

Brookfield Business Partners (Q4 2021 Results)

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Corporate Speakers:

- Alan Fleming; Brookfield Business Partners L.P.; SVP, Investor Relations
- Cyrus Madon; Brookfield Business Partners L.P.; CEO
- Denis Turcotte; Brookfield Business Partners L.P.; COO
- Jaspreet Dehl; Brookfield Business Partners L.P.; CFO

Participants:

- Geoffrey Kwan; RBC Capital Markets; Research Division; Analyst
- Devin Dodge; BMO Capital Markets; Equity Research; Analyst
- Gary Ho; Desjardins Securities Inc.; Research Division; Analyst
- Jaeme Gloyn; National Bank Financial, Inc.; Research Division; Analyst
- Nikolaus Priebe; CIBC Capital Markets; Equity Research; Analyst
- Dimitry Khmelnitsky; Veritas Investment Research Corporation; Equity Research; Analyst
- Matthew Weekes; Industrial Alliance Securities Inc.; Equity Research; Analyst

PRESENTATION

Operator^ Welcome to the Brookfield Business Partners' Fourth Quarter 2021 Results Conference Call and Webcast. (Operator Instructions) The conference is being recorded. (Operator Instructions) Now I'd like to turn the conference over to Alan Fleming, Senior Vice President of Investor Relations. Please go ahead, Mr. Fleming.

Alan Fleming^ Good morning, and thank you, operator. Before we begin, I'd like to remind you that in responding to questions and talking about our growth initiatives and our financial and operating performance, we may make forward-looking statements.

These statements are subject to known and unknown risks and future results may differ materially. For further information on known risk factors, I encourage you to review our filings with the securities regulators in Canada and the U.S., which are available on our website.

Joining me on the call today is Cyrus Madon, Chief Executive Officer; Denis Turcotte, Chief Operating Officer; and Jaspreet Dehl, Chief Financial Officer. I'll turn the call first over to Cyrus to provide an update on our business, then Denis will give us an update on our recent business operations activities and Jaspreet will finish with a review of our financial results. We'll then be available to take your questions. And with that, I'll pass the call over to Cyrus.

Cyrus Madon^ Thanks, Alan. Good morning, everyone. Thanks for joining us on the call today. 2021 was a very busy year for us. We invested \$7 billion of capital, about \$2.2

billion of that coming from BBU, to acquire six really high-quality, market-leading businesses, and we generated about \$1 billion of proceeds from our capital recycling initiatives. In addition, Brookfield Asset Management recently committed \$1 billion of long-term preferred equity capital to BBU, which further strengthens our liquidity position.

We're really pleased with the performance of our operations. Adjusted EBITDA for the year increased to \$1.8 billion, driven by a 20% increase in the performance of our existing operations over the prior year. Annual adjusted EBITDA on a run-rate basis has now increased to more than \$2 billion, up from \$250 million annually when we created BBU in 2016.

As we've grown, the profile of our operations has also evolved through a continued focus on higher quality and larger-scale business acquisitions. Each of the businesses we've acquired over the past year is either a market leader or has the potential to generate strong growth and high cash returns. We're fortunate to have acquired these businesses for what we believe as reasonable value given their exceptional quality and the strong cash yields we will generate on our capital.

Since our last update, we closed our acquisitions of DexKo Global and Modulaire Group, two market-leading, large-scale businesses that strengthen our global footprint. We're in the early stages of implementing our value creation plans. And later, Denis will talk more about what we're doing to support growth at each business.

We're also on track to close our acquisition of Scientific Games Corporation's global lottery services and technology business in the coming months. Last week, we reached an agreement to acquire Cupa Group, a leading provider of premium slate roofing products.

Cupa has a track record of consistent organic growth, supported by a market-leading position, nondiscretionary replacement-driven demand, and long-term price stability. This will be a smaller investment for us, but the business will increase our footprint in Europe and should provide a strong cash return on our capital.

In addition to growth, our new business acquisitions should contribute to the substantial levels of cash flows our operations are generating today. These are cash flows that can be used to fund growth, pay down debt or support recurring distributions up to BBU.

This past quarter, our operations generated about \$350 million in distributions to BBU to support our growth activities.

Toward the end of the year, our Canadian residential mortgage insurer paid a \$400 million dividend funded by excess cash in the business. Our share was \$165 million. The business continues to operate with excess cash which we hope to distribute through additional dividends over time.

In addition, our nuclear technology services operation continues to generate strong cash flow. In line with prior years, this business paid a \$300 million dividend at year-end. Our share was about \$130 million.

In addition, our Canadian gaming and entertainment operations also paid us a \$55 million dividend.

As the profile of our business has evolved, we've also continued to build value within our operations. As a result, the intrinsic value per unit of our business has increased at a compound annual rate of 18% over the past five years. Most of this value creation has been achieved by acquiring high-quality businesses at reasonable prices and enhancing their performance.

As we continue to grow, we expect our intrinsic value per unit will also continue to increase. We're excited about how our business is positioned today. Our balance sheet is strong and our operations are providing growing sources of liquidity.

We're focused on integrating our recent acquisitions, accelerating initiatives to surface value in our existing operations and completing the spin-out of our paired corporate entity, which we hope to do in the coming weeks. So, with that, I'm going to hand it over to Denis.

Denis Turcotte^ Thanks, Cyrus. Good morning, everyone. An important differentiator for our business is our ability to build value through a hands-on and systematic approach to improving our operations.

With growth, we have scaled up the size and capabilities of our business operations team and now have over 30 people on the ground globally working closely with the management teams at each of our operations to unlock value and enhance underlying cash flows. I wanted to touch on a few highlights of our efforts over the past year simply to illustrate how this works in practice.

We supported our nuclear technology services operation to complete three add-on acquisitions during the year to strengthen its digital offering, broaden service capabilities and grow its presence in adjacent markets.

Westinghouse consistently provides tremendous value to its customers and to ensure this continues in the medium and longer term, we continue to support its ongoing investment in new technology and R&D to maintain its market leadership in micro reactors with the eVinci product, small modular reactor (SMR) and large-scale power generation with a globally leading technology of AP1000.

At our advanced energy storage operations, Clarios, we've been working with the management team to execute on a wide range of initiatives, securing approximately half of the targeted \$400 million of annualized cost savings. In addition, the company's

launch of new advanced battery technologies has led to organic growth above expectation and strengthened Clarios' position at the forefront of automotive electrification trends.

At our wastewater services operation in Brazil, through a concentrated effort in improving business development and project management capabilities, we've effectively doubled the pace at which we are building out our concessions compared to several years ago, which will continue to positively impact customer and revenue growth.

Finally, at our Canadian gaming and entertainment facilities, we successfully managed through COVID-related operational challenges during the year, opened the newly-redeveloped Pickering venue in July, and are on track to open the \$1 billion redevelopment of our Woodbine facility later this year.

With our more recent acquisitions, DexKo and Modulaire, I wanted to take some time today to talk about the operational plans being developed for each of these businesses. DexKo is a leading provider of components for towable-equipment manufacturers, primarily in North America and Europe.

Its products include axles, chassis and related systems for a wide range of towable trailer applications. It is the only business in its industry which has integrated manufacturing and distribution capabilities. Working with a very strong management team with a track record of driving growth, we see opportunities to leverage our operational expertise to build value across three main areas.

In the area of manufacturing productivity, we're working with management to develop plans to improve efficiencies by rebalancing its manufacturing and delivery footprint, correcting production gaps, and pursuing quality initiatives, including value engineering to drive out cost.

We've also introduced our Brookfield purchasing and data analytics platform, targeting opportunities to optimize supply chain by implementing a more consistent and centralized procurement strategy that will allow DexKo to leverage the size and global scale of its operations. This includes supply chain rationalization where appropriate, correcting price variances, and improving supplier qualification and purchasing programs.

The third area of focus is M&A. As Cyrus mentioned, the company's acquisition strategy has historically been very successful and we plan to support management by targeting similar value accretive acquisitions in both the business' core product offering and adjacent markets where we can acquire businesses at reasonable value and buy down multiples through successful integration and execution on planned synergies.

Moving to Modulaire. At its core, this is a leasing services business in Europe and Asia-Pacific. Building off Brookfield's experience in this space, we plan to leverage this expertise to drive meaningful growth and operational improvement in four main areas: ESG; operating performance; organic growth; and acquisitions.

Focusing on our employees, we are initiating the rollout of our safety training and broadening the skills development program. Across the company's 170 branches, we plan to strengthen our focus on customer service via reduced lead times and improved quality. More centralized supply chain sourcing initiatives will help us reduce cost, supporting our competitiveness and margin performance.

At our assembly and light manufacturing facilities, our initiatives include launching lean manufacturing and optimizing the network and product range to meet evolving customer requirements for our modular space with reduced carbon footprints.

We plan to support the company's growth by improving its commercial strategy, leveraging the Brookfield ecosystem, and expanding the range of high margin value-added products and services offered to customers.

We also intend to support Modulaire's growth through accretive acquisitions to build market share and expand into new regions with enhanced product and service offerings. And with that, I'll hand it over to Jaspreet.

Jaspreet Dehl^ Thanks, Denis, and good morning, everyone. As Cyrus noted, we generated strong financial performance in 2021. Adjusted EBITDA increased to \$1.8 billion compared to \$1.4 billion for 2020 with strong results across each of our three segments.

In Business Services, we generated 2021 Adjusted EBITDA of \$561 million, more than double compared to 2020 results. Adjusted Earnings From Operations, or AEFO, improved to \$397 million.

Our residential mortgage insurer contributed \$265 million of Adjusted EBITDA, benefiting from underwriting activity that reached record highs and mortgage default rates that remained well below normal. We expect strong underlying fundamentals and moderate home price appreciation to contribute to stable Canadian housing market activity in 2022.

Healthcare services in Australia reported Adjusted EBITDA of \$69 million, which is an improvement over 2020 despite the ongoing impact of lockdowns and restrictions on surgical activity during the year. Demand for elective surgeries remained strong, but restrictions remain in place which are impacting financial performance. We're optimistic that activity levels at our hospitals will increase once restrictions are lifted.

Our construction business reported Adjusted EBITDA of \$85 million for the year. Performance recovered significantly in 2021 and benefited from strong project execution in the U.K. and Australia. Backlog increased to \$7.4 billion from \$5.6 billion at the end of 2020.

Moving on to our Industrials segment. We generated Adjusted EBITDA of \$713 million for 2021 compared to \$604 million in 2020. Adjusted EFO improved to \$879 million and included after-tax gains of \$476 million from the partial sale of our investment in graphite electrode operations and in public securities.

Our advanced energy storage operations performed well in 2021 and reported Adjusted EBITDA of \$484 million. Growing aftermarket demand more than offset reduced volumes from original equipment manufacturers impacted by auto production shortages. The business is generating strong cash flows and paid down \$760 million of debt during the year.

Performance of our water and wastewater operation in Brazil increased 15% compared to 2020, reflecting a continued focus on cost management and network expansion.

And finally, our Infrastructure Services segment generated Adjusted EBITDA of \$613 million for 2021 compared to \$602 million in 2020. Adjusted EFO improved to \$396 million.

Nuclear technology services performed well in 2021 and reported Adjusted EBITDA of \$299 million. The business benefited from higher volumes and activity levels during the fall outage season, as well as our ongoing cost savings initiatives. Strong execution on new plant projects nearing completion contributed to results this quarter.

Work access services contributed \$84 million in Adjusted EBITDA for 2021. Performance is improving despite the impact of reduced activity in some end markets and higher labor costs. During the fourth quarter 2021, the business acquired a full-service scaffolding provider in Germany, which expands its market presence into new end markets in Europe.

Our offshore oil services operations reported Adjusted EBITDA of \$223 million. Performance in the second half of the year benefited from profit-sharing agreements tied to oil price and production volumes of customers.

Now turning to liquidity. We ended the year with \$2.2 billion of corporate liquidity. Just recently, Brookfield Asset Management, our sponsor and majority unitholder, agreed to subscribe for up to \$1 billion of 6% perpetual preferred equity securities which further enhances our liquidity and will be available to us to fund our future growth activities as they arise.

Before I close, I wanted to briefly note our continued efforts around communication of our ESG program. We are committed to an ongoing focus on strong ESG practices, and aligned with that commitment, we recently published our inaugural ESG report. This report highlights relevant ESG initiatives within our business and operations and is available on our website. And with that, I'd like to close out our prepared comments and turn the call back over to the operator for questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question comes from Geoff Kwan with RBC Capital Markets.

Geoffrey Kwan^ Hi, good morning. My first question was on Altera. The supplemental kind of talked about how there was a little bit of upside improvement in oil prices. Just was wondering how you can kind of quantify the strength in terms of the potential for upside? And then how much of the business could participate in better pricing in the oil markets. How much this may help demand in terms of actual services that Altera provides.

Denis Turcotte^ Well, maybe I'd respond - Denis here. I would respond in reverse order in that clearly with the price of oil where, at least in the short to medium term, it's a very good environment and it's always promoting our customers to try to extract more and extract for longer. So, we see that as a welcomed tailwind in the short to medium run.

As far as responding to your first two questions, in the sense of not wanting to give you a false sense of ability to forecast, it really is a volatile type of incremental, above business plan always, incremental amount of EBITDA we generate. And there are probably two of the company's operations that are in that category. And again, I wouldn't want to give you anything that could be suggestive of forward guidance on it.

Geoffrey Kwan^ Okay. On the Cupa acquisition, are you able to kind of talk about what kind of the thesis was in terms of how you plan to generate value?

Denis Turcotte^ Well, we see a couple of areas in Cupa. This business has been run by exceptional entrepreneur. We think he's demonstrated that this individual knows how to run the business, both commercially and operationally.

Having said that, as we've worked with them, we've noticed that there are probably some technology and automation techniques in the actual processing of the materials. The yields, because it is such a high-quality end product, are actually quite low when you look at it from source to finished product. We think we can improve yields.

We also think we can help them grow. Although he's demonstrated a great track record of growth, we see some incremental acquisition opportunities to secure more supply and strengthen what is already 60% global supply of this premium product is locked up by this company, and we see improving upon that.

Geoffrey Kwan^ Okay, thanks. And just my last question. Obviously, BBU has been very active buying and making new investments over the past year. A little bit less active on monetizing and I know it's always going to be hard to kind of predict, but how do you see the market conditions right now as you kind of take a look at it on your crystal ball, the potential to monetize assets within your portfolio?

Cyrus Madon^ Geoff, it's Cyrus, that's a great question. I think the environment is actually ironically quite a bit better now than it was a year ago or even six months ago for us. There appears to be, I'll say, a pivot from some technology-oriented investor interest from what was technology-oriented growth to value. And we think that should benefit us as we look to monetize things down the road.

Operator^ Our next question comes from Devin Dodge with BMO Capital Markets.

Devin Dodge^ Thanks. I wanted to get started on the agreement with BAM for the perpetual prefs. Can you walk us through the thought process for why this was the right approach versus maybe some of the other options that you could have considered such as adding capacity under the credit facility or accessing the public equity or pref markets?

Cyrus Madon^ Yes. Devin, the nice thing about what we've done here is it gives us maximum flexibility. We draw it when we want to draw it. So there's no cost of capital. We don't have it drawn and sitting there idle with a negative drag to our cost of equity. And we thought that the pricing is reasonable in the context of the market. Obviously, we considered various alternatives.

And it just shows support from our sponsor and majority owner. So for all those reasons, we thought it's a great financing for BBU. And this is perpetual, it's redeemable in the instance of an asset sale or an equity raise down the road, but otherwise it doesn't come due. So, it's a great outcome for us.

Devin Dodge^ Okay. Thanks for that. So maybe just switching gears over to Westinghouse. It seems like there's been more of a concerted effort to expand the environmental services division there. Can you speak to the growth opportunities for that part of the business and where you are in terms of building the talent base to go after this type of work?

Denis Turcotte^ Denis here. That's correct. We do see it as an area with significant growth opportunity, both domestically in North America as well as in Europe. And recently, he's been with us for about 9 months now, Sam Shakir was hired as President of that division. We made some organizational changes there to restructure and he comes with a tremendous track record in this space. He, along with Patrick Fragman, our CEO, have been very focused, since he's arrived, at figuring out strategically how to position.

We're also looking at some opportunities to expand capabilities through acquisition in that area. So it's an area that is getting a lot of attention and focus and we feel really good about the team we have in place.

Devin Dodge^ Okay. And maybe just one last one. Ember Resources, this is a name we don't talk about very often but it seems like the strength in natural gas prices should be or at least could be a potential benefit in 2022 or maybe 2023. Can you frame for us how the hedge book looks this year versus 2021 or perhaps just a general update on the business?

Jaspreet Dehl^ Yes. This is Jaspreet. I'll take that and Cyrus can add to it. So as you've noted, there's a tremendous upside with natural gas prices at Ember. It's a great operation but profitability really dependent on AECO and Dawn natural gas pricing. So in the current environment, it's very positive for Ember. We've been very mindful over the last number of years, just given where gas prices have been, to make sure that we're appropriately hedging our exposure on natural gas and we haven't changed that approach.

So, we've got about, call it 60% to 70% of our natural gas exposure hedged for this year and I say about half for the year after, in 2023. But all in all, we should see significantly improved profitability at Ember and free cash flow generation. Now we'll probably use that to deleverage the business in the near term, but there's definitely tailwinds after quite a period of time for this business.

Operator^ Our next question comes from Gary Ho with Desjardins Capital.

Gary Ho^ Great. Maybe first question is for Jaspreet. Just on the higher rates. Can you remind us kind of how that impacts the financing cost side of things or have you run any sensitivities on a 25 or 50 basis point move and how that impacts your cash flows looking out?

Jaspreet Dehl^ That's a great question just given the current environment. We've been very focused on interest rate exposure and the impact of volatility in rates for the portfolio and been working with all of our businesses. So we've done a few things to manage the impact of interest rate movements.

I'd say the first thing is refinancing within our companies. So we did a couple of repricings at Westinghouse in 2020 and then again in 2021. Similarly at Clarios and then most recently, the refinancing at One Toronto, our entertainment operation. And these were all geared towards locking in lower rates, and overall on a consolidated basis, that's probably about \$50 million of annual run-rate savings for the business. That's not at our share, that's the total.

The other thing we've been very mindful of is making sure that we're hedging floating rate exposure. So in the book today, about 65% of our floating rate exposure is hedged. And the piece that's unhedged is really related to businesses where we're paying down debt. At Clarios, we paid down close to \$800 million of debt this year, and there's a couple of other businesses where we're deleveraging, so we're not hedging that. And we're not hedging in Brazil where it's not economical to hedge. But outside of that, 65% of the book is hedged, which provides a strong protection.

The overall cost today of our debt is approximately 4.8%. And we've got long maturities, like 5-year average maturities. So we've got good protection within the portfolio against rising rates, and we're going to be mindful moving forward, making sure that we're hedging rates.

You probably saw this morning, we raised the financing for Scientific Gaming, that was \$800 million unsecured bonds and then the balance of about \$2.6 billion in term loans. And we raised that at favorable rates and at a cost that's less than 5%. So, we're still able to execute our financing at very good rates and we're quite pleased with that outcome.

Gary Ho^ And just can you just remind us the floating rate, how much of your total debt is fixed versus floating?

Jaspreet Dehl^ About 65% is fixed today, and that 65% is a combination of where we've got fixed rate debt plus all of the hedging that we've done on floating rate exposure.

Gary Ho^ Okay. Got it. That's helpful. And then my second question for Denis. I just wanted to hear your thoughts on all these inflationary comments out in the market. Companies needing to bump up their comp to retain talent. Can you maybe talk about a couple of your businesses that you're seeing this impact the most? I think you mentioned BrandSafway, but any others that you're seeing?

Denis Turcotte^ Sure. First of all, as general commentary, I'd say that in most categories that form our cost of delivery, whether it be labor, materials, transportation and logistics, there is cost pressure, there's inflation pressure. We see things like labor, for example, as probably permanent increases to our cost structure. And again, it's blanket across all businesses, the amount of pressure varies depending on what category of talent you're looking for, but that's there.

The logistics side is we believe, transitory to a great degree, in the sense that you see prices as an example, shipping containers from Asia to the west coast of the U.S. from a year ago or 18 months ago were in the \$2,500 to \$2,700 container range. I think they peaked around \$27,000 a container six to seven months ago. They're now down in the \$6,000 to \$7,000 container range. So you can start to see those as leading indicators of what I see as solutions to the root causes of those inflationary pressures in the beginning.

We see the same thing around materials. Steel is a good example. Steel, off record peak pricing of around \$1,900 a ton for hot rolled coil, is now down. I was talking to the CEO of a steel company yesterday and they're down around \$1,200 for hot band. And although he spoke with confidence that it was going to stay there, I've been in that business, it's going down.

So we see most of those things resetting back to trend line over. But I think more importantly, we've been able, across our businesses, to put price increases in because it's required. We're determined to maintain our margins and I think our customers understand that the root cause is not us, there are macroeconomic winds. And as a result, we have to increase prices to maintain margins and we're doing that.

Gary Ho^ And those price increases, have they all been put in? Or should we see some lag in the results in terms of margin compression or what not?

Denis Turcotte^ Well, again, as a general comment, you always see a bit of a because you have to go out and have conversations and nobody wants to have a price increase. So you have to work and to maintain and build your relationships with your customers to help them understand why and that takes time. So as the inputs to our businesses, cascade through our businesses, there is that time lag that naturally occurs if you're looking for the results in the financial statements. But we are seeing those results occur on a quarter-to-quarter basis.

Gary Ho^ Okay. That makes sense. And then just if I can just sneak one more in. Just touch on kind of two businesses that's seen some challenges over. One, Cardone, look like there's some early signs of a turnaround there. And then I think you mentioned on the Altera side, I know you want to remove some of the exposure to commodity moves. Now could this be an opportune time to maybe monetize that asset given where oil prices are?

Denis Turcotte^ Sure. On Cardone, our turnaround plan is actually ahead of plan. We're very encouraged by what we see. We think we've got a rock solid management team in place. They put a commercial strategy to adjust the product mix for the business to move towards products that are more future-oriented, higher margin, more stable, and they have executed on that, and we're seeing those improvements. Having said that, it's still a challenging business. We've got it sized properly, we've got it organized properly, and we've got it focused properly, and we're confident that as miles driven increases – and that's really been the surprise to the downside frankly, we thought as COVID got to semi controlled, the miles driven would spring back more rapidly and they just haven't. But again, that's not something management can control, but we have no doubt that miles driven will go up and the business will continue to improve.

As far as Altera, these short and mid-term macro changes the price definitely provide short and mid-term opportunities. And we are exploring everything. We need to improve the balance sheet of that business. We're working on that, the management team is working on that.

And in addition, we're looking at opportunities to execute more what we call asset-light business development. The company has been successful in securing some of this kind of business in the FPSO sector in off Australia. We're working in Brazil with a couple of customers to see if we can bring business models that the company developed in the North Sea around CoA and how to optimize asset utilization to the benefit of all, saving cost and sharing those cost savings because of higher equipment utilization and change takes time to manage through, but we're feeling very optimistic about what's going on there.

Operator^ Next question from Jaeme Gloyn with National Bank.

Jaeme Gloyn^ Thanks. Good morning. First question is on the distributions from some of the various companies. Westinghouse is building a nice track record and Sagen has released some of excess capital, but I believe there's probably some more there.

Can you just talk about what you're expecting for those two businesses for distributions going forward? And then are there any other businesses that would look like they might have some more recurring-type distributions going forward?

Cyrus Madon^ Yes. It's Cyrus here. Look, I think we think Westinghouse can consistently generate the type of free cash flow that we've been seeing the last few years. As for Sagen, there is still quite a bit of excess reserves in the company and obviously, subject to regulatory approval, we would expect to pull that out of the business over time.

Jaeme Gloyn^ And any other businesses that you want to call out that have some more profiles, it looked like One Toronto this quarter, but any other businesses that might have more of a recurring-type distribution nature?

Cyrus Madon^ Sure. Look, we have several businesses that generate a lot of cash flow. Clarios would be one of them, for example. And what we've chosen to do in that case is pay our debt down. I think you would have seen that during the year, we paid \$700-plus million of our debt down. That was all free cash generation within the business.

At a point in time, we may decide if we think it's the right thing to do, and this is of course subject to any growth investments the business may want to make, we may decide to start pulling regular distributions out of that company, which would be quite substantial for BBU.

Jaeme Gloyn^ Okay. Great. In terms of the liquidity position as it stands today, pro forma all of the transactions, it looks like it sits around \$1.1 billion or so. And then the company has been active on the buyback still here at least to start 2022. So how are you thinking about the buyback and the liquidity position as it stands today? And could you maybe pull on that BAM to accelerate some buybacks?

Cyrus Madon^ Well, look, you've seen what we've been doing. Our posture has always been that we don't need to choose between the two and when we see compelling value in the units, we'll keep buying. And we see compelling investment opportunities, we'll continue making them. And certainly, with this financing that we've just put in place, we've got ample flexibility between that and our credit facilities to continue growing.

And added to that, of course, ongoing distributions from our companies, monetization proceeds from our companies down the road, we're very comfortable with our capital position.

Operator^ Our next question comes from Nik Priebe with CIBC Capital Markets.

Nikolaus Priebe^ Just wanted to start with a question on the strong headline earnings contribution from Westinghouse in Q4. That really stood out this quarter. I understand there can be a bit of quarterly variability there, but what is the underlying rate of organic top or bottom line growth you would expect to achieve from that investment over the

long term? Like how should we think about that if you strip out some of these more transient influences?

Denis Turcotte^ Denis here. Your first comment I think is important for everybody to understand that there is some natural seasonality in this business, and we tend to think about managing it on a year-over-year basis. Just because customers can sometimes defer work, pull work forward, et cetera, and that's what you saw with Q4 versus the previous quarters of the year.

As for overall over time, as we said when we bought the business, we believe this business would go through \$700 million of EBITDA for a three- to four-year period. We are there. We also are optimistic that we'll continue to drive growth as we updated everybody about a year, year and a half ago that we could bring this business through \$800 million a year of annualized EBITDA.

As you can imagine, as you move forward, the incremental amounts on an organic basis get a little more challenging, but we remain very, very confident. Again, we have a very strong management team in place. They remain committed and have conviction that we're going to bring this company through \$800 million over the next two or three years.

Nikolaus Priebe^ Okay. And the other thing I wanted to ask was I was hoping you could talk a little bit more about the pipeline for bolt-on acquisitions. You've been active at Westinghouse and now with DexKo as well. Can you tell us a little bit more about that strategy and how you see that contributing to value creation for some of those investments?

Cyrus Madon^ Sure. It's Cyrus. Maybe I'll start and then Denis, if you want to add comments on specifics. For all of our businesses, we look for this type of opportunity where we can improve the footprint of the business, improve the product mix, and improve the value proposition to the business' customers.

And we can all often drive synergies that a stand-alone buyer cannot find and that's really where the bulk of the value creation comes in when we make these bolt-on acquisitions. And Denis, I don't know if you want to talk about specifically at Westinghouse.

Denis Turcotte^ Well, I think that's absolutely the case, synergies on the cost side are most prevalent, but also on the revenue side. For example, at Westinghouse, if you look back since we bought the business, we've bolted on things that bring incremental capability to our franchise so that when interacting with our customers, with the trust and confidence they have in us, as we bring incremental products and services, that is just a natural way to organically grow the top line and we're targeting the kind of services that have higher margins because they are truly value-added.

And I think a recent example of the digital business that was embedded in the Rolls-Royce acquisition, which, frankly, I think the seller had given up on for a variety of reasons. We saw that as a jewel within that acquisition, aside from the cash synergies

unfolding in that business to ours. And that business is now forming the foundation of a digital platform for Westinghouse that I was just able to get a demonstration of three or four weeks ago when I was up in Cranberry, meeting with the team there and it is just phenomenal what they've created and how they're positioning. Again, none of that was underwritten in our acquisition.

And none of that incremental growth is actually in our current five-year year plan. But I've got to tell you, I see huge opportunity there. So, when you think about just the typical cash cost savings that are synergistic, in addition, we really are focused on incrementally driving top line organic growth as well.

Cyrus Madon^ And it's Cyrus again. Look, in the case of DexKo, that company has been a serial acquirer. Since we announced our acquisition of the company, it's made a number of acquisitions at very favorable values that we wrote about in our letter, which is driving highly incremental cash flows to our equity investment, and we expect that to continue in that company for sure.

Operator^ Our next question comes from Dimitry Khmelnitsky with Veritas.

Dimitry Khmelnitsky^ First question I'd like to ask is about Sagen. So 2020 and 2021 have seen a remarkable growth in premiums written as well as underwriting income, particularly in 2021. And I just wonder, how do you see that being sustainable in 2022?

Jaspreet Dehl^ Dimitry, it's Jaspreet. I'll take that and then Denis and Cyrus can add to it. So you're right, 2020 and 2021 have both been very strong years for Sagen. We've seen record underwriting activity supported by extremely strong housing market and demand in Canada.

And our view, and we saw some in Q4, is that new underwriting activity is healthy, we've seen new premiums coming in normalized. As we look forward, we expect that overall, the market is going to normalize. So, the level of underwriting we've seen in 2020 and 2021 is not the long term sustainable level, and we expect we're going to go to more normalized levels.

Having said that, the housing market fundamentals, they still remain very supportive of strong demand. And there are a few things driving that and the biggest piece is probably just the supply shortage and a misbalance between demand and supply on the housing side. So, we do think it will normalize and stabilize, but we're not expecting the same level of underwriting as the last two years, but back to more normal levels that the business has seen historically.

Dimitry Khmelnitsky^ Okay. And the other question is on Healthscope and BrandSafway. So I'm just curious why EFO declined in Q4 as compared to EBITDA for those two operations?

Jaspreet Dehl^ Yes. So on Healthscope, last year in Q4 we sold our pathology business, and when we sold that business, we generated a gain on the sale, which would have been included in EFO. It was additive between EBITDA and EFO and led to higher EFO for Q4 2020.

This year, we didn't have a similar type of gain or any other unusual events between EBITDA and EFO. So we didn't see a similar pickup, and you saw kind of the more normal impact of interest and taxes. So that was Healthscope.

On BrandSafway, I think the differential is really driven by taxes. So overall the financial performance and taxable earnings were higher this year and I think that differential was taxes. But happy to go deeper and have an offline conversation and give you the exact reason for what's driving the change in taxes.

Dimitry Khmelnitsky^ Awesome. And then the other question is on Clarios. Could you please update us with the proportion of advanced battery sales as a percentage of revenue for 2021?

Jaspreet Dehl^ So I don't have the exact percentage off the top, Dimitry. But what we're seeing in the business is aftermarket demand continues to be very strong. And especially in the aftermarket, we're seeing a trend towards more advanced battery sales, and that's been driven by the new generation of cars that have the advanced batteries, and they're now coming up to a cycle of replacement.

We're seeing that replacement really driving demand in the advanced battery, especially in the aftermarket. So that's definitely been a positive shift from a margin and volume perspective for the business. But I don't know the exact percentage of the top.

Dimitry Khmelnitsky^ Yes. Understood. And then on inflation, just to follow up on the previous questions that were asked. Just curious whether price increases implemented thus far, whether they were sufficient to offset higher material and labor costs after normalizing for the time lag?

Denis Turcotte^ In the vast majority of cases, it has more than offset.

Dimitry Khmelnitsky^ Got it. And then the last question has to do with Altera. And there's been already a lot of questions asked about this. I just wanted to ask one more. I remember you spoke about the vessel redeployments in the past and I was wondering if you can give us some more details. What does that mean in practice? What kind of contracts are you trying to obtain and how those would differ from prior arrangements?

Denis Turcotte^ Well, the nature of the contracts are very similar, but where they differ is in our requirement for certainty. Since we bought the business, studying our competitors and in general, the industry dynamics, it seems that a past practice was common where individuals would put a tremendous amount of capital into these assets, and they would contract them to partial life of asset on the assumption that options to

renew would be exercised and/or that there would be other opportunities to reposition these assets.

And as the industry has gone through the consequences of a shift around ESG, that has not panned out. So we are being very careful now that any contractual relationships moving forward, any incremental capital we put in the business, we need to have certainty around recovery and returns.

Operator^ Our next question comes from Matthew Weekes with IA Capital Markets.

Matthew Weekes^ The first was just on the Cupa acquisition. It looks like there's a number of facilities there, processing facilities, distribution centers, things like that. I'm wondering if there's any owned real estate in that transaction or if it's all leased?

Cyrus Madon^ It's Cyrus here. There's not a lot of owned real estate in the business. Obviously, it owns the mining rights and that's the primary asset there.

Matthew Weekes^ Okay. And just another question on that acquisition and sort of broad trends and more transactions going forward, it looks like it builds a little bit on what we saw with Modulaire, which is acquiring companies that have natural sustainability considerations, exposure to positive ESG trends, in terms of the material, the product. Given the pipeline of opportunities you're looking at right now, do you expect this to continue to be the trend in future acquisitions going forward?

Cyrus Madon^ Well, it's certainly a serious consideration whenever we're looking at something. I don't think I want to go so far as to say it will be a trend, but it's certainly a strong consideration.

Matthew Weekes^ Okay. And I think one of the businesses we haven't talked a lot about today is the road fuels distribution and marketing business. I was just wondering what kind of tailwinds you might have seen there during the quarter and what kind of trends you're seeing in the outlook as we go forward here? Are you seeing strong margins on the retail side there, strong demand? Or are you seeing any impact on mobility from the Omicron variant, just broad trends for that business?

Jaspreet Dehl^ It's Jaspreet. So at the road fuels business, it is on the supply side, especially, it is a volume-driven business. So we did see strong volumes in Q4 in the U.K. There was some impact from the Omicron and some of the lockdowns and things. But it wasn't substantial and it didn't have a substantial impact in the quarter as we've seen in some of the prior quarters and last year.

So on the supply side, the business is performing well. Retail margins in Canada through the gas stations have been very strong and robust, despite some decreased volumes. But overall, profitability has been sustained through higher margins on the retail side.

And then I'd say more broadly, a big part of this business is focused on biofuels and taking used cooking oil and using that in the fuel production. And there's definitely ESG-related tailwinds around that business. So we are focused on that to make sure that we're expanding capacity and production and expanding the growth opportunity for that side of the business.

Operator^ That concludes today's question-and-answer session. I'd like to turn the call back for closing remarks.

Cyrus Madon^ Thanks very much all of you for participating. We look forward to talking to you next quarter. Thank you.

Operator^ This concludes today's conference call. Thank you for participating. You may now disconnect.