TD BANK GROUP
TD'S SALE OF ITS INVESTMENT IN SCHWAB
FEBRUARY 11, 2025

DISCLAIMER

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All such factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements, should be considered carefully when making decisions with respect to the Bank. 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 and/or on the conference call held to discuss these matters are set out in this document, as well as in the 2024 MD&A, under the headings "Economic Summary and Outlook" and "Significant Events", under the headings "Key Priorities for 2025" and "Operating Environment and Outlook" for the Canadian Personal and Commercial Banking, U.S. Retail, Wealth Management and Insurance, and Wholesale Banking segments, and under the heading "2024 Accomplishments and Focus for 2025" for the Corporate segment, each as may be updated in subsequently filed quarterly reports to shareholders. In addition, with respect to the Bank's estimates regarding EPS accretion, assumptions have been made with respect to the following key factors: foreign exchange fluctuations, tax rates, average analyst consensus estimates for the Bank's fiscal 2025 adjusted net income, value of the Q1 Schwab equity pick-up, and number of shares purchased for cancellation under the Bank's proposed normal course issuer bid (which remains subject to regulatory approvals), and earnings on investments. With respect to the Bank's estimates regarding net proceeds, assumptions have been made with respect to the following key factors: foreign exchange fluctuations and tax rates. With respect to the Bank's estimates regarding investment rate of return, assumptions have been made with respect to foreign exchange fluctuations. With respect to the Bank's estimates regarding CET1 impact, assumptions have been made with respect to the following key factors: foreign exchange fluctuations, tax rates, number of shares purchased for cancellation under the Bank's proposed normal course issuer bid (which remains subject to regulatory approvals), and risk-weighted asset levels. The illustrative impact on TD's earnings per share on a run-rate basis is based on analyst consensus estimates of TD's and Schwab's future adjusted results, and we caution that the methodology applied by analysts to estimate those results may not be consistent with TD's methodology. For reference, an example of TD's reconciliation of reported results to adjusted results is available in TD's 2024 MD&A.

Any forward-looking statements contained in this document and/or on the conference call held to discuss these matters 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.

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PRESENTATION

Brooke Hales – TD Bank Group – Head of Investor Relations

Thank you, operator. Good morning and welcome to TD Bank Group’s conference call.

We will begin today’s presentation with remarks from Ray Chun, the Bank’s CEO, after which Kelvin Tran, TD's CFO, will summarize the financial aspects of the transaction. Then, we will invite questions from pre-qualified analysts and investors on the phone. Tim Wiggan, Group Head, Wholesale Banking, is also on the call today to answer your questions.

As noted on Slide 2, our comments during this call may contain forward-looking statements, which involve assumptions and have inherent risks and uncertainties. Actual results could differ materially.

Finally, I will note that we are currently in a quiet period and will not be offering comments on our Q1 results on this call, nor will we take questions on those results.

With that, let me turn the presentation over to Ray.

Raymond Chun – TD Bank Group – Group President and CEO

Thank you, Brooke. Good morning, everyone, and thank you for joining us today.

I know there is already a lot of information about this transaction in the public domain. But I wanted to have this call so you could hear about it directly from me – and to provide an opportunity for you to ask any questions.

As you know, we are undertaking a comprehensive strategic review at the Bank. I have communicated that, as part of our work, we are reviewing capital allocation priorities across the enterprise – to help ensure that we are optimizing TD's capital and acting as good stewards of capital on behalf of shareholders. Our strategic review will culminate in an Investor Day in the second half of 2025, but as I have said, you won't have to wait until then to hear more. In this context, yesterday, we announced the sale of TD's entire 10.1% stake in Schwab.

We have a terrific relationship with Schwab. This includes our significant Insured Deposit Account Agreement – which is independent of the decision to sell and remains in place unchanged. As part of the strategic review, we made the strategic and financial decision to monetize our Schwab equity investment.

Through the review, we are identifying compelling organic growth opportunities.

And today's sale also delivers strong financial returns. As many of you recall, TD acquired the Schwab stake as part of our sale of TD Ameritrade, which was completed in 2020. Since then, Schwab has been a terrific financial investment for TD – delivering an enviable cash internal rate of return of approximately 23%. Subject to regulatory approval, we intend to deploy $8 billion – or over 50% of the capital released – to buy back TD shares over 12 months. This represents compelling long-term value. The Bank's current share price valuation does not reflect management's expectation for TD's future performance. We have confidence in our strategy and in our ability to execute against it. And we are pursuing the Schwab share sale at nearly double the multiple of the contemplated TD share buyback – a very attractive relative valuation.

TD's significant share buyback will enhance shareholder returns. We will provide updates on share repurchases on our quarterly earning calls. With the remaining funding and capital, we will invest in a targeted and value-driven manner to drive organic growth. As just one example, in Canada, the single largest opportunity for TD is to deepen our relationships with our more than 14 million customers. There are significant organic growth opportunities in Canada. As always, we will manage our capital prudently, to ensure that we have the flexibility to continue to support our clients' growth.

We have strong momentum across our businesses and through the strategic review we are identifying opportunities to accelerate that momentum. The strategic review is organized around four pillars: first, rebalancing our business mix and capital allocation, as reflected in today's sale of our Schwab equity investment; second, simplifying our portfolio, including our previous communications around exiting certain lower ROE, non-franchise portfolios in U.S. Retail; third, optimizing our cost base to reduce structural costs; and fourth, evolving the Bank and accelerating capabilities, including investments in technology modernization and digital.

Accelerating organic growth is our focus. As we advance the strategic review, we are excited about the opportunity to invest. Once we have clear line of sight on those investments and have completed our current share buyback – if we have additional capital and depending on market conditions – we would consider further buybacks. As decisions are made through the strategic review, we will provide updates to the market – as we have done today.

Now finally, before I turn it over to Kelvin to walk through the financial details of the transaction, I want to share how excited I am about TD Securities' critical role in today's sale. TD Securities acted as a lead bookrunner on this transaction – one of the largest equity capital markets deals ever done in global markets. The strong capabilities demonstrated by the TD Securities / TD Cowen team – including our expanded FIG franchise – is yet another example of the power of our combined business, and indicative of the bright future ahead.

With that, Kelvin, over to you.

Kelvin Tran – TD Bank Group – Group Head and Chief Financial Officer

Thank you, Ray. Please turn to Slide 4.

TD sold its Schwab shares at US$79.25 per share, approximately 19x estimated 2025 Schwab EPS. Schwab's share price is up 121% since TD acquired the shares back in October 2020, with an IRR to TD of approximately 23% on an unlevered cash basis with a cash-on-cash return of 2.2x. As Ray said, Schwab has been a fantastic investment for TD. In divesting these shares now, TD is taking advantage of an attractive market opportunity.

After taxes and fees, TD will receive net proceeds of US$13.9 billion, or $20.0 billion in Canadian dollars. The transaction will create $15.1 billion – or 247 basis points – in CET1 capital. In the appendix to today's investor presentation, we have provided details on the CET1 capital released to help assist stakeholders in their analysis.

As Ray noted, we will use $8 billion of the capital released to repurchase up to 100 million TD shares, pursuant to a normal course issuer bid. Net of this contemplated share buyback, the Schwab share sale creates approximately 116 basis points in CET1 capital. The NCIB is subject to regulatory approval and is expected to be completed by early calendar 2026. Through the NCIB, TD will return capital to shareholders and drive returns.

Taking into account the reduction in the Schwab equity pick-up, earnings on investments, and the share buyback, TD's sale of its Schwab stake is expected to be accretive on a run-rate basis. Additional information on our illustrative run-rate EPS accretion calculation is provided in the appendix to today's investor presentation. It's important to note that the calculation provided is conservative. It assumes that the $12B in proceeds that is not used for share buybacks will be held in investments, earning a 5% return, pre-tax. Through the strategic review, we are identifying compelling opportunities to invest in our business, targeting a higher rate of return.

To sum up, TD's sale of its Schwab stake is a compelling financial transaction that delivers impressive returns. And it frees up funding and capital for the Bank to allocate as it advances its strategic review – giving TD significant flexibility to invest for organic growth.

With that, I will hand it back over to Ray.

Raymond Chun – TD Bank Group – Group President and CEO

Thank you, Kelvin.

As we have said, AML remediation remains the Bank's #1 priority. We will continue to strengthen our infrastructure. Our focus is unwavering. The sale of TD's stake in Schwab is a critical step as we write TD's next chapter. Subject to regulatory approval, we intend to buy back $8 billion in TD shares – a testament to our conviction and confidence in TD's future performance. And the additional capital will give us significant opportunities to accelerate our organic growth. TD will maintain prudent capital levels, ensuring the Bank has the flexibility to continue to support our clients' growth while we build the Bank for the future. We look forward to sharing updates as we advance our strategic review – and to continuing to provide transparent communication to all stakeholders.

With that, operator, we are now ready to begin the Q&A session.

QUESTION AND ANSWER

Operator

[Operator Instructions] Our first question is from Paul Holden from CIBC. Please go ahead.

Paul Holden – CIBC World Markets – Analyst

Thank you. Good morning. Ray, a number of times during your prepared remarks you referred to organic opportunities. But then as part of the strategic review you mentioned business mix capital allocation. That to me suggests there's the possibility of acquisitions. Is that also a potential use of the additional capital?

Raymond Chun – TD Bank Group – Group President and CEO

Good morning Paul. Thanks for the question. I think right now what I've been saying is that our focus right now is on organic growth, and our priority is the AML remediation. And doing any sort of an M&A at this point would distract us from both the AML remediation but also, as we get into the strategic review, we are seeing significant opportunities here within Canada and also within our wholesale business not only to be an integrated North American dealer, but have some reach across on a global basis. So that's where the focus will be as we go forward on the strategic review.

Paul Holden – CIBC World Markets – Analyst

That's great. And then, just as you think about that focus on organic and a lower priority on acquisitions, I know you kind of outlined the thought process there. But one additional question on that. Does the ROE – TD's prior ROE objectives versus where it's at today – does that play into the decision making as well? I.e., organic growth tends to be more ROE accretive than acquisitions.

Raymond Chun – TD Bank Group – Group President and CEO

Yes, definitely. I'll sort of break it into two parts. One is that in the U.S., what we've said is that what we will look to do is as we reposition our U.S. franchise, look for opportunities certainly to improve our ROE. And we've shared a number of the different initiatives that we're doing on our balance sheet repositioning to make sure that we're actually being ROE accretive as we move forward. And we'll continue to share more of that on the quarterly calls. And then if you look at our Canadian businesses that have very, very strong momentum, these are strong ROE businesses that have scale, but we see still significant opportunities. And as we play through the strategic review, Paul, I look forward to sharing that with you along the way. And then certainly during the Investor Day. But all of that is to actually accelerate our momentum in the core businesses within Canada and wholesale, which have strong ROEs.

Paul Holden – CIBC World Markets – Analyst

And last quick one for me because it's a question I've received a number of times in the last month or two, is just with respect to regulatory approval on the share buyback. Is there any kind of regulatory risk here of not getting approval to execute on this? So, my own assumption is you have all the required regulatory approvals in place. You're just waiting on TSX?

Raymond Chun – TD Bank Group – Group President and CEO

As with any NCIB, we're going through the regulatory approval process and with the TSX, and will continue to keep everybody informed. But we've got good relationships with OSFI and we're continuing our dialogue on an ongoing basis.

Doug Young – Desjardins Capital Markets – Analyst

Hi. Good morning. Just following on the ROE discussion, by my math the deal is dilutive to cash ROE. And I'm just curious if you agree with that. And I know you haven't put out updated targets yet, but does this mean that the ROEs for TD structurally are going to be lower going forward? Or why shouldn't we think that would be the case?

Raymond Chun – TD Bank Group – Group President and CEO

Thanks for the question Doug. When I think about ROE, I don't think about it in short-term. I think about it in medium to long-term. And as we lay out our strategic review plans, I think you'll see that where we will be investing to drive accelerated growth in our Canadian businesses and wholesale business and support the U.S. – those actions in the medium to long-term will drive accretive ROE. That would be the goal.

Doug Young – Desjardins Capital Markets – Analyst

The other question I often get is, it looks like the allocation of capital is going to be more pointed from an organic perspective into Canada, the capital markets – you mentioned that as well. Into Canada I would assume that's Canadian banking, but also potentially property casualty insurance. You talked a little bit about the strategy there. I think you kind of did a little bit. Can you combat the view that you're going to be aggressive? Because that's what I hear often. That you're going to go aggressively after these two markets, which inevitably could hurt margins.

Raymond Chun – TD Bank Group – Group President and CEO

Certainly on the P&C business, we view this as a terrific business for TD. It's a fee-based business, a business that continues to take market share and is resonating from a direct perspective. So, very pleased with that business. We think there's still significant opportunities, especially as we move into the small business insurance lines. From a competitiveness and aggressiveness that your question Doug – what I would always say, is that we are always looking to do business that is profitable. We are not looking to extend on the risk curve. And we bank one in every three Canadians. And when we sort of think about the scale of our businesses, the opportunities that we actually have within our current business, and the new acquisition engine that we actually have – doesn't need for us to extend on the risk curve. It does come down to execution and investing in certain capabilities that we'll need to drive that execution in deepening those relationships. So, I would say, we'll be always mindful of profitability as we move forward. But I look forward to sharing more of the strategic review. But I'm confident that we'll be able to accelerate growth profitably.

Gabriel Dechaine – National Bank Financial – Analyst

I've got a similar line of questioning. Well, let's start with the easy ones. The buyback, what is your intention? I know regulatory approval is required, but would you expect to be active starting Q2?

Kelvin Tran – TD Bank Group – Group Head and Chief Financial Officer

Hi, it's Kelvin. We would go through the regulatory approval process, and then once that is done, then we'll deploy. The intent is to deploy $8 billion through a normal course issuer bid to be executed over the next 12 months.

Gabriel Dechaine – National Bank Financial – Analyst

I didn't catch what you said though in your comments Kelvin. Early calendar 2026 is when you expect it to be done?

Kelvin Tran – TD Bank Group – Group Head and Chief Financial Officer

Yes.

Gabriel Dechaine – National Bank Financial – Analyst

The commitment I guess is $8 billion? Not a percentage share of stock, right? It's because obviously that percent could change depending on what your stock price does?

Kelvin Tran – TD Bank Group – Group Head and Chief Financial Officer

Yes, it's up to 100 million shares.

Gabriel Dechaine – National Bank Financial – Analyst

I do want to dig into this ROE, the short-term drag, long-term upside rate. I can get my head around expanding the wholesale business. It's more balance sheet intensive, more lending, and hiring teams whatever. What I'm not quite understanding is the organic growth potential in the Canadian business. We're talking about a lot of money here that you're going to be sitting on. How much do you need to actually fire up that organic growth engine? It seems like a pretty big investment.

Raymond Chun – TD Bank Group – Group President and CEO

Again, so as we're working through it, Gabe, I'll update everybody as how we're thinking about it.

That's on the Canadian side. But we also still are looking at opportunities – on whether we wanted to expand our U.S. balance sheet restructuring. We're looking at opportunities around potential restructuring opportunities. And we did a restructuring last year, as you recall, that generated approximately $800 million in annual cost savings. And one of the pillars that we're looking at are optimizing our cost base. So if you look at the four categories that I outlined in the strategic review, as we get through that – and we do think there are quite compelling opportunities – if at the end of all of that, we still deem that there is capital available, then we would then look at considering doing potentially another buyback down the road.

Gabriel Dechaine – National Bank Financial – Analyst

So the balance sheet elements of this organic growth strategy – capital for loans, etcetera – maybe some restructuring of the business, and variety of Canada, U.S., whatever. And also maybe more restructuring of the U.S. balance sheet because when you did one last year there was some upfront cost to that capital hit, but then, some benefit to that subsequently. Would those three be kind of in the plans?

Raymond Chun – TD Bank Group – Group President and CEO

I think you've captured it Gabe. I think we're certainly evaluating all the potential opportunities and those would all be in the scope of potential opportunities.

Gabriel Dechaine – National Bank Financial – Analyst

And then just quickly, the tax. What tax are you paying on this sale?

Kelvin Tran – TD Bank Group – Group Head and Chief Financial Officer

Approximately $600 million.

Gabriel Dechaine – National Bank Financial – Analyst

Ok and that works out to what percentage?

Kelvin Tran – TD Bank Group – Group Head and Chief Financial Officer

About 5% of the gain.

Meny Grauman – Scotia Capital – Analyst

Hi, good morning. I'm just trying to better understand that 116 basis points of CET 1 capital, net of buybacks that you are creating. Along the lines of Gabe's questions, trying to understand if I'm thinking about it correctly. I guess the first question is what minimum CET 1 ratio are you managing to now?

Kelvin Tran – TD Bank Group – Group Head and Chief Financial Officer

Hi, it's Kelvin here. We previously disclosed that our target is from 12% to 12.5%. But given the uncertainty in the macro environment, we expect to be targeting higher than that.

Meny Grauman – Scotia Capital – Analyst

Would 13% be a reasonable assumption?

Kelvin Tran – TD Bank Group – Group Head and Chief Financial Officer

That would be a reasonable assumption. Yes. That's right.

Meny Grauman – Scotia Capital – Analyst

And then in terms headwinds to your CET 1 capital ratio, is there anything there that you're contemplating that maybe we're not fully appreciating? I guess, in the previous answer, you talked about potential room for restructuring. But is there anything else that you could highlight in terms of potential downsides or known downsides to CET 1 ratio that you're factoring in to your calculations as you hold back 116 basis points of this deal?

Kelvin Tran – TD Bank Group – Group Head and Chief Financial Officer

No, there is nothing additional that we are contemplating.

Meny Grauman – Scotia Capital - Analyst

And then, just in terms of the ability to generate organic capital on a quarterly basis. When I look at – some may say maybe there's a signal here that we should expect that ability to generate excess capital on a quarterly basis to be lower, maybe even a lot lower going forward, at least temporarily. Would you be able to comment on that, in terms of how you see that going forward?

Kelvin Tran – TD Bank Group – Group Head and Chief Financial Officer

No, we're not signaling that at all.

Sohrab Movahedi – BMO Capital Markets – Analyst

Ray, I wanted to start, just, maybe if you could explain to us, how did you decide on the size of the buyback? Why $8, why not $6 or $10 billion?

Raymond Chun – TD Bank Group – Group President and CEO

Good question as always Sohrab. I would say first and foremost, we wanted to make sure that it was a meaningful and significant buyback. And so, up to 100 million shares, we wanted to make sure that that was meaningful, and we think that that's the right number that we landed at, from an $8 billion. Also wanted to make sure that we have the flexibility as we've been going through the strategic review identifying compelling opportunities, that we have the flexibility to do the full range of investments and initiatives that we were looking at, and which we'll share in due time. And so it's really finding that balance, Sohrab. And so, I think like I said, I'm very comfortable that we found the right balance to both do a significant buyback, give value back to the shareholder, give us full flexibility on what we want to do with the strategic review as we go forward. And if at the end of all of that we still have capital remaining, we would then consider doing a further buyback. But that's a ways down the road.

Sohrab Movahedi – BMO Capital Markets – Analyst

If I can just double click on that. I think for me anyway, the obvious second question is well why now? And my working assumption is that you must have already identified organic redeployment opportunities for the balance of the money that you're not putting towards buybacks. Am I right in that assumption and would you be able to compare and contrast the potential growth and the speed with which you could be able to deploy organically this excess capital versus having retained the equity investment?

Raymond Chun – TD Bank Group – Group President and CEO

Sohrab, what I'd say is that, without front running the strategic review, that definitely, we are, as I said, we are already seeing compelling opportunities. And so we'll start to communicate some of those on the quarterly calls. But I've got Tim here, and certainly one of the opportunities that we see is that we've got an undersized investment bank, and opportunities to invest and grow it now that we have a fully integrated wholesale bank. So maybe turn it over to Tim.

Tim Wiggin – TD Bank Group – Group Head, Wholesale Banking

Well Sohrab, I would just say, the other important component to consider here was just the size of the Schwab block, as Ray and Kelvin have mentioned. It's been an incredible investment and they'll be a long-term relationship going forward. But it is 10.1% of the outstanding shares, and a US$14.6 billion transaction which is one of the largest done in capital markets. And so obviously you need to think about the window to execute a transaction of that magnitude, and in turn, just to provide some numbers – the $8 billion buyback is 5.7% of the outstanding shares. And if you think about our ADTV, that's about nine months of buyback activity. So clearly it's a meaningful statement with regard to our expectations of future value. But it's all about striking that balance between buying back shares at what we think is an attractive price and also continuing on the process that we're undertaking in the strategic review. So again, I think it's about striking a balance, but really important to recognize the other part of this transaction which is the Schwab sale.

Sohrab Movahedi – BMO Capital Markets – Analyst

I appreciate that, and that's very helpful Tim. I don't know who can take this one, but is it then fair to assume that the buyback program once ratified and approved by the TSX and the regulator, there is no price sensitivity on this? You are intent to complete it within 12 months?

Tim Wiggin – TD Bank Group – Group Head, Wholesale Banking

Well no. No is a strong statement. But our intent is to take advantage of the current share price. And again, if we use our most recent buyback, at that time our ADTV was 6.5 million shares. It's now 8 million shares on the six-month look back. And so if we were to buy back at the same pace, that's where we get the 9 months. But our intent is to be an active buyback.

Sohrab Movahedi – BMO Capital Markets – Analyst

Thank you very much. And Ray, I didn't mean to front run the strategic review. But you've been so open and forthright with it. It just feels like we're talking about it even if we don't have the details. Thank you very much and congratulations on getting this done.

Raymond Chun – TD Bank Group – Group President and CEO

Thanks Sohrab. And, just, I'd comment, as within each quarter end analyst call, we will continue to provide more and more updates as we make decisions, as I've said.

Lemar Persaud – Cormark Securities – Analyst

I'm going to ask about the deposit agreement. Obviously it's been extended, I think it's what now – 2034? But I'll take that anyways. Does this transaction affect that in any way? I suspect the answer is no, but then what are the longer-term implications when this thing comes up for renewal now that you no longer have an equity ownership in Schwab?

Raymond Chun – TD Bank Group – Group President and CEO

So Lemar, no impact to the IDA agreement. As you said, it's still nine years remaining. 2034 is what the contract is for. We have a very good relationship with Schwab. We like this arrangement as I've said before, and so as we continue to partner with Schwab, with the IDA and will look to address that as we get down to the maturity date.

Lemar Persaud – Cormark Securities – Analyst

So we shouldn't read this as TD is going to become more aggressive on deposit gathering in the near-term because of this – the sale of the ownership. That's the incorrect conclusion here?

Raymond Chun – TD Bank Group – Group President and CEO

Like I said, the IDA agreement is a standalone agreement. I wouldn't read into any more than the business that we are doing with them right now.

Lemar Persaud – Cormark Securities – Analyst

Ok, thanks. And then just a different type of question here. How long would you guys give yourself to deploy that additional $12 billion before looking to extend the buyback? Would it be fair to suggest that if we're sitting here next year, TD's done the 100 million and there's still any leftover of that $12 billion, we should just assume that you're going to go out there and continue to buy back stock? Is that a fair assumption?

Raymond Chun – TD Bank Group – Group President and CEO

Well I don't know that I'd – we're sort of getting ahead of ourselves here a little bit here, Lemar. I would look at it as that we're going to go through this process. We're going to have the Investor Day in the second-half which will clearly outline where we're going to deploy the capital. The buyback will take the better part of the next 12 months thereabouts, early 2026. And so we sort of let that process play through. And then when we get there, I think at that point if there is still capital to be deployed, then we would consider potentially another buy back. And that's the way to think about it from a timeline Lemar.

Operator

Thank you. There are no further questions registered at, at this time. I would now like to turn the meeting back over to Mr. Raymond Chun.

Raymond Chun – TD Bank Group – Group President and CEO

Thank you. Thanks again everyone for joining us today. We look forward to speaking again in just over two weeks on our Q1 call. Have a great day everyone.