CI FINANCIAL CORP.

FIRST QUARTER 2020 RESULTS

CONFERENCE CALL

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PRESENTATION

Kurt MacAlpine, Chief Executive Officer and Director, CI Financial

Good morning everyone, and welcome to CI Financial's first quarter earnings call. I hope everyone is staying healthy and safe. I'm joined today by Doug Jamieson, our CFO.

I will start by providing an update on how we are responding to the pandemic and share our highlights and challenges during the first quarter, followed by Doug who will share our financial results. After that, I will update you on our flows for the month of April and share with you the details of the new strategic initiative we have underway. Then we will take your questions.

First, on our response to the global pandemic. I provided a detailed update during the off-cycle investor call that we hosted on March 23rd, so I won't go through all the points outlined on the page.

Eight weeks into a remote working model, we continue to operate the company seamlessly. Over 97% of our employees are working from home and our service levels and operational efficiency are as effective as if we were in a normal working environment. Client and advisor engagement continues to be at incredibly high levels.

On the community support front, last week we launched our Be Well-Advised campaign where we are providing free financial counselling and support to Canadians who are struggling during these unprecedented times. Anyone who feels they would benefit from financial guidance can reach out for a free one on one counselling session with an Assante advisor or a member of our CI wealth planning group.

I will now touch on our highlights and challenges for the quarter. Despite the global pandemic, we had a strong financial quarter. Our adjusted earnings per share were 58 cents or 63 cents excluding unrealized losses from marketable securities. This compares to the Q4 result of 64 cents excluding unrealized gains from marketable securities that quarter, making this the second-best financial quarter in our company's history.

Our comparable SG&A expenses were down 11.5 million from Q1 2019, which reflects the impact of the restructuring we did in the fourth quarter to better align spending with our three strategic priorities. During the quarter, we repurchased 5.3 million shares and since the end of the quarter we've paid down 119 million in debt. This leaves us with 56 million outstanding on our credit facility, which we will have fully repaid this month.

Except for March, our net flows, while not positive, have improved considerably. Our net flows in January and February improved by 830 million or 70% year-over-year, while March declined by 112%. This trend was seen across the asset management sector with March being the worst-ever month for net redemptions of long-term funds in the history of the Canadian mutual fund industry.

Our institutional business performed significantly better than the prior quarter, but worse than Q1 2019 as a couple of bank and insurance platforms repatriated assets to internal managers. It is important to note that we did not lose any large mandates to third party investment managers.

We continue to make significant progress on executing against our three strategic priorities of modernizing asset management, expanding wealth management and globalizing our company. During the quarter, we closed on the previously announced acquisitions of Surevest and Wisdom Tree Canada's ETF business, and as of today, we have closed on our previously announced acquisition of One Capital Management, a California based RIA.

We entered into exclusive product partnerships with DoubleLine and Adams Street. Our DoubleLine funds are launching in both mutual fund and ETF formats on the 12th of May, and we are expecting a strong start as this is the first time Canadian investors will have access to flagship funds from the world's most famous bond investor. We're anticipating launching our Adams Street products this fall.

We finalized the initial build of our advanced analytics distribution database and we've developed a new marketing strategy that will be rolled out in the coming weeks. We've also centralized all trading desks across our in-house investment management teams, creating efficiencies and better execution for our clients. I will now turn the call over to Doug to discuss our financial results.

Doug Jamieson, Chief Financial Officer, CI Financial

Thank you, Kurt.

First quarter average assets under management of $127.2 billion were down 3% from last quarter and 1% from the first quarter last year. Ending assets at $111.1 billion were down 16% over the quarter and down 15% from March 2019, driven by the impact that the global pandemic had on the markets in March.

Assets under administration were down 12% during the quarter, to 44.6 billion and down 4% from one year ago. This modest reduction, despite what happened in the broader markets, speaks to the strengths of our wealth management franchise as well as the successful execution of our strategic priority of expanding our wealth management platform.

This quarter included an $8.5 million provision for severances and adjusting for that gives us net income of $126.5 million, down 14% from last quarter's $147.5 million, and down 10% year-over-year. Adjusted earnings per share of 58 cents was down 8 cents per share from the fourth quarter, flat compared to one year ago.

As Kurt mentioned, this quarter also saw an unrealized loss on marketable securities, which is primarily seed capital in our investment funds, of $12.6 million, whereas last quarter had gains of $3 million, and adjusting for those moved earnings per share to 63 cents this quarter, only down one penny from the 64 cents last quarter.

Free cash flow was down 15%, to $143.7 million from $168.3 million last quarter and flat from the first quarter of last year. Now the fourth quarter included a reversal of prior quarters' deferred tax recoveries and adjusting for this, free cash flow would only be down 8.5% from last quarter.

Taking a look at our SG&A. CI's SG&A and the first quarter was $115 million, down 9% from $126.1 million in the first quarter of last year and only up slightly from $113.8 million last quarter. Spend in the asset management segment was up slightly to $84.9 million in what is typically a heavy spend quarter and down $11.7 million compared to the first quarter last year. As we begin to see the benefits of our restructuring efforts and other cost containment initiatives introduced in light of lower assets under management, SG&A in the wealth segment has remained relatively steady near $30 million per quarter, but we expect this will grow as we continue to add RIAs to this segment.

Next, we are comparing the level of free cash flow to the amount paid out as dividends and buybacks for the past five quarters, the level of share buybacks moderated to $104 million from $142 million last quarter and we have now repurchased 20.8 million shares out of the 21.7 million share normal course issuer bid that runs until mid-June. [With] the reduction of shares outstanding each quarter, the 18 cents of dividends paid per share have declined from 44 million one year ago, to $40 million in the most recent quarter, so in the first quarter dividends and share buybacks matched the free cash flow of $144 million.

I'll now hand it back over to Kurt.

Kurt MacAlpine, Chief Executive Officer and Director, CI Financial

Thanks Doug.

As I mentioned on the March 23rd investor call, as a result of the impact of COVID-19, we've moved to a more defensive position with our capital allocation strategy. Since the first quarter ended, we repaid $119 million in debt on our credit facility and we will have repaid the remaining $56 million in May.

Once the facility is fully repaid this month, we will take a dynamic approach to our capital allocation strategy, which I firmly believe is the most prudent path to take until the market stabilizes. With our continued strong cash flow, CI is well positioned with a great deal of flexibility in how we allocate our capital going forward.

On the sales front, despite significant redemptions in late March and early April, driven by the pandemic and associated extreme market volatility, we finished the month of April considerably better than April 2019 which demonstrates an improving environment for CI's flows. Our retail sales in April 2020 improved by 41% over 2019 and our institutional flows improved by 12%.

Before we open the call for questions, I wanted to share with you the outcome of a marketing and branding initiative we've been working on for the past few months.

Executing well against our corporate strategy will transform CI into an integrated global asset and wealth management company. The current brands and names we are using for our various businesses do not allow us to effectively communicate to the marketplace the breadth and depth of CI's capabilities. We have a total of approximately 20 brands, most of which have no affiliation to CI today. This creates a lot of unnecessary complexity and costs while significantly reducing our marketing ROI.

Consumer preferences are changing and they're gravitating to at scale companies with simple and well-articulated value propositions. Given that, it is clear we need to change and evolve.

This slide represents a snapshot of the current brands that we have today. You will note a few things, we have limited or no consistency across our brands, logos or business names. Most logos have been designed some time ago and are outdated and few of our brands tie back to CI, which creates a missed opportunity to scale our brands through a unified theme.

This slide shows our current logo and here's the new logo. You'll notice that we retained elements of the old logo, namely the box and the colour scheme, but we modernized the font and the text layout. The new box, prominently frames and showcases CI – we designed it this way so the logo can be leveraged and scaled across business lines and to create consistency and how we represent ourselves.

Now I will show you the evolution of the brands for our operating businesses.

First on asset management, we are eliminating a lot of the sub-brands that we currently use and moving to a more streamlined approach. Our CI Investments, First Asset, CI Institutional Asset Management and Multi-asset brands will be retired, and we will be rebranding our investment complex CI Global Asset Management. This is a much more modern and appropriate representation for our business and CI investments.

You will notice great consistency between the CI Financial and the CI Global Asset Management logos and throughout the rest of our brands going forward. Our portfolio managers will retain the ability to use their individual brands, but they will have a direct linkage to the CI logo.

I want to be clear that these changes are marketing changes and do not impact our investment process or how our investment teams and our funds operate.

This next slide provides a mock-up for what our website might look like. As part of the broader rebranding effort, we anticipate rolling out a new online experience over the coming months.

This next slide provides a before and after for our high net worth business. Our Stonegate brand will be retired, and the platform will be renamed CI Private Wealth. The CI Private Wealth brand will also be the name for our U.S. RIA platform, creating scale and synergies north and south of the border for our high net worth businesses.

Next for wealth management, we will be updating our Assante logo to align with our corporate brand standards, but the Assante name will be retained. This new logo allows us to leverage the history, strength and brand awareness of Assante while creating a modern and more consistent logo for the business that directly links it to CI.

In our digital and direct investing businesses, we will be retiring both the WealthBar and Virtual Brokers brands, and we will be renaming the platform CI Direct Investing. In this instance, these two business units will be merged over the coming months and we will have one integrated digital wealth platform, providing clients with the opportunity to invest on their own or through an automated portfolio.

Finally, our asset servicing business BBS Securities will be rebranded CI Investment Services. This change provides consistency with the rest of our franchise and the linkage to CI will help the sales process as clients value scale and financial strength when choosing a custody and asset servicing partner.

Now to tie it all together.

As you will see on this summary slide, we've created a much more modern and consistent brand experience, improving, our marketing ROI while eliminating unnecessary complexity and waste. We're very confident that these changes will allow the marketplace to better understand the full range of capabilities that CI provides to investors and better reflects where we are taking the company strategically. We will be introducing this new branding across our businesses over the course of this year.

We would now like to open up the call for questions.

Operator

Thank you, sir. We'll go first to Gary Ho with Desjardins Capital Markets.

Gary Ho, Desjardins Capital Markets

Thanks. First question on the SG&A; you've done a good job containing costs – are you able to give us some guidance on this line item as we look out for the rest of fiscal '20, is the Q1 number a good one rate to use? I know other firms have had savings through kind of reduced travel and attending conferences, wondering if you can quantify that and perhaps on the offset this rebranding effort you just mentioned… are there additional costs that we should think about and or restructuring charges?

Kurt MacAlpine, Chief Executive Officer and Director, CI Financial

Thanks, Gary. Let me take the first one – your first question on SG&A: we're not providing guidance at this time. What I would say is, if you look at the trend from Q3 to Q4 to Q1, you have seen a structural repositioning of our SG&A, not a temporary repositioning of our SG&A. When we gave guidance historically, the goal was to trend for the comparable historical business to take the SG&A from $124, $125 to below $120 million. We've now done two consecutive quarters, essentially below $115 million when you look at the comparable businesses.

I think that's a decent starting point. As Doug mentioned, we are in acquisition mode for some of the RIAs including closing on One Capital today. So those will obviously add revenue but also add expenses.

I would say from a comparable business perspective, we're in the range somewhere between where we are today plus investments for strategic initiatives in the current range up to $120 million is probably how to best think about it but on the lower side of that.

As it relates to marketing, I actually think we're going to see a marketing ROI improvement. Today WealthBar markets on its own, we're marketing Assante on its own, we're marketing CI Investments on its own and so on and so forth. Now, because of this new streamlined consistent approach, whenever we're marketing any of our businesses, there's going to be a natural carry-on effect for all of the other businesses that are a part of the CI family. I don't anticipate a very significant restructuring charge associated with this and I don't anticipate significantly more marketing spend. I think what you'll see is more efficiency in how we market.

We're also putting a higher emphasis on digital marketing than what we have historically and putting a lot of processes in place around digital and online communications, given changing consumer preferences. Those are incredibly cost-effective means of marketing, which will further add to the reinforcement of this new brand messaging and approach overall.

Gary Ho, Desjardins Capital Markets

Okay, great. And then just second, Kurt, I think on the COVID-19 update call, you seem quite ambitious on the buying back of stock and also asking TSX for early renewal of the NCIB, but looking at – hearing the comments here today and in the MD&A you know, it sounds like you've suspended share repurchases. Can you maybe provide a bit more colour on the change in tone here? Is this more temporary? Are you guys going to be a bit more aggressive when you guys can renew in June?

Kurt MacAlpine, Chief Executive Officer and Director, CI Financial

My message on the call was that we had changed our positioning, our capital allocation strategy and I think what I shared today is consistent with that, which is priority number one is paying down our debt and retiring our credit facility. We are well on the way to doing that as you can look at the trend from the end of Q1 through to today where we only have $56 million outstanding and we are fully committed to paying that facility off in the month of May.

At the end of the month, we will only have public debt outstanding and we're going to continue to dynamically assess the market and we'll determine our capital allocation strategy on a go forward basis.

In terms of sequencing, our fully committed, first priority, is paying down that facility and then we will reassess at that point based upon market conditions, how we move forward from there.

Gary Ho, Desjardins Capital Markets

Okay, thanks. Maybe I missed it in your comments. Do you have your AUM number yet for end of April?

Kurt MacAlpine, Chief Executive Officer and Director, CI Financial

We do. We're going to send out the report soon, Gary.

Doug, if you have it, we can share it on the call now. I just don't have it in front of me, the exact number.

Doug Jamieson, Chief Financial Officer, CI Financial

Yeah, I'm trying to pull it up, Gary. We expect to release that this afternoon in terms of the news release, all of the monthly numbers and the comparisons from last month and also what the average assets are, so far this quarter.

Gary Ho, Desjardins Capital Markets

Okay. And then maybe just related to that, the management fee rate dropped a bit more than what I anticipated. Was there something in there that's noteworthy?

Doug Jamieson, Chief Financial Officer, CI Financial

No, I think we're on track with where we have kind of said we would be, about a basis point a quarter if you look over the last year, net management fees are down right around 4 basis points. This past quarter it would just be a mix, as we expect each quarter, whether it's just a lower fee product being more prominent in our mix of assets.

Gary Ho, Desjardins Capital Markets

Okay. That's it for me, thank you.

Operator

Moving next to Aria Samarzadeh with Barclays.

Aria Samarzadeh, Barclays

Can you give us an idea of how much the organization typically spends on travel and entertainment annually and how much of this is impacting expense savings given the reduction caused by COVID-19 and then how much of this is expected to be permanent?

Kurt MacAlpine, Chief Executive Officer and Director, CI Financial

In terms of travel and entertainment, it's not something that we break out exclusively. When you think about the current pandemic and how it's changed or shifted client communication, there's a lot of different factors at work. So, one is yes, our travel and entertainment expenses have gone down, but our teleconferencing, our webcasts, our expert network expenses have gone up considerably. There is a modest savings that we're realizing between the delta between the reduction in T&E versus the increase in like I said, these ongoing calls that we're constantly hosting with advisors and experts that we're bringing to the table for them.

In terms of a permanent basis, I think it's too early to tell. We're going to wait and see in terms of taking a look at how folks respond, what the plan looks like and the timeline for getting back to work and we'll adjust our travel schedules accordingly.

I think we are long past the point where this will be a quick transition back to work and it'll clearly be done in phases. I would anticipate that people hosting third-party salespeople and wholesalers in the office will be not one of the first things that comes back, but what I would say is, from our operational standpoint, despite not being in front of our clients face to face, our sales teams have done a phenomenal job of keeping those client communications really at all-time high levels. We're hosting conference calls twice a week, either with our portfolio managers or third-party practice management experts, and we've seen attendance for those calls, top 2,000 advisors dialling in at a particular time.

Those things obviously come with costs, but we think there's going to be a great ROI as we're adding value both on the portfolio management side, but also the practice management side going forward.

Aria Samarzadeh, Barclays

Okay. Thank you for the call.

Operator

Thank you. Moving on to Rasib Ali Bhanji with TD Securities.

Rasib Ali Bhanji, TD Securities

Hi, good morning. First question was just on flows, so it was encouraging to see gross flows pick up for the quarter. I'm just wondering on the redemptions for the institutional side, did you maybe provide some colour on what drove that for Q1?

Kurt MacAlpine, Chief Executive Officer and Director, CI Financial

Sure, as I mentioned in the prepared remarks, the institutional redemptions in Q4 and Q1, all large redemptions, have had the same trend, which is existing banks or insurance platforms, repatriating those assets and hiring internal managers. It's a broader trend that's happening in the industry as you know, where banks and insurance companies are repatriating assets that they used to have with third-party managers. When you unpack our institutional flows, that's where we've experienced the losses or the redemptions. As it relates to the open market, we have not lost any large mandates to other third-party managers in Q4 or in Q1 or Q2 today.

Rasib Ali Bhanji, TD Securities

Okay. Thank you. And just for the April net sales comment, was that improvement driven more by improved gross loads or lower redemptions?

Kurt MacAlpine, Chief Executive Officer and Director, CI Financial

A combination of both.

Rasib Ali Bhanji, TD Securities

Okay, got you. And just my last question on the distribution strategy that you spoke of to law school during the last quarter. So, you mentioned using artificial intelligence and some proprietary data to devise a new distribution framework. I'm not sure if you were able to launch that in March because of the COVID-19 situation. If you haven't already, could you give us an updated timeline of when you expect that to be launched and if you have already launched that then any early takeaways or insights on that?

Kurt MacAlpine, Chief Executive Officer and Director, CI Financial

As I mentioned in the prepared remarks, we did complete the initial build of the database in March. It is a machine-learning model, so we started to use and test the database, which is a combination of soliciting feedback that we receive from our sales conversations.

Despite not being in person, we've had a ton of sales conversations as I mentioned, sales productivity is really at an all-time high, so, we're getting lots of good data inputs on the sales front and then we're starting to ramp up a digital marketing strategy which is also where we get a lot of good inputs in terms of that particular database.

I'd say the sales front is acting as a great input. As we think about our digital marketing strategies, who we reach out to, what we reach out to people about, how we best engage them, that database that we built, despite only being in the market for a few weeks for us, is already informing all of these particular campaigns that we're doing.

If you think about the traditional digital strategy for an asset management company, you have advisors and you have emails in the database. So something happens, you email all advisors. We're taking a very segmented approach where we're having very customized messages that align with the buying preferences of those particular advisors. We've already started doing that. It's live and it's active both on our sales efforts, mostly from an input perspective, but in terms of from a marketing perspective, we're actively using it.

And with every engagement we have, whether it's human engagement or digital, it's getting smarter and that model gets refreshed on a monthly basis. We had our first refresh a few days ago and then we'll obviously capture all the data through the month of May and refresh it again in June. We'll be doing that every month going forward as we get more and more inputs and the machine learning model gets smarter as more inputs go into that database. So, all that to say it's up and running.

Rasib Ali Bhanji, TD Securities

Okay. One last question on the RIA acquisitions; is there any update on the economics that we could expect in 2020?

Kurt MacAlpine, Chief Executive Officer and Director, CI Financial

I'll probably provide an update on the next quarter call or the one after. So far, we have announced three RIAs, Surevest, One Capital and Cabana. We had another one that I announced last quarter that we haven't disclosed the name of, which I will likely do next week.

Surevest closed this quarter, One Capital closed today, Cabana will close hopefully this quarter and the other one will likely close this quarter and next quarter. Once we've started to close, I will provide a detailed update in terms of the economic profile and contribution of these businesses. It's a little bit premature now, given we're at various stages of closing them, but either next quarter or the quarter after, we'll go through it in detail.

Rasib Ali Bhanji, TD Securities

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

Operator

Our next question is from Scott Chan with Canaccord.

Scott Chan, Canaccord Genuity

To follow up on the last question on the U.S. RIAs, has COVID-19 impacted the pipeline you're seeing within that opportunity?

Kurt MacAlpine, Chief Executive Officer and Director, CI Financial

It has, but it's probably the opposite of what people would think. It's positively impacted the pipeline. I think people before were trying to time when the appropriate time was to exit and people were hoping to up-tick the market, I think the velocity of the impact associated with COVID-19 has pushed more RIAs to market in the sense the pipeline gets bigger, private equity as a buyer, who is a competitor of ours depending on the type of platform that we're acquiring, has really stepped back given access to leverage is a little harder to come by.

So, for us, what we've seen is a richer pipeline and cheaper valuations. As we continue to work through this opportunity, I think it will serve us or permanent capital solutions like CI very, very well in this market environment. We continue to execute and I'm optimistic that you'll see continued growth from us, and we'll continue to do it at great valuations and buy the great businesses there.

Scott Chan, Canaccord Genuity

When you think about partnerships like DoubleLine and Adams Street, are there any other potential partnerships that you're in discussions of in terms of rounding out your product segment?

Kurt MacAlpine, Chief Executive Officer and Director, CI Financial

Potentially, potentially. The way I think of it – when I think about our investment management platform, our objective for our investment platform is to have the single best platform period, for any investor that does business with us. In many instances, we have those capabilities internally and we have great investment teams. (But) take a DoubleLine or an Adam Street, two categories where we don't have great internal experts, instead of launching a strategy or hiring the best available alternative locally, we take a global approach and say, 'Who's the best'? Who's the single most well-renowned bond investor in the world? It's Jeffrey Gundlach right now. And we noticed an opportunity to take his flagship total return fund, a monthly income fund which is very popular among investors, and another core bond fund and bring those to market to give access to Canadian investors. In that particular instance, we saw a huge demand, a great opportunity for investors to get access to him and wanted to be able to bring that to market.

It's similar for Adam Street. Instead of trying to do it on our own or finding an easy local alternative, we wanted to step back and say, 'Given the objectives that we want to deliver in private equity, who's the best firm for us to partner with on a global scale that can meet the objectives of our high net-worth investors and our institutional clients?' And Adam Street was the firm.

So, I'd say, Scott, as we think through our business and our platform going forward, we're always going to take that approach. The goal is to have the best investment platform period.

If we can do it in-house, we'll absolutely do it. If not, we'll do it with a strategic partner. We're providing something unique or privileged to our clients that they can't get elsewhere.

Scott Chan, Canaccord Genuity

Thanks. Lastly, in Q1 on the gross sales side, strong in Q1 with a difficult March period, up 42% year-over-year. What were the primary drivers of the higher gross sales, maybe in terms of product or segments that you could add that you could provide us?

Kurt MacAlpine, Chief Executive Officer and Director, CI Financial

I'd say it was an improvement across the board from a segment standpoint. When I look at the details that we don't share publicly, I would say the continued improvement across the board from our sales team, whether it's MFDA or IIROC, and really platform by platform.

I don't like to give forward guidance on sales because a lot of things can happen that impact it, but I think what you are seeing is if you go month by month for the last several months, absent March, is a pretty improving flow environment for us overall, and especially excluding repatriated institutional assets that really aren't available for us to be retained anyway given the strategic decisions of the banks and the insurance company.

So, I'm hopeful that continues. When I look at the breadth and depth of our flows, it gives me confidence, but like I said, we don't make projections going forward on that.

Scott Chan, Canaccord Genuity

Thank you very much.

Operator

And with no further questions in queue, Mr. MacAlpine, I'll turn it back to you, sir, for any additional and closing remarks.

Kurt MacAlpine, Chief Executive Officer and Director, CI Financial

Thank you all for your interest in CI Financial. I look forward to connecting with you on our next earnings call.