Brookfield Business Partners – Q2 2023 Results Conference Call & Webcast

August 4, 2023

Corporate Speakers:

- Alan Fleming; Brookfield Business Partners L.P.; Managing Director
- Cyrus Madon; Brookfield Business Partners L.P.; CEO
- Anuj Ranjan; Brookfield Business Partners L.P; President
- Denis Turcotte; Brookfield Business Partners L.P.; COO
- Jaspreet Dehl; Brookfield Business Partners L.P.; CFO
- Patrick McHugh; Scientific Games Corporation; CEO

Participants:

- Geoff Kwan; RBC Capital Markets, Research Division; Analyst
- Andrew Kuske; Credit Suisse Group AG, 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
- Nik Priebe, CIBC Capital Markets, Research Division; Analyst

PRESENTATION

Operator^ Welcome to Brookfield Business Partners' Second Quarter 2023 Results Conference Call and Webcast. As a reminder, all participants are in a listen-only mode, and the conference is being recorded. After the presentation, there will be an opportunity to ask questions. (Operator Instructions)

I would now like to turn the conference over to Alan Fleming, Head of Investor Relations. Please go ahead, Mr. Fleming.

Alan Fleming^ Thank you, operator, and good morning. Before we begin, I'd like to remind you that in responding to questions and talking about our growth initiatives and our financial 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, our Chief Executive Officer; Anuj Ranjan, President, and Jaspreet Dehl, our Chief Financial Officer. We're also joined today by Pat McHugh, the Chief Executive Officer of Scientific Games, our lottery services and technology operation. Cyrus will lead off the call today and provide an update on our strategic initiatives followed by Anuj who will discuss the evolution of our technology strategy. Patrick will provide an update on Scientific Games and Jaspreet will finish with the review of our financial results. The team will 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. We had a good quarter. Adjusted EBITDA increased 15% over last year and our Adjusted EBITDA margin continues to improve.

Our largest businesses are performing well. Most of these are industry leaders that are critical to their customers. They can't be easily replaced and they have strong pricing power which is really important during periods of inflation and this has all contributed to their stable earnings and resilient cash flows.

While the operating environment still has its challenges today, things seem to be normalizing. Energy costs have eased, and in most cases, material prices are down from last year. Freight rates are well below where they were below peak levels and the worst of the global supply chain issues seem to be behind us. Labor markets, though, are still very tight. Although wage rates are stabilizing in most regions, and we're seeing slight reductions in absenteeism, and turnover rates across our businesses. For the most part, volumes are holding up we have some pockets of softness, but for the most part they're holding up. The pricing we put in place across many of our operations is contributing to resilient margins.

Global capital markets are also turning the corner. The risk of material increases to short term interest rates is lower as inflation subsides, and longer-term rates are still at a reasonable level. Credit markets are opening for higher quality issuers to extend or refinance existing borrowings, which is a benefit for most of our businesses.

In fact, over the last few weeks, we refinanced about $5 billion of debt at four of our businesses. Three of these refinancings were done at an all-in cost slightly less than the cost of debt that was replaced.

We're also continuing to make progress on sales processes.

Greenergy, our road fuels distribution operation, reached an agreement to sell its North American gas station assets during the quarter. The sale will deleverage that business enable it to focus on the growth of its European renewable fuels business and generate about $75 million of proceeds for us.

In July, we sold a majority of Cardone, our automotive aftermarket parts remanufacturing operation to a larger competitor. Cardone was subscale and it struggled to fully recover from the severe impacts of the pandemic. Merging it with a larger competitor and taking back a royalty interest on the performance of a bigger business was the best path forward for a tough investment.

Finally, the sale of Westinghouse remains on track. We're working through the remaining regulatory approvals and targeting to close the transaction in the next several months.

All in all, we're pleased with our continued progress. Our operations are well positioned as we look forward, we may have some opportunities to acquire high-quality businesses from owners who don't have access to capital, as the impacts of recent rate increases continue to work their way through the system.

With that, I'm going to hand it over to Anuj to talk about the evolution of our strategy in technology and the recent acquisition of Network International.

Anuj Ranjan^ Thanks Cyrus. Good morning, everyone. Most of our value creation over the years has been achieved by acquiring high-quality industrial and services businesses at reasonable prices and improving their operating performance. The returns we've generated over the last two decades have been excellent. And we're now applying this very same playbook to the technology sector.

We're targeting mature software and technology services businesses that have all the same qualities which Cyrus talked about earlier. These are market leaders with strong pricing power and durable competitive positions, which provide products and services that customers need in any environment.

Over the past few years, we've spent a lot of time building out dedicated capabilities to grow our technology presence. We started on a smaller-scale, acquiring businesses like Everise, a tech-enabled customer experience company for large global healthcare and technology clients. In a short amount of time, we've tripled the EBITDA of this business by scaling its servicing capabilities, growing its addressable market and increasing its margins. There's good interest for this business from potential buyers, and we think an eventual sale is likely to generate multiples of what we bought it for.

More recently, we've acquired larger-scale technology businesses. As you know, last year we acquired CDK Global, our dealer software and technology services operation. Since then, we've made excellent progress in our value creation plans, improving margins by 10% and increasing annualized EBITDA by over $200 million.

And in June we agreed to acquire Network International for about $3 billion. Network is the market leading payment processor in the Middle East. The business provides services to support the financial backbone of the economies in which it operates. Its technology allows businesses and governments to securely process both physical and online payments. It also acts on behalf of banks to manage transactions for 18 million credit and debit cards. The business has all the hallmarks of an essential service provider and a strong track record, supporting by a leading technology stack and relationships with more than 150,000 enterprise customers.

Payments are an enormous industry benefiting from strong secular tailwinds. The global digital payments space is more than $2 trillion today and growing at an estimated 10% annually. The shift in consumer spending from traditional cash to digital and online transactions is underpinning the strong industry fundamentals and growth.

The opportunity for us is to combine Network with Magnati, the Middle East payment processor we acquired last year. These are two highly complementary businesses with limited overlap and customer footprints. We expect that combining them will result in meaningful operational synergies and create a platform with significant scale that is the clear industry leader in the region.

With that, I'll pass it off to Pat and be available to take your questions.

Patrick McHugh^ Thank you, Anuj. Good morning, everyone. Scientific Games is a trusted leader in the lottery industry, offering a broad suite of innovative technology products, analytics and services. We have a truly global reach serving over 140 customers across 50 countries. Our customers view us as an essential service provider and an important strategic partner. As a result, we've been able to foster long-term relationships with government lotteries, many of which have developed over multiple decades.

Fundamentally, lotteries exist to support funding for good causes. On an annual basis, lotteries around the world generate over $100 billion of proceeds, which are directed at important social initiatives, including healthcare, infrastructure development, education, and senior and veteran services.

Lotteries have been around for hundreds of years, a little known fact is that Scientific Games have the largest collection of historic lottery tickets and artifacts, some of which have been signed by the likes of George Washington and Thomas Jefferson. Lotteries have funded much of the early infrastructure investment in the U.S. and other nations. We expect these funding sources to become increasingly important, particularly as governments around the world continue to deal with fiscal challenges.

At Scientific Games, we have designed comprehensive solutions to support the entire lottery ecosystem. Our largest segment is Instant Products, where we provide products and services to scratch card lotteries, including marketing, data analytics, logistics and printing. We are by far the market leader in instant products with approximately four times the market share of our nearest competitor. Our success in this segment is partially attributed to our unique Scientific Games enhanced partnership model, or SGEP, a comprehensive and value-added solution for lotteries, which has proven to deliver above-market performance while generating increased economics for Scientific Games.

Complementing our Instant Products is our Systems and iLottery segment. Through these segments, we provide essential technology and hardware systems that are the backbone for many lottery programs around the globe. We also have a full suite of digital capabilities to support the development and operation of government sponsored iLottery programs.

The combination of our unique differentiated solutions and attractive industry fundamentals creates a compelling business model with favorable margins, low on-going capital requirements and stable recurring revenue. Our earnings are underpinned by resilient lottery sales, which have grown consistently across economic cycles over the past 30 years. We're also well positioned to meet strict regulatory framework and oversights mandated by government lotteries, which require high standards of service and security. We believe these attractive characteristics position the business well for future growth.

Over the last year, we focused on leveraging our strong commercial offering to secure several contract wins. These include new contracts to provide products, services and technology to global operators, including the U.K., Vietnam, and Brazil. Each of these is strategically important wins for the business, which will allow us to greatly expand our global competitive position.

In the U.K., we were able to secure contracts to support the entire lottery ecosystem across both retail and digital channels. In Vietnam, we secured a national Instant Products contract by demonstrating the success of our SGEP program across the world. In Brazil, we secured a greenfield opportunity in a country which has limited existing lottery offerings, positioning us well for larger upcoming contracts. Together, these contracts should increase annual EBITDA by 10% once fully ramped.

Over the past 12 months, we've also focused on addressing short-term headwinds related to input cost inflation and electronic component availability. To accomplish this, we've implemented a series of targeted actions which included one; executing inflation pass-through mechanics that exist in our contracts, two; repricing contracts ahead of inflation, three; re-negotiating key vendor contracts as input costs have started to decline, four; advance ordering long-lead components and five; strengthening our supply chain to increase diversity and flexibility. We believe the worst of the headwinds are behind us and expect the full benefit of these actions to be realized by 2024.

We plan to execute on the next phase of growth through four key pillars: converting customers to our high-performing SGEP model, securing new customers and markets, expanding our iLottery offering and executing on identified operational enhancements.

iLottery is a particular area of focus where we expect meaningful growth from the adoption of government run lottery programs. In simple terms, iLottery is the digital equivalent of physical lotteries, providing consumers with access to lotteries on their smartphones, tablets and computers. iLottery is still in its infancy in the U.S. today with only 11 active programs. These programs have proven to be highly successful generating growth, which is interim incremental to the existing lottery sales.

Over time, we expect broader adoption of iLottery programs. We believe we're well positioned to capitalize on this growth by virtue of our industry experience, which includes supporting three of the top iLottery programs, our leading capabilities and the long-term relationships we've developed with many of the existing physical lottery programs.

Overall, it's an exciting time for Scientific Games. Our unique value proposition has been resonating with customers, as evidenced by the recent commercial wins. The success is creating momentum for future opportunities, including significant anticipated expansion in iLottery. As a result of these efforts, we're primed for sustained and profitable growth as a leader in the technology-driven omni-channel solutions for government lotteries around the world.

With that, I'll hand it over to Jaspreet and I will be available to answer questions during the Q&A.

Jaspreet Dehl^ Thanks, Pat and good morning, everyone.

Adjusted EBITDA for the second quarter was $606 million and Adjusted EFO was $185 million.

Looking at segment performance, our Industrials segment generated second quarter Adjusted EBITDA of $196 million compared to $204 million last year. Strong performance at our advanced energy storage operation was offset by lower contributions from our smaller, more cyclical natural gas producer and graphite electrode operations. Adjusted EFO was $63 million and included the impact of higher interest and higher tax expense at our advanced energy storage operation.

Performance our advanced energy storage operation remains strong, generating increased Adjusted EBITDA of $113 million for the second quarter. Results benefited from improved technology mix driven by the growing demand for higher margin advanced batteries and the impact of pricing actions, which are more than offsetting inflationary pressures.

Our engineered components manufacturing operation is performing well and contributed $44 million to Adjusted EBITDA. While volumes have softened, margins continue to improve driven by ongoing cost saving and commercial optimization initiatives.

Moving to Infrastructure Services, Adjusted EBITDA for the second quarter increased to $216 million from $205 million last year. Results benefited from improved performance at our work access services operation and higher contributions from our lottery services operation. Adjusted EFO was $88 million and included a $19 million impact from higher interest expense at our nuclear technology services operation, primarily due to higher borrowings and higher rates.

Performance at our work access services operation has improved meaningfully since last year, generating Adjusted EBITDA of $31 million in the quarter. We're working closely with management on accelerating initiatives to reduce costs, optimize commercial terms, and reposition the business in the current environment.

Our modular building leasing services operation generated $41 million of Adjusted EBITDA in line with last year. Utilization of our units is mixed, the U.K. continues to be soft, given a downturn in broader construction activity, while Germany, France and Asia Pacific have remained resilient. Strong demand for higher margin value-added products and services is contributing to performance.

Finally, our Business Services segment generated second quarter Adjusted EBITDA of $223 million, which increased from $153 million last year, primarily driven by the contribution from our dealer software and technology services operation. Adjusted EFO was $119 million and includes the impact of a $15 million increase in taxes at our residential mortgage insurer.

Our dealer software and technology services business generated Adjusted EBITDA of $56 million. Performance continues to benefit from growth of the business' subscription-based service offering and progress achieved on value creation initiatives to optimize the organizational structure.

Our residential mortgage insurer generated $46 million of Adjusted EBITDA. Results are normalizing compared to exceptionally strong levels last year, given the impact of higher mortgage rates on borrowers. Mortgage delinquencies and loss ratios remained low compared to historical levels but are expected to revert to the long-term averages over time.

Our Australian healthcare services operation generated Adjusted EBITDA of $16 million, while activity levels improved higher labor and medical and surgical costs impacted overall performance during the quarter.

Turning to our balance sheet, as Cyrus mentioned, over the last few weeks, we've completed a number of refinancings within our business. To give you a bit more color, in July, we completed a $1.2 billion refinancing at One Toronto, our GTA casino business and a $300 million refinancing at DexKo. This week, we priced about a $750 million refinancing of a term loan at CDK Global, our dealer software business. All of these were done at a cost of about 8%.

In addition, we refinanced about $2.7 billion of BrandSafway, our work access solutions business, their existing debt. This was done at about 1% higher cost and allowed us to extend maturities of the debt. We did put capital into the business, our share was about $195 million. The additional capital we provided will delever the business and give it flexibility to continue to execute on its growth plans. Finally, we ended the quarter with approximately $2.2 billion of corporate liquidity after accounting for plan funding commitments, and expected proceeds from announced to business sales.

With that, I'd like to close out our comments and turn the call back over to the operator for questions.

QUESTIONS AND ANSWERS

Operator^ Thank you. (Operator Instructions) Our first question comes from the line of Gary Ho with Desjardins Capital Markets.

Gary Ho^ Thanks and good morning. Maybe I'll just start off with a question for Cyrus. Just wanted to get an update on what you're seeing on both the deployment and monetization side, just hearing from other corporates that there's a bit of a pickup in activity as of late. Just want to hear your thoughts. Perhaps you can tie that into kind of where you stand with monetization for Clarios and BRK as well.

Cyrus Madon^ Yes, so look, I would say as a general comment that credit markets have definitely improved, you can see it in the substantial activity we've had, and leveraged finance is starting to become available for transactions, which will all ultimately lead to more activity in the market. I also think many private equity sponsors are under some pressure from their limited partners to generate proceeds so there is some motivation to transact.

As for our own activity, we've told you what we were up to. We don't have any specific timeline for BRK and Clarios. They're both excellent candidates for an eventual monetization, we're making progress in both of them. But there are still some things we want to do in each of those businesses before an eventual monetization. We don't have any specific timeline there.

Gary Ho^ My second question for Pat just on Scientific Games, specifically the iLottery side, wondering if you can elaborate you mentioned 11 programs for the iLottery right now do you envision kind of most of the U.S. states would move to having a program over time, just want to gauge the potential market growth opportunity?

Do most of the primary providers also service both the physical and the iLottery side or are there other players that only cater to the iLottery products? Maybe just lastly, just competitive landscape. I know Polard and others are in the space, just wondering if they're kind of fairly rational in terms of pricing?

Pat McHugh^ Yes, great question. We're incredibly focused on expanding the iLottery presence, but our position in the market and have continued to support the passage of legislation across the U.S. or government relations team working with our government partners to educate them on the value of iLottery. So eventually, we do see the market continuing to open in all states at some point. We expect we'll be selling iLottery along with traditional retail sales.

We've had great performance on that, every place where the industry has introduced, internet lottery sales, retail sales have grown. We've had great history of that. I think we're uniquely positioned to answer your question competitively in being a full line provider being able to provide the entire ecosystem for lotteries to leverage our analytics and consumer insights to drive performance seamlessly across the retail and digital channels. So that's been a key differentiator for us.

The traditional systems providers do provide iLottery. I think our performance and in particularly, being the market leader in instant win games is gives us a unique differentiator. There are some new entrants, just one in particular, that is pure-play iLottery. I think our position, particularly in being able to service the full ecosystem seamlessly for lotteries gives us a very unique advantage so we're very bullish on the opportunity.

Gary Ho^ Okay, great. Then maybe just last question for Cyrus or Jaspreet, surprised to hear the refi of three of the four recent investments at rates below the last issue, what's driving that? What were the maturity dates on these? Maybe just a general comment, can you just remind us, the cost of borrowings and the length the maturity overall?

Jaspreet Dehl^ Yes, I'll take that and then Cyrus can add to it. So, we're really pleased with the outcomes on the refinancing that we've been able to accomplish and really, it's a testament to the types of businesses that we own. We've said this before, but these businesses have strong market positions that are cash flowing and they perform well, in any environment. Quite frankly, the credit investors really like these businesses, which has supported refinancings and we're seeing a real differentiation now, between the high-quality businesses versus businesses that are not as high quality around the availability of financing.

I think being able to do these refinancings at the rates that we've been able to accomplish, is really a testament to the types of businesses that we own and that we've refinanced. In terms of the overall cost, as Cyrus said, three of the four that we did more recently, were done at an all-in cost lower than where they were. DexKo and CDK, both of these, we had taken financing, to do some tuck-in acquisitions. At CDK, we did a refinancing on a smaller piece of debt, about $750 million of the total cap stack. Again, it was just the type both of these businesses have been performing really well and we were able to refinance at about 8% all-in cost. Sorry, just on your last piece on the maturity, all of the maturities are in that five to seven year range.

Cyrus Madon^ The only thing I'd add is that there is a very clear flight to quality that we're observing in the markets and high-quality issuers, meaning high-quality businesses can raise capital, and then businesses that aren't so over levered can also raise capital. The flip side of that is we're seeing a lot of good companies that are over levered or companies that aren't performing so well, really struggling. And their yields have really ballooned out. That's probably going to create quite a bit of opportunity for new investments as well.

Operator^ Thank you. One moment please for our next question. Our next question comes from the line of Andrew Kuske with Credit Suisse.

Andrew Kuske^ Thanks. Good morning. I think my first question is really directed to Pat and it's just on the iLottery transition, as you go from more physical sales or a physical model to an iLottery model. Does that ultimately involve margin expansion and are you in the sort of transitionary phase where you're really running both systems right now which could be a bit more expensive? But ultimately, you get to an end state that just has higher margins?

Patrick McHugh^ Yes, great question. So let me start with a broader view of iLottery and how it impacts what I think may be part of it. We're finding very consistently when we expand into iLotteries that we see growth in the overall portfolio. A great example is in Pennsylvania, where we launched one of the most successful iLottery programs in the industry, in 2018. That quickly grew to a billion dollars in sales via the iLottery program. In parallel with that, operating the retail lottery systems, we grew that business, from $4 billion to $5 billion by 20%. So over that period of time, the iLottery has gone from $4 billion to $6 billion so it shows the ability to drive that. As we've done a carve-out from our previous structure, we had shared resources across our iCasino and iLottery business. We're much more nimble now and we expect to continue to see efficiencies and economies of scale with just focusing 100% on lottery pureplay. As we scaled the business, we've continued to expect to see margins increase in that area as well. Hopefully that answers your questions.

Andrew Kuske^ That does, that's excellent. I'm going take the second question a different track and maybe, to Cyrus, just on the market environment. You mentioned the refis that you've done and the desire for high yield to go to more quality credits and how that's helped you. More broadly, where are you seeing just sort of better investment opportunities on the debt side, over the toeholds or really equity market dislocations that may exist?

Cyrus Madon^ So what we see are many, many, many companies that continue to be, I'll use the word orphaned in the capital markets from an equity perspective, and some of them are great businesses trading at really good valuations. That's an opportunity there and we found opportunities there before and we continue to look there.

The other side, as I mentioned earlier there are a lot of businesses that are perhaps over levered, perhaps not hitting their full potential in terms of margins and cash flows. Many of them are struggling, in fact, I can't recall the exact number but I recently saw a list with a couple hundred names of different businesses that had very high yielding debt like double digit plus yielding yield to worse. The owners of those businesses are going to need help to delever if they don't have the wherewithal to come up with the capital themselves. So that's really where we're focused today. I would say on stressed, perhaps distressed situations.

Operator^ One moment for our next question. Our next question comes from the line of Jaeme Gloyn with National Bank.

Jaeme Gloyn^ Yes, thanks. Question on SG Lottery. Maybe a couple. First one, I would have thought that iLottery might cannibalize the physical retail and clearly in Pennsylvania the example is it's otherwise. I guess, maybe a little bit of color as to like, why do you think that is and do you think that's maybe just a temporary outcome and eventually it will start to cannibalize physical just a little bit more of your perspective on that dynamic.

Patrick McHugh^ Sure. Great, great question. So I'll cut to the chase and the answer is no, we don't. As you've noted, it doesn't cannibalize and we don’t expect it to in the long-term either we think it's incremental. There's a long history outside the U.S., Europe, in particular with lotteries and selling on the internet for quite a period of time more than a decade, where we've seen those lotteries that introduced internet and mobile sales accelerated faster on the retail sales of lotteries that hadn't. Here in the U.S. where the first states have been live for about seven years, have seen the same dynamic. They've hit record retail sales and outpaced the industry, those lotteries that have launched iLottery, there's a couple reasons for that in our belief.

Number one is broad appeal of the lottery products. We find both in the retail segment and digital. When you expand points of distribution and make it easier to purchase a product, we see increase in sales without cannibalization. Again, that is true at retail and in digital, more than 50% of the adult population places the lottery, broad appeal to a small purchase and expanded distribution makes it easier.

The other piece and I think this is consistent with any consumer product is that when lotteries start reaching out via internet, you get more presence digitally, digital advertising, awareness of the product. So you're not only selling on digital, people see the product at retail, the more depth to buy, because it's top of mind. Many lotteries are still traditional lotteries without an internet presence, they're still doing much of their advertising in traditional markets like TV media and print so they move into the digital world and they continue to expand that presence. So we see this as a long-term dynamic and it's been very consistent for quite some time.

Jaeme Gloyn^ Okay, great. In terms of the growth outlook, you have the letter and your commentary mentioned, the U.K., Vietnam, Brazil and the ramping, once fully ramped should increase EBITDA by 10%. I guess the first question tied to that is like what kind of timeframe does it take to get these operations fully ramped? Then the next part of the question is, are there kinds of toehold positions in those jurisdictions with an opportunity to kind of land and expand? Or how did these new relationships set up those jurisdictions, those regions?

Patrick McHugh^ Yes, great, great question. In established regions, like U.K. and New Zealand, for example, we're going in and just displacing a competitor. Generally, look at a year of implementation and then ramping up over the next year, so it's pretty short term. In greenfield markets, like Brazil it may take a little longer. But again, the option once we roll out is generally over the first couple of years in greenfield market may be slightly longer, but not far off that.

We’ve been very successful especially when we move into a managed service environment with our customers to find incremental growth both for our customers with analytic driven performance gains, and the add on value. So we go into the market, even in an established jurisdiction with a base contract, out of the gate of providing products and services that are add-on top of the base contract. Everything's around it, driving performance for our lottery customer, but also drives economic performance for us adding on top of the base and accelerating, not only increased revenue from the sale of the product, but all of those products increase sales of lottery tickets, and we're in participation contracts.

Jaeme Gloyn^ Just to get a sense as to like the geographic expansion opportunities. Is the U.K. a beachhead into Europe? Is Vietnam a beachhead in Asia, Brazil into LATAM and like or are you well established elsewhere in those in those areas?

Patrick McHugh^ In Europe are well established as a technology provider. We provide systems to 30 lotteries throughout Europe. What's unique about the U.K., not only its size, it's one of the largest lotteries in the world, but we'll be providing the entire ecosystem and it's a services-based contract as well.

In some jurisdictions, we're just providing the technology. In Europe, this is an example of taking the ecosystem putting in game category management, analytics, and other services to drive performance and be incentivized on a percent of sales. It's much like taking the U.S. model that we've been successful with and moving it into the Europe.

In New Zealand, Australia, we have almost no penetration on a technology standpoint. So moving into those markets, moving into Africa, Latin America does pick up significant market share penetration.

Jaeme Gloyn^ Got it. Good. Just switching gears over to Cyrus, just in one of your other answers, you talked about perhaps having that a few things to do before eventual monetization and Clarios. Clarios, obviously still some cost savings initiatives to do and the BRK presentation last investor day that seemed to hint that maybe that was pretty close to a monetization. With the Brazilian stock market doing a little better this year or improving through the beginning of the year, maybe a little bit more color on what things need to be done and how much time you need to execute on that front.

Cyrus Madon^ Look, on BRK we are in the middle of an efficiency program and cost-out program that's still progressing. We think there's another leg up there, as to timing to get all that done. Maybe it's six months, sort of timeline, maybe a year, probably six months. Then as to when it's the right time to sell it, the market there is pretty weak. Now rates are starting to come down. They've just started to come down, we expect them to drop further throughout the year there. That should lead to a recovery in their capital markets and create all sorts of options for us at that time. We're not, in any rush. The business is cash flowing, it's performing well. That's where we stand today.

Operator^ One moment please for next question. Our next question comes from the line of Devin Dodge with BMO Capital Markets.

Devin Dodge^ I want to start with a question on CDK. Anuj, I think you mentioned in your prepared remarks, there's been a lot of progress in terms of improving profitability, and really a short amount of time. Can you talk about where you've seen the most success so far? And what other parts of the value creation plan still need to play out?

Cyrus Madon^ Why don't why don't I start on this one. Look our team has done a terrific job here and the management team has done a terrific job. Number one, just reducing overhead, grabbing low hanging fruit was part of our playbook when we buy a new business. Number two, we're making a lot of progress on offshoring a bunch of services. Number three, they put in place a more logical, go to market strategy, providing better value to their customers where they need this product and service and also putting in place more rational pricing where it makes sense. We can also still provide great value for our customers. So that's sort of been the initial effort at CDK. The on-going effort now is to conduct a technology transformation and really upgrade the technology stack. So the company can provide even better products and services to its customer base.

Devin Dodge^ Okay, excellent. Very good color. Okay. Then just over to Jaspreet. I think in your comments about refinancing. I think one of the ones you talked about was BrandSafway, and we saw that BBU contributed some more capital to reduce leverage and improve flexibility there. I believe we saw something similar at Healthscope earlier this year so just looking forward when you look across the portfolio where do you see the most upcoming refinancings and are you expecting to provide additional equity to facilitate that rollover of debt?

Jaspreet Dehl^ Yes, thanks for the question. So, you're right, we did put some additional capital into BrandSafway to help delever the business and provide it a bit more flexibility. We're seeing really strong kind of growth in that business now over the last few quarters so it's really to support the overall business and help the refinancing as well. At Healthscope, the capital that we put in was very small and again, it helped pay down some of the RCF that was borrowed within the business and just give it a bit more flexibility.

As I'm looking forward, we've got circa 5% of our debt, now maturing in the next 12 months, so it's not a whole lot, and it's very much manageable. Nothing in any of the businesses where we would have to put any capital in. At this point, I'm not anticipating that if we did opportunistically look to refinance something to get pricing, better pricing, push showed maturity that we need to put capital in. Quite frankly, there's not a whole lot that we have to do. This will be more opportunistic, where it helps the capital structure for businesses if we didn't do anything more.

Operator^ Thank you. One moment for our next question. The next question comes from the line of Nik Priebe with CIBC Capital Markets.

Nik Priebe^ Okay, thanks for the question. Just stepping back for a moment, I'd be interested to hear a little bit of color on what you've been hearing from Private LPs in the Brookfield sponsored private equity funds, like some LPs have become over-allocated to the asset class. Are LPs actively asking for capital return or is their primary concern capital preservation? I would just be interested to hear some of that feedback and maybe how that factors in if at all, to the hold versus sell decision making process more generally?

Cyrus Madon^ It's Cyrus here. Why don't I talk a little bit about what we're hearing from North American LPs, and then Anuj maybe you can comment on some of our other LPs around the world. But I would say, nobody's demanding capital back and LPs just don't do that. They understand when they make a commitment, it's for 10-12 years and they fully expect that to play out. The comment they made earlier was in light of the fact that a lot of GPs, want to raise their next fund. And when they go out to have conversations with their LPs, the LPs in North America will say we're already quite allocated fully allocated to LP program. We'd be happy to invest in your next fund but we really need some realizations from you so we can fund your next fund. The conversation is more along that sort of line. It's pretty consistent, I'd say in North America, that message is for all GPs.

Anuj Ranjan^ In North America, while in many cases, they are over allocated, what we're finding in the Middle East and Asia, for example, is they're actually quite active and deploying more capital in this environment. They see it as a good opportunity to get exposure to private equity businesses and the portfolio companies so there's been an uptick there. They are deciding to partner with a lesser number of managers. Instead of having as many managers across a very broad spectrum of investments, they're choosing fewer and fewer GPs to partner with and partnering in a much bigger way with those lesser number of sponsors and GPs and so we're thrilled that we're on the right side of that trend, and we have quite a good relationship with these clients.

Nik Priebe^ Then just my second question. You alluded to the success that you've experienced driving earnings growth at Everise and I'm aware that that's a relatively smaller investment, but I was wondering if you could just expand on the specific initiatives that drove that step change in earnings, and whether those are things that you would or could seek to replicate for some of your larger investments in the technology sector. I'm just trying to understand that investment a little bit better.

Anuj Ranjan^ Yes, absolutely. It's Anuj, and I'll take that. We've owned Everise for about two and a half years, and we've managed to triple EBITDA in that time. It's been a combination of a whole bunch of different efforts that are very similar to what we do in our playbook across the board. One aspect of it was growing its addressable market. How we did that was by doing more what we call near-shoring and offshoring, which is similar to what we've done in CDK. So having centers in markets closer to the Americas, but in, for example, in Latin America with a lower cost, or in Asia, like the Philippines, where we can provide these services that's been a big benefit to the business. We've focused it on the healthcare sector primarily and grown quite a bit by providing more and more different service capabilities to the healthcare sector but focusing on one that was quite resilient. The U.S. healthcare sector has grown and continues to grow, and we've been a beneficiary of that. I'd say by combination of that and a large exercise we had on operational value creation, which is something we've done with many businesses in the past, we could apply to other technology services businesses in the future, paired with some growth, of course, in the underlying markets and in Everise's market share, which we've been able to do quite well.

Operator^ I would now like to hand the call back over to CEO, Cyrus Madon for any closing remarks.

Cyrus Madon^ Thank you everyone for joining us this quarter and we look forward to speaking with you next quarter. Of course in the interim, if you have questions, please do contact Alan Fleming, who heads up our investor relations. Thanks very much.

Operator^ Ladies and gentlemen, this concludes today's conference call and webcast. Thank you for participating, and you may now disconnect.