lies within our DNA, as well as the passion we have to continually up our game. And so, as we consider our performance, and our plans to build upon the strong growth momentum we’re here to talk about today, know that we’re doing so with this purpose in mind.

Our first quarter of Fiscal 2018 was very strong. We see financial strength continuing across all core metrics, starting with a record $1.3 billion in net revenue. Client engagement was up significantly across both the legacy TD Ameritrade and Scottrade client bases. Client logins, accounts trading, and DARTs all posted healthy increases, and retail clients were net buyers of $6.9 billion. This resulted in very strong trading: 726,000 trades per day on average, which is up 49 percent from a year ago. In fact, activity in January has been even stronger, with 975,000 trades per day on average through the 17th.

Asset gathering was also strong. We ended the quarter with $26.5 billion in net new client assets, or a 9 percent annualized growth rate, a great result off a much higher base. New business on the retail side is doing well, with record levels of new accounts. We’re seeing an increase in new business across all age groups, but growth among investors under 35 is up considerably – up 72 percent from last year.

One trend that was more pronounced at the end of the quarter, and has continued in recent weeks, is increased interest in cannabis and blockchain-related securities, as well as cryptocurrencies in general. This doesn’t surprise us, given the significant media coverage on these topics. Bitcoin and blockchain-related stocks have been more frequently among our clients’ top-traded stocks since November, and we were among the first to make the CBOE Bitcoin futures product available for trading for qualified retail clients. We have been monitoring the market closely, phasing in access over time as it matures, to help both our clients and the firm manage risk.

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A significant portion of new clients have indicated they are new to investing, which reinforces the importance of quality investor education. Late last year we made the decision to take our premium education services, previously offered through Investools, and built them into our broader, more comprehensive education offering. We also made it free to all clients. Since our soft launch in October, usage has increased 30 percent. We believe education is core to a positive investing experience and sustained investor engagement, and we will continue to invest in its development to make sure it remains relevant to the needs of our clients.

Our institutional channel continues to thrive, again contributing approximately 80 percent of the net new assets in the quarter. Growth was quite diverse, coming from existing advisors, new RIA relationships, as well as breakaway brokers. Client experience scores remain near best-in-class for B2B firms, and we continue to deploy initiatives that make it easier for our people to deliver the service RIAs have come to expect from us.

We launched Institutional Digital Self-Service, which makes it easier for Associates to research advisor questions, enhancing the efficiency, consistency, and accuracy of information given to advisors. We continue to integrate tech vendors into Veo One, and we continue to automate the account opening process. Nearly half of our advisors have used some aspect of this functionality since launch. We will have much to talk about when we welcome nearly 2,000 advisors to our annual National LINC Conference next week in Orlando.

Elsewhere on the revenue front, we're seeing good adoption of our digital guidance offerings. Retention continues to increase as well. We're also seeing strong adoption of our enhanced ETF Market Center, as balances have grown approximately $8 billion since its re-launch in October.

And, we launched in Hong Kong. We received regulatory approval in September and are thrilled to be open for business. As the fastest-growing wealth hub in Asia, Hong Kong offers a great opportunity, with access to a market that is tech-savvy, hungry for education, and eager to have access to the U.S. capital markets. Our operation in Singapore continues to see strong, steady growth, and we expect to see similar trends in Hong Kong over time. Scottrade's domestically-focused Asian business provides an additional synergy here as we combine their legacy operation with our growing Asian footprint.

It's this growth on the other side of the globe, combined with the increasing mobility of today's investors, that inspired a brand-new offering I'm excited to share with you today. Starting this week, TD Ameritrade will be the first to offer 24-hour trading, five days a week, in select securities through our thinkorswim and TD Ameritrade Mobile Trader platforms.

Nearly 70 percent of the clients who use our research and education resources do so outside of regular trading hours, but they have to wait to place their trades. It's a gap in the client experience that we can fill. Our initial offering includes 12 widely-held U.S.-listed ETFs that cover a wide range of sectors and can provide exposure to asset classes that are active globally around the clock. We are starting small with the intent to expand over time. We see this as a net benefit to our clients, particularly those in Asia who will for the first time have the flexibility of trading during their own daytime hours.

This is just one example of the investments we're making in technology and innovation to transform how people invest. It's a strategy that continues to pay off.

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Throughput remains very strong, with the number of technology deliverables more than double what we delivered a year ago. Some of that will slow in Q2 as we focus more efforts on the final stages of the clearing conversion, but we continue to make very good progress. We also continue to stand up more Agile teams, on our way to hitting our target of 80 percent Agile by the end of the year.

We added to the capabilities of our Amazon Alexa skill, which now includes access to market information and investor education, as well as a visual experience for Echo Show devices. This is a great enhancement leveraging artificial intelligence that's powering a number of other projects, including trading via chatbot on Facebook's Messenger app, which we shared with you last quarter.

Identifying scalable ways to take our services and education direct-to-consumer will continue to be a key focus for ongoing innovation efforts. These technologies are transforming communication and commerce, and the role they can play in transforming investing is incredibly exciting. Accessibility and personalization remain the must-haves of any superior client experience, so we're fully engaged in exploring a number of additional opportunities on this front that we hope to share with you in the coming quarters.

We've had an incredibly strong quarter. Revenue and client engagement continues to increase, and we're executing well on many of the things we need to do to in order to compete on the client experience. But we're looking ahead as well, considering the role we play in driving transformational change across this industry. For the last 12-18 months we've been laying the groundwork to make these efforts possible.

And now that we're here, on the verge of integrating Scottrade, and starting to see the operational impact of our many investments, it's a very exciting time to be at TD Ameritrade. Our immediate priority is a successful clearing conversion. We are approaching it with a focus on maintaining high service levels, and we remain confident about hitting our goals.

The year has just begun, but it's a great way to start. As always, we have a lot of work left to do, but momentum remains in our favor.

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CFO Remarks

We had a strong quarter, with GAAP diluted earnings per share of $0.52, and Non-GAAP diluted earnings per share of $0.80, driven primarily by strong revenue and favorable tax items. The Scottrade acquisition was the primary driver of pre-tax changes relative to prior periods, so we will focus on items that may have differed from expectations or are trends in the business in general.

Transaction revenue exceeded expectations as a result of continued high trading volumes, despite relatively low volatility. Commission rates were near the low end of our Fiscal 2018 guidance range at $7.54 per trade, but still within expectations. Mobile represented 22 percent of total trades, and derivatives were 33 percent, including 26 percent in options, 6 percent in futures and 1 percent in forex. Order routing revenue was $98 million in the quarter, driven by high trading volumes. Blended rates were in-line with expectations.

Asset-based revenue of $790 million was 63 percent of net revenues. Bank deposit account, or "BDA," balances were relatively flat versus the end of last quarter, as new money was offset by heavy client net buying, which was up with client participation in the market. Our BDA net yield declined slightly sequentially following our first full quarter of Scottrade. Our BDA "float versus fixed" split at the end of the quarter was 24-to-76, which included approximately $4 billion of excess float that we plan to extend over the next few months. The current overall duration is 1.9 years. As we extend the excess float over the next few months, we expect to approach our targeted overall duration of 2.1 years. About $1.3 billion in BDA balances matures monthly, with the rate earned on extensions expected to continue to match or exceed maturities.

When it comes to deposit betas, we increased pay rates on December 29. The blended deposit beta is 16 percent, or 4 basis points. While cash levels are up slightly sequentially to approximately $150 billion, cash as a percentage of total client assets remained at historic lows, at 12.7 percent, down slightly from last quarter due to the growth in the value of investments and as a result of strong net buying from our retail clients.

Stock lending was a strong $53 million in the quarter, as short interest increased. Margin revenue was $191 million in the quarter, with an average balance of $17.6 billion. We increased pricing on the negotiated book on December 19th, following the most recent Fed move, and we increased the rack rate book on January 1.

Our new rate sensitivity for the next 25 basis point increase is $60-110 million in pretax income, which implies deposit betas of 15-25 percent. We ultimately expect terminal betas to approach 40 percent, but that will depend on competitive forces and mix, which we are monitoring closely.

Fee-based revenue continues to grow nicely, including growth in our advised solutions. Advised assets ended the quarter in excess of $62 billion, including Essential Portfolios at $1.4 billion.

Moving to expenses, Operating Expenses were $921 million in the quarter. We incurred $179 million in acquisition-related costs, comprised mainly of $81 million recorded in Employment, $8 million recorded in Professional Services, and $85 million recorded in Other operating expense, which was primarily related to contract terminations.

With respect to synergies, we still expect to realize $175-225 million this fiscal year. While we started to realize synergies this quarter related to advertising and some administrative functions, we expect to realize the majority of the synergies following the clearing conversion.

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As we look to next quarter, certain expenses will increase due to incremental investments in advertising, incentives, and client service personnel to address the high levels of client engagement. However, expenses are expected to decline in the last two quarters of the year, as a result of the clearing conversion.

Below operating expenses, we incurred $13 million of Other expenses primarily due to the sale of corporate treasuries at a realized loss. Reinvestment yields are higher than the yields of the securities sold, so we expect there will be incremental benefits over time.

With the recently enacted Tax Cuts and Jobs Act, and a decline in the federal corporate tax rate, we are required to use a blended rate pushed back to the beginning of the fiscal year. This considers our old tax rate of 37.5 percent, as well as our new rate of 24 percent. The blending results in a rate of 27 percent for each quarter of our 2018 fiscal year, including the December quarter. However, our effective tax rate for the first quarter was even lower, at 2 percent, as we realized approximately $78 million of discrete after-tax benefits, or 14 cents earnings per diluted share impact, primarily due to the re-measurement of our deferred tax liabilities. The remainder of the tax benefit in the quarter was due to the movement of our effective rate to 27 percent. We are expecting a full-year 2018 effective tax rate of approximately 22 percent as a result of 2 percent in the December quarter, and 27 percent in the remaining 3 quarters. However, 24 percent is our expected rate for Fiscal 2019.

We have recast our original Fiscal 2018 guidance to reflect just the impact of these new tax rates. The revised GAAP diluted EPS range is now $1.85-2.45, and the related Non-GAAP diluted EPS range is now $2.55-3.05.

Finally, regarding capital deployment, we paid $119 million in dividends in the quarter, or 26 percent of Non-GAAP net income. We realize that we stand to incur significant benefits as a result of our adjusted tax rates, and there are many ways in which we can put this incremental income to good use. We plan to look at each of them, as well as our broader capital deployment strategy, in greater detail once we’ve successfully completed the Scottrade clearing conversion and substantially realized synergies.

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