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MANAGEMENT DISCUSSION SECTION

Operator: Good evening and thank you for joining E*TRADE's First Quarter 2019 Earnings Conference Call. Joining the call today are Chief Executive Officer, Karl Roessner; Chief Financial Officer, Chad Turner; and Chief Operating Officer, Michael Pizzi.

Today's call may include forward-looking statements, including statements about E*TRADE's future plans, objectives, outlook, strategies, expectations and intentions relating to its business and future financial and operating results, and the assumptions that underlie these matters, strategic business initiatives, including bolstering customer acquisition and retention, plans concerning capital deployment, continued repurchases of its common stock and outlook on the broader economic environment, which reflect management's current estimates or beliefs and are subject to risks and uncertainties that may cause actual results to differ materially.

During the call, the company will also discuss non-GAAP financial measures. For a reconciliation of such non-GAAP measures to the comparable GAAP figures and for a discussion of additional risks and uncertainties that may affect the future results of E*TRADE Financial, please refer to the company's earnings release furnished on Form 8-K, along with the most recent Form 10-K, as amended, and other documents the company has filed with the SEC. All of these documents are also available at about.etrade.com.

This call will present information as of March 31, 2019 and April 17, 2019. The company disclaims any duty to update forward-looking statements made during the call except as required by law. This call is being recorded and a replay will be available via phone and webcast later this evening at about.etrade.com. No other recordings or copies of this call are authorized or may be relied upon.

With that, I will now turn the call over to Mr. Roessner.

Karl A. Roessner
Chief Executive Officer & Director, E*TRADE Financial Corp.

Thanks very much, Ash. Good evening and thank you for joining us on our Q1 earnings call. Amid a volatile yet historically bullish start to the year for all major indexes, the first quarter was beset by unique market dynamics and notable shifts in interest rates, yet our strong operating and financial results proved once again that E*TRADE can thrive in a myriad of environments. Six months ago, we laid out a set of long-term financial commitments focused on EPS growth, operating margin expansion, return on equity and capital distribution. Since that time, the operating environment has shifted meaningfully, yet we still remain squarely on pace to achieve our targets.

In the first quarter, we produced EPS of $1.09, which included a few noteworthy items accounting for approximately $0.08 per share related to communications expense and provision for loan losses. We generated record net revenue and an adjusted operating margin of 50%, which excludes provision. This adjusted operating margin was bolstered by approximately 2 percentage points due to the benefit in communications expense I just noted.

Our reason for being will always be to deliver the best possible experience for our customers. And to that end, I am especially proud of what the team accomplished in the first quarter. In just these past few months, we've continued the enhancements to our number one active trading platform Power E*TRADE, rolling out new widgets for active traders to further customize their dashboards, a new alerts manager and an idea generation tool for options strategies, just to name a few.
For our main Street investors, we also enhanced our web and mobile platforms, including a refreshed quotes page, new choices within semantic investing, allowing customers to find investments that match their interests and passion and a revamped portfolio analysis tool, allowing investors to clearly match their allocations against their goals and risk tolerance and rebalance with ease. We emerged from this year's award session boasting the largest one-year rating improvement of any firm in Barron's Annual Online Broker Review where we also earned three best of distinction. We were also named the number one mobile platform and number one options trading platform according to StockBrokers.com. Our results this review cycle reflect without a doubt our best performance in recent history and are a testament to the work we've done to continually improve our digital platforms and deliver a great experience for our customers.

Within the realm of wealth and cash management, our solutions for long-term investing continued to benefit from good engagement while we made solid progress in our Premium Savings product with banking products having taken on a renewed focus for our firm. Customers that leverage our banking products tend to keep a far greater share of investable assets with E*TRADE, show better retention and engage with our brokerage products in a more meaningful way than those with only a brokerage relationship. In particular, through the introduction of our Premium Savings account and the team's efforts to position it as a tool for those customers that come to E*TRADE through our Corporate Services channel, we've seen positive trends emerging in the retention of participant proceeds.

We launched a significantly easier-to-use online application that will make the setup and funding of a bank account simple and seamless. And we expect that enhancements we are making on transactional banking services, digital payment solutions and securities-based lending will continue to bolster customer acquisition and retention while deepening engagement.

Stock plan administration received a lot of attention during Q1 given the acquisition of another equity administration service provider, a deal that focused much of the Street on something we love to talk about, E*TRADE Corporate Services. The tremendous value this channel and our number one rated platform provides to our franchise cannot be overstated. From the opportunity it generates for our Retail channel to the significant yet to be tapped potential for advisors in our referral network, we anticipate its contributions will only increase over time. As such, we continue investing to protect and advance our leading position in the industry and during the first quarter alone, we onboarded nearly $7 billion worth of new Corporate Services client relationships, keeping up with the torrid pace we set last year.

In our Advisor Services channel, we are progressing through the systems integration while laying the groundwork for our referral network in order to connect customers who require more personal guidance with a carefully selected advisor. Our self-directed and stock plan participants provide a particularly attractive opportunity to the RIA community and we continue to see strong interest from high quality advisors of all sizes eager to join the program. We are being exceptionally deliberate in how we roll out this program and flows into the channel are still being restricted by design. While we've brought a portion of our financial consultants online for the initial phase, we expect to roll it out to all local and national branches and kick the referral network into high gear later this year.

With regards to the significant number of relationships we acquired from Capital One in November of last year, we've been very encouraged by the performance of these accounts, with retention stats well above our expectations and increased trading activity. Our satisfaction scores with these valued customers have remained in the mid-90s through conversion to-date, which is truly a testament to the great women and men in our customer service organization.
Before moving on to the operating results, I want to highlight the updates we made to the structure of metrics to better align to our customer channels. In addition to more clearly delineating customer accounts, assets and flows by channel, we also took the opportunity to refine the thresholds to record customer trades and accounts. I will be discussing performance today under our revised methodologies. Chad will provide additional context on the changes and we have provided detailed summaries and schedules on our website.

Now for our results. We generated solid operating performance over the quarter. Our DARTs of 279,000 and derivative DARTs of 90,000 were the third strongest quarter on record for both measures. Q1 represented the best quarter of market performance this decade as measured by the S&P 500, even as the chorus of economic growth concerns grew louder. Our customers remain remarkably engaged among the uncertain environment as they were net buyers of $3.3 billion over the quarter and increased their margin positions by $700 million.

The waning days of 2018 yielded significant net selling by our retail traders and this trend extended into the first week of the new year. However, our customers were consistent net buyers throughout the remainder of the quarter. Interestingly, the strongest period for net buying and the biggest surge in margin balances occurred in late March after a dovish Fed report followed by weak economic data led to a briefly inverted three months and 10-year yield curve. Month-to-date, customer activity has moderated with DARTs down approximately 8% from March and margin balances down slightly from quarter-end.

On the customer acquisition front, we added 81,000 net new Retail and Advisor Services accounts, our best quarter for account growth in over a decade, as we had strong contributions from Retail and Corporate Services. We generated net new Retail and Advisor Services assets of $4.7 billion, driven by positive inflows in traditional Retail, robust contributions from Corporate Services and growth into our savings product. These flows represent a 6.2% annualized growth rate for Retail and Advisor Services assets.

Over the last 12 months, we generated a remarkable $99 billion of gross inflows into our Corporate Services channel, driven by $26 billion of new implementations and $73 billion of new grants and ESPP transactions. Over this 12-month period, participant sales generated net proceeds of $27 billion. These participant proceeds serve as the opportunity set from which we aim to win relationships through our Retail and Advisor Services channels. As of quarter-end, our total Corporate Services assets grew to $256 billion, driven by the strong pace of inflows and favorable market tailwinds.

To switch gears a bit, we have an important update to our executive team. I'm pleased to announce that starting next month, former Citibank executive, Alice Milligan, will be joining the E*TRADE team as our Chief Customer Officer, overseeing retail product and marketing to help drive the next-generation of our digital and customer experience strategy. At Citi, Alice served as Chief Digital Client Experience Officer for the North America Consumer Bank, owning the complete customer lifecycle. She will be a tremendous addition to an already strong team charged with the critical mandate of taking E*TRADE's great retail customer experience to the next level, while helping us approach the market in new and innovative ways.

Finally, before turning the call over to Chad to discuss our financial results, I would like to thank our team for all their work in promoting a diverse workforce and creating an inclusive culture. Our employees are the lifeblood of E*TRADE and our diversity and inclusion practices are powerful differentiators in creating a great experience at work and beyond. In this vein, I am proud to note recognition from the Human Rights Campaign who named E*TRADE among the Best Places to Work for LGBTQ Equality, earning a perfect 100 score for the first time in our company's history.
To sum up, it was another very strong quarter for E*TRADE as we continue to advance our core capabilities and lay the groundwork for emerging channels that offer broader solutions to our customers and carry powerful synergies across our business. Our model continues to produce and we are still squarely on target to surpass $7 of EPS by 2023, while also delivering on our other stated financial commitments.

With that, I will turn the call over to our Chief Financial Officer, Chad Turner, to discuss our financial performance.

Chad E. Turner
Chief Financial Officer, E*TRADE Financial Corp.

Thanks, Karl. For the quarter, we reported net income available to common shareholders of $270 million or $1.09 per diluted share on net revenues of $755 million, up $47 million from the year-ago quarter. Included in the quarter was a $12 million or $0.04 benefit to provision for loan losses and a $14 million or $0.04 benefit in communications related to market data usage. The communications benefit relates to an adjustment in estimates for the fees we pay for real-time market data and the higher rates assigned to users that are designated professional traders.

As for quarter results, net interest income increased by $10 million sequentially, as our net interest margin expanded by 3 basis points to 323 basis points, and our average interest earning assets grew by approximately $900 million. Our NIM improvement was driven by an 8-basis-point expansion in gross yield, offset by a 4-basis-point greater cost of funds. Despite the difficult rate backdrop, the yield on assets improved, as we realize the full benefit of the December Fed rate hike, benefited from certain well-timed securities purchases and better than expected performance of our securities and hedging portfolio. Average interest-earning assets were $61 billion, reflecting growth in deposits. This growth came amid continued customer net buying in each month of the quarter.

The resiliency of our deposit base continues to underscore three key structural elements for E*TRADE. First, our predominantly self-directed retail customer base carries greater cash balances compared with those in advised relationships. Second, on average, we capture around 10% of our customers’ share of investable wealth. Coupled with the relatively smaller average size of E*TRADE’s accounts, this translates to cash balances that are stickier in nature, building from uninvested proceeds and accumulated dividends and interest payments. Given the relatively small portion this cash represents of our customers’ overall wealth, these deposits are primarily viewed as transactional cash rather than investable cash and tend to be far less subject to yield-seeking behavior.

Third, our Corporate Services channel is a tremendous feeder of not only accounts and assets but more specifically cash. Corporate Services assets will always be in motion, but our growing Corporate Services channel ensures a steady stream of customer deposits. Earlier, Karl spoke to the growing inflows and customer proceeds in our Corporate Services channel. We’ve included a new Corporate Services roll forward in our investor deck, which illustrates the progression of that channel and highlights the growing participant transactions, which serves as the pool of proceeds that we have an opportunity to capture in our Retail or Advisor Services channels.

Moving to the cost of funding, our blended deposit rate, including customer payables, rose from 25 basis points to 32 basis points, driven higher primarily by growth in our Premium Savings balances. For Q2, we expect the blended deposit rate to be in the mid-30s. Growth in Premium Savings may pressure deposit costs, but it is already proven effective as both a customer acquisition and retention tool. Today, one of the largest sources to the growth of this product has been Corporate Services, where we are seeing early signs of increased proceeds retention.

Our average reinvestment rate in the securities portfolio is currently just north of 300 basis points. We anticipate that our NIM will moderate from the Q1 level with our current expectations for full year 2019 net interest margin of
315 basis points to 320 basis points. This holds customer margin balances at their current levels does not contemplate changes to Fed funds rates over the course of the year and assumes continued strength in deposit growth. A 25 basis point move up or down in short-term rates would translate to a 3 basis point annualized impact to NIM.

As a reminder, we included disclosure in our investor deck that gives the sensitivity of eight different shifts and twists of the yield curve. Commissions revenue of $122 million was relatively flat compared to last quarter as the moderation in DART was offset by an improvement in commission per trade. We updated our customer trade reporting to exclude non-commissionable activity, like commission for ETF trades and rebalancing trades associated with our managed products. Trades in these areas have naturally grown over time as we have improved our investing tools and we thought a presentation that more closely aligns to commission revenue would be more helpful to investors.

Understanding what a burden changes to reporting can be in the heat of earnings season, we have posted a schedule to the website that shows our customer activity metrics under both the old and new approach. Going forward, we plan to report only under the new methodology.

Specific to the change in trade reporting, DARTs will decrease while derivatives percentage and commissions per trade will increase from previous reporting. As for CPT, we expect it to range from $6.90 to $7.30 through 2019 under our new methodology, which is roughly equivalent to the $6.60 to $7 range we provided under the prior definition on last quarter’s call. Fees and service charges of $118 million were up $10 million sequentially, driven primarily by seasonally strong foreign exchange revenue from Corporate Services and higher fees earned on off-balance sheet cash.

The average net yield on third-party cash was up 16 basis points to 164 basis points, driven primarily by the December Fed funds increase. In Q2, we anticipate the rates on off-balance sheet cash will be roughly flat to Q1 levels. Gains were $11 million and we continue to expect to realize around $10 million per quarter.

Moving to expenses, non-interest expense was $375 million. Adjusting for the market data benefit, expenses would have been $389 million, up modestly from the prior quarter. Compensation and benefits of $164 million was up $12 million sequentially due to seasonal factors, including higher payroll taxes. Total marketing expense was $54 million, up $6 million from last quarter, but down $6 million from the year-ago level, which included advertising expense for the Super Bowl and the Olympics. For the full year, we continue to forecast marketing spend of around $200 million, but we preserve flexibility to toggle this spend based on market conditions.

As for corporate cash, we finished the quarter at $329 million, reflecting $250 million in subsidiary dividends, less the $120 million we used to repurchase our stock, the $35 million paid in common dividends and the $20 million paid in preferred dividends. As a reminder, we target holding a minimum of $300 million in corporate cash. We have $379 million remaining on our buyback authorization and we plan to utilize it at a measured pace over the balance of the year.

Our effective tax rate in the quarter was 26% and we continue to expect the full year tax rate for 2019 to be around 27%, noting that it can vary quarter-to-quarter.

In closing, our performance in the first quarter continues to illustrate the strength of our long-term earnings model through ever-changing market conditions, underscored by steady growth of customer deposits, resilient investment spreads and consistent capital deployment.
And with that, we will open the call for questions.

**QUESTION AND ANSWER SECTION**

**Operator:** Thank you. [Operator Instructions] Our first question comes from the line of Rich Repetto with Sandler O'Neill. Your line is open. Please go ahead.

Richard Henry Repetto  
*Analyst, Sandler O'Neill & Partners LP*

Good evening, Karl and Mike and Chad.

Karl A. Roessner  
*Chief Executive Officer & Director, E*TRADE Financial Corp.*

Hey, Rich.

Richard Henry Repetto  
*Analyst, Sandler O'Neill & Partners LP*

First, I guess, Karl, your favorite topic, the corporate stock plan business, great growth, the 24%. I guess, the question is you did mention this in the prepared remarks about a competitor buying Solium and then another peer announcing a partnership with [indiscernible] (00:21:40). So, I guess, it validates your model from one respect. But you also talked about in the past how you've had wins because at least one of these players have pulled back. So, could you talk about the competitive environment going forward given these transactions in the space or at least the partnerships in the space?

Karl A. Roessner  
*Chief Executive Officer & Director, E*TRADE Financial Corp.*

Yeah. Look, Rich, it's a great question. The way that we look at it and the way we continue to look at this environment is any partnerships acquisitions, any dislocation creates additional opportunity for our phenomenal team to go out and participate in RFPs. Our win percentage still remains up in the 70% in RFP land. So very pleased with the opportunity at hand. I think the most important thing for us, Rich, is to continue to meet the demands of our customers, right. And on this front, it's B2B, it's the corporate client continuing to drive value for them, listen to their concerns, build the tools and functionality that they need to run their stock plan more efficiently and effectively and allow them to plug in the tools that they want to our software so that they can get the data that they need out of it and continue to have who I think are the best in the business in terms of implementation and ongoing handholding for their corporate service teams. So I think we're in a very good place. I think we're in very good shape to continue to compete and we're not going to let any grass grow under our feet on this business. We'll continue to invest in it. We'll continue to invest in the software, drive the number one platform, further upstream and attempt to continue to drive ourselves and distance ourselves from our competitors, Rich. So I look at it as opportunity.

Richard Henry Repetto  
*Analyst, Sandler O'Neill & Partners LP*

Got it. Got it. That's helpful. And I guess, my follow-up would be, you did mention at least on the two big acquisitions last year sort of the strategy of the outlook on the referral service being deliberate. But I guess, could you sort of update on the Cap One accounts because a large number of accounts, nearly 1 million accounts, a lot of assets, like, can you talk about the opportunity there to sort of grow that share of wallet with those customers?
Karl A. Roessner
Chief Executive Officer & Director, E*TRADE Financial Corp.

Look, the Capital One population, we're very excited about and just the way that we set up the onboarding and we still have the customer sat numbers that I mentioned in the prepared remarks. We're in the mid-90s with a new customer population coming onboard. And that's really a result of white-glove treatment of bringing over the more valuable accounts, the higher end of that book in advance of the actual closing, making sure they understood our platform over communicating to that population making sure that our new customer base knew who E*TRADE was, understood the tools and functionality and saw the way that we were going to treat them. So I am very excited about the level of engagement that we've seen both in terms of additional trading and engagement with our digital wealth offering, right, and some on the premium services – on the premium bank account side. So very pleased with where we are. I do believe there's additional opportunity to market into that population as they learn more and more about E*TRADE. But that really comes from the initial days of the integration and the first time welcoming them in. So our customer service teams and our operations teams absolutely did a wonderful job on that transaction and we have some very happy new customers.

Richard Henry Repetto
Analyst, Sandler O'Neill & Partners LP

Okay. Thank you, Karl, and congrats on the strong quarter here.

Karl A. Roessner
Chief Executive Officer & Director, E*TRADE Financial Corp.

Thanks very much, Rich.

Operator: Our next question comes from the line of Devin Ryan with JMP Securities. Your line is open. Please go ahead.

Devin Ryan
Analyst, JMP Securities LLC

Great. Good afternoon, guys.

Karl A. Roessner
Chief Executive Officer & Director, E*TRADE Financial Corp.

Hi Devin.

Devin Ryan
Analyst, JMP Securities LLC

Maybe a follow-up here just on Corporate Services. So I appreciate, I guess, the walk up and walk down of those assets and I'm curious the $73 billion of new grants in purchases, is that a reasonable starting point? I know it's going to move year-to-year, but that seems like a very large number. So I'm just curious if that's maybe a reasonable starting point for our models. And then the $27 billion opportunity to capture proceed, what are you guys thinking about as a good target of retention there, especially as you're looking to do more with the RIAs to win more of their wallet? And then I guess, just the last piece, I know this is a long question, but just the bigger picture with RIA getting them into the Corporate Services customers and getting them in front of the participants, do you guys have a current estimate of that kind of addressable market? I love an update there as well.
Karl A. Roessner  
Chief Executive Officer & Director, E*TRADE Financial Corp.

Sure. So just in terms of the run rate or the replenish of the securities book itself that comes through this in the options and restricted shares and the grants that come through the pipeline. It's based on the market value of the companies that we service and that our Corporate Service customers. But yeah, I mean, the $73 billion it's why we continue to talk about having the best Corporate Services experience in driving additional corporate clients into that pipeline is the best thing we can do to continue to drive opportunity downstream. Right? So that our retail forces and our advisory services forces together with the tools and functionality that we have up and coming through the bank and also through our digital wealth offering to continue to drive with that population, I mean, you sort of see the walk we've laid it out as transparently as we can. It's a phenomenal opportunity. So, yeah, the $73 billion, assuming those prices stay where they are on the corporate plan participants with the plans we have in the book now that that's at the right level.

On Part 4 or Part B, I'm not sure which part I'm getting at, Devin, sorry. But on the $27 billion population, the beautiful thing about the model that we put out and how we've shared over this five-year plan is that we've held our retention rate for that population relatively flat to where it was, right, so that's sort of in that 15% range after one year that we always continue to talk about. Do I believe that we have the tools and services necessary to really start and drive at that population? Absolutely, right. One of the tools that we've seen just initial early days with the Premium Savings account, making that available for the Corporate Services clients, we've seen a lot of interest and we believe that we have some uptick in retention, but we don't have all the data yet, right. We look at that on a year basis and its early days, but when you couple that with our digital offering with what we've done on the plan participant website, some of the tools and functionality that we've made available, I like our chances to drive that up, but I'm not going to give you sort of numbers or ticks-and-ties walk from that 15%. I will just tell you that it's a great opportunity for us.

And then, I guess, the last part, or at least the last part that I heard was on the RIA side and the availability there. As you might imagine, we are being very deliberate and very cautious about the RIAs who we would let into these corporate clients. They will need to be vetted. They'll need to be approved by the corporate client. We'll walk through the owners of the plans, right, the people who our Corporate Services teams liaise with to make sure that they are comfortable with any kind of education speaking engagements or other tools that we may use to let the plan participants know about this. That's a part of the network, Devin, that we are working on. We have not rolled it out yet to the Corporate Services side. But you might imagine that the names Edelman and Mercer that we've shown around in terms of the top two coming on, there's a distinct reason you look for premium RIAs when you do things like this. So that's absolutely a part of the plan and a longer-term solution, but that's a build in connection with the integration and rolling out that referral network.

Chad E. Turner  
Chief Financial Officer, E*TRADE Financial Corp.

And Devin, this is Chad. Just to add to the Corporate Services piece, if you look at the bottom of that roll forward page, you'll see the historical inflows as well as the proceeds coming through. So that gives you a perspective of not just the trailing 12 months, but also what that's looked like over time.

Devin Ryan  
Analyst, JMP Securities LLC

Okay, great. Thank you. Good memory catching all those. Appreciate it. And then just a quick follow-up. The follow-up is just on pricing, and we're hearing from some of your peers that are looking at different pricing models and potentially even subscription models for certain client sub-segments just to get clients to focus on kind of the
differentiating parts of the platform versus just the commission rates. So I'm just curious, your thinking on that, if that's something that you guys have thought about or would think about, and just if you have any opinion about that.

Karl A. Roessner  
*Chief Executive Officer & Director, E*TRADE Financial Corp.*

Yeah. So we've heard the same thing and we definitely talk about it and we look at what the competitive landscape is doing. But what it comes back to for us is the value proposition that the traders and investors that we have on our platform get from E*TRADE and the price points that are now out there in the marketplace I just think between the execution quality that we provide, the world-class customer service, the top-rated platforms on the options and derivatives sides in particular, we feel like the value prop is really there. So we're not going to be a first-mover on a price move. Subscription model might make sense for some, but for us we like the value proposition that we offer to our clients and we're pretty happy where we are.

Devin Ryan  
*Analyst, JMP Securities LLC*

Okay, great. Thank you.

Karl A. Roessner  
*Chief Executive Officer & Director, E*TRADE Financial Corp.*

Thanks, Devin.

Operator: Our next question comes from the line of Steven Chubak with Wolfe Research. Your line is open. Please go ahead.

Steven Chubak  
*Analyst, Wolfe Research LLC*

Hey. Good evening.

Karl A. Roessner  
*Chief Executive Officer & Director, E*TRADE Financial Corp.*

Hi, Steven.

Chad E. Turner  
*Chief Financial Officer, E*TRADE Financial Corp.*

Hi, Steven.

Steven Chubak  
*Analyst, Wolfe Research LLC*

So wanted to kick things off with a question on the profitability targets. After adjusting for the market data benefit this quarter, it looks like the adjusted op margin came in closer to 48.5%. And given some of the seasonal expense headwinds in 1Q, some of the business momentum, Karl, that you had cited, particularly on the Corporate Services side, it just feels like that 48% margin target for 2019, 50% for 2020, actually represents a pretty low bar, given some of that momentum. So, any reason you chose not to adjust the margin target this quarter? And maybe more importantly, how we should think about that operating margin trajectory over the next couple of quarters?
Karl A. Roessner  
*Chief Executive Officer & Director, E*TRADE Financial Corp.*

So, look, Steven, we're still in the same place in terms of op margin for the sort of 50% in 2020 and then mid-50s in 2023, so we stand by that guidance. You're going to see that sort of ebb and flow a little bit, as you just said, with the pressures that come from the expense base and just some seasonality that goes through. We're also continuing to invest in our business and we continue to look at projects that we have on the board, right, investing in technology, investing in our people. So I'm very comfortable with where we are in terms of op margin guidance and we'll stick to it there.

Steven Chubak  
*Analyst, Wolfe Research LLC*

Understood, and just one follow-up for me on the deposit outlook. So you talked about the deposit repricing closer to the mid-30s in 2Q. Admittedly, that was a touch higher than we had expected, but you did also cite some of the benefits from attracting more assets on the corporate stock plan side as a result of those efforts. And just wondering how we should think about deposit competition in a lower for longer interest rate environment and what sort of trajectory is contemplated within that 315 basis point to 320 basis point NIM range that was cited earlier?

Chad E. Turner  
*Chief Financial Officer, E*TRADE Financial Corp.*

Yeah. Steve, this is Chad. On the long-term earnings slide, we talk about there being no Fed funds, either cuts or increases in our overall long-term plan to get to greater than $7. So I'd use that as a guideline not only for the long term but also for 2019 and how we're guiding. As it relates to how we think about deposit cost over time, we've used the 20% beta in both up and down scenarios over time that that would be what we would expect our deposit betas to be. In some periods, we have moved that a little bit more. And for example, in December, just given our evaluation of the competitive environment, we didn't move base deposit rates at all. So those are examples of just how that looks. You mentioned Premium Savings, that's a little bit of as we talk about guiding to the mid-30s, there's some contemplation of that having some – we're really happy about how that's performing and some continued growth there. But broadly, our betas are holding up and we feel confident about cash growth at those betas over time.

Steven Chubak  
*Analyst, Wolfe Research LLC*

Great. That's it for me. Thanks for taking my questions.

Karl A. Roessner  
*Chief Executive Officer & Director, E*TRADE Financial Corp.*

Thank you.

**Operator:** Our next question comes from the line of Chris Harris with Wells Fargo. Your line is open. Please go ahead.

Christopher Harris  
*Analyst, Wells Fargo Securities LLC*

Thanks. Hey, guys.
Good morning, Chris.

So, yeah, as you know, interest rate expectations have changed a lot in the last three months. Now there's some concern about the Fed potentially cutting rates from here. Wondering whether you guys could still maintain the margin targets that you've put out under a scenario where the Fed were to cut, say, 25 basis points and in that scenario what are some of the actions we might see E*TRADE do to help to maintain the margin?

Hey, Chris, this is Chad. So, in our long-term earnings slide, as I was just talking to Steven – mentioned to Steven, we do hold Fed funds flat. In the investor deck, we give you a bit of the scenarios around what that looks like in any given increase or decrease and twist of the curve. I'd note that there are many paths to $7 as we have said before and so that can come through in different interest rate environments as well as different overall customer engagement levels. We're comfortable and we have looked at that in those different environments as far as how $7 looks in those different types of environments. We're comfortable that there are lots of paths to it. So I would just note that as you're thinking about the overall interest rate framework.

Yeah. And the one thing just to throw out there for you, Chris, is and we've been pretty consistent on this. We've put these targets in sort of the guidance – our long-term guidance out there in terms of where we think we can get to. But if it's an environment like that that starts to get difficult, we're not going to take actions just to hit an op margin target, right, if it's going to be disruptive to shareholder value or it's otherwise going to put our business at risk. So that should always be the guiding principle is that our shareholders, the use of their capital and driving this business forward comes first.

Helpful. Thanks, guys.

Operator: Our next question comes from the line of Brennan Hawken with UBS. Your line is open. Please go ahead.

Good morning. Morning, geez, been a long day, sorry. Good afternoon. Thanks for taking the question.
Karl A. Roessner  
Chief Executive Officer & Director, E*TRADE Financial Corp.

We know the feeling.

Brennan Hawken  
Analyst, UBS Securities LLC

Yeah. Okay. So given last year's tax reform and lower withholding rates that we've heard about from some tax professionals, there is an expectation that there could be some different dynamics happening with tax payments this year. And given how this is a seasonal dynamic for you all, I was just curious if there is any early read on how customers are behaving this year versus prior years and whether you're seeing anything jump out that's different?

Karl A. Roessner  
Chief Executive Officer & Director, E*TRADE Financial Corp.

So we've just sort of come through tax season, we haven't seen any different behaviors. Our customers are highly engaged during this period with us, particularly in the week leading up to Tax Day and then Monday of this week in particular was very heavy engagement. We manned the phones, manned the chaps and got through it like we do every other year. So I think the team did a great job, but we haven't seen anything that's been the typical outflows around April to make tax payments. But none of that has come through yet, at least we haven't seen it, we're going to need some more data and some more experience to make any kind of judgment on that.

Brennan Hawken  
Analyst, UBS Securities LLC

Okay. That's fair. Certainly sort of happening in real time at this stage. And then Chad I think highlighted some hedging – strong hedging results. I'm guessing that that's reflected in your NIM outlook. But just kind of wanted to confirm that that's the case and then maybe understand and maybe how much of 1Q NII was attributable to hedging that might not necessarily repeat. Thanks.

Chad E. Turner  
Chief Financial Officer, E*TRADE Financial Corp.

Yeah. Brennan, there were a number of factors that drove kind of the net interest margin performance in Q1. One, you start with a period of slowing prepayment speed that's just seasonally coming into the kind of the winter months, which are usually slower leading out of the fourth quarter in terms of activity on the book. We were able to invest earlier in the quarter in a more meaningful way and put a lot of this sort of cash growth and forecasted cash growth to work at better than average yields than where yields sort of ended the quarter that gave us a pretty good benefit overall. Security selection spread movements also helped. And then lastly and it's a more technical point, some of the movements that occurred really in short-term LIBOR rates gave us a bit of an advantage overall and hedge performance, all of that led to the performance in the period. Looking forward, we obviously factor in some of that in terms of the ability of the portfolio investments that were made at higher than average yields during the period. But by and large, some of those factors we normalize out into the guidance.

Brennan Hawken  
Analyst, UBS Securities LLC

Makes sense. Thanks for the clarity.
Hi. Thanks. Just want to follow up on a previous question regarding the margin outlook. You do mention in the slide deck multiple cost saving levers if the macro environment or macro factors change, so wondering what those levers might be to kind of hit the targets?

Karl A. Roessner  
Chief Executive Officer & Director, E*TRADE Financial Corp.

Look, for us, when we look at this, we call out immediately the $200 million that we spent on marketing, right. If you're not driving an efficient return from that invested capital, you're going to start throttling that back and spending in areas where you need to keep your customer engagement up and keep your product set out in the marketplace. So you can definitely throttle some of that back. The other thing that we have is a very disciplined management team. So we have a list of projects that we do both on the technology side that are linked with the business side and how we push those through. There are definitely some that you could look at and say, well, we can delay that, right, what's the return, what is the customer looking for, how are we going to push this forward. You focus on things like Corporate Services like our Advisor Services business and our customer experience. You drive those projects forward and you take a look at what else you can delay without harming the customer experience. So we go through that as a management team on a pretty regular basis so that's the kind of decision making that we go through in that type of an environment.

Daniel T. Fannon  
Analyst, Jefferies LLC

Got it. Thank you.

Karl A. Roessner  
Chief Executive Officer & Director, E*TRADE Financial Corp.

Yeah.

Operator: Our next question comes from the line of Michael Carrier with Bank of America Merrill Lynch. Your line is open. Please go ahead.

Michael Carrier  
Analyst, Bank of America Merrill Lynch

All right. Thanks, guys, and thanks for taking the questions. First, just on the net interest income outlook. The NIM is helpful, but just given some of the declining cash balances that were seen in the industry and you guys did a good job of just explaining E*TRADE's different model and then maybe some of the products being offered, but how do you think about deposit growth in this backdrop? And quite more importantly, if it does slow, should we expect any shift in the NIM outlook?

Chad E. Turner  
Chief Financial Officer, E*TRADE Financial Corp.

No. In our overall NIM outlook, we contemplate that deposit growth happening. I would separate it between what you have as core retail growth across the sweep and customer payable balances and then the assumption of some great continued growth in Premium Savings where we're seeing some good traction. But broadly that would be contemplated in that 315 basis points to 320 basis points over the year.
Michael Carrier  
Analyst, Bank of America Merrill Lynch

Okay. And then just to follow up just on the capital front. So you guys have been active, particularly in the fourth quarter, on the buybacks and then you've done deals. Just maybe an update based on what you're seeing out there on the M&A side, where is the priority just given what you've done over maybe the last 12 months?

Karl A. Roessner  
Chief Executive Officer & Director, E*TRADE Financial Corp.

Yeah. Look, the priorities remain the same. We've talked about what we would do on the inorganic side, look for scale, right, extensions into product sets that we're already in, build versus buy, right, what can we go out and acquire and bolt-on rather than expanding and building it here ourselves. So you might see that. You could find more additional in the brokerage space, in the advisor channel, right, if there are additional tools or services that we could offer. So it's really the same set of potential inorganic opportunities. But the same mantra around here that we've always lived by is use of capital, right. Are we looking through the right lens? Are we using our capital in the most effective way for our shareholders and can we generate the return on capital that that requires to do a deal when you look at that analysis. So really more of the same in terms of what we've been looking at and always through the capital lens.

Michael Carrier  
Analyst, Bank of America Merrill Lynch

Okay. Thanks a lot.

Karl A. Roessner  
Chief Executive Officer & Director, E*TRADE Financial Corp.

Yeah.

Operator: Our next question comes from the line of Will Nance with Goldman Sachs. Your line is open. Please go ahead.

Will Nance  
Analyst, Goldman Sachs & Co. LLC

Hey, guys, good afternoon.

Karl A. Roessner  
Chief Executive Officer & Director, E*TRADE Financial Corp.

Hey, Will.

Will Nance  
Analyst, Goldman Sachs & Co. LLC

I wanted to follow up on the question on the deposit – the deposit rate guidance. There are kind of 4 basis points or 5 basis points increase quarter-over-quarter that you guys are guiding to. I guess, if we continue to see the same sort of mix of deposit growth between the Premium Savings and just kind of core sweep balances, what is a reasonable assumption for increases in deposit costs going forward beyond this quarter?
Chad E. Turner  
Chief Financial Officer, E*TRADE Financial Corp.

Yeah. The guidance of 315 basis points to 320 basis points, that assumes the continued growth of Premium Savings, like we've seen, as I mentioned earlier. I'd note that we don't have that growing out over time in perpetuity at the levels that you're seeing today. We think it's a good tool to stem retention now and provide opportunities to then sell other products too, for example, on the Corporate Services side, to use it as a tool, as a little bit of a gate to stop customers from leaving and then sell them and delight them with the rest of our investing and wealth management products. So that would be the way I would think about a bit of that growth. You're seeing that early here, but it does not assume that that would carry over the long period of our five-year multi-year plan, but that would ebb away a bit over time and slow down.

Will Nance  
Analyst, Goldman Sachs & Co. LLC

Got it. Appreciate that. And then I think last quarter you talked about the leverage you have of market conditions and reinvestment yields on securities kind of warranted taking a different strategy on balance sheet growth. I guess, since then, we've seen the curve kind of flatten further and we've kind of gone up and down, but kind of in the same range on the stock price. I guess, is that option something that you would still consider and, I guess, how close are we from heading down that path given what we're seeing in the market today?

Chad E. Turner  
Chief Financial Officer, E*TRADE Financial Corp.

Absolutely, Will. If you go back to kind of where the quarter ended in rates, I mean, the numbers would be really clear. But obviously, we're not going to make a strategic decision around the sort of anytime's yield curve. We're seeing April levels back up a bit in terms of yields, spreads were fairly attractive as well during parts of the prior quarter and on certain areas of the market now. So overall, we will look at it. It's still very much an option. It is a lever by which we can drive and maintain value, so it's something that we will continue to look at.

Will Nance  
Analyst, Goldman Sachs & Co. LLC

All right. Thanks for taking my questions.

Operator: Our next question comes from the line of Kyle Voigt with KBW. Your line is open. Please go ahead.

Kyle Voigt  
Analyst, Keefe, Bruyette & Woods, Inc.

Hi. Most of my questions have been answered. I guess, just one follow-up. I think you said in the prepared remarks that you're starting to see some positive trends in the retention of the stock plan participant proceeds. Just trying to see if you could put some numbers around that in terms of what that early success means?

Karl A. Roessner  
Chief Executive Officer & Director, E*TRADE Financial Corp.

So let me try and just take you through the way that this has been working, you get a better sense of why we're excited about what we're seeing early days. And just recall that when we look at the stock plan proceeds retention number that's using on about a 12-month look-back, so we're early days. I don't have those numbers for you in terms of percentage moves or one, two, whatever percentage point moves you're going to look for.
On the PSA itself, we've been extremely excited about what we've received there in terms of inflows. I would call about 70% to 75% of the inflows from PSA is homerun growth, right. I actually call it homerun growth. So it's about 30% of that 75% is coming from Corporate Services clients who are engaging with the product and we're seeing some uptick in customers engaging with products and staying there. And just like Chad laid out or we just talked about previously, that's the opportunity for us to roll out digital wealth offering, to roll out additional banking solutions to form a relationship with E*TRADE through our customer experience and ultimately through our – whether it'd be the Advisor Channel or an FC-type relationship to drive those customers in. So, very pleased with early day results and we have seen additional engagement that we just haven't seen before from corporate stock plan. So no numbers yet, but a very good result early days.

Kyle Voigt
Analyst, Keefe, Bruyette & Woods, Inc.

Got it. Thank you.

Karl A. Roessner
Chief Executive Officer & Director, E*TRADE Financial Corp.

Sure.

Operator: Our next question comes from the line of Brian Bedell with Deutsche Bank. Your line is open. Please go ahead.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.

Thanks very much. I guess, just a follow on, on that question. And by the way, thanks for the additional disclosure on the segments, it really does help us analyze things a little better. But for the roll forward in the stock – the 15% of the $27 billion, so basically what you're saying is, over the last 12 months, you've got about $4 billion into the Retail channel from the corporate stock plan channel. I guess, I'm just trying to understand the composition and that flow-through from the Premium Savings and then into basically retail brokerage accounts, if that's maybe too new to talk about or are you seeing an actual transition from the Premium Savings into retail brokerage?

Karl A. Roessner
Chief Executive Officer & Director, E*TRADE Financial Corp.

So, I would say it's not a way around the question, but it's definitely early days, right. This is the first quarter that we've actually had data like this on what the Corporate Services stock plan customers are engaging with and we're seeing them engage early in that vest or when the grant sort of comes out and they exercise their option or when they get their RFUs and they have cash in their account, we're seeing them engage with our PSA relatively quickly and early in the engagement, which gives us an opportunity to share with them the value proposition that is E*TRADE. And so building out that stock plan participant side, getting the RIA channel up and running, making sure that our digital wealth offering is right and that our banking products are aligned, right, the peer-to-peer payments, the ability to fund the accounts easily, making sure they can get to all their documents, the simple stuff is what we need to right. So when we have those tools set up over the next few months, I'll have a lot better data for you.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.
Okay. That was a little bit of my second question, which was on that transactional banking. Do you feel that you've got that full product set there in terms of online bill pay, ability to, say, write checks from your account or use Apple Pay, or do you think you need to invest more in that transactional banking first before you have a full set? I guess I'm trying to get at whether that's sort of scalable right now.

Karl A. Roessner  
Chief Executive Officer & Director, E*TRADE Financial Corp.

So let me – just to update on the banking side. Banking is a very important part of a customer relationship, and what we see there and we talked about this in the past is additional – or retention of the customer is a lot better. They bring more assets, they engage with us more frequently, and there's more transactions that come through the account when they have that overall banking relationship. Our bank has had the product set or at least portions of the product set, the deposit product, check writing, bill pay. The basics have been there for quite some time, but we hadn't invested in the experience over a very long period of time.

So I would say there is a good chunk of products in the bank now that lets us start that relationship. We've revamped all of the pages to the banking experience and we've just remedied a lot of the issues that we had on our online application that had some historical fees and requirements in it that were just prohibitive from opening up a bank account. So early days on that front, but I feel like we have a pretty good stable of banking products. There's more we need to do, right, on the peer-to-peer side, on being able to sort of fund an account more easily, how can we roll that forward, what other services could we offer for our client who is going to engage on the banking side. That's what we need to drive that to secure these relationships. So a lot of it's there or a good portion of it's there. It's the experience and seeing what customers really want to need to form that relationship.

Brian Bedell  
Analyst, Deutsche Bank Securities, Inc.

Got it. That's good color. Thank you.

Karl A. Roessner  
Chief Executive Officer & Director, E*TRADE Financial Corp.

Yeah. Thanks.

Operator: Our next question comes from the line of Craig Siegenthaler with Credit Suisse. Your line is open. Please go ahead.

Craig Siegenthaler  
Analyst, Credit Suisse Securities (USA) LLC

Hey, good evening, guys. We just saw one of your large competitors cut their deposit sweep rates across several tiers. I'm just wondering what it would take for E*TRADE to also follow in this direction and cut rates?

Chad E. Turner  
Chief Financial Officer, E*TRADE Financial Corp.

Yeah. Craig, this is Chad. We typically follow Fed funds. That's been our consistent practice, but we're constantly monitoring the overall environment, the competitive landscape. We're comfortable with where our rates are as of today, that 20% beta over time, acknowledging that any given period could be a little different is the right way to think about it. So we typically do that around Fed funds cycle.
Craig Siegenthaler  
Analyst, Credit Suisse Securities (USA) LLC

And then just as my follow-up here, a housekeeping item. Footnote 15, there was a very large increase in savings checking and other banking assets, like $1.7 billion off a small base. I’m just wondering what specifically drove that.

Chad E. Turner  
Chief Financial Officer, E*TRADE Financial Corp.

That is where the Premium Savings product that we’ve been discussing rolls up.

Craig Siegenthaler  
Analyst, Credit Suisse Securities (USA) LLC

Got it. And that type of growth rate is pretty normal?

Chad E. Turner  
Chief Financial Officer, E*TRADE Financial Corp.

That product was new in the middle of last year, so you’re seeing – compared to history, you’re seeing a growth that is definitely more than it’s been over time.

Karl A. Roessner  
Chief Executive Officer & Director, E*TRADE Financial Corp.

Yeah. And that’s the number to think about when we talk about 75% of that sort of being – or 70%, 75% being homerun growth, right. So 30-some-odd percent of that’s coming from stock plan engaged customers, which is why we sort of like where we’re headed with the product.

Chad E. Turner  
Chief Financial Officer, E*TRADE Financial Corp.

Yeah. And Craig, if you looked at that over time, you would actually go back and see that it was declining. To Karl’s point, we’ve not only seen customers go in there around Corporate Services and the ability to retain more there, but we’ve also stemmed some of that historical bank attrition where those customers, it was run off bank products and they were just leaving us to go somewhere else. So, this product also act as a primary opportunity to get back engaged with those legacy bank customers that may have been leaving us and to stem some of that decline as well.

Craig Siegenthaler  
Analyst, Credit Suisse Securities (USA) LLC

Thank you.

Operator: Our next question comes from the line of Michael Cyprys with Morgan Stanley. Your line is open. Please go ahead.

Michael J. Cyprys  
Analyst, Morgan Stanley & Co. LLC

Hey, good evening. Thanks for taking the question. Just on the Corporate Services business, seeing some nice growth there, the $73 billion new grants and $256 billion or so in assets. I guess, where do you see your market
share in the marketplace today in the Corporate Services business and where do you think that was say two or three years ago and as you look out over the next couple years, what sort of aspirations for market share do you have and where and how could M&A make sense there?

Karl A. Roessner  
Chief Executive Officer & Director, E*TRADE Financial Corp.

So, there's a simple response to your first question that's number one two or three years ago, number one today and number one future in terms of our positioning and where we are. So, in terms of market share, it's sort of at a 20% range of the S&P. If you want to break it out further, it's about 50% of publicly listed tech companies, so we have a big penetration with folks who like our technology and understand the ease of use and the functionality that we can provide for them. So that's a big driver of growth for us is just being in that mindset in the set of companies who are – even the companies going public now being engaged with some of those early on as they put their plans together and then taking them public and participating in that growth go forward. So, very good opportunities all across the board in Corporate Services.

And then when I look at the future of the platform or what else we need to do, we don't really need to go out and acquire anything, right. And when I talked about M&A space before, the difficulty is when you go out and acquire because there are some participants in this space who historically offered stock plan administration services as an ancillary service to what they do in their core business. So there are a couple companies who have rather large plans for public companies that you just wouldn't expect them to have a stock plan business. Going after or trying to buy one of those would put us in the same situation where it would be a dislocation event. So I'd sort of be loathed to pay for something I'm going to have to compete for. I'd rather have my team be able to compete and win the way they have in the past. So unless there was a service or something that we could bolt on more cost effectively than we can build it and our team in the tech space on this side can build pretty much anything, they work very closely with the clients. So this is not a huge opportunity set for us. If something were to fall into our lap, we'd absolutely take a look at it. But I really like our positioning here. I like what the team is doing to build this out go forward. It's just been a huge success story for us.

Michael J. Cyprys  
Analyst, Morgan Stanley & Co. LLC

Great. And just as a quick follow-up, maybe bigger picture, how are you thinking about the diversity of your revenue stream today relative to perhaps where it's been in the past and what sort of appetite is there for any sort of expansion into new verticals or new revenue streams?

Chad E. Turner  
Chief Financial Officer, E*TRADE Financial Corp.

Look, I think the diversity of revenue where we have real initiatives around fee-based product build within the – coming from the Corporate Services channel into the advisor referral really expanding in the Advisor Services, you see the growth engines really in both Corporate Services and Advisor Services. The bank offers us a lot of potential and a lot of that revenue will still be net interest, but it's coming from different product lines. So, in a sense, it's a very different vertical, although it won't show on sort of the face of a pie chart of revenue categories, but it's coming from different places. All of that increases the strength of our earnings profile over time and through different market environments, I think you can see the strength in sort of this quarter's results against the market environment that we saw in the quarter and sort of the robustness of what we're bringing to market today.

Michael J. Cyprys  
Analyst, Morgan Stanley & Co. LLC
Great. Thank you.

**Operator:** And at this time, I'd like to turn the call back over to our presenters.

Karl A. Roessner  
**Chief Executive Officer & Director, E*TRADE Financial Corp.**

Well, thank you very much for joining us this evening. Enjoy the evening and we'll speak to you next quarter.

**Operator:** That does conclude the call for today. We thank you for your participation and ask that you please disconnect your lines.