

CI FINANCIAL CORP.
SECOND QUARTER 2018 RESULTS
CONFERENCE CALL

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CORPORATE PARTICIPANTS

Peter Anderson

Chief Executive Officer and Director, CI Financial

Douglas Jamieson

Executive Vice President and Chief Financial Officer, CI Financial

CONFERENCE CALL PARTICIPANTS

Graham Ryding

TD Securities

Gary Ho

Desjardins Capital Markets

Geoff Kwan

RBC Capital Markets

Scott Chan

Canaccord Genuity

Paul Holden

CIBC

Tom MacKinnon

BMO Capital Markets

PRESENTATION

Peter Anderson, Chief Executive Officer and Director, CI Financial

Welcome to the CI Financial conference call for the second quarter of 2018. As always, CI's Chief Financial Officer, Doug Jamieson, is with me on the call. Shortly, he'll give you a detailed financial update on our second quarter. Also available are some members of CI's Executive Team, who can answer any questions you have on our various businesses.

The second quarter financial results at CI were solid. I am pleased we continue to manage the company efficiently despite the challenges in our industry. Doug will provide more details.

Here are some of the highlights:

Q2 earnings per share reached \$0.61, 3 percent above Q1. Free cash flow in Q2 was \$163 million, \$333 million year-to-date, a record for CI. Assets under management were just below \$140 billion. And finally, the Sentry integration is virtually complete, and we'll provide more details in a moment.

CI continues to be in a strong financial position, and as you review our quarterly results, you will see our overall business is going well. Yet, our stock price is down. In our opinion this represents a significant buying opportunity. Asset manager multiples globally are trading at the low end of the range for a number of reasons, but mostly due to uncertainty in the industry. We believe this is an overreaction providing us the opportunity to strategically and aggressively repurchase our stock - an opportunity we have and will continue to take advantage of.

The board of CI Financial, supported by senior management, has unanimously agreed to alter CI's current allocation of free cash, shifting the balance in favour of share buybacks. Our overall strategy remains unchanged to return 100 percent of our free cash back to shareholders through dividends and share repurchases. Today, we have concluded CI's best use of free cash is aggressively buying back our shares. As a result, our annual dividend will now be \$0.72 and paid quarterly. This brings CI's dividend closer to the average yield of the TSX Composite Index, a level we believe to be very reasonable. We cannot foresee any reason why we would look to adjust this lower in the future.

This new policy provides the company increased flexibility and optionality, allowing CI the ability to pursue the best available long-term value maximizing

opportunities. I want to also remind everybody our board collectively owns more than 20 million shares of CI, and they fully endorse our new plan.

We have already been buying roughly \$150 million of CI stock each quarter for some time. Our new strategy will allow us the flexibility to increase our buybacks to as much as \$1 billion over the next 12 months or so, if, in our opinion, our company is undervalued. This shows clear proof of our confidence in CI Financial today, and in the future. If there are sellers of our stock at these levels, we will be buyers. If in the future we find a better use for our free cash, we'll adapt our policy again. We have the confidence in our company and a capacity to increase our debt level to a maximum of two times net debt to EBITDA from its current level of 1.2 times, if circumstances justify this move. We will only add to our debt if we conclude it's in the best interest of CI.

Since going public in 1994, we have always run CI Financial proactively, making decisions, however bold, in the best long-term interest of the corporation, which in turn means the best long-term interest of all of our shareholders and other stakeholders. In our opinion, there is no more compelling use of our free cash today than to aggressively buy back our shares at these prices. We will maintain this policy until we find a better use of our free cash.

Switching topics, retail sales at CI Investments continue to be in redemptions. While gross sales remain strong, we are very disappointed in our Q2 net sales results, and our highest priority at the company is to return to positive net sales. Causes for these redemptions continue to be the same - short-term performance in a number of our larger funds, and industry-wide redemptions in major asset classes, including Canadian equity and Canadian balanced.

We continue to see positive signs though, including our strong gross sales and increasing number of new advisors using CI and improving performance in our funds. I remain totally confident that our retail strategy, our sales management, and our wholesaling team will return our retail business to positive sales.

To improve our competitiveness in today's market, we are upgrading our product offerings. We recently announced several enhancements, including new prices on some funds and lower entry levels on our Preferred Pricing program. There are a number of more launches coming this fall designed to meet the needs of various advisor channels, including IIROC, MFDA, Sun Life, Assante and Stonegate. We will also launch a new marketing campaign this fall and into 2019 to increase market awareness of CI and our various businesses.

Finally, it's been 12 months since we announced the acquisition of Sentry. The integration is virtually complete and now part of CI. That being said, redemptions in the business have been higher, but we realized significantly more synergies than we had originally forecast. The Sentry acquisition has definitely added to CI's earnings in both Q1 and Q2.

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

Douglas Jamieson, Executive Vice President and Chief Financial Officer, CI Financial

Thank you, Peter.

Moving on to CI's highlights. On a quarter-over-quarter basis, comparing Q2 to Q1, average assets under management increased \$2.4 billion or 1.7 percent to \$139.5 billion from \$141.9 billion. Assets under advisement were up 2 percent to \$43.7 billion. Net income was \$159.9 million or \$0.61 per share compared to \$159 million or \$0.59 per share last quarter. Free cash flow dipped slightly to \$163 million from \$166.9 million last quarter, and the year-to-date total of those two numbers, \$330 million, is the cash flow record that Peter mentioned.

The main reasons for the increase in earnings are the impact to revenue of one additional day in the quarter, which slightly offset the lower average assets, as well a decrease in SG&A, as we realize greater synergies from Sentry and BBS, while our net management fee stayed flat.

Now looking at Q2 year-over-year highlights. Average assets under management were up 14 percent from \$122.7 billion in last year's second quarter. Net income was up 3 percent from an adjusted \$154.6 million last year, and free cash flow grew 5 percent from \$154.89 million. The increase from the prior year is primarily due to the acquisition of Sentry, boosting CI's assets under management, offset by a decline in margins as net management fees in basis points were down about 4 percent year-over-year and SG&A in basis points was up about 2 percent.

Now a few final words on Sentry. We have achieved 95 percent of our expected synergies on the Sentry deal. The back office is scheduled to move on to CI's platform by the end of September and that will complete the integration. While the Sentry funds continue to experience net redemptions, it is providing run rate annualized EBITDA of \$130 million, which on the purchase price of \$780 million is a six times multiple. The deal has also provided accretion of over \$0.04 per share each quarter this year.

CI total SG&A fell to \$129.7 million in the second quarter from \$135.2 million in the first quarter, and in basis points dropped to 37.3 from 38.7. This total is about \$265 million for the first half of the year. We are now forecasting a 3 percent increase above the Q4 2017 run rate of \$520 million, or about \$535 million for all of 2018, and therefore, \$270 million for Q3 and Q4 combined.

So, we are expecting to spend up to an additional \$10 million in the second half of the year above our current run rate, which will include spend on new initiatives and innovation, as we continue to prudently manage our cost for CI's core business, while investing in technology and product development.

For each of the last five quarters shown here, CI's quarterly free cash flow, and then some, has been returned to shareholders. The new capital allocation policy will direct larger amounts to buybacks as we are prepared to maximize the normal course issuer bid with CI trading below 10 times free cash flow.

In July, CI issued \$325 million of five-year debentures and the debt capacity is now \$1.925 billion, comprised of \$1.225 billion public debt and a \$700 million credit facility. If we can repurchase \$1 billion in the next 12 months, CI's net debt to EBITDA only reaches 1.8 times, and if it takes 18 months to repurchase that amount, the net debt to EBITDA ratio only hits 1.5 times. It's well below our self-imposed two times debt to EBITDA ceiling, a ceiling we have increased given the greater flexibility we now have with free cash flow. The new policy will de-risk the use of future free cash flow available for buybacks - which, as we've indicated, is our current intention, but also make it available for other investments or acquisitions or to pay down debt in the future.

I will now turn it back to Peter.

**Peter Anderson, Chief Executive Officer and Director,
CI Financial**

Thanks Doug. Rather than take you through all the various businesses of CI, I thought we would answer any specific questions during the Q&A. Overall, however, everything including Assante, First Asset, CI Institutional, BBS and Grant Samuel are all operating as we expected.

In conclusion, I returned to CI roughly two years ago. Since that time, we have been restructuring this company to compete in this challenging environment and building CI Financial for long-term success. We are efficiently operating this business today while recognizing the impact of headwinds this industry faces. CI has a number of unique long-term advantages. We have scale, access

to distribution, exceptional portfolio management, and a strong sales culture.

Despite the redemptions in our sales business right now, this company remains in an exceptionally strong position. To continue adding long-term value to our shareholders, like we have over the last 25 years, we are taking the necessary steps to move the company forward. Changing our free cash allocation towards share buybacks is the right strategy today. There is no better use of our free cash right now than buying shares of a company we believe is being significantly undervalued by the market.

As I said earlier, we'll be buyers of any available stock around these levels. We are committed to purchasing up to \$1 billion of CI shares over the next 12 months or so, in the right circumstances. In the future, if we see a better use for our cash flow, other than buying CI stock, we'll have no hesitation to change our strategy. Our Management is 100 percent focused on building CI into a business that is competitive today and even stronger in the future.

With that, I'll open the call up to questions. Operator?

QUESTION AND ANSWER SESSION

Operator

Thank you. We will now take our first question from Graham Ryding. Please go ahead.

Graham Ryding, TD Securities

Hi, good morning. Just wondering the new level of your appetite for debt, I thought it was 1.5 times before. I think it's up to 2 times now. Is that because of the dividend change, or what's prompted the new uptick for leverage?

**Douglas Jamieson, Executive Vice President and
Chief Financial Officer, CI Financial**

Yes, that's right, Graham. The increased flexibility we have with our free cash means we're comfortable going up to 2 times debt to EBITDA.

Graham Ryding, TD Securities

Okay. The NCIB I think you have in place right now is 20 million shares, so in order to buy back up to a billion worth of shares do you need to consider a substantial issuer bid or how should we think about that?

**Peter Anderson, Chief Executive Officer and Director,
CI Financial**

No, we don't have to do that. Over the next 12 months we'll begin two NCIBs, so we can do that. But all options are available. We can buy \$1 billion of stock over the next 12 months or so and be well within our NCIB.

**Douglas Jamieson, Executive Vice President and
Chief Financial Officer, CI Financial**

We've only asked for 20 million shares on this NCIB, but our limit is actually 25 million shares. So, we could go back and ask for the additional 5 million at any time.

Graham Ryding, TD Securities

Okay, got it. You mentioned increased flexibility to invest in the business. Any colour on what exactly you would consider sort of targeting the free cash flow towards if it was with a share buyback?

**Douglas Jamieson, Executive Vice President and
Chief Financial Officer, CI Financial**

Well aside from items inside the business that we'd like to end up being included in SG&A, we're certainly open to looking at investments or acquisitions in technologies or companies in the industry.

Graham Ryding, TD Securities

Okay. And then the last question is just the Sentry synergies I think you said that you're above expectations. Can you quantify sort of what you realize versus what you're targeting?

**Douglas Jamieson, Executive Vice President and
Chief Financial Officer, CI Financial**

We had initially expected, I'll say \$75 million, and we're well above that range.

Graham Ryding, TD Securities

Okay, that's good for me. Thanks.

Operator

Thank you. Our next question is from Gary Ho from Desjardins. Please go ahead.

Gary Ho, Desjardins Capital Markets

Thanks. Good morning. Questions going back to the capital plan. Just curious, what was the discussion at the Board level and did you have prior discussions with investors on the idea?

**Peter Anderson, Chief Executive Officer and Director,
CI Financial**

Gary, it's Peter. As I've said in all the quarterly calls before, we always have a discussion with the board during the board meetings on capital allocation and what to do with it. This time, we felt that there wasn't a more compelling option or idea, and we think this is perfect for the company right now - the board unanimously agreed to it and it wasn't terribly difficult to convince them that this was the right thing to do. They were very, very supportive of this idea.

Gary Ho, Desjardins Capital Markets

Got it. And then questions on the net flow turnaround. I think in prior quarters you've got it to a turnaround to breakeven flows by end of the year. Just given the weaker industry trends, can you give us an update on that and maybe what products are selling and which ones might not be?

**Peter Anderson, Chief Executive Officer and Director,
CI Financial**

Well I can tell you what's not selling, and that's anything with the word Canadian attached to it. We're seeing a lot of sales in the industry going towards global products, and we're well positioned in that today. We do quite a significant amount of sales. It just doesn't offset the high redemptions that we have and the industry is having in Canadian products. So I think that answers the question.

Gary Ho, Desjardins Capital Markets

Yes. And then on the turnaround expectation?

**Peter Anderson, Chief Executive Officer and Director,
CI Financial**

I would expect that we won't be out of redemptions in 2018. I can safely say that. But as I said before, there's no higher priority to our company than to return to net sales within CI as fast as we can, and we see some really encouraging signals including gross sales, new advisors that are doing business with CI and performance.

Gary Ho, Desjardins Capital Markets

And can you just elaborate which channels would be in IIROC versus MFDA or whatnot are you seeing those gross sales come in?

**Peter Anderson, Chief Executive Officer and Director,
CI Financial**

Well we've seen gross sales coming in from all of our channels. We see a lot of gross sales coming from IIROC but we also see a lot of redemptions there as well. We see good sales in Sun Life. We see terrific sales from Assante and Stonegate, and we also see gross sales in MFDA. We're well positioned in terms of gross sales.

Gary Ho, Desjardins Capital Markets

Got it. And then just last thing maybe for Doug. Just going back to that two times net debt to EBITDA threshold, have you had discussions with credit agencies on this and the implications on credit ratings operating at two times?

**Douglas Jamieson, Executive Vice President and
Chief Financial Officer, CI Financial**

Not specifically on two times. It's something that they look at. This whole change however is something that they generally should be happy with and creditors happy with - we've reduced the amount of dividend that's being paid.

Gary Ho, Desjardins Capital Markets

Okay. That's it for me. Thank you.

Operator

Thank you. Our next question is from Geoff Kwan from RBC Capital Markets. Please go ahead.

Geoff Kwan, RBC Capital Markets

Hi, good morning. Just following up on Gary's question around—on the retail side. I know you've talked about we're not going to see the turn by the end of this year, but from what you see right now in terms of visibility, do you see the signs that the net redemptions are stabilizing or what's your sense there?

**Peter Anderson, Chief Executive Officer and Director,
CI Financial**

Yes, short answer would be yes. The way we measure things here, we do see encouraging signs. I'm not going to give you any kind of a prediction on where it's going to go. All I can say to you is that I'm very encouraged of where we are despite being incredibly disappointed this quarter, but the reality is that we see good gross sales, we see all the other trends going forward and I think we see redemptions and expect redemptions to slow down over the next while.

Geoff Kwan, RBC Capital Markets

Okay. The institutional side, maybe if you could give an update on where you stand on the pipeline and any colour you can provide around that.

**Peter Anderson, Chief Executive Officer and Director,
CI Financial**

Yes, sure. In Q2 we were in small redemptions on the institutional side. That's a lumpy business, as you know, money comes in and in certain times money goes out and typically they come in and out in some size. We did have a couple of redemptions this quarter mostly for specific reasons and not connected to performance. But we do have committed sales already that have not been funded yet so we're expecting those over the next quarter or two. And the pipeline looks good as always. We continue to be encouraged with our institutional business. We're short listed on a significant number of opportunities and our fees, which take much longer obviously, that number's really quite long as well. So I'm encouraged.

Geoff Kwan, RBC Capital Markets

And then just my last question was on the July AUM numbers, are you able to kind of talk about—I know you talked about when I had the question on—in terms of stabilizing—did the July numbers suggest that that was the case, or just any colour you can provide on the July net redemption numbers in Canadian retail?

Peter Anderson, Chief Executive Officer and Director, CI Financial

I'm not going to provide numbers on redemptions right now, but we were still in redemptions in Q2. I think they were in July. But the numbers were, I would say, more encouraging.

Geoff Kwan, RBC Capital Markets

Okay, great. Thank you.

Operator

Thank you. Our next question is from Scott Chan from Canaccord Genuity. Please go ahead.

Scott Chan, Canaccord Genuity

Good morning guys. Just on Australia with Grant Samuel you had slightly positive net sales. Maybe you could just give us an update there. Also with the July AUM release I noticed that you divested Tribeca. I'm just wondering the rationale for that as well.

Peter Anderson, Chief Executive Officer and Director, CI Financial

Hey Scott. The business in Australia with Grant Samuel is going well, as always. They are continuing to bring new business in, in a number of their mandates. So that continues to be encouraging. We're launching one of our portfolio manager groups down there any time now and that would be the first CI product sold outside of Canada. We're quite excited about that and feel that that will create some momentum down in Australia for Grant Samuel.

On the sale of the business in Australia, we own a fairly significant equity stake in a business called Tribeca, and management of that company approached us to take that company back, to buy our shares out and we thought there was a compelling reason to do that. It allowed us

some additional flexibility in Australia to do some things that we wanted to do that we weren't able to do as a result of the contracts that we had with that group. We did lose about a billion dollars of assets, but just as you know, they were significantly low fee.

Scott Chan, Canaccord Genuity

And Doug, just on the SG&A, it obviously came in very well this quarter. I might have missed your remarks, but did you talk about new initiatives in the fall that might add an incremental \$10 million in the second half of the year to SG&A or? I just wanted to kind of clarify that comment you made.

Douglas Jamieson, Executive Vice President and Chief Financial Officer, CI Financial

Yes, that's what I indicated that the second half of the year SG&A would likely be up \$10 million or so from our Q2 rate and part of that will be towards new initiatives.

Scott Chan, Canaccord Genuity

And higher than the Q2 rate. Okay, thank you very much.

Operator

Thank you. Our next question is from Paul Holden at CIBC. Please go ahead.

Paul Holden, CIBC

Thank you. Good morning. So when you look at the net redemption situation in the recent quarter and you think about product shelf and fund returns, do you think at all about diversification of the product shelf in terms of, you know, you have a lot of different products but it seems like there's some overlap in terms of style. Are there some diversification opportunities here?

Peter Anderson, Chief Executive Officer and Director, CI Financial

Yes, I think you're right there. We're doing a complete evaluation of our product shelf today. I think we certainly have a host of fund managers and products that in some way can be confusing. So we're looking at that. But we're also diversifying our product line-up as well. We think our

gaps in the space, not just in terms of style, but just the gaps that we can fill it with. An example would be the alternative products that are going to come out in the fall. We're definitely going to be there. We think there is a market for that and that's just one of a host of things that we're looking at. We're going to enhance the product line-up with Assante and Stonegate. There's a few other things that we're going to bring out between now and the end of the year that we think fit the interest of all our different types of advisors.

Paul Holden, CIBC

Okay. And then when you think about those gaps whether it's alternative quant or other, what do you think is the best solution to fill those gaps? Is it something where you have to go out and buy? Is it something you think you can build organically? Is it something where you go out and hire some new PMs and analysts?

Peter Anderson, Chief Executive Officer and Director, CI Financial

I think the simplest way to answer that is all of those.

Paul Holden, CIBC

Depending on the situation. Okay. And then as you think about sales channels, again in the context of recent quarter and net redemptions, is there strategic action you can take on that front to improve the trajectory of net sales? So more than just simply having more wholesalers and pushing harder in certain channels, are there things you can do in terms of capital allocation of partnerships, more things of that type of nature?

Peter Anderson, Chief Executive Officer and Director, CI Financial

There's no larger priority, more important priority, than to get our business to net sales. We're looking at all of those. We are investing in the sales business not only with people but with technology. We're building our product line-up. We've changed the compensation of our sales people to be more direct-driven focused on activity. We are always looking for new distribution channels, always, not only in Canada but abroad, and we look for relationships everywhere we can find them.

We're being incredibly proactive in this business, and it has paid off in the past, it's paying off today and I think it'll pay off in the future.

Paul Holden, CIBC

Okay. That's all the questions I had. Thank you.

Operator

Thank you. Our next question comes from Tom MacKinnon from BMO Capital Markets. Please go ahead.

Tom MacKinnon, BMO Capital Markets

Yes, thanks very much. Good morning. Just got on the call late. I was on another call. Maybe the question's been asked before. But when you were—in your discussions with the Board with respect to the dividend cut, obviously the business is under a lot of pressure and you're giving money back to shareholders here and you try to buy your way into growth as well but you still continue to have problems with respect to flows here. What has been sort of the strategy discussions here in terms of trying to right this ship with respect to flows? Are you still kind of looking at a run rate of being neutral in terms of net flows by the end of the year? Where are the outflows coming out? Are they IIROC, Sentry related? A little bit more colour there. Thanks.

Peter Anderson, Chief Executive Officer and Director, CI Financial

Okay. I'll start from the top and then Doug can jump in if he wants. But first and foremost, I just want to make sure everybody understands that the decision that we made on capital allocation has absolutely no bearing on redemptions or anything about our business. Quite simply, and I can't say it more directly, is that we do not see any more compelling use of our free cash today than buying back our stock. That's plain and simple. So that's that.

In terms of going to the redemption side, as I said earlier, we do see our large redemptions are on the IIROC side and we're working on that. We are very confident that our strategy, our sales team and our sales management will get us into positive sales in the future. And I think the last question was about by the end of the year, and I don't expect it to be by the end of the year.

Tom MacKinnon, BMO Capital Markets

And when would you expect that to be in and why is it taking longer than you would have expected?

Peter Anderson, Chief Executive Officer and Director, CI Financial

Remember, the industry is in redemption in the second quarter as well, so that's one of the challenges. I don't want to get into all the reasons because I think we've talked about it before, and I'm not going to predict when we're going to get out of redemptions, but I again say that we are totally focused on this and it's our highest priority.

Tom MacKinnon, BMO Capital Markets

And in terms of is there specifics with respect to the strategy? I mean, you talked about a new campaign and I think you talked about enhancing the product line, but is there anything that you can give us in terms of specifics because this is a type of business where there's always campaigns and there's always enhanced product.

Peter Anderson, Chief Executive Officer and Director, CI Financial

Well this is a company that has an incredibly strong sales culture and we have a significantly large sales team, we're investing more into our sales team today than we ever have through technology and the size and the scale. We do think the more contact we have with advisors the better it is. We're seeing the results of that today. We're seeing our gross sales are continuing to be as strong as they can be and that's a great signal to the future of our business. Our challenge again goes back to three really key things: one is the industry; number two is performance at some of our larger funds; and number three is the fact that we have a lot of assets in asset classes that today are out of favour, that being Canadian equity and Canadian balanced. That's plain and simple.

Tom MacKinnon, BMO Capital Markets

Yes, and finally just with respect to the SG&A. A little bit better than we were looking for. Is this—is anything driving that in the quarter and is this kind of level sustainable?

Douglas Jamieson, Executive Vice President and Chief Financial Officer, CI Financial

Yes, in my comments I gave a little colour that we achieved good synergies on the Sentry side in the second quarter. We continue to manage our costs well on the core business and in the second half of the year we're going to invest more into technology and new initiatives.

Tom MacKinnon, BMO Capital Markets

And so the run rate—how would we look at your expenses in the second quarter of say 2019 versus the second quarter of 2018? What kind of rate of increase should we—would you feel comfortable in doing that...

Douglas Jamieson, Executive Vice President and Chief Financial Officer, CI Financial

Yes, I've given a little guidance for the second half of this year only and I'm targetting \$270 million in the second half of the year.

Tom MacKinnon, BMO Capital Markets

Okay. Thank you.

Operator

Thank you. It appears there are no more questions at this time. I'd like to hand it back to you, Mr. Anderson for any additional or closing remarks. Please go ahead.

Peter Anderson, Chief Executive Officer and Director, CI Financial

Okay. Thanks everybody, and I very much appreciate you all being on the call. We're around all day if there are any more questions, but I do appreciate you spending some time with us and we'll see you in the next quarter. Thanks so much.
