ANALYST QUICK NOTES
New products, M&A announcements, management shakeups, earnings surprises. Whatever the news, you want to know what Argus thinks. Our Quick Notes fill this need by providing real-time analysis of current news about Argus-covered companies or other market-moving events. Please check back regularly for new Quick Notes. Important disclaimer information is on the last page of this document.

Charles Schwab Corp. (NYSE: SCHW: BUY)
Target Price: $46
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Investment Thesis

- On Feb. 14, Schwab announced net new assets in January of $11.1B, above average $10.5B pace for 2016.
    - 10.2 million active brokerage accounts, up 4% from prior year.

- In early Feb., Schwab gave a winter business update:
    - Themes included client engagement efforts, a positively trending environment and disruptive advisory strategy.

- Broker and advisor metrics remained strong in 2016:
    - Added 1 million new brokerage accounts.
    - Daily average trades up 5% to 562,000.
    - New assets of $126 billion, fifth year of > $100 billion in annual new assets.

- As industry growth slows, a key component of Schwab's strategy is market share gains:
    - Low cost offerings (undercutting competition with low ETF expense ratios and trade prices).
    - Scale benefits from asset growth.
    - Expects RIA growth to be a bright spot as relationships and financial planning are more valued.
    - Schwab RIA assets have grown 9.7% CAGR vs. S&P 500's 4.7% since 2006.
    - Embraced recent trends with Robo-advisor offering, intelligent portfolios.
    - 401k plans growing more fee conscious.

- Schwab is best known as a discount broker, but we think a misunderstood part of the story is the bank.
    - In 2016, net interest revenue exceeded asset management and admin fees for the first time.
    - Schwab is rapidly sweeping money market assets into Schwab Bank ($8 billion in 2016).
    - Every $10B of sweep adds $120 million in net interest revenue at current rates.
    - Schwab estimates half of its $160 billion money market funds could be migrated, for a nearly $1 billion revenue opportunity.
    - Every 25 bps increase in Fed funds rate adds $200-$300 million in revenues.

- Corporate tax rate changes.
    - Schwab's net margin is expected to benefit more than most Financials.
    - Relatively high 37% tax rate in both 2016 and 2017.
    - A 15%-20% reduction in rates would add $450 to $600 million to after-tax profits, or 24% to 33%.

- Management provided conservative base-line assumptions for 2017.
    - S&P rises 6.5%.
    - No Fed fund rate hikes and 10-year yields averaging 2.45%.
    - Daily average trades flat with 2016.
    - Low double-digit revenue growth.
    - Pretax margin of 41% vs. 40% in 2016 and 35.7% in 2015.

- Argus estimate is $1.64 for 2017 ($1.58 consensus), $2.05 for 2018 ($1.95).
    - The 12% revenue growth is leveraged to 26% and 25% EPS growth, respectively.

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