CI Financial

CI FINANCIAL CORP.

THIRD QUARTER 2019 RESULTS

CONFERENCE CALL

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PRESENTATION

Kurt MacAlpine, Chief Executive Officer and Director, CI Financial

Good morning and welcome to CI Financial's third quarter earnings call. I'll be joined on today's call by Doug Jamieson, our Chief Financial Officer.

As this is my first earnings call at CI, I want to let everyone know how excited and honoured I am to be leading this iconic Canadian company. I believe CI has the brand, the people, the scale and the cash flow to be a market leader in asset and wealth management.

Turning to Slide 3 is our planned agenda for the call. I will review the highlights and challenges for the quarter, followed by Doug, who will discuss our financial results. After that, I will review the events of the quarter-to-date, then discuss our strategic priorities before taking your questions.

Sales remain challenging for the industry, with most non-deposit-taking firms experiencing redemptions. While we experienced net redemptions for the quarter, we saw a $900 million reduction in redemptions compared to the last quarter, and from Q3 2018. We also achieved strong results in several important segments of our business.

Our assets under management and ETFs grew to $7.4 billion, a new high, and we announced in September that assets under management and liquid alternatives funds have exceeded $1 billion, only 10 months after regulatory changes created this new category. This makes CI one of the top two providers of liquid alternative strategies in Canada. We have continued to grow our wealth management business, and assets under advisement reached an all-time high of $47.4 billion.

In the quarter, we also launched Assante Connect, a unique offering in the market that combines financial planning and advice with a digital delivery platform powered by WealthBar.

On the financial front, we continue to produce high levels of free cash flow which we are allocating in a prudent manner. This quarter we repurchased $150 million worth of stock, 7.7 million shares in total, and paid $42 million in dividends, $0.18 per share. We are also on track to capture the SG&A savings that we had previously identified.

Finally, we outlined a new strategic direction for the company which I will share with you later this call.

I'd now like to turn the call over to Doug, who will discuss our financial results.

Doug Jamieson, Chief Financial Officer, CI Financial

Thank you, Kurt. In our third quarter, average assets under management were down 1 percent from the second quarter at $129.8 billion and were down 6 percent from the third quarter last year. Ending assets at $130 billion were essentially flat from the end of June and were 5 percent below the level of one year ago.

Assets under advisement, at a record $47.5 billion, grew 2 percent during the quarter and were up 7 percent from one year ago.

Net income of $139 million was up slightly from last quarter's adjusted $138.5 million, and up $0.02 per share from last quarter.

Year-over-year earnings were down 12 percent, but earnings per share were only down 3 percent due to the share buyback program over the past year.

Free cash flow was down 1 percent to $144.7 million from $146.5 million last quarter, and down 14 percent from $169.2 million in the third quarter last year.

Generally, quarter-over-quarter results were in line. The drop in average AUM and a slight decline in management fees were offset by the extra day this quarter.

CI's SG&A in the third quarter was $124.6 million, down 3 percent from $128.9 million in the third quarter last year, and down a couple hundred thousand from $124.8 million last quarter. This quarter included $1.5 million of additional RSU amortization expense related to the accelerated vesting for retiring employees. Net of that, SG&A was at $123.1 million.

Spend in the asset management segment was $98.6 million, down from $105 million in the third quarter last year as we continue to manage that number lower to operate the retail fund side of the business, while increasing the investment in the distribution side of the business.

SG&A in the asset management segment was $26 million, up slightly from $25.5 million last quarter, and up 9 percent from $23.9 million last year. We believe we will get SG&A to where we committed. We have identified the savings and are on track to meet our target.

Looking at the last five quarters of CI's quarterly free cash flow and the return to shareholders, the level of share buybacks increased to $150 million as we frontloaded the 21.7 million share normal course issuer bid that was renewed in mid-June. Absent a significant change in CI's valuation, we are targeting $120 million for the fourth quarter.

In the third quarter, dividends and share buybacks exceeded free cash flow by $47 million. This moved CI's gross debt up during the quarter to $1.57 billion. With annualized EBITDA at $832 million, CI's net debt-to-EBITDA ratio edged up to 1.6X. At these levels of free cash flow and at CI's current valuation, completing the share repurchase plan by next June would not increase net debt from these levels.

I will now hand it back over to Kurt.

Kurt MacAlpine, Chief Executive Officer and Director, CI Financial

Thanks, Doug. Before turning to our strategic priorities, I wanted to take a moment to provide you with an update on our flows by business line in October.

We continue to see an improvement in our sales across channels and markets. Net flows across business lines in October were a negative $189 million. In Q1 of this year, we were notified of two institutional mandates that we'll be redeeming in the fourth quarter. These mandates are not high margin and will not have a meaningful economic impact.

During this quarter, we made three acquisitions and announced a strategic investment. This morning we announced that we will be acquiring WisdomTree Canada's ETF business. This business will add to our scale in ETFs and will give us additional investment capabilities through WisdomTree's fundamentally-weighted approach to investing.

We acquired Snap Projections, which is a simplified financial planning tool. Acquiring this capability will allow us to provide financial planning to a new segment of investors that have not received financial plans historically.

Through GSFM we acquired a 49 percent stake in an Australian asset manager, Redpoint, and we made a strategic investment in "d1g1t", who is in the process of building us an SMA in the UMA platform for our wealth management businesses.

I now want to transition and share with you CI's strategic priorities going forward. These strategic priorities were developed with input from a series of critical sources: our employees, our clients, our shareholders, and through observing market dynamics and industry trends. Going forward, there will be three things that CI will be focused on; modernizing our asset management business, expanding our wealth management platform, and globalizing our company.

I also wanted to provide you with the rationale for why we landed on these priorities:

- **Modernizing our asset management business**: the rate and pace of change in the industry is at an all-time high. This is the result of evolving demographics, shifts in investor preferences, changing client expectations for service and support, and ongoing regulatory change.

- **Expanding our wealth management platform**: as a result of structural changes in our industry, the role of the advisor is more important than ever. The breadth and depth of the capabilities that we have at our disposal today uniquely positions us to be a market leader, and consumers' lives are becoming increasingly more complex and more digital.

- **Globalizing our company:** scale is becoming increasingly important and difficult to achieve in Canada alone. Investors want to be serviced and supported globally and expanding beyond Canada allows us to acquire global talent to complement our domestic talent.

To help make these strategic priorities more tangible, I wanted to share with you a sample of the initiatives we currently have underway. This is not an exhaustive list and it's not intended to be our full strategy. That will be developed in the coming weeks and months.

Modernizing our asset management business
We are looking to build on our fast start with liquid alternatives and are in the process of partnering with a leading global private equity manager to help us develop products in less liquid segments of the market. As I mentioned earlier, we're acquiring WisdomTree Canada's ETF business which, post close, will increase our scale in ETFs to $9 billion, and we currently have an engagement underway to add more support to our sales and marketing process. The outcome of this will be a predictive analytics engine that will help us enhance our client experience and best position us to take advantage of the highest potential opportunities.

Expanding our wealth management platform
As I mentioned earlier, we are acquiring Snap Projections to help us provide financial plans to a segment of the market that has been historically underserved, and we are working with d1g1t to build an SMA and UMA platform that will position us to compete for a new segment of financial advisors.

Globalizing our company
We're going to be entering the U.S. registered investment advisor market (RIAs). For those that are not familiar, RIAs are wealth management firms that uphold a fiduciary standard with their clients. They account for 23 percent of the U.S. wealth management market today and are growing at a rate of 18 percent per year. The market's also highly fragmented, with 90 percent of all firms being independently owned.

I believe we're a natural owner of these businesses for a few reasons. In addition to having extensive experience operating wealth management businesses, we have a unique value proposition compared to others that are currently in the market. We have scale across many of the key functions. We can provide financial planning, asset allocation, and investment management capabilities. We're well capitalized and offer a permanent capital solution for these owners. Our existing $47 billion wealth management businesses will also be a great source of cross-border referrals.

I'm pleased to announce today that we've signed two letters of intent to acquire two U.S. RIA firms that we'll be providing more detail on in the coming weeks. While neither of these are material financially, they are incredibly important strategically.

I look forward to providing you with more detail on our go-forward strategy in the coming weeks and months. I'd now like to open up the call to your questions.

QUESTION AND ANSWER SESSION

Operator

The first question is from Gary Ho of Desjardins Capital. Please go ahead.

Gary Ho, Desjardins Capital

Thanks, good morning. Kurt, thanks for laying out the strategic plan for us. I want to first focus on the third pillar, which is your intention to enter the U.S. RIA market. Can you elaborate a bit on that, kind of maybe intentions to acquire the two RIAs? I'm assuming your ambitions are much bigger than that. But the U.S. market is quite competitive. Is the strategy to push those advisors to sell CI funds, and what are the rules for selling proprietary products there?

Kurt MacAlpine, Chief Executive Officer and Director, CI Financial

If you think about the U.S. RIA market, it is a competitive marketplace, but it's also a very accessible marketplace. If you think about the capabilities we have in place today, we have $48 billion and we serve several hundred thousand Canadian families. Our aspirations for the RIA market are really twofold. One, it allows us to provide a true cross-border experience for clients that are doing business with CI today. Second, it allows us to participate in this fast-growing segment of the market overall.

As you think about our synergy profile, there's really synergies on the operational side, and then some strategic synergies, which would include, over time, the ability for some of our strategies to be present in those portfolios. But as you may be aware, RIAs as a business are great standalone businesses, and one of the unique things that we bring to the table is this additional synergy profile relative to other firms.

Gary Ho, Desjardins Capital

Okay. Then just second, maybe just high level, I know it's good to lay out the plan, but it sounds like there could be some SG&A spend on acquisitions to execute this. Either Doug or Kurt, can you comment on the $480 million run rate by year-end, and should we expect a spike in 2020 and beyond to kind of execute this strategy?

Doug Jamieson, Chief Executive Officer and Director, CI Financial

Yes, Gary, it's Doug. We'll have to elaborate a bit on our SG&A as we move into the U.S. market. It's more important to us that we are controlling our costs on the legacy retail business. With the size of that business shrinking, we'll need to manage how much we spend, and so that's the number that we will focus on going forward. Perhaps less so hitting $480 million if, in fact, we have other businesses with SG&A that we're now combining into ours.

Gary Ho, Desjardins Capital

Can you help us maybe a modeling question for 2020? Is that number going to increase materially, flat, or how should we look at that?

Kurt MacAlpine, Chief Executive Officer and Director, CI Financial

It's Kurt here. We're in the process of working through the strategy. As soon as we get a chance to finalize all of that, we will share with you both the strategy and then the associated investment costs. The way I would think of it is the SG&A savings that we are committed to, we are on track and will realize those savings either in this quarter or early in the first quarter. Then on a go-forward basis, as we develop the strategy, we'll outline a specific plan against it.

Gary Ho, Desjardins

Great, okay. Then maybe just lastly, Kurt, you've been busy the last two months since you took over, Redpoint, WisdomTree. If we think about these acquisitions together with the aggressive buyback in October, I'm assuming your leverage, 1.6X, is maybe leveling off or it may be increasing from today. Where would the leverage increase to execute this strategy, maybe talk about your commitment to buybacks as well?

Kurt MacAlpine, Chief Executive Officer and Director, CI Financial

We'll have to assess each acquisition as we go forward. Certainly, if something makes sense, we're going to do it. To date what we've announced has not been material. It's incremental amounts of debt and we're certainly very comfortable doing that.

As you think about our capital management strategy, I think we have a prudent plan in place currently. We believe that our share price and our stock is currently undervalued today, and we'll continue to pursue a relatively aggressive buyback strategy as long as we see opportunities in the market there as well.

Gary Ho, Desjardins Capital

Okay. I can sneak one more in—sorry, my line got cut off there when you were making your prepared remarks on the institutional outflows in the quarter. Did you quantify that, by any chance?

Kurt MacAlpine, Chief Executive Officer and Director, CI Financial

I didn't quantify it. I apologize, there were some audio issues earlier in the call. For all that are listening, we will be posting the entire webcast for replay on cifinancial.com. I do apologize for that.

Regarding the institutional mandate, I did not share a specific number. But just to recap for those that might have missed it, we do have two institutional mandates that we were notified in Q1 of this year that we'll be redeeming in the fourth quarter. Both of those are mandates that the institution has chosen to internalize, so there was no opportunity for us to compete for the mandates going forward. They will not have a meaningful impact on our economics just given the pricing of those mandates.

Gary Ho, Desjardins
Okay, great. That's it for me. Thank you.

Operator

The following question is from Graham Ryding of TD securities. Please go ahead.

Graham Ryding, TD Securities

Maybe I'll start with the push into the U.S. market. Big picture – is the idea to sort of leverage the success that you had with Assante, take some of that best practices and approach there into the U.S. market, or is there anything unique and different about the U.S. market that you'll have to maybe have a different strategy?

Kurt MacAlpine, Chief Executive Officer and Director, CI Financial

It's a great question. I think there's a lot of similarities between how we run the Assante and Stonegate businesses today and what you see from a U.S. RIA business. Very heavy focus on client service. Very heavy focus on financial planning, and a consistent and diligent approach for the investment management and the asset allocation. We do see a lot of synergies across the businesses. We do think both north and south will be able to provide leading cross-border services, and we do see opportunities that exist within the U.S. marketplace on a standalone basis as well. There will absolutely be some strategic synergies having a $48 billion franchise here in Canada as a starting point.

Graham Ryding, TD Securities

Okay, got it. My understanding is the U.S. market is slightly different in Canada in terms of proprietary product within a distribution channel. Does that change the sort of economics or sort of how it could complement your asset management business here in Canada?

Kurt MacAlpine, Chief Executive Officer and Director, CI Financial

It is slightly different, but also, the economic profiles of the wealth management businesses are quite different. If you look at a standalone RIA, just given the business model that they pursue and the employee model for the advisors that work as part of those RIAs, just the economic profile is different. We will over time definitely have opportunities for our leading investment capabilities to be present in portfolios in the U.S., and we'll monitor that over time where it makes the most sense for investors.

Graham Ryding, TD Securities

Got it, okay. Then my last question would just be, the improvement in flows that you're seeing, could you just provide some colour on either what products are driving that, if there's any that you wanted to call out, or perhaps is there a channel in particular that you're seeing a noticeable improvement?

Kurt MacAlpine, Chief Executive Officer and Director, CI Financial

It's actually pretty diversified. One of the things I've been most impressed with since I've been at CI the last couple of months is the breadth and depth of the investment capabilities that we have. As you look across what's driving flows, it's pretty balanced. It's a combination of shorter duration fixed income all the way through to active equity strategies, so it's a very diversified mix of products that's driving our results.

Graham Ryding, TD Securities

That's it for me, thank you.

Operator

Thank you. The following question is from Scott Chan from Canaccord Genuity.

Scott Chan, Canaccord Genuity

Good morning. Kurt, just on the WisdomTree acquisition this morning… about a billion in assets. Can you maybe just provide us an update on kind of the historical performance of the assets in that platform and any intention to launch new products over time?

Kurt MacAlpine, Chief Executive Officer and Director, CI Financial

Sure. Thanks, Scott. I don't have the numbers in front of me, however the WisdomTree business has been in the market for a little over three years now, essentially launching from a standstill to approximately a billion dollars of assets. It's appealing to us for a couple of reasons. One, it is a complementary set of capabilities to what we have today. It does add to our scale in the ETF structure, and it also allows us to deepen our relationships and strengthen them with advisors in the IIROC channel.

In terms of go-forward product development, we will continue to launch products. A lot of those products will be launched at CI specifically, but there is the potential over time for us to do future products leveraging WisdomTree's indexes.

Scott Chan, Canaccord Genuity

Okay, and regarding initiatives on the expansion of alternative capabilities, you mentioned a leading private equity manager. I don't know if I heard you correctly, but does that suggest it's a private equity capability, or could there be other capabilities on the alternative side with the exclusive partnership that you mentioned?

Kurt MacAlpine, Chief Executive Officer and Director, CI Financial

Yes, it's going to start as primarily a private equity capability. We're thinking about the relationship holistically, and there will be an opportunity for us to do future products from there. The main objective was to complement the fast start that we have in the liquid alternative space with additional liquid capabilities so we can serve investors across the spectrum of alternatives, but the first product we bring to market will be predominantly private equity focused.

Scott Chan, Canaccord Genuity

Okay, great. Thank you very much.

Kurt MacAlpine, Chief Executive Officer and Director, CI Financial

Thank you.

Operator

Thank you. Once again, please press star, one, at this time if you have a question.

There are no further questions registered at this time. I'll turn the meeting back over to Mr. MacAlpine.

Kurt MacAlpine, Chief Executive Officer and Director, CI Financial

We're now going to conclude today's webcast. I do want to apologize again for the audio issues that occurred at the beginning. As I mentioned, we will be posting the entire webcast for replay on our website at cifinancial.com.

I want to thank you all for your interest in CI and we look forward to speaking with you on the next call in February.
