

24-Apr-2019

TD Ameritrade Holding Corp. (AMTD)

Q2 2019 Earnings Call

CORPORATE PARTICIPANTS

Timothy D. Hockey

Director, President & Chief Executive Officer, TD Ameritrade Holding Corp.

Stephen J. Boyle

Chief Financial Officer & Executive Vice President, TD Ameritrade Holding Corp.

OTHER PARTICIPANTS

Devin Ryan

Analyst, JMP Securities LLC

Christopher Harris

Analyst, Wells Fargo Securities LLC

Richard Henry Repetto

Analyst, Sandler O'Neill & Partners LP

Michael Carrier

Analyst, Bank of America Merrill Lynch

William Katz

Analyst, Citigroup Global Markets, Inc.

Michael J. Cyprys

Analyst, Morgan Stanley & Co. LLC

Andrew Nicholas

Analyst, William Blair & Co. LLC

Daniel T. Fannon

Analyst, Jefferies LLC

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

Kyle Voigt

Analyst, Keefe, Bruyette & Woods, Inc.

Patrick O'Shaughnessy

Analyst, Raymond James & Associates, Inc.

Brennan Hawken

Analyst, UBS Securities LLC

Craig Siegenthaler

Analyst, Credit Suisse Securities (USA) LLC

Steven Chubak

Analyst, Wolfe Research LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to TD Ameritrade Holding Corporation's March Quarter Earnings Results Conference Call. This call is being recorded. With us today from the company is President and Chief Executive Officer, Tim Hockey and Chief Financial Officer, Steve Boyle.

An audio file containing Mr. Hockey's and Mr. Boyle's comments on the quarter can be found on the company's corporate website, amtd.com under Investor Relations. This call is intended to address related questions for investors and analysts. Questions from reporters can be directed to the company's media relations team, or you can follow their Twitter handle @TDAmeritradePR, which we'll be live tweeting this morning's call.

QUESTION AND ANSWER SECTION

Operator: Let me take a moment to compile the questions. Okay. And we do have a question from Devin Ryan with JMP Securities. Please go ahead. Your line is open.

Devin Ryan

Analyst, JMP Securities LLC

Q

Great. Good morning, guys. How are you?

Timothy D. Hockey

Director, President & Chief Executive Officer, TD Ameritrade Holding Corp.

A

Good. Thank you.

Stephen J. Boyle

Chief Financial Officer & Executive Vice President, TD Ameritrade Holding Corp.

A

Good.

Devin Ryan

Analyst, JMP Securities LLC

Q

Good. I guess, first question on some of the moving parts in NNA in the quarter has given a little bit lighter result. So maybe if you could just go a little bit deeper on some of the key areas of delta from the prior quarter in both retail and institutional, I know you cited less investor engagement and a little less RAA movement. But it didn't seem like we saw maybe the same degree from some of the peers. So it makes sense that that would be a driver. But just curious if you can go a little more deeper in what gives you confidence that it could recover?

Timothy D. Hockey

Director, President & Chief Executive Officer, TD Ameritrade Holding Corp.

A

Yeah. Sure. I'll take a stab at that. And we tried to actually give a little bit more color, probably a little deeper than we normally do in the prepared remarks, Devin. But look, if we look at the first quarter, given our business model and mix, we saw a pretty significant outperformance, if you will. So we sort of combine the two and say what does it feel like relative to the industry on a year-to-date performance. So 8% annualized year-to-date is the number that we look at.

If we double-click onto this past March quarter, then if you split it between retail and institutional, we did give you the color that institutional we saw the conversations with both prospective and RIA clients about moving more money over was frankly pushed back a little bit as a result of conversations with their clients. And good news is we've seen some of that trend diminish now, certainly with markets now reaching new highs. And so the pipeline seems to have picked up a little bit.

On the retail side, a similar trend. We saw a very strong quarter four, our more recent trend in the December quarter, and then March was soft, again because of this sort of deep-V reaction from the markets. And now we're seeing a resurgence in the pipeline. So our sense is this is not – this is a one quarter anomaly, mostly driven by the effect of the market at the end of 2018. And we're feeling pretty good about the future.

Steve, anything else from your point of view?

Stephen J. Boyle

Chief Financial Officer & Executive Vice President, TD Ameritrade Holding Corp.

No. I think that's great, Tim. Thanks.

A

Devin Ryan

Analyst, JMP Securities LLC

All right. I appreciate. That's great color. And just a follow-up on the Asia opportunity. I know you guys touched on it briefly in the Q&A. But maybe talk a little bit more about what's new in Asia. You're scaling in Singapore and Hong Kong. But do you have any timetable on Mainland China and whether it be potential partnerships with technology firms like WeChat like you have in other regions like in the U.S., or partnerships with retail brokerages in the region. I'm just curious if there's anything else on the partnership side that you may be looming here?

Q

Stephen J. Boyle

Chief Financial Officer & Executive Vice President, TD Ameritrade Holding Corp.

Well, okay. So clearly, Asia is a growth strategy for us. And as we've alluded to, many of the partnerships that we've established here in the United States, these aren't United States-based companies, so there are clearly relationships and discussions that are going on in Asia and in Mainland China as well. There's a lot of work going on. Nothing that we're ready to announce just yet. But we're building up in preparation for a – well, let's just call it an expanded growth curve once we get these – have these capabilities and these partnerships cemented.

A

Devin Ryan

Analyst, JMP Securities LLC

All right. Terrific. Look forward to it. Thank you.

Q

Timothy D. Hockey

Director, President & Chief Executive Officer, TD Ameritrade Holding Corp.

Thank you.

A

Operator: Next question comes from Chris Harris with Wells Fargo. Your line is open.

Christopher Harris

Analyst, Wells Fargo Securities LLC

Q

Thanks. Hey, guys.

Timothy D. Hockey

Director, President & Chief Executive Officer, TD Ameritrade Holding Corp.

Hey, Chris.

A

Christopher Harris

Analyst, Wells Fargo Securities LLC

So I wanted to ask you guys a question on the cash balances. A good bit of cash is now in purchase money market funds. And that's coming at the expense of the BDA balances. Have you guys given any thought or considered ways to monetize the balances to a greater extent that are in money funds. I guess, one of the options available to you is to create your own money market fund product. But I didn't know if there were other options that are potentially under consideration.

Q

Stephen J. Boyle

Chief Financial Officer & Executive Vice President, TD Ameritrade Holding Corp.

Yeah. So, Chris, we did see that as you noted. It did come down pretty significantly in this quarter relative to the prior quarter. And we do get paid on most of those funds that are moving either to sweep or to purchase money funds, we receive remuneration for that. So it's a positive for us. It's obviously not as much as we earn on – if they were [indiscernible] (05:29) deposits, but we're still keeping the money in-house, so we are running on them.

A

Timothy D. Hockey

Director, President & Chief Executive Officer, TD Ameritrade Holding Corp.

Yeah. And in terms of, Chris, product development side, always looking at what options our clients would like to have available to them. And when it makes an economic and strategic sense for us, we'll look to do, but we wouldn't pre-announce it on the call.

A

Christopher Harris

Analyst, Wells Fargo Securities LLC

Okay. Thanks for that, guys. Just a related follow-up. Would you consider offering a more competitive interest rate on less transactional cash balances to help support the BDA? Or is that not really under consideration at this point?

Q

Timothy D. Hockey

Director, President & Chief Executive Officer, TD Ameritrade Holding Corp.

Well, the nature of our business is that we think of the vast majority of the cash on hand as, call it, transactional-ready for the next opportunity to invest in. And so we found that the deposits themselves are generally quite sticky. When they're not, we have carried interest rates to accommodate clients looking for yield. And as a fallback, obviously, we have other products that are available to them.

A

So again, it's all on this continuum of what our clients thinking about in terms of the uses of their cash and how interested are they in keeping it; their powder dry for trade versus searching for yield. And as you know, that's an ongoing interesting discussion to have relative to the yield environment with yields now seeming to – and interest rates now seeming to have topped out for a period of time. That's one of the reasons why we think the cash sorting is maybe a topped out or abating now.

Christopher Harris

Analyst, Wells Fargo Securities LLC

Okay. Great. Thanks, guys.

Q

Operator: Your next question comes from Richard Repetto with Sandler O'Neill. Your line is open.

Richard Henry Repetto

Analyst, Sandler O'Neill & Partners LP

Yeah. Good morning, Tim. Good morning, Steve.

Q

Timothy D. Hockey

Director, President & Chief Executive Officer, TD Ameritrade Holding Corp.

Good morning, Rich.

A

Richard Henry Repetto

Analyst, Sandler O'Neill & Partners LP

Good morning. So the question is on marketing. We didn't see the typical \$20 million to \$30 million quarter-over-quarter increase we've talked about prior. So the question is, was that sort of an intra-quarter decision? And you talked about lower production and lower [indiscernible] (07:28) spend. I'm trying to understand what that actually means. And then, there was no change – even though you said it was going to be – it could be at the slightly below the annual guidance range, but there was no change to the overall expense guidance. Just a little color on that.

Q

Timothy D. Hockey

Director, President & Chief Executive Officer, TD Ameritrade Holding Corp.

Yes. So, Rich, specifically, on marketing, call it, two forces we'd like to hold our Chief Marketing Officer accountable to. The first one is to make the efficiency of spend constantly improve. And then, there's the market environments inside the months in the quarter. And so you've heard us say in the past when there is a high degree of retail engagement that we like to fish while the fish are biting. And that means we up our advertising spend to react to that. And we can turn pretty much on a dime on that front.

A

The same is also true and the opposite is also true, I should say, when the retail engagement diminishes a little bit. So we pull back. And that's probably what you saw, it's a little – yeah, it was an increase, but it was a little less of an increase than we would have expected in the March quarter. And so we will calibrate the spend overall relative to the environment that we're in. But knowing that's fundamentally the longer-term driver is to get more and more efficient with every dollar of spend for accounts, which has been the long-term trend.

Stephen J. Boyle

Chief Financial Officer & Executive Vice President, TD Ameritrade Holding Corp.

Yeah. And when we say production, we mean creative cost, Rich.

A

Timothy D. Hockey

Director, President & Chief Executive Officer, TD Ameritrade Holding Corp.

Yeah.

A

Stephen J. Boyle

Chief Financial Officer & Executive Vice President, TD Ameritrade Holding Corp.

A

So media spend less impacted than the overall advertising spend.

Richard Henry Repetto

Analyst, Sandler O'Neill & Partners LP

Q

Understood. Okay. And then, my follow-up would be, my favorite topic, Tim, on the revenue synergies side, any update there? You did mention something about Scottrade in the options, the increase in derivative trades. And I know that they were well below Scottrade on the options, they were well below the percentage that Ameritrade had. Any color on the improvement there or revenue synergies overall?

Timothy D. Hockey

Director, President & Chief Executive Officer, TD Ameritrade Holding Corp.

A

Yeah. I'd say, just as we've talked about the last few quarters since the integration, we're very pleased at the level of Scottrade revenue synergies. We said \$300-plus-million in five years and it feels like we're about a third of the way there already in terms of sort of macro numbers. Some additional color, yes, it comes through with much of the trading activity that's easier. The wallet – share wallet penetration is just the slower thing. And we're actually seeing that in our conversation about NNA, for example.

Remember, the Scottrade clients all of a sudden had a bunch of different new locations, new staff members, new systems to get introduced to. We did the integration about a year ago now. But they were only what we – we call the reseeding which means reintroduce to their new branch and staff. And that only happened about six months ago. So that's sort of wallet deepening exercise is always a longer-term thing. But the overall numbers are great, and the economics so far and the revenue synergies are coming up very well.

Richard Henry Repetto

Analyst, Sandler O'Neill & Partners LP

Q

Okay. Great. Thank you. Thanks for the info.

Operator: Next question comes from Michael Carrier of Bank of America. Your line is open.

Michael Carrier

Analyst, Bank of America Merrill Lynch

Q

Hi. Thanks. Good morning.

Timothy D. Hockey

Director, President & Chief Executive Officer, TD Ameritrade Holding Corp.

A

Good morning.

Michael Carrier

Analyst, Bank of America Merrill Lynch

Q

Steve, maybe first question. Just on the expenses, you mentioned just given the weaker backdrop in the quarter. And it looks like it's continuing in April. Just what are some of the levers that you have if we're maybe in this for another quarter or two, particularly on the trading side?

And I think you mentioned still looking for like positive operating leverage. And I think in the past, you mentioned like 200 basis points. So just wanted to get an update there. Do you feel like you can still generate that in a later revenue backdrop?

Stephen J. Boyle

Chief Financial Officer & Executive Vice President, TD Ameritrade Holding Corp.

A

Yeah. Great question. So we are committed to a positive operating leverage even as revenue growth diminishes. We have seen a little bit of weakness here. And so we are turning the shift on expenses. And so I think we talked to and gave guidance this year that a normal expense year would be 2% to 4%. This year we might have been more 4% to 7% as we did incremental investments. I think you're going to start to see some of those investments pay off that will start to drive our expenses lower, and then, some of the discretionary spending and whatnot, I think, you'll see us tighten up on.

So we would expect gradually to reduce the rate of growth over time, and probably next year we'd be more in that 2% to 4% – in the normal 2% to 4% range. So we are quite conscious of it, and driving it down slowly over time.

Timothy D. Hockey

Director, President & Chief Executive Officer, TD Ameritrade Holding Corp.

A

Michael, if I can just add on, you've heard us say this before. We've had the benefit of very strong revenue growth, very positive revenue tailwinds, interest rates, taxes, et cetera, et cetera. So all of those have been helpful to allow us to invest over the last couple of years amplified by the additional efficiency we've been getting in our tech spend. So it's been a great opportunity for us.

As revenues slow, the team here knows very clearly that we will operate under a operating leverage paradigm. And so on the other hand, relative to the other businesses I've run in the past, the nature of the volatility and revenues, trading levels, et cetera, can be, call it, more volatile in this business and others I've run. And so I don't want to have a fire drill-type exercise where people try to have hit operating leverage of 2% exactly every single quarter. That would drive frankly dumb decisions about cutting projects that are close to completion, et cetera, et cetera.

So as revenue curtails over the next couple of quarters, we will bring this down. And the team has the message. But it's a very firmly held paradigm. But it's over a few quarters as opposed to just every single quarter obviously.

Michael Carrier

Analyst, Bank of America Merrill Lynch

Q

Right. Okay. That makes sense. And then, maybe one follow-up, just on the interest rate sensitivity, so you guys included both the positive 25 basis points, and then the potential cut by the Fed, which I think is helpful. I just wanted to get some context around – I think the range was maybe \$0 million to \$75 million. So obviously, a wide range. But just what kind of goes into like the low-end versus the high-end, and hopefully, we're not – I think the things are getting a little bit better. So we don't have to go throw that anytime in the near term. But just wanted to get your thoughts there.

Timothy D. Hockey

Director, President & Chief Executive Officer, TD Ameritrade Holding Corp.

A

Yeah. So a great question. We have a decent amount of flexibility on the sensitivity. And if we do get a rate cut at some point in the future, obviously, it'll be a different environment than we've had for a while. We don't do this in a vacuum. We do pay attention to what competitors do. And we've seen in this cycle that competitors have been

pretty rational on pricing. So the range that we gave – essentially the high-end of the range would say that we sort of replicate. We reverse the betas that we had on the way up, on the way down.

We don't get hit too badly, because we do have a lot of our investments in fixed, which is hurting us a little bit today, but will obviously help us if rates go down. And then, the more positive number, I would say, if we aggressively bring rates down or we lag on our margin rates on the way down a little bit, you could see a much lower or even no impact due to declining rates. So that will be a game time decision. But we do have a fair amount of flexibility there.

Michael Carrier

Analyst, Bank of America Merrill Lynch

Q

Okay. Thanks a lot.

Operator: Your next question comes from Bill Katz with Citigroup. Please go ahead.

William Katz

Analyst, Citigroup Global Markets, Inc.

Q

Okay. Thank you very much. I think you mentioned in your – some of your prepared commentary last night that you could be at the low to perhaps below the low-end on pricing within the trading business. So I'm wondering if you could flesh it out a little bit. Is it a function of mix? You also mentioned pricing as well, just wondering where you're seeing the incremental pressure.

Timothy D. Hockey

Director, President & Chief Executive Officer, TD Ameritrade Holding Corp.

A

Yeah. So I think it continues to be a pretty competitive environment. So we feel pretty good about headline rate that seems to have calmed down a lot. But there is still a lot of hand-to-hand combat out there. We've increased the sophistication of our negotiation tools where we're looking on a customer-by-customer basis. But if we need to save good customers we are continuing to negotiate, we do think there's going to be some continued albeit moderate pressure on commissions going forward.

William Katz

Analyst, Citigroup Global Markets, Inc.

Q

Okay. And just as a follow-up. I'd just come back to expenses for a moment. Just try and make sure I understand dynamics a little bit better. I think I read last night that on one hand you feel like there is the opportunity for operating leverage. But, on the other hand, I thought the guidance was that your next couple of quarters could look like this quarter ex the ad spend. So is it – the second half of this fiscal year is baked in where and where the operating leverage would build, would be 2020 as the pace of growth slows? Or is it a little more flex within the second half of this year as well?

Stephen J. Boyle

Chief Financial Officer & Executive Vice President, TD Ameritrade Holding Corp.

A

Yeah. I think our comments were relative to today's situation. And I think, to the extent that we see additional weakness that's unexpected, we do have some levers to pull there. But to Tim's point, we think that will be a gradual grind down, and the bigger impact will be on 2020 expenses [indiscernible] (17:15) for the rest of the year.

William Katz

Analyst, Citigroup Global Markets, Inc.

Okay. Thank you very much.

Q

Operator: Your next question comes from Michael Cyprys with Morgan Stanley. Your line is open.

Michael J. Cyprys

Analyst, Morgan Stanley & Co. LLC

Hey. Good morning. Thanks for taking the question. I saw recently that you guys recently announced the decision to, I think, sell or exit part of your retirement plan business. I was just wondering if you could talk a little bit about what specific business that is that you are exiting or selling? Can you talk about what the proceeds might be and how you think about redeploying that as well?

Q

Timothy D. Hockey

Director, President & Chief Executive Officer, TD Ameritrade Holding Corp.

Yeah. So let me start and Steve can talk about the economics. This is a business that is what we call TDARP, TD Asset Retirement Plans – TD Ameritrade Retirement Plan, I should say. And it's something that we had been subscaling – it was a bit of a bolt-on. It was something that we wanted to continue to be able to offer to our RIA clients. But when Broadridge came to us and made an offer because they are a much larger player to be our supplier inside that stock, we thought this is a great opportunity to focus on the business a little bit more.

A

Stephen J. Boyle

Chief Financial Officer & Executive Vice President, TD Ameritrade Holding Corp.

Yes. So there are really two parts of the business. So one was business with third-party administrators. And that's the part that we sold. We're remaining in the – what we call TDARP, which is our business providing retirement plans for RIAs. And we are going to have Broadridge help us with some of the backend servicing on that. But that's still going to be available to our RIA clients. So it was really just creating a little bit more focus within the business on what we think is core to our future. And to your point, we do expect a small gain on that. And we'll talk more about that in the coming quarters as that comes to a close and what we plan to do with the proceeds there.

A

Timothy D. Hockey

Director, President & Chief Executive Officer, TD Ameritrade Holding Corp.

The way to think of it is, we're still in the business. We've just outsourced the custody at a cheaper, in a more efficient level. And so we think this is a great way to redeploy our own internal assets to something that is more on point and to partner up with Broadridge given they're good at the back office end.

A

Michael J. Cyprys

Analyst, Morgan Stanley & Co. LLC

Got it. Okay. Thanks for that. And then, just to follow up on your stock plan business, I saw you also made some recent moves partnerships this past quarter there. If you could just talk a little bit about some of those recent initiatives there, how – maybe a little bit of color about your stock plan business today, how big it is, how you're thinking about the opportunity set.

Q

And then, also related to that, curious your views around the opportunity set with private companies, private shares opportunity for helping broker and provide liquidity to firms that are staying longer in the private markets and the opportunity set that you see there for stock buyout.

Timothy D. Hockey

Director, President & Chief Executive Officer, TD Ameritrade Holding Corp.

A

Yeah. Thanks. So honestly, we are a bit surprised when our announcement about our new relationship with Certent went out this past year. It's been a bit of a change. Stock buying services is still a relatively small business for us. But we have aspirations for growth and we thought reestablishing a different mix and a relationship with Certent was important as part of that. But it's still relatively small. But we focus on the smaller to the middle market plans. And one of the things that Certent allows us to do is to work with private companies, but our current system did not. So it opens up some opportunities for us to fuel our growth.

Stephen J. Boyle

Chief Financial Officer & Executive Vice President, TD Ameritrade Holding Corp.

A

Yeah. And the new relationship is going to allow us to provide a little bit more of a customized TD Ameritrade offering. And we think that will be positive in the future.

Michael J. Cyprys

Analyst, Morgan Stanley & Co. LLC

Q

Okay. Thank you.

Operator: Your next question comes from Chris Shutler with William Blair. Your line is open.

Andrew Nicholas

Analyst, William Blair & Co. LLC

Q

Hi, guys. Good morning. This is actually Andrew Nicholas on for Chris. Maybe first a question for Tim. What kind of growth rates do you aspire to as a management team organically if you're not getting help from higher rates, and if the trading environment is more steady state? Are you putting any more emphasis on looking at acquisitions given the slow organic growth outlook? And if so, what are the areas we should be thinking about?

Timothy D. Hockey

Director, President & Chief Executive Officer, TD Ameritrade Holding Corp.

A

Yeah. So in terms of a growth rate from an asset point of view, as you know, we always like to get to the high-single-digits, but we're sort of in the mid- to high-single-digits now. Our revenue is more an environment as we said of trading itself and interest rates as that abates then you look to get the operating leverage we've been talking about. Your question specifically around acquisitions or not, let's – as we've always said, it's a pretty standard answer. We will take a look at anything that makes sense for us both strategically and financially.

There are some opportunities perhaps remaining in a consolidating industry. But at the end of the day, we've got to make sure that we're winning the day-in and day-out battle for the next client that we're focused on. So, yes, revenue growth is going to be tougher in the outlook that we're now seeing given the pretty significant shift in interest rate. But, on the other hand, we're very, very confident in our strategy, in our business model. And we're starting to see it pay through.

Andrew Nicholas

Analyst, William Blair & Co. LLC

Q

Great. Thank you. That makes sense. And then, changing gears a little bit. I think in the prepared remarks last night you mentioned an enhancement rollout to new advisors via the end-client website. And I think one of the things you had mentioned was some new cash management functionality. Just hoping you could maybe add a little bit more color to what that would be and give a little bit more detail there.

Timothy D. Hockey

Director, President & Chief Executive Officer, TD Ameritrade Holding Corp.

A

I'm actually trying to think about. We certainly did the client advisor...

Stephen J. Boyle

Chief Financial Officer & Executive Vice President, TD Ameritrade Holding Corp.

A

Yes. So what we've tried to do [indiscernible] (22:59) cash management thing. What we've tried to do is we've rolled out a new advisor client platform. So in the past, when our RIA ultimate clients looked at our materials like our client website. And now, we've customized that so they have a special more simplified view for investors to meet their needs.

Timothy D. Hockey

Director, President & Chief Executive Officer, TD Ameritrade Holding Corp.

A

A couple of other features that we talked about obviously the new Virtual Agent chat functionality, ability for clients to move money themselves versus the advisor client. It's sort of more self-service; simplifies the experience. And they like it a lot. They like to have a – it takes a lot of the administration away from the advisors answering those questions themselves.

Andrew Nicholas

Analyst, William Blair & Co. LLC

Q

Sounds good. Thank you.

Operator: Next question comes from Dan Fannon with Jefferies. Please go ahead.

Daniel T. Fannon

Analyst, Jefferies LLC

A

Could you expand a bit on the trend? In interest earning assets, obviously margin has come up a bit here in the March quarter. Maybe you talked briefly about what it's done in April, but also then seg cash and then the other bucket have moved a fair amount in the quarter, kind of some of the dynamics there?

Timothy D. Hockey

Director, President & Chief Executive Officer, TD Ameritrade Holding Corp.

A

Yeah. So we saw a nice bump-up in March, in this quarter as the markets have recovered, we would expect our margin to recover as well. We don't give out anything on April margin balances. Obviously, we'll do our monthly disclosures going forward. And we're pretty optimistic that if this environment continues that margin should continue to grow for us. The seg cash item was really just an anomaly at year-end. The way we do our weekly seg calculations, we had a bunch of money that looked to be corporate cash that was locked up very soon after quarter end. And so where we are now is more indicative of what we'd expect in the future.

Daniel T. Fannon
Analyst, Jefferies LLC

A

Okay. And then, just in terms of the buyback, I guess, Steve, how would you characterize this quarter in terms of activity? And it's been a little bit up and down in the last few quarters. And so just wanted to think about the program and any kind of curtailments that we might see going forward? Or should we think about a more steady state for the remainder of this year?

Stephen J. Boyle
Chief Financial Officer & Executive Vice President, TD Ameritrade Holding Corp.

A

Yeah. So we're pretty focused on the annual guidance. And we feel pretty comfortable with that. We're trending towards the high end of the announced range that we had. And

so you may see some bumps quarter to quarter based on timing and whatnot. But we would expect to be pretty consistent buyers of our shares over time.

Daniel T. Fannon
Analyst, Jefferies LLC

A

Great. Thank you.

Operator: Next question comes from Brian Bedell with Deutsche Bank. Please go ahead.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thanks very much. Maybe, Tim, if you can maybe characterize client behavior a little more sort of coming into the end of the first quarter and into April? In terms of – obviously, we have the slower DARTs that you disclosed. But we've also seen pretty good growth in your ETF marketplace. I'm just trying to get a sense of are clients doing more investing through ETF through ETF marketplace? Or do you see more engagement in trading and looking at your net buy-in so obviously which is really strong in the first quarter? Are they continuing to do that in April? And is that sort of coming out of cash, so to speak?

Timothy D. Hockey
Director, President & Chief Executive Officer, TD Ameritrade Holding Corp.

A

Yeah. So as you noted, very strong net buying in both retail and institutional. I would say, the tone is sort of cautiously optimistic that there has been obviously a very significant drop in the VIX in this past quarter, so the trading levels were low, and – but clients were taking the opportunity to get back into the marketplace and take advantage of the lower prices at the end of last year [indiscernible] (27:08) up. In the ETF Market Center, we've now got over \$40 billion. And so I'd say, there continues to be interest in products, and as we said, a little bit the cash sorting has moved us more into the fixed income higher yielding instruments over the last little while.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.

Q

Right. And based on how you're seeing that trending on the disclosure in the DARTs, do you see that trend continuing – those trends continuing into April based on that lower trading [indiscernible] (27:38).

Timothy D. Hockey

Director, President & Chief Executive Officer, TD Ameritrade Holding Corp.

Yeah. Absolute trading levels still seem somewhat unmuted.

A

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

Yeah. And more like client cash deployment into the markets and into the ETF.

Q

Timothy D. Hockey

Director, President & Chief Executive Officer, TD Ameritrade Holding Corp.

No. Well, as we said earlier, that seems to be abating from rates – from levels that were a little higher in the previous quarter. So we're seeing that sort of continue to move. So as you'd expect given the interest rate outlook and what's happened to the curves.

A

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

Great. Okay. And then, the follow-up would be on the BDA strategy. In terms of – maybe, Steve, the floating rate portion, I know that at 19%, just thinking about that going forward and your extensions are now at the five year, I guess, both how do you view the – where you might want – where you might want to keep floating balances at going forward, and what type of spread you would like to see to get you back into the seven-year extension?

Q

Stephen J. Boyle

Chief Financial Officer & Executive Vice President, TD Ameritrade Holding Corp.

Yeah. So we've historically tried to stick pretty closely to our hedge profile. We saw the percent of floating balances tick down a little bit and it spiked at year end as we got that surge of RIA cash in the calendar fourth quarter or the first fiscal quarter. We'd expect to be pretty consistent over time. We think that staying in fixed allows us to guard against rates going down. But 19% is pretty consistent with, I think, where we'd like to be over the future.

A

In terms of the seven-year, we'd like to see a normalization to the historic five-year, seven-year spread before we start extending at the seven-year point in the curve again.

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

Right. Okay. And if client cash continues to move down, how would that impact your positioning on the floating portion of the book?

Q

Stephen J. Boyle

Chief Financial Officer & Executive Vice President, TD Ameritrade Holding Corp.

We have a lot of flexibilities. So we don't see any issues in maintaining our floating rate balances.

A

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

Got it. Got it. Okay. Great. Thank you.

Q

Operator: Your next question comes from Kyle Voigt with KBW. Your line is open.

Kyle Voigt

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Yeah. First, can I just ask which is a follow-up on the last question, but just in terms of the tax season specifically, there's been talk of tax reform causing some higher tax bills for individuals. Just wondering if you can comment there if you're seeing anything different this year versus prior years.

Timothy D. Hockey

Director, President & Chief Executive Officer, TD Ameritrade Holding Corp.

A

Yeah. Great question. We've asked the question because you do see that it exactly this time of year the cash outflows generally to pay taxes. So we went back and looked at on relative other years doesn't seem to be really an outlier although I wanted the exact same thing whether you'd see with less supposed refunds coming that there would be more cash, it doesn't seem to be a larger driver, little tough to tease out.

Kyle Voigt

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. And then just another question on just the corporate cash balances. I think you have close to \$1.1 billion in excess cash on the balance sheet. Just wondering like what's the right level or the minimum level that you're willing to go down in terms of corporate cash? And then, how should we be thinking about uses of that cash over time being deployed?

Timothy D. Hockey

Director, President & Chief Executive Officer, TD Ameritrade Holding Corp.

A

Yeah. We don't give out a detailed number or a specific level. But we do have plenty of liquidity right now. And we're going to continue [indiscernible] (31:10) opportunities opportunistically as we go forward.

Kyle Voigt

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. Thank you.

Operator: Next question comes from Patrick O'Shaughnessy with Raymond James. Please go ahead.

Patrick O'Shaughnessy

Analyst, Raymond James & Associates, Inc.

Q

Hey. Good morning, guys. So first of all, thank you for the additional detail into your client asset composition. And one of the things that I think jumped out to me was the client fixed income assets were up, I think, it was 26% year-over-year in the March quarter. Our clients using fixed income instruments as cash alternatives? Or is there something else going on with that asset bucket?

Timothy D. Hockey

Director, President & Chief Executive Officer, TD Ameritrade Holding Corp.

A

Yeah. That's part of the sorting that people are doing as they're trying to figure out what's the instrument that's right for them. So we've seen a trend up in that category. Absolutely.

Stephen J. Boyle

Chief Financial Officer & Executive Vice President, TD Ameritrade Holding Corp.

A

Yeah. I think what you're seeing, Patrick, is the attractive rates on brokered CDs on our platform are driving some client interest. And so that's included in that bucket.

Timothy D. Hockey

Director, President & Chief Executive Officer, TD Ameritrade Holding Corp.

A

Yeah.

Patrick O'Shaughnessy

Analyst, Raymond James & Associates, Inc.

Q

Great. And then, there was a footnote in your Q&A, where you spoke to – or you mentioned client pay changes in early April. Can you provide a little more color on what those client pay changes were specific to the BDA?

Timothy D. Hockey

Director, President & Chief Executive Officer, TD Ameritrade Holding Corp.

A

Oh, we made some very minor adjustments in some of the lower tiers as we figure out what client sensitivity – sorry, we weren't sure you're talking about it. Yeah. We tweaked the rates basically very, very – in a minor ways in some of the tiers inside our BDA.

Stephen J. Boyle

Chief Financial Officer & Executive Vice President, TD Ameritrade Holding Corp.

A

Yeah. So what we try to do is look each month that client behavior and see where there are opportunities to make changes. And so we're just able to tweak a couple of rates there, and some tiers that we thought were quite price-sensitive.

Patrick O'Shaughnessy

Analyst, Raymond James & Associates, Inc.

Q

All right. Great. Thank you.

Operator: Next question comes from Brennan Hawken with UBS. Please go ahead.

Brennan Hawken

Analyst, UBS Securities LLC

Q

Hey. Good morning. Most of my questions have been answered. Maybe just a few follow-ups. So on the point there are about potential brokered CDs, have you approached potentially TD given the relationship that you guys have with them, the BDA that you offer to consider whether or not there might be some chances to term out some of these deposits with a clearly a strategic partner in a way that could help improve the economics for everyone involved?

Timothy D. Hockey

Director, President & Chief Executive Officer, TD Ameritrade Holding Corp.

A

Well, we're already terming out our BDA. We do have a lot of options in our brokered CDs right now. TD tends not to be a big offerer of brokered CDs. We have a whole stable of banks that provide lots of different brokered CD

options. So it's a pretty robust part of our offering for our clients. And in terms of our own money that's left, we have a significant amount of flexibility as to where we want to invest those.

Brennan Hawken

Analyst, UBS Securities LLC

Q

Yeah. No, when I said terms, sorry, I'm not terming the customers out. Obviously, we know that you guys go with the latter. But okay, if they're not big into that offering, then that's not going to work so well.

And then, just a follow-up on the Certent point, so it seems like you guys are approaching this from a white-label perspective, is that right? And does that suggest that it's going to be kind of a long-term commitment to use their technology? And then, through the course of that, are you looking to build up some particular skills and capabilities within your own employee base around some of these plans? Can you put a little more meat on some of the bones around how you guys intend to approach it strategically from your perspective as far as the capability goes? Thanks.

Timothy D. Hockey

Director, President & Chief Executive Officer, TD Ameritrade Holding Corp.

A

Yeah. So first of all, strategically, yes, it's a growth opportunity for us albeit small as we said. So our Certent deal, I think we signed as a three-year deal, but we would expect that to continue grow. Your question about white-label, yes, that's correct. And we have a very capable and dedicated team in our Stock Plan Services business. And we're looking forward to great growth from them. But it's again just a relatively small part of our business.

Brennan Hawken

Analyst, UBS Securities LLC

Q

Thanks for the color.

Operator: Next question comes from Craig Siegenthaler with Credit Suisse. Your line is open.

Craig Siegenthaler

Analyst, Credit Suisse Securities (USA) LLC

Q

Good morning. I just wanted to see if you could update us on your thoughts between the spread between client, asset and revenue growth. Just because excluding spread revenues, we have seen a long-term decline in the ROCA and I just wanted to see if you have any thoughts in the forward trends?

Stephen J. Boyle

Chief Financial Officer & Executive Vice President, TD Ameritrade Holding Corp.

A

Yeah. So we do see a little bit more growth in our institutional business that tends to be a little bit lower revenue business, but a lower expense business as well. And so we think we get great profit margins in all of our businesses, and that we should be able to continue to grow EPS, which is really our key focus.

Craig Siegenthaler

Analyst, Credit Suisse Securities (USA) LLC

Q

I mean, just as my follow-up on investment product fees, they continue to tick down here. And I think you attributed most of that to the ETF Center (sic) ETF Market Center (36:15) growth. But that will probably grow faster than the overall business going forward. So is there any reason that this line shouldn't continue to tick lower? And is there any other items in there?

Stephen J. Boyle

Chief Financial Officer & Executive Vice President, TD Ameritrade Holding Corp.

A

Yeah. So there were a couple timing items both in the fourth quarter – the calendar of fourth quarter, fiscal first quarter and this quarter. So that rate on investment product fees was probably just a little bit high in the first quarter, and a little bit low this quarter. So I think you'll see that bounce back as we move forward. Other than that, we've expected more to grow with balances.

Craig Siegenthaler

Analyst, Credit Suisse Securities (USA) LLC

Q

Thank you, Steve.

Operator: And we have a question from Steven Chubak with Wolfe Research. Please go ahead.

Steven Chubak

Analyst, Wolfe Research LLC

Q

Hey, good morning.

Timothy D. Hockey

Director, President & Chief Executive Officer, TD Ameritrade Holding Corp.

A

Good morning, Steve.

Steven Chubak

Analyst, Wolfe Research LLC

Q

So first question I had was on the client cash balance disclosure. Certainly, really appreciate the fact that you guys are willing to provide the additional detail. I was hoping that you could give us some rough numbers for on what the rough fee rates are across each of the different – across the four cash buckets that you listed, just so we can more accurately forecast the revenue impacts in the event some of those cash sorting dynamics persist?

Timothy D. Hockey

Director, President & Chief Executive Officer, TD Ameritrade Holding Corp.

A

Yeah. No, we don't give out that information. So it's all blended in the investment product fee number, which has been pretty stable over time.

Steven Chubak

Analyst, Wolfe Research LLC

Q

Got it. Okay. And just one follow-up for me on subscription pricing model. It's an idea that's been thrown around for the trading business. And I guess the hope is that it could be perceived by the marketplace as something that's higher multiple, drive more predictable and sustainable fee streams. I was wondering if you can update us on how your thoughts have revolved around the prospect of maybe launching a more subscription-based model?

Timothy D. Hockey

Director, President & Chief Executive Officer, TD Ameritrade Holding Corp.

A

Yeah. I think generally and probably driven by the tech industry, there's quite a shine on subscription-based models. But I would broaden that out to say that there is multiple pricing options and models that one can take when looking at any industry in any business. And so we've got some work underway as part of our strategy work

to say what are those options available to us and which are the most attractive and which would be palatable from a client point of view. So nothing to talk about here other than that we're always looking at it subscription models are interesting, but there's other versions that we could consider as well.

Steven Chubak

Analyst, Wolfe Research LLC



Great. Thanks for taking my questions.

Operator: At this time, I will turn the call over to the presenters.

Timothy D. Hockey

Director, President & Chief Executive Officer, TD Ameritrade Holding Corp.

Great. Well, thanks, everybody. Appreciate it. Lots of calls and lots of ability to give some color on the result. As we said, I think in hindsight, when we looked at the tone that we had set in the prepared remarks, it sounded like it was a little bit more dour than we had anticipated. But frankly, as I said, we're quite confident that our client-first strategy is working and our client satisfaction scores are up nicely actually in the quarter, which we're happy about. And we see some bright lights in terms of organic growth in the future notwithstanding a slightly slower Q1 so – I should say Q2. And thanks everybody for calling in. We'll talk next quarter.

Operator: This concludes today's conference call. You may now disconnect.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2019 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.