



Toronto-Dominion Bank Makes US\$1.3 Billion U.S. Acquisition

Description

Toronto-Dominion Bank ([TSX:TD](#))([NYSE:TD](#)) is continuing to expand in the United States, partnering with subsidiary **TD Ameritrade Holding Corp.** ([NASDAQ:AMTD](#)) to buy discount brokerage Scottrade. The transaction will be worth a total of US\$4 billion.

The deal is in two parts. TD Ameritrade will acquire Scottrade's brokerage operations for US\$2.7 billion, while TD Bank will acquire the banking operations for US\$1.3 billion, further adding to its U.S. holdings, which are mostly located on the east coast.

Remember, TD currently owns a 42% stake in TD Ameritrade, meaning it gets exposure to both parts of this deal.

Impact to TD Ameritrade's bottom line

Scottrade was previously privately held, so we don't have public financials to easily check out. We'll have to rely on info from the parties involved to judge whether or not the price was fair.

There's a lot to like about Scottrade. It has more than two million clients and three million accounts. It also has some 500 branches that customers can use. Clients also rave about the company's service. Scottrade clients have, collectively, about \$170 billion in assets, making it about a quarter of the size of TD Ameritrade.

The deal is expected to add to the bottom line. TD Ameritrade thinks the deal could be 12-15% accretive in years two and three, as it makes moves like cutting back office staff and phone-support personnel. It will also have the ability to monetize some US\$36 billion in client cash balances.

The company estimates it can save US\$450 million annually by merging the two operations together. That's pretty significant.

Ultimately, however, the company hasn't issued any concrete projections. We're pretty sure such a deal will add to the bottom line. We just don't know how much.

Impact to TD's bottom line

At first glance, it appears TD Bank got a pretty good deal for Scottrade Bank's assets, paying tangible book value for the assets.

Compare that to the price its competitors recently paid for their latest acquisitions. **Royal Bank** paid nearly two times tangible book value for City National Corp. **CIBC** paid more than two times tangible book for **PrivateBancorp**.

But, like with TD Ameritrade's part of the deal, we don't really know how attractive it is on an earnings basis. The press release focuses on the asset value of Scottrade Bank. It doesn't even touch on the company's earning power.

TD will also buy approximately 11 million of the shares issued by TD Ameritrade to pay for its end of the deal, which will keep TD Bank's ownership of its subsidiary relatively constant at 41.4%.

In short, the deal should have an impact to TD Bank's bottom line. We just don't know what it is.

Market reaction

Investors are also feeling a little skittish about the deal. TD Ameritrade shares are down nearly 3% in early Monday trading on the NASDAQ.

Toronto-Dominion shares are doing much better, increasing \$0.29 each, or approximately 0.5%. That compares to the TSX Composite Index, which is down approximately 0.3%. In other words, investors are slightly bullish, but a US\$1.3 billion purchase isn't a big deal for a stock with a market cap of \$112 billion.

The bottom line

This looks to be a nice deal for TD. It'll benefit from the synergies in the brokerage business through its 41% holding in TD Ameritrade, and it looks like the price paid for the banking assets is pretty reasonable as well. We just don't know for sure.

It's just not a big enough deal to really move the bottom line, so investors are reacting with a collective yawn.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

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