

# Schwab to Acquire Assets of USAA's Investment Management Company

July 26, 2019

*charles*  
SCHWAB

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# Forward-Looking Statements

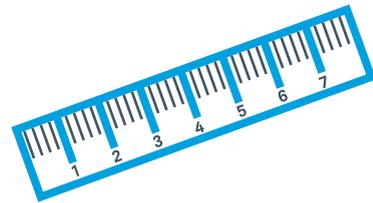
This presentation contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements include statements that refer to expectations, projections or other characterizations of future events or circumstances and are identified by words such as “expect,” “will,” “should,” “growth,” “remain,” “drive,” “enhance,” “estimate,” “anticipate,” “opportunity,” “potential,” “remain,” “position,” “target,” and other similar expressions. These forward-looking statements relate to: the company’s acquisition of certain assets of USAA’s Investment Management Company, including entering into an exclusive referral agreement; the increase to the company’s client base, client accounts and assets; stockholder value; scale; expectations regarding accretion to EPS and pre-tax margin and revenue and expense synergies; EBITDA multiple; tax implications; migration of cash to the company’s balance sheet; impact on Tier 1 leverage ratio operating objective; timing of closing; integration spend; and amortization expense which reflect management’s beliefs, expectations, and objectives as of the date hereof. Achievement of the expressed beliefs, expectations, and objectives is subject to risks and uncertainties that could cause actual results to differ materially from those beliefs, expectations, or objectives.

Important transaction-related factors that may cause such differences include, but are not limited to, the risk that expected revenue, expense and other synergies from the transaction may not be fully realized or may take longer to realize than expected; failure of the parties to satisfy the closing conditions in the purchase agreement in a timely manner or at all, including regulatory approvals and the implementation of conversion plans; and disruptions to the seller’s business as a result of the announcement and pendency of the acquisition. Other important factors include general market conditions, including the level of interest rates, equity valuations, and trading activity; competitive pressures on pricing, including deposit rates; client use of the company’s advisory solutions and other products and services; the level of client assets, including cash balances; the timing, amount and impact of the migration of client cash to the company’s balance sheet; client sensitivity to rates; capital and liquidity needs and management; the company’s ability to manage expenses; regulatory guidance; the effect of adverse developments in litigation or regulatory matters; the parties’ ability to attract and retain clients and grow relationships and client assets; and other factors set forth in the company’s most recent report on Form 10-K.

The information in this presentation speaks only as of **July 26, 2019** (or such earlier date as may be specified herein). The company makes no commitment to update any of this information.

# Schwab is acquiring certain assets of USAA's Investment Management Company for \$1.8 billion.

## Scale



- Will add to our Investor Services segment's asset and account bases by ~5% and ~14%, respectively
- Anticipate additional growth via an ongoing exclusive referral relationship with a leader in client loyalty

## Value



- Should increase Schwab stockholder value by leveraging our scale advantage
- Will deliver enhanced value and a broader solution suite to USAA members

## Cultural Alignment



- Aligns two of the strongest financial services brands, both with award winning client service
- Emphasis on high quality service will require utilizing a mix of talent from both firms

**Asset acquisition leverages our scale and is consistent with our disciplined M&A strategy.**

# USAA at a glance.



- Founded in 1922, USAA is a financial services provider created by military members for the military community
- Membership is generally open to active and former military personnel and their eligible family members

- USAA serves ~13 million members across a diverse range of financial services:
  - Banking
  - Life Insurance and Annuities
  - Property & Casualty Insurance
- Currently, less than 10% of existing members utilize investment management-related services

## Investment Management Business<sup>1</sup>

### Self-directed Brokerage

<b>\$67B</b>	<b>1.0M</b>	<b>~30 bps</b>
AUM	Accounts	ROCA

- Digitally-enabled, self-directed investors
- Client asset mix: ~50% securities / ETFs, ~30% Mutual Funds, and ~20% cash

### Managed Money

<b>\$23B</b>	<b>145K</b>	<b>~100 bps</b>
AUM	Accounts	ROCA

- Discretionary investment advisory solutions
- Offers both model portfolios and custom wrap solutions

Recognition<sup>2</sup>

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**500**  
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Across All Industries



Satmetrix<sup>®</sup>

**#1**

Customer Loyalty

Note: AUM = Assets Under Management; ROCA = Revenue on Client Assets; 1. Segment metrics as of June 30, 2019 2. From FORTUNE. © 2019 Fortune Media IP Limited. All rights reserved. Used under license. FORTUNE and FORTUNE 500 are registered trademarks of Fortune Media IP Limited and are used under license. FORTUNE and Fortune Media IP Limited are not affiliated with, and do not endorse products or services of, USAA; Satmetrix ranked USAA #1 in customer loyalty scores in auto insurance, home insurance, and banking for 2018.

# Compelling alignment of mission driven firms.

## Enhanced Scale

- Immediately enhances Schwab's scale across both brokerage and advised solutions
- Significantly grows our client base by adding ~\$90 billion of client assets across more than 1 million accounts<sup>1</sup>

## Financially Attractive

- Transaction is expected to be modestly accretive beginning in year 1 on a Cash basis and in year 2 on a GAAP basis<sup>2</sup>
- EBITDA multiple on assets alone ~ high single digits; EBITDA multiple including run-rate synergies and referral opportunity ~ mid-single digits<sup>3</sup>
- Robust pro forma combined cash flow profile, including tax treatment of an asset purchase

## Synergy Opportunity

- Significant revenue synergy opportunity via migration of client cash to Schwab's balance sheet
- Operating leverage in our existing model will help drive synergy capture
- Meaningful cost savings opportunity of up to ~50% of the associated expense base

## Referral Relationship

- Exclusive arrangement will provide incremental organic growth opportunity for Schwab
- Provides USAA members with access to a leading wealth management platform

Note: GAAP = Generally Accepted Accounting Principles; EBITDA = Earnings Before Interest, Tax, Depreciation, & Amortization. 1. USAA asset and account data as of June 30, 2019. 2. Based on timing relative to transaction closing and conversion. 3. EBITDA based on 2018 actual results.

# Transaction Summary

## Financing

- Purchase **price of \$1.8 billion**
- **100% cash transaction** funded by available corporate cash

## Scope

- Schwab will **acquire the client assets and accounts** of USAA's Investment Management Company
- Plan to **offer roles to a significant number of USAA employees**
- Expect to **remain in line with our Tier 1 Leverage** operating objective

## Timing

- Targeting **concurrent closing and conversion in 2020**

## Integration Spend



- Approximately \$140M in one-time integration and transaction-related spend primarily in 2020

## Tax Implications



- Asset purchase structure allows for the step-up of the basis of the acquired assets

## Amortization



- Estimate incremental amortization expense of \$85 million per year<sup>1</sup>

## Regulatory



- Subject to customary regulatory approvals

## Accretion / Dilution



- Low-to-mid single digit Cash EPS accretion in first 12 months
- Mid single digit GAAP EPS accretion by second 12 months

Note: CY = Calendar Year; 1. Assumes 80% of purchase price attributed to identified intangibles and amortized over 17 years on a straight line basis.

# Schwab's operating model creates significant revenue and expense synergy opportunities.

	<b>Annualized Run-rate</b>	<b>Expected Sources</b>
<b>Revenue Synergies</b>	<b>~\$130M</b>	<ul style="list-style-type: none"><li>▪ Migration of ~\$7 billion in client cash to Schwab's balance sheet</li><li>▪ Potential for additional benefits as the broader capabilities of Schwab's platform should lead to wallet share gains</li></ul>
<b>Expense Synergies</b>	<b>~\$100M</b>	<ul style="list-style-type: none"><li>▪ Trade clearing costs</li><li>▪ Shared services</li><li>▪ Information technology and systems</li><li>▪ Third-party vendors and professional services</li></ul>

On a run-rate basis, we expect this transaction to be accretive to the pre-tax margin of our Investor Services segment.

# Transaction enhances our scale and positions us for future growth.

	<u>Schwab</u>	+	<u>USAA</u>	=	<u>Pro Forma</u>
Client Assets (trillions)	<b>\$3.7</b>		<b>\$0.1</b>		<b>\$3.8</b>
Accounts (millions)	<b>12.0</b>		<b>1.2</b>		<b>13.1</b>
2Q19 DARTs (thousands)	<b>392</b>		<b>10</b>		<b>402</b>
Retail Advice Penetration	<b>19%</b>		<b>25%</b>		<b>20%</b>
Client Cash (% total assets)	<b>10.9%</b>		<b>12.9%<sup>1</sup></b>		<b>11.0%</b>
2Q19 Revenue (millions)	<b>\$2,681</b>		<b>\$106</b>		<b>\$2,787</b>

Note: Some numbers may not total due to rounding. USAA metrics as of June 30, 2019. 1. Combines brokerage and Managed Money client cash balances.

# Compelling alignment of mission driven firms that creates value for Schwab stockholders and USAA members.

**Enhanced  
Scale**

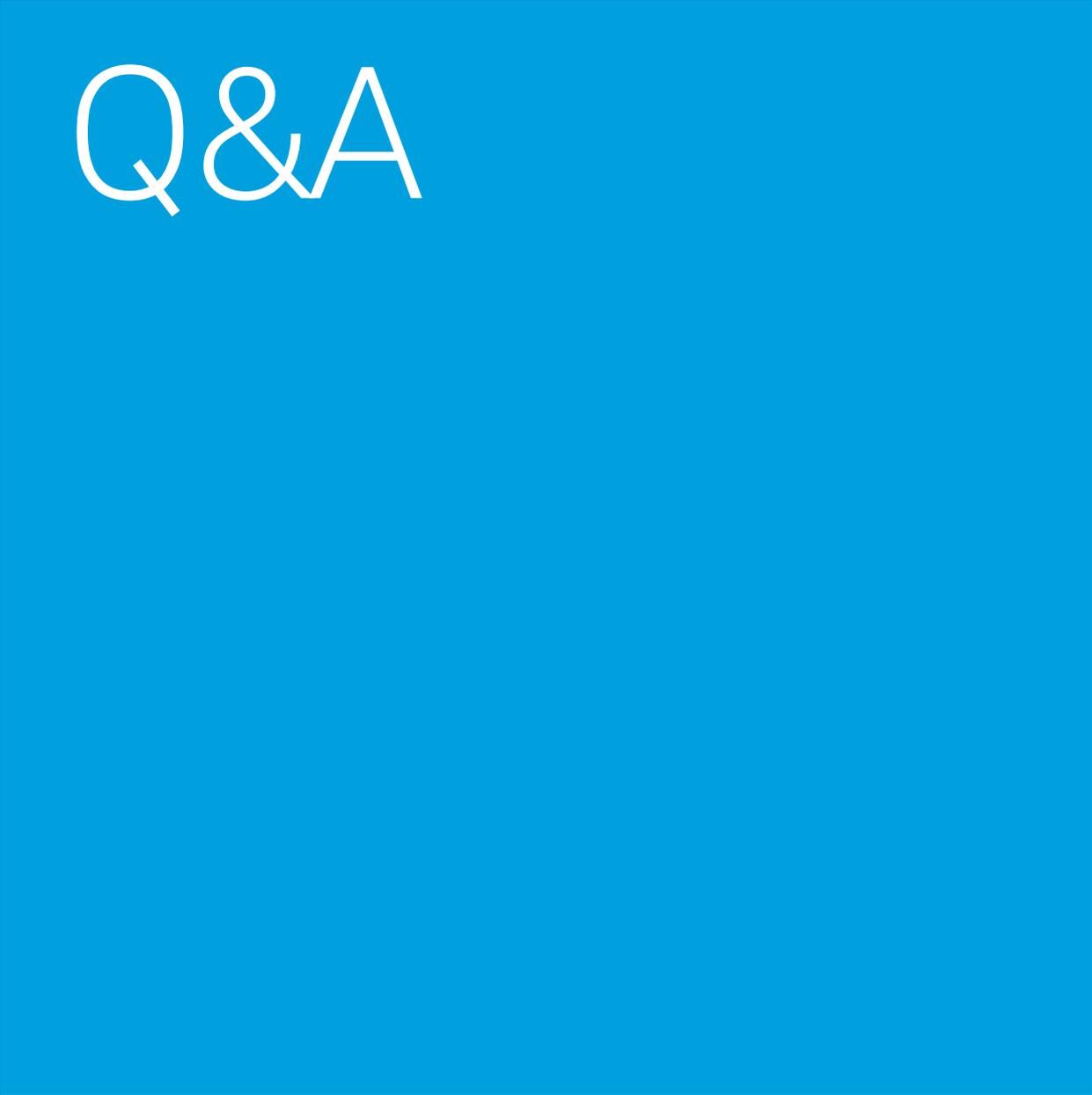
**Financially  
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**Synergy  
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**Referral  
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