CI FINANCIAL CORP.

THIRD QUARTER 2017 RESULTS

CONFERENCE CALL

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PRESENTATION

Peter Anderson, CEO, CI Financial

Welcome to the CI Financial conference call to discuss our Q3 results. We also have our Executive Committee available to answer your questions about the quarter.

Before passing the discussion over to Doug, I want to provide you with a high-level update on the integration of both Sentry and BBS.

The Sentry transaction closed on October 2nd. Since then, we've been working to integrate the businesses. Our priority was to finalize the ongoing Sentry PM teams, along with the expanded CI Sentry sales team. All of that has been completed. Sentry portfolio managers continue to oversee the majority of Sentry assets, and have been positioned as a distinct investment group within CI's already broad lineup of investment teams. We think this team is an excellent addition to the CI family. We have also trained the Sentry sales team on CI's product lineup and the CI team on Sentry's products.

As we forecasted, Sentry funds continue to be in redemptions. We expected this when we built our models for this transaction and we're well inside of our range. As an aside, Sentry's net redemptions are more from reduced gross sales since the transaction was announced, rather than a significant increase in actual redemptions. With our larger sales team today, we are confident that this can be reversed. We expect Sentry to remain in redemptions through the remainder of 2017, and most likely into 2018.

The rest of the integration is on track and we remain very optimistic on attaining the synergies we modelled for this transaction. There have been no surprises since we closed Sentry. Doug will get into more detail shortly.

The BBS Securities acquisition closed last week, after approval from the regulators. We have selected the leaders of the business from their existing executive team, and continue to see outstanding opportunities to leverage their technology with our existing business lines, including Assante, Stonegate, First Asset and CI Investments. This is also a strong, standalone business, with a growing share of the do-it-yourself market. We also see huge opportunities to work with the BBS team to build out their platform as a large, independent, online business. We will have much more detail to discuss on our next quarter's call.

This is a very busy time for all of us at CI, however, I am very encouraged with our position today. We remain focused on our strategy of enhancing our Canadian business, accessing new channels of distribution in Canada and globally, and adding scale to our business, both organically and through strategic acquisitions.

With that, I'll hand the call over to Doug.

Douglas Jamieson, CFO, CI Financial

Thank you, Peter. Looking at Q3 compared to Q2, average AUM declined 2 percent to $120.3 billion, from $122.7 billion.

Last quarter, we recorded a provision of $45 million for the settlement of a dispute with CRA over the interest rate charged on subordinated notes within CI's income trust from 2006 to 2008. Adjusting for that provision, last quarter's net income was $141.3 million, or $0.54 per share.

This quarter is essentially flat at $140.8 million and up $0.01 per share, on a per share basis, because of the share buybacks that we made. Similarly, EBITDA of $223.1 million was up marginally from $222 million last quarter and up $0.02 to $0.87 per share. Free cash flow as up 3% to $159.1 million and dividends paid were up slightly at $0.3525 per share.

Now, looking at year-over-year highlights, average assets under management were up 7 percent from $112.3 billion in last year's third quarter. Net income was up 3 percent from $136.8 million last year and up $0.04 on a per share basis, or 8 percent, with accretion of our share buybacks over the past year. EBITDA was down 1 percent and EBITDA per share was up $0.04 or 5 percent. Free cash flow was flat and dividends paid were up 2 percent year-over-year.

CI's total SG&A was 35.9 basis points, down from 36.5 in the second quarter, and up from 35.4 basis points in the third quarter last year. Spending, in dollar terms, was down $2.9 million over last quarter, as discretionary spend was reduced slightly this quarter and last quarter included higher compensation costs and filing fees.

CI's quarterly free cash flow remains strong at $159 million this quarter. With the addition of Sentry in the fourth quarter, this should grow to approximately $175 million.

Looking at the return to shareholders, the first column shows the last 12 months of operating cash flow, adjusted for the after-tax provisions taken in the past year, and the deferred sales commissions paid to get to free cash flow of $622 million. CI paid out all of that free cash, and more, in the form of dividends and share buybacks at $693 million.

In the third quarter, CI increased its buybacks to $100 million, which brought the return of free cash flow to shareholders to $191 million. The issuance of stock for the Sentry and BBS deals will push the quarterly dividend payout to about $97 million, but this amount will decline as we continue to repurchase shares. We also believe increasing the dividend is less relevant with our yield at 5 percent and will focus on increasing the share repurchase.

The acquisition of Sentry closed on October 2nd, as Peter mentioned. This means that CI's fourth quarter will include a full quarter of results, and we have already executed on 50 percent of our expected synergies. As these synergies start to impact SG&A, the spend in basis points at Sentry will approach CI's level and, ultimately, the marginal rate will be below CI's industry-leading 30-basis-point spend in the asset management segment. At this point, we are expecting $25 million in EBITDA from Sentry in the fourth quarter.

For BBS, having closed on November 1st, the purchase price was disclosed in our subsequent event note at $34 million, 80 percent of it in stock. This company is profitable and growing, and has tremendous potential. While it will contribute to CI's fourth quarter results, the main contribution will come in the quarters ahead, where we expect to save millions of dollars in our various back offices and save months of bill time on several growth initiatives.

I will now turn it back to Peter.

Peter Anderson, CEO, CI Financial

Thanks, Doug. As I said earlier, this has been a very busy year at CI. We acquired three unique, but strategic, businesses in the past 12 months and four in the last two years. We also continue to reposition our existing business lines. The wealth management industry in Canada and globally is changing at a time when status quo is the enemy. The headwinds are evident, with fee pressures, a continuing active-versus-passive dialogue, increased regulation, new competition and overcapacity in active managers. We view this as an opportunity for CI and are positioning our company to be the independent choice in a market dominated by the banks.

Now, let me take you through the results of some of our businesses.

At CI Investments, our retail business remains positive. As you can see in our press release and our MD&A, we've provided more clarity on our sales by breaking out the retail and institutional businesses. To provide a clearer picture of our retail business, we also have a separate line for closed businesses, which is our segregated funds and closed-end products that are not open to new business today. In total, this block represents less than 8 percent of our total assets. The closed products will continue to be in redemptions because they are not open to new sales, and because many of these funds make regular income payments to their investors. However, the annual redemptions rates have remained relatively stable over the past few years at less than 10 percent of total assets in these products.

In the rest of the retail business, we had a strong rebound since 2016. We see positive momentum in all of our sales channels, including brokers, SunLife and Assante. With the Sentry transaction, we've increased our sales team by roughly 18 percent to provide even greater coverage to advisors. We've also doubled the assets that we have with the broker channel and increased the number of relationships we have with advisors. We view this as extremely positive for CI.

At CI Institutional, business continues to be robust. There were over $350 million in net sales in Q3 and $600 million for the year to date. We have won mandates that are not funded and we are short-listed on more mandates than we announced on the Q2 call. This has been a very strong year for our institutional team, and 2018 also looks extremely positive.

First Asset, our active ETF business, continues to have a very strong year, with solid net sales and asset growth. Assets under management have more than doubled since the acquisition two years ago. As I said on our last call, our buy-not-build strategy was the correct decision. We are launching products, such as the First Asset Enhanced Short Duration Bond ETF using CI portfolio management teams, as well as other active ETFs using new strategic relationships. We are seeing positive support of First Asset products throughout the broker channel. Today, we continue to run the CI and First Asset sales teams separately, but both teams are working closely together in search of new business.

GSFM, our Australian business, continues to perform above expectations. Although their institutional business is in redemption, their retail business remains robust. As a reminder, the margins in their retail business are significantly higher than with their institutional assets. GSFM has broadened their portfolio management lineup from four teams at the beginning of 2017, to seven today. Their new portfolio management relationships include Man Group of London, Munro Partners from Australia, and CI's own Cambridge Global Asset Management. GSFM will launch a mandate managed by Cambridge into the Australian market in the fourth quarter of this year. This will be CI's initial launch of a CI portfolio manager outside of Canada.

Assante and Stonegate continue their excellent growth, both organically and through recruitment of experienced advisors. In every metric we review, Assante and Stonegate are exceeding their 2016 numbers, including net sales, high net worth growth and new assets from recruitment. They are an important engine of the growth for CI and we continue to invest in this business. The acquisition of BBS and the technology available through this platform will contribute to Assante and Stonegate's ongoing success.

In summary, we're pleased with CI's position today. In particular, the integration of Sentry is going well and we expect to reach our synergy targets well ahead of our plan. The BBS acquisition closed last week and we believe there are a number of opportunities that move CI's IT strategy forward at a much quicker pace, including our robo-platform, our millennial strategy, our unified managed account (or UMA), and a separate account platform.

We reconfirm our current dividend policy and are prepared to increase our share buyback, and increase our debt level, if and when opportunities arise.

Finally, we see positive results in all of our business lines, most notably at Assante and CI Institutional.

With that, we conclude our remarks and will be pleased to take your questions. Operator?

QUESTION AND ANSWER SESSION

Operator

We have a first question from Geoff Kwan from RBC Capital Markets. Please go ahead, your line is now open.

Geoff Kwan, RBC Capital Markets

Hi, there. You were talking about Sentry and it sounds like there have been net redemptions year to date and you suspect that it's going to happen, or persist, I guess, into maybe early 2018. Was that the case? Also, did you give any numbers around what the quarterly net redemptions were in Q3, and on a year-to-date, obviously, they wouldn't have been when they were part of CI?

Peter Anderson, CEO, CI Financial

No, we didn't give any numbers out for Q3 for Sentry. It closed October 2nd.

Geoff Kwan, RBC Capital Markets

Okay.

Peter Anderson, CEO, CI Financial

But, yes, what you did hear is right. We expect that Sentry will continue to be in redemptions for the remainder of 2017, and into 2018.

Geoff Kwan, RBC Capital Markets

Are you able to comment in terms of the net redemptions year to date? Were those better year-over-year, versus what was seen in 2016?

Peter Anderson, CEO, CI Financial

It's consistent, I would say.

Geoff Kwan, RBC Capital Markets

Okay. On the institutional side, you picked up some nice good wins. Do you have an updated number in terms of mandates that you've won but haven't funded yet?

Neal Kerr, President, CI Institutional Asset Management, CI Financial

Hi, Geoff, it's Neal Kerr here. Thanks for the question. We've got hundreds of millions of mandates that we've been informed we've won, that haven't come in yet. Some of them will come in in the fourth quarter, and then the rest will be hanging out for next year. In addition to that, the pipeline of business that we are involved in are RFPs and short-list presentations, is amongst the most robust we've had, so we feel good about that.

Geoff Kwan, RBC Capital Markets

Okay, thanks, and maybe I can ask one last question. You have been doing a few acquisitions in the past year. Maybe just thoughts on appetite of potential deals that we might see over the next year, what you're looking, is it particularly geographies, products, that sort of thing?

Peter Anderson, CEO, CI Financial

We're always looking at transactions. That's been the success of CI – looking for pieces of business that would fit well into CI. We have a number of ideas that we're actively looking at, both inside of Canada and out, but right now we're very focused on the integration of the two businesses and going from there. But, like I said, we're always looking and always interested in enhancing our business through acquisitions.

Geoff Kwan, RBC Capital Markets

Okay, great. Thank you.

Operator

Thank you. Our next question is from Graham Ryding from TD Securities. Please go ahead, you line is now open.

Graham Ryding, TD Securities

Hi—The broker channel, it looks like, you know, with the addition of Sentry and then your own CI sales team, and also First Asset, you've got a few different lines of sales individuals targeting that channel, so how do you manage that so that's there's not too much overlap?

Peter Anderson, CEO, CI Financial

I think what you're asking, Graham, is that because we have a CI sales team, a Sentry sales team and a First Asset sales team, is there an overlap? The CI sales team and the Sentry team are going to work together, that's already been integrated. As for First Asset, although they run independently, they work very closely with the CI group. So, we don't see a lot of overlap there right now.

One positive thing is that we have an awful lot of people within the broker channel and throughout our whole business. We have significantly more wholesalers selling to advisors in every channel than we did, let's say, two years ago or a year-and-a-half ago. We increased our wholesaling team for CI by 15 percent in 2016, and we've increased it again by 18 percent this year. We've got a very, very large team, and that excludes the First Asset group, as well.

Graham Ryding, TD Securities

Okay, great. I appreciate the colour you gave around EBITDA contribution from Sentry, and it sounds like you got 50 percent of synergies realized so far. What does that EBITDA contribution look like once you get to 100 percent of synergies?

Douglas Jamieson, CFO, CI Financial

I'd think of it more as what can we get the spend at Sentry down to. We've said we believe we can get it down to below CI's spend rate. Regardless of what you put in for a gross SG&A at Sentry, you can put in what you think the net spend will be, ultimately.

Graham Ryding, TD Securities

Okay. Assante, I understand the logic behind bringing BBS, the back-end technology into that. The automated advice platform that you're rolling out there, where is that initiative at in terms of how you're progressing and timing?

Steven Donald, CEO, Assante

Hi, Graham, it's Steve Donald. What BBS does, as Peter had mentioned in his remarks, is it accelerates that timing. So, while we've got the front end, BBS provides us with back office clearing, and so we would anticipate launching it internally to a test group before the end of the year and having it into the broader market during 2018.

Graham Ryding, TD Securities

Okay, and then did you not have a back-end solution when you licensed the original technology, or is this just a better back end solution?

Steven Donald, CEO, Assante

Had not owned, we would have been outsourcing, so we were investigating that, and BBS has provided us with a better solution.

Peter Anderson, CEO, CI Financial

But chances are we would have ended up with BBS, because they already do a number of robo-platforms.

Graham Ryding, TD Securities

Got it. Any colour around the level of profitability we should expect from BBS?

Douglas Jamieson, CFO, CI Financial

It's a small contribution. We paid $34 million and I'd say, the multiple was at or below CI's multiple, so a small private company.

Graham Ryding, TD Securities

Good, appreciate that. Thank you.

Operator

Thank you. Our next question is from Tom MacKinnon from BMO Capital. Please go ahead, your line is now open.

Tom MacKinnon, BMO Capital Markets

Yes, thanks very much for taking my questions and thanks for the EBITDA contribution, especially with Sentry I was wondering if you might be able to break down what the revenue contribution would be on that EBITDA. I'm thinking more in the terms of the management fees and the trailers associated with this 25 EBITDA, or the dollar amounts, how do they sort of compare to your respective fees and trailers?

Douglas Jamieson, CFO, CI Financial

They are comparable, because they're a full retail shop, so their retail management fees are quite similar to ours, and the trailer fees are also quite similar to ours.

Tom MacKinnon, BMO Capital Markets

Higher or lower, or exactly the same?

Douglas Jamieson, CFO, CI Financial

Pretty close.

Tom MacKinnon, BMO Capital Markets

Okay. Then, is there any comment on how flows are trending so far at CI, including Sentry, in the quarter? The third quarter flows were pretty good, and just seeing how that—if those trends are—what they're looking like in the fourth quarter, especially with respect to retail.

Roy Ratnavel, EVP & National Sales Manager, CI Investments

Yes, it's Roy Ratnavel, I'm the National Sales Manager. As you know, last year we implemented an IIROC strategy. The results are in and it is very positive, and at this rate, we're very confident that those positive trends will continue into Q4 and beyond, and not only in the IIROCs, the MFDA, Credit Unions, as you heard from Steve, the Assante piece, as well. So, overall, the retail business has very positive momentum right now.

Tom MacKinnon, BMO Capital Markets

Okay, thank you.

Operator

Thank you. Our next question is from Scott Chan from Canaccord Genuity. Please go ahead, your line is now open.

Scott Chan, Canaccord Genuity

Good afternoon. Peter, when you referred to Slide 5, potentially accessing the distribution channels in Canada and globally, can you maybe just provide a bit more colour on that statement; specifically, on the global side?

Peter Anderson, CEO, CI Financial

I don't want to get too detailed into our strategy, but even though we're at $140 billion of AUM at CI Investments, and $180 billion of fee-generating assets, there are still pockets of distribution that we don't have access to. As an example, the BBS strategy provided us with a very large group of investors that have probably never done business with CI, and so that provides us a new channel.

Outside of Canada, our institutional group are always looking for ways to export our portfolio management teams, we're just beginning that. The Australia idea with Cambridge is the first one, but we have certainly had contact with opportunities in Asia, more in Australia, and into the U.S., as well.

The thing about our company is we're a really big company in Canada, that doesn't have nearly as much exposure to outside of Canada as we should, and we need to be able to use that opportunity to grow the business.

That's kind of a roundabout way of answering your question, Scott, but I think there's lots of opportunity for us to expand distribution not only in Canada, but also abroad.

Scott Chan, Canaccord Genuity

Great, and just on the robo-advisor front, is there any update to share on a potential offering?

Steven Donald, CEO, Assante

Nothing further than I just mentioned, in that we're looking to launch internally before the end of the year and it'll be available externally during 2018.

As Peter said, we do have an existing robo offering available through Virtual Brokers, but it's in its very early stages right now.

Scott Chan, Canaccord Genuity

Okay, got it. Thanks.

Operator

Thank you. Our next question is from Gary Ho from Desjardins Capital Markets. Please go ahead, your line is now open.

Gary Ho, Desjardins Capital Markets

Thank you. Just going back to Sentry, maybe I can ask the EBITDA synergies question another way. Given what you guys have done so far, would you guys change your pro forma 2018 numbers, the ones that you provided last quarter, I think EBITDA a billion, net income 650, and free cash flow 750? Would you increase that given what you guys have done so far?

Douglas Jamieson, CFO, CI Financial

Given that we think we're at, or slightly ahead of pace, I'd increase it a little bit. I made a very round number last quarter and I'm not prepared to fine-tune it just yet, we'll see in the fourth quarter.

Peter Anderson, CEO, CI Financial

We always look at things very conservatively on what we're modelling, so I agree with Doug, I think we're fine where we are right now.

Gary Ho, Desjardins Capital Markets

Okay, and then just on the Sentry outflows, what do you think you need to do to turn that around? You mentioned it was more of a gross sales issue and not a redemption issue. So, is it performance or is it ramping up the sales team? Can you somehow give us some targets that we can measure your execution against?

Peter Anderson, CEO, CI Financial

I'm not going to give you targets, but I'll give you where we are and what we're doing. Whenever a transaction like this happens, advisors seem to sit on their hands for a period of time, waiting to see what's going to happen. We know that advisors wanted to see who the portfolio managers were going to be – they wanted some clarity, and that's why announcing the PMs was really important. I don't have the exact number, but I think it's about 80 percent of the assets are being managed by the same portfolio management team, or group. So, that's a positive thing. I think having a significantly larger sales team, and telling advisors who their wholesaler is, is also a positive thing.

We anticipated all of this when we were going through the process and we've created a very clear vision to advisors who do business with Sentry, of what the business is going to look like going forward. But, the reality is they had a very limited shelf space of products, they didn't have nearly as robust a lineup of products as we do. Now, with this large sales team, whether they're former Sentry wholesalers or CI wholesalers, they're going to have a stable of products that are bigger and more robust than any other firm in the country, and so a Sentry wholesaler—and they're very good, they're actually very good wholesalers—are going now be able to offer Cambridge and Black Creek and Signature, and all those things, to the advisors that they have close and strong relationships with. Those advisors were not clients of our company, or were smaller clients of our company, I guess is a better way to put it.

Gary Ho, Desjardins Capital Markets

Great, thanks for the colour. Just one more, if I can. For the closed block of business, you said 8 percent, so that's roughly $11 billion of AUM. How should we think about the outflows there? I guess, $200 million $300 million in a quarter, is that a good run rate to use for a model, and when should—should this peak out at one point or is that on decline already?

Peter Anderson, CEO, CI Financial

Right off the bat, I want to say if we could find a way to open that block of business, we'd do it immediately, and we continually to look for ways that we can find a partner that wants to help us on the insurance side, but at this point that business is closed. I would say that in the past couple of years, the percentage is about the same, it hasn't really changed. These segregated funds have benefits that are significantly better and significantly enhanced to what you can buy today, so it's not to the advantage of investors to redeem them. They're actually really good products that can be rolled over.

There is going to be flow coming out of that because of redemptions, due to income payments that need to be made for some of the block of business, and then we have the regular redemptions, for whatever reason, but I think the number of 10 percent of the outstanding assets is about the same, it's been about the same for the last few years, and I don't expect it to change very much.

Gary Ho, Desjardins Capital Markets

Okay, that's it for me. Thank you.

Operator

Thank you. Our next question is from Paul Holden from CIBC. Please go ahead, your line is now open.

Paul Holden, CIBC World Markets

Thank you. Good afternoon. Just a couple of questions to start, to make sure I understand the numbers correctly. The closed book being roughly 8 percent of AUM, is that AUM including Sentry or before Sentry?

Peter Anderson, CEO, CI Financial

That's AUM including Sentry.

Paul Holden, CIBC World Markets

Okay, thank you. Then, that $25 million of expected EBITDA in Q4 from Sentry—people talk about sometimes a realization of synergies in different ways, so I want to clarify if that's actually including the full benefit of the 50% realization of synergies or a partial benefit of that 50%.

Douglas Jamieson, CFO, CI Financial

That's a partial benefit, as these synergies are realized over time.

Paul Holden, CIBC World Markets

Yes, that makes sense, I just wanted to clarify, thank you. Then, in terms of the composition of sales, let's say, by product, I want to get a better sense of—and let's talk gross sales—what might be coming from, say, managed product today, from high net worth series, and from F series.

Roy Ratnavel, EVP & National Sales Manager, CI Investments

Hi, it's Roy Ratnavel again. The flow into the funds are really coming from most of our international global equities, and also global balanced. We are also seeing a significant growth uptick in our managed money run by Alfred Lam and his team.

Paul Holden, CIBC World Markets

Okay, and any numbers on the proportion coming from the managed solutions?

Peter Anderson, CEO, CI Financial

We don't break that down.

Paul Holden, CIBC World Markets

Okay, that's fine. Then, with BBS, to me, the real story seems to be the potential to reduce operating costs, digitalize the business, one way or another. Is there any way we can think about what that potential benefit would be, whether you express it as an improvement in EBITDA margin or operating costs relative to AUM?

Douglas Jamieson, CFO, CI Financial

We're just starting on that. We have identified a couple things right off that we know eventually will get us into the millions. When and how much higher it goes, it depends, as we move along, what we might do.

Paul Holden, CBIC World Markets

Okay, fair enough. We'll continue to ask that question further down the road then. That's all the questions for me. Thank you.

Operator

We have no further questions registered at this time. I would like to turn the meeting back over to Mr. Anderson.

Peter Anderson, CEO, CI Financial

With that, if there are no more questions, I want to thank you for listening in to our Q3 call, and look forward to chatting again in a couple of months for our Q4. So, thanks very much, everybody. Bye.

Operator

Thank you. The conference has now ended. Please disconnect your lines at this time and thanks for your participation

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