

Fitch Affirms TD Ameritrade's L-T IDR at 'A-'; Outlook Stable
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Fitch Ratings has affirmed TD Ameritrade Holding Corporation's (AMTD) long-term Issuer Default Rating (IDR) at 'A-'. The Rating Outlook is Stable. A full list of ratings is provided at the end of this release.

Fitch's rating action is reflective of AMTD's continued good operating performance despite still challenging market and economic conditions. The company's fiscal year end is Sept. 30, and its fiscal year 2011 return on equity was essentially unchanged at a solid 16.2% from FY2010. This result was due in part to the company's continued strong operating margin, which was 37.9% at the end of FY2011.

However, with the stress in the equity markets during the latter part of 2011, AMTD's average client trades per day declined 12% in fiscal 1Q'12, which helped push overall revenue down 7% from the sequential quarter. AMTD's fiscal 1Q'12 return on equity declined to a still strong 14.7% and the operating margin remained good at 35% at the end of fiscal 1Q'12.

Fitch would note that with the improvement in early 2012 equity markets, AMTD has seen client trades per day increase 9% in February 2012 from January 2012.

Fitch would expect average client trades per day to remain somewhat volatile over the next year given their strong correlation to movements in the equity markets. Fitch would also expect average commission and transaction revenues per trade to remain flat to slightly down from the \$11.90 per trade reported in fiscal 1Q'12 given strong competition for trading commissions and the evolving product mix of transactions.

Fitch notes that AMTD's business model uniquely benefits from its relationship with Toronto Dominion Bank (TD; rated 'AA-/F1+' by Fitch), which owns approximately 45% of the stock in AMTD. This relationship provides AMTD's clients with the ability to sweep their cash deposits into one of TD's U.S. banking subsidiaries. As such, AMTD is able to offer a profitable cash investment product, without requiring the company absorb the fixed costs of or to provide capital necessary to support a bank subsidiary.

This relationship has continued to benefit AMTD with insured deposit account fees constituting approximately 31% of the company's overall net revenue as of fiscal 1Q'12. Fitch expects this source of revenue to continue to grow and notes that the revenue diversity it brings to the franchise adds some additional stability to the company's ratings.

AMTD's leverage as measured by debt-to-adjusted EBITDA was 1.20 times (x) at fiscal 1Q'12, which was higher than the 1.07x reported at the end of fiscal 2011. Fitch notes that its adjusted EBITDA is annualized to calculate quarterly ratios.

Fitch views AMTD's debt-to-adjusted EBITDA ratio as presently slightly better than those of some similarly rated entities, which Fitch notes supports the Stable Outlook. Fitch further notes that should the company permanently operate at lower leverage ratios for an extended period, there could be some upside to ratings or Outlook over time.

Given the company's scalable business model, Fitch believes that AMTD could show meaningful earnings growth with a sustained improvement in financial markets as well as the interest rate environment. This could improve leverage and debt-service metrics over time.

Fitch believes that AMTD's liquidity and financial flexibility are adequate and commensurate for its rating category. In 2011, AMTD generated nearly \$650 million in free cash flow and also recently completed a \$300 million credit facility at the parent company level, which at this point is undrawn.

Potential concerns are related to the continued elevated competitive environment on trading commissions, though Fitch would note that this is somewhat mitigated by the growing percentage of AMTD's asset based revenues. Other concerns are related to technology and operational issues, as a material data breach or trading system disruption specific to AMTD could result in the loss of a significant number of clients and associated revenue.

Given AMTD's acquisitive past, Fitch believes it is possible that sometime in the next couple of years AMTD

could make a large acquisition to increase its scale or to defend/maintain its market position. While this could enhance the company's franchise and ultimately augment earnings growth, the use of a significant amount of debt to finance an acquisition could impact leverage metrics and therefore ratings.

At this juncture, however, the company is generating ample cash flow, which has afforded it the ability to return a large portion of the cash to equity holders via stock buybacks and an increased dividend. Absent a large acquisition opportunity, Fitch would expect this type of capital management program to continue.

However, should an acquisition opportunity become available, Fitch would expect AMTD to both adjust its capital management program and limit the leverage used in a potential transaction to maintain an appropriate degree of financial flexibility for its current rating category.

AMTD is one of the largest online brokerages in the U.S., and offers low-cost trading in equities, bonds, options, futures, mutual funds, and exchange-traded funds (ETFs) to consumers, with transactions handled in real time. The acquisition of TD Waterhouse in 2006 was structured as an exchange of interest between AMTD and TD, the former owner of TD Waterhouse. At the end of 2011, the founding Ricketts family and TD own approximately 15% and 45% of AMTD's outstanding shares, respectively.

Fitch has affirmed the following ratings:

TD Ameritrade Holding Corporation

--Long-term IDR at 'A-';

--Senior unsecured notes at 'A-'.

The Rating Outlook is Stable.

Additional information is available at www.fitchratings.com. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research

--'Global Financial Institutions Rating Criteria' (Aug. 16, 2011);

--'Investment Manager and Alternative Funds Criteria' (Dec. 23, 2011);

--'Securities Firms Criteria' (Aug. 16, 2011).

Applicable Criteria and Related Research:

Global Financial Institutions Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=649171

Investment Manager and Alternative Funds Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=661367

Securities Firms Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=649173

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