



Impact for TD Bank of Schwab's Acquisition of TD Ameritrade

November 25, 2019

Caution Regarding Forward-Looking Statements



From time to time, the Bank (as defined in this document) makes written and/or oral forward-looking statements, including in this document, in other filings with Canadian regulators or the United States (U.S.) Securities and Exchange Commission (SEC), and in other communications. In addition, representatives of the Bank may make forward-looking statements orally to analysts, investors, the media, and others. All such statements are made pursuant to the "safe harbour" provisions of, and are intended to be forward-looking statements under, applicable Canadian and U.S. securities legislation, including the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements include, but are not limited to, statements made in this document, the Management's Discussion and Analysis ("2018 MD&A") in the Bank's 2018 Annual Report under the heading "Economic Summary and Outlook", for the Canadian Retail, U.S. Retail, and Wholesale Banking segments under headings "Business Outlook and Focus for 2019", and for the Corporate segment, "Focus for 2019", and in other statements regarding the Bank's objectives and priorities for 2019 and beyond and strategies to achieve them, the regulatory environment in which the Bank operates, and the Bank's anticipated financial performance. Forward-looking statements are typically identified by words such as "will", "would", "should", "believe", "expect", "anticipate", "intend", "estimate", "plan", "goal", "target", "may", and "could".

By their very nature, these forward-looking statements require the Bank to make assumptions and are subject to inherent risks and uncertainties, general and specific. Especially in light of the uncertainty related to the physical, financial, economic, political, and regulatory environments, such risks and uncertainties – many of which are beyond the Bank's control and the effects of which can be difficult to predict – may cause actual results to differ materially from the expectations expressed in the forward-looking statements. Risk factors that could cause, individually or in the aggregate, such differences include: credit, market (including equity, commodity, foreign exchange, interest rate, and credit spreads), liquidity, operational (including technology and infrastructure), reputational, insurance, strategic, regulatory, legal, environmental, capital adequacy, and other risks. Examples of such risk factors include the general business and economic conditions in the regions in which the Bank operates; the ability of the Bank to execute on key priorities, including the successful completion of acquisitions and dispositions, business retention plans, and strategic plans and to attract, develop, and retain key executives; disruptions in or attacks (including cyber-attacks) on the Bank's information technology, internet, network access or other voice or data communications systems or services; the evolution of various types of fraud or other criminal behaviour to which the Bank is exposed; the failure of third parties to comply with their obligations to the Bank or its affiliates, including relating to the care and control of information; the impact of new and changes to, or application of, current laws and regulations, including without limitation tax laws, capital guidelines and liquidity regulatory guidance, and the bank recapitalization "bail-in" regime; exposure related to significant litigation and regulatory matters; increased competition, including through internet and mobile banking and non-traditional competitors; changes to the Bank's credit ratings; changes in currency and interest rates (including the possibility of negative interest rates); increased funding costs and market volatility due to market illiquidity and competition for funding; critical accounting estimates and changes to accounting standards, policies, and methods used by the Bank; existing and potential international debt crises; and the occurrence of natural and unnatural catastrophic events and claims resulting from such events.

The acquisition of TD Ameritrade by The Charles Schwab Corporation ("Schwab") is subject to majority approval by the shareholders of each of TD Ameritrade and Schwab, and majority approval of TD Ameritrade's shareholders other than TD and certain other shareholders of TD Ameritrade that have entered into voting agreements, regulatory approvals, and certain other conditions. There is no assurance that the acquisition will be completed as described in this document or at all, or that the Stockholders Agreement and IDA will become effective. There can be no assurance that the Bank will realize the anticipated benefits or results; actual results could differ materially from the expectations expressed in the forward-looking statements. Examples of material assumptions made by the Bank in the forward-looking statements, including the Bank's expectations regarding the costs and financial impact of the transaction, include assumptions regarding Schwab's future net income, transaction costs, transaction process and timeline, expected synergies, future Bank capitalization, tax rate, currency conversion rate, and financial results, based on the Bank's experience.

The Bank cautions that the preceding list is not exhaustive of all possible risk factors and other factors could also adversely affect the Bank's results. For more detailed information, please refer to the "Risk Factors and Management" section of the 2018 MD&A, as may be updated in subsequently filed quarterly reports to shareholders and news releases (as applicable) related to any events or transactions discussed under the headings "Significant Events" and "Significant and Subsequent Events in 2019" in the relevant MD&A, which applicable releases may be found on www.td.com. All such factors should be considered carefully, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements, when making decisions with respect to the Bank and the Bank cautions readers not to place undue reliance on the Bank's forward-looking statements.

Material economic assumptions underlying the forward-looking statements contained in this document are set out in the 2018 MD&A under the headings "Economic Summary and Outlook", for the Canadian Retail, U.S. Retail, and Wholesale Banking segments, "Business Outlook and Focus for 2019", and for the Corporate segment, "Focus for 2019", each as may be updated in subsequently filed quarterly reports to shareholders.

Any forward-looking statements contained in this document represent the views of management only as of the date hereof and are presented for the purpose of assisting the Bank's shareholders and analysts in understanding the Bank's financial position, objectives and priorities and anticipated financial performance as at and for the periods ended on the dates presented, and may not be appropriate for other purposes. The Bank does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by or on its behalf, except as required under applicable securities legislation.

- **Transaction extends TD's long history in the direct investing space**
 - Pioneer in Canadian market with launch of TD Green Line (1984)
 - Leading player in U.S. market since acquisition of Waterhouse Securities (1996)
 - Successful relationship with TD Ameritrade that has generated significant value (2005)
- **Schwab's acquisition of TD Ameritrade gives TD an ownership stake in a wealth provider with the size, scale and capabilities to drive continued growth:**
 - 24 million client accounts and US\$5 trillion in client assets (pro forma)
 - Diversified revenue base, and significant opportunities for synergies, which are expected to generate significant accretion once realized
 - Schwab's highly-regarded brand and customer-centric model
- **Transaction generates immediate value for TD and provides a strong foundation for future growth**
 - Overall, the transaction is expected to be modestly accretive once integration is complete
 - Significant potential for cost and revenue synergies
 - Insured Deposit Account (IDA) agreement revised and extended at lower fee
 - Value of equity stake expected to increase via synergies and stronger growth potential
 - Potential to explore further business opportunities with Schwab

Highlights



- **Transaction Details**
 - Stock-for-stock transaction at 1.0837 Schwab shares for each TD Ameritrade share (17% premium¹)
 - TD's ~43% ownership in TD Ameritrade will become a ~13.4% stake in pro forma firm
 - Expect to continue equity method of accounting
 - Closing expected in second half of calendar 2020, subject to certain conditions and approvals
- **New Stockholders Agreement**
 - New Stockholders Agreement effective upon closing
 - TD will have 2 seats on Schwab's Board of Directors
 - TD will be subject to customary standstill and lockup restrictions
 - TD will hold its stake via a maximum of 9.9% voting common shares, with the remainder in non-voting common shares, convertible upon transfer to a third party
- **Revised IDA Agreement**
 - Revised, long-term IDA effective upon closing
 - Starting July 1, 2021, Schwab has the option to reduce the IDA deposits (US\$103bn as at July 31, 2019) by up to US\$10bn a year, with a floor of US\$50bn
 - Servicing fee reduced to 15 bps upon closing
 - Term of revised IDA agreement extends to 2031
- **Financial Impact**
 - Significant potential value creation through earnings accretion and multiple expansion
 - Expect to realize a sizeable revaluation gain on closing, based on Schwab's share price
 - Expect minimal capital impact at close

1. 17% premium over the 30-day volume weighted average price exchange ratio as of November 20, 2019.

Illustrative Impact on TD's Earnings



C\$ millions (after tax), unless otherwise indicated.

Assumes 1.33 CAD/USD

Baseline for calculation of incremental impact: TD 43.2% Share of CY 2021 TD Ameritrade Consensus Net Income: C\$940 million

Incremental Impact	Year 1	Year 2	Year 3
Reported Earnings ^{1,2}	(\$160)	(\$70)	(\$10)
Reported EPS ³	(\$0.09)	(\$0.04)	(\$0.01)
Adjusted Earnings ¹	(\$25)	\$65	\$125
Adjusted EPS ³	(\$0.01)	\$0.04	\$0.07

Modestly accretive once integration is complete

Note: Year 1 denotes first 12 months after close.

1. Reflects TD's estimate of its share of Schwab's potential US\$3.75bn pre-tax total synergies, as disclosed by Schwab using midpoint of their US\$3.5-4.0bn range, and the estimated impact of the revised and extended IDA agreement.

2. Reflects TD's share of Schwab's estimated integration charges and preliminary estimate of TD's incremental amortization of intangibles related to the transaction.

3. EPS based on TD's weighted-average number of common shares outstanding (diluted) of 1,828.6 million, as at Q3 2019.

Illustrative Value Creation: TD Investment in Schwab



C\$ millions (after tax), unless otherwise indicated.
Assumes 1.33 CAD/USD

Baseline for calculation of incremental value:

- TD's 43.2% Share of CY 2021 TD Ameritrade Consensus Net Income: **\$940 million**
- Current TD Ameritrade multiple: **13.7x**
- Current market value of TD's Investment in TD Ameritrade: **\$12.9 billion¹**
- TD's 13.4% Share of CY 2021 Schwab Pro Forma Consensus Net Income Pre-Synergies: **\$940 million**

Increase in Value of TD Investment in Schwab Assuming 2021 Net Income with Expense Synergies Only

	None ³	Partial ⁴	Full ⁵
13.7x (TD Ameritrade multiple)²	---	\$1.7 billion	\$3.5 billion
15.3x (blended multiple)²	\$1.5 billion	\$3.5 billion	\$5.4 billion
16.0x (Schwab multiple)²	\$2.2 billion	\$4.2 billion	\$6.2 billion

Potential for \$4-6 billion increase in value of TD's investment

Note: Market capitalization and consensus estimates as of November 20, 2019. Source: FactSet.

1. TD's investment in TD Ameritrade as of November 20: 234mn shares @ US\$41.38 (November 20 market price) x 1.33 CAD/USD = \$12.9bn.

2. Multiple of market capitalization / consensus median 2021E cash net income.

3. Illustrative market value of TD's ~13.4% share in Schwab prior to the realization of any synergies.

4. Illustrative market value of TD's ~13.4% share in Schwab's pro forma consensus median 2021E cash net income, illustratively assuming US\$1.9bn of potential pre-tax cost synergies (as disclosed by Schwab, using the midpoint of their US\$1.8-2.0bn range), 50% phased in. Calculation as described in footnote 5.

5. Illustrative market value of TD's ~13.4% share in Schwab's pro forma consensus median 2021E cash net income, illustratively assuming US\$1.9bn of potential pre-tax cost synergies are fully phased in. Sample calculation: US\$1.9bn x 13.4% = US\$255mn, tax effected at 25% x 1.33 CAD/USD = \$255mn after tax. (((\$255mn @ 100% + \$940mn) x 16.0x) - \$12.9bn = \$6.2bn.



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