

## Brookfield Business Partners – Q3 2023 Results Conference Call & Webcast

November 3, 2023

### Corporate Speakers:

- Alan Fleming; Brookfield Business Partners L.P.; Managing Director
- 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:

- 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 the Brookfield Business Partners' Third 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).

Now, I'd 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 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, our Chief Executive Officer; Dennis Turcotte, our Chief Operating Officer and Jaspreet Dehl, our Chief Financial Officer. Cyrus will lead off the call today and provide an update on our strategic initiatives. Dennis will then provide some perspective on the current operating environment and Jaspreet will finish with a review of our financial results. The team will then be available to take your questions.

With that, I'll pass the call over to Cyrus.

**Cyrus Madon**^ Thanks, Alan. Good morning, everyone. Thanks for joining us today. We had a solid third quarter. Adjusted EBITDA increased to a record \$655 million, and our Adjusted EBITDA margin improved to 19% which is up more than 100 basis points compared to a year ago. We're pleased with these results and the continued strength of our business. Our largest operations benefit from stable demand even in an uncertain environment. This means that the volumes and activity levels, for the most part, have held up across our business, and the progress we've achieved on our business improvement plans is contributing to increased margin performance.

While higher rates are challenging for many businesses, a flight to credit quality is continuing to provide us with opportunities to refinance our existing borrowings at reasonable costs. In fact, last month, CDK Global, our dealer software and technology services operation repriced its \$3.6 billion term loan at an all-in cost which was about 50 basis points cheaper than the cost of debt that was replaced. In total, we've refinanced nearly a third of our non-recourse borrowings since the beginning of the year, and we've done so with effectively no increase to our overall cost of debt.

We're also continuing to progress our capital recycling program.

This morning, we received the final regulatory approvals needed to complete the \$8 billion sale of Westinghouse, and we now expect to close the transaction next week. We'll generate about \$1.5 billion of proceeds from the sale of our interest in the business, half of which we'll use to repay the preferred securities we issued to Brookfield Corporation last year. The balance will go towards reducing the borrowings on our bank credit facility.

We also recently reached an agreement to sell a portion of our interest in Everise, our technology-enabled business outsourcing operation. We acquired Everise just over 2 years ago, and we've made substantial progress growing the business and improving margins.

The sale of our interest values the business at just over \$1 billion, which represents 3.5x what we paid for the business just 2 years ago. We'll generate around \$120 million of proceeds for the interest we sold, and will continue to own about 17% of the business alongside a new partner that can support its growth.

Separate from any monetizations and despite higher interest costs, our operations are generating substantial cash flows that we can reinvest to support growth or use to deleverage.

To put this in context, Clarios, our advanced energy storage operations, is generating more than \$500 million of free cash flow each year and that's after investing in new capacity to support the growth of its advanced battery operations. While this cash could be distributed to BBU and our partners, the business has been deleveraging and during the quarter, it paid down an additional \$700 million of debt. As a result, net leverage of the business has come down to around 4.5x EBITDA compared to 6.5x when we acquired it.

Stepping back, BBU is a very valuable business today. Yet despite the progress we've achieved, the trading performance of our units on any relevant metric is materially disconnected from value. To put this in context, today, we're trading at less than 8x annual Adjusted EBITDA - and a significant discount to the broader S&P 500 that's trading at 13x, businesses that generate similar margins to ours are trading closer to 15x.

The discount on the trading performance of our units and shares matters greatly to us because we know it matters to each of you. We are committed to doing everything we can to continue enhancing the value of our business, including continuing our buy-back program, which is highly accretive to value at current prices.

With that, I'm going to hand it over to Denis, who will give you an update on our business operations.

**Denis Turcotte**^ Thanks, Cyrus, and good morning, everyone.

Our operations span across North America, Brazil, Europe and Asia Pacific and touch nearly every facet of the global economy. This provides us with a unique perspective in being able to monitor, and more importantly, respond to changes in the global operating environment.

Given that context, I thought I'd spend a few minutes talking about some of the themes we're seeing in the operating environment today and highlight a few examples of the progress we've achieved within our businesses this year.

While certain regions and sectors continue to have challenges, the operating environment is improving. We continue to see many of the inputs that form the majority of our cost of delivery - including raw material prices and transportation and logistics costs, resetting toward long-term trend levels with time. Some of this has already occurred, with steel prices, as an example, down close to 25% from peak levels earlier this year. Global container rates have also normalized to pre-COVID levels, making international shipping options, both land and sea, more favorable. However, in certain areas we are still seeing elevated supply constraints and higher associated costs of delivery that have been slower to normalize. In these situations, we have been focused on diversifying our supplier networks and leveraging our scale to optimize our delivery costs.

Global labor markets remain tight. Unemployment levels in major economies continue to trend near historical lows and attrition rates at a number of our operations are still above targeted levels. While wage rates are stabilizing, we're continuing to see shortages of skilled labor in certain situations. In order to manage these impacts, we have put more emphasis on ensuring we have strong management teams in place across all our

operations with the right requisite organizational structures and compensation arrangements to both attract and retain key talent.

Similarly, the cost and availability of energy, particularly in Europe remains a significant area of focus for us. So far, energy costs broadly have remained more manageable than we anticipated at the onset of the year, but we are closely monitoring and actively managing risks that could arise given the heightened geopolitical tensions globally.

As many of you know, we have a team of operating professionals - many of whom have deep industry and functional expertise - working closely with the management teams at each of our businesses. In this environment, our hands-on collaborative approach to value creation has continued to be an important differentiator for our business.

A great example of this in practice is at Clarios, our advanced energy storage operations, which is on track to deliver record calendar year results despite managing through the ongoing impacts of inflationary headwinds and the disruption from a labor strike earlier in the year at one of its largest U.S. production facilities.

We've been working with the management team to execute on a wide range of initiatives to enhance its U.S. operations by optimizing its transportation network and leveraging its global supply chain to drive performance and productivity improvements. In addition, accelerating demand for higher margin advanced batteries continues to position Clarios at the forefront of automotive electrification trends, and we continue to invest in capacity to serve these rapidly growing advanced battery needs. Importantly, these advanced battery solutions still only represent approximately 15% of the business' much larger and more profitable aftermarket business - as natural replacements in the aftermarket are only now beginning to catch up with "first-fit" sales into the OEM channel.

We're also continuing to make great progress at DexKo, our engineered component manufacturing operation, working alongside management on similar initiatives to optimize performance and support profitability. While volumes have declined, primarily in more consumer oriented North American segments of the market, margins have continued to improve.

The business is focused on initiatives to optimize its manufacturing footprint, improve productivity, and leverage its purchasing and data analytics to enhance its procurement strategy commensurate with the size and scale of its global operations. Synergies from the integration of recent add-on acquisitions are also progressing ahead of plan as management executes facility rationalization and commercial actions to improve customer service levels.

Lastly, at Altera, our offshore oil services business, the outlook has meaningfully improved since it emerged from a comprehensive restructuring at the beginning of this year. Over the last few years, we have worked closely with the management team at Altera to reorganize and improve its in-house capabilities required to successfully execute on the redeployment of its Floating Production Storage and Offloading vessels, commonly referred to as FPSOs.

On the back of improving industry sentiment and higher customer activity levels, the business recently finalized two customer approvals for the long-term redeployment of the Knarr and Voyageur FPSOs onto new field developments. In both cases, the respective customers are funding substantially all of the incremental capital required to effect the redeployments - this is a welcome development in the business model which moves to a more appropriate balance with our customers, reducing Altera's capital investment requirements and associated risks. Each of these marks a major milestone for the business and provides increased certainty to long-term earnings and cash flows, forecasted to be in excess of \$750 million in aggregate over the firm contract periods covering these two assets. If the option on the Knarr is exercised, cash flows will exceed these levels.

With that, I'll hand it over to Jaspreet, who will provide an update on our financial performance during the quarter.

**Jaspreet Dehl**^ Thanks, Denis, and good morning, everyone.

Adjusted EFO for the third quarter was \$288 million, and includes the impact of higher interest expense and higher current tax expenses relative to last year as well as net gains related to the sale of public securities and the majority of our automotive aftermarket parts remanufacturing operation. Excluding gains, Adjusted EFO for the quarter was \$218 million.

Adjusted EBITDA for the third quarter was \$655 million, an increase of 7% over the prior year, supported by resilient performance of operations on a same store basis.

Looking at our segment performance - Infrastructure Services generated third quarter Adjusted EBITDA of \$228 million which increased from \$205 million last year. Results benefited from improved performance at our work access services operation and resilient performance at our modular building leasing services operation.

Moving to our Industrials segment, Adjusted EBITDA for the third quarter was \$218 million compared to \$228 million last year. Strong performance at our advanced energy storage operations and increased contribution at our engineered components manufacturing operation, both of which Denis just touched on, were offset by lower contributions from graphite electrode operations and our Western Canadian energy related operations.

Finally, our Business Services segment generated third quarter Adjusted EBITDA of \$238 million which increased from \$213 million last year. Strong results at our residential mortgage insurer and dealer software and technology services contributed to the increased performance. Contribution from our construction operations was lower during the quarter compared to prior year and performance at our road fuels operations in the U.K. was lower due to lower volumes and pricing.

Before I wrap up, I wanted to spend a couple of minutes talking about our balance sheet.

We have no significant near-term maturities and, with the majority of our refinancing needs behind us, we have flexibility to continue to opportunistically manage our maturities over the next few years. Only about 7% of our non-recourse borrowings are coming due in the next 12 months and nearly a third of these borrowings are related to Westinghouse, which we will have off our books within the next week. The remaining debt outstanding is primarily related to businesses where refinancings are part of the normal course of operations as well as other smaller refinancings, which can be readily managed.

We are continuing to take a balanced approach to capital allocation. Our near-term focus is to reduce the borrowings on our corporate credit facility, which we have drawn to bridge the funding of our considerable growth activities over the past year. Proceeds generated from the sale of Westinghouse will meaningfully advance these efforts and lower our overall borrowing costs.

With that, I'd like to close 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. Congrats on getting the regulatory approvals on the Westinghouse transaction. Cyrus - you mentioned 50% going to repaying Brookfield Corporation preferred securities and the other 50% on corporate debt. Just wondering if you've given any other capital allocation considerations, either greater or faster buybacks or an SIB just given the wide discount to NAV.

**Cyrus Madon**^ Yes. Look, we have been buying our shares back. We're going to continue doing that as part of our normal course issuer bid, and we haven't given any consideration at this time to doing anything else.

**Jaspreet Dehl**^ Gary, if I just can add - last year, we bought back about 2.5 million units. This quarter, we bought back an additional about 55,000 units under the NCIB. So that program is active, and we will continue to buy back.

**Gary Ho**^ Okay. Jaspreet while I have you here - if you take the \$1.5 billion proceeds that reduces your debt by roughly 40-45% on the corporate debt side. Has your view changed on not carrying any corporate debt and should we continue to see that balance grind down over time from future monetizations or distributions?

**Jaspreet Dehl**^ Yes. So our long-term goal continues to be that we do not have any permanent corporate debt at the BBU level. You've seen over the last year that we sold a number of our smaller operations, the cash that's being generated, we're using it for paying down the debt, and that continues to be the focus. So that view hasn't changed.

**Gary Ho**^ Okay. Then my next question, maybe for Denis. On the Clarios side, I have two questions there. One - wondering if you've seen any impact from the UAW strike over the past month and a half? Two - can you remind us the percentage of workers that are unionized there? Any risk on that front?

**Denis Turcotte**^ As I mentioned in my comments, we had a strike at our Toledo plant. It was fairly short, and frankly, more a function of miscommunication on certain issues than anything. Management did a great job getting through that. It had an impact on battery production, so in an ironic way, the strike in the automotive sector really gives us an opportunity to get our supply chain back at the inventory levels we'd like to have, to make sure our service levels don't suffer. So far, nothing really material has impacted us, and it's allowed us to catch up on the business.

**Gary Ho**^ Okay. Then as a follow-up, good deleveraging efforts on the Clarios front, leverage down to 4.5 turns. What do you think you'll need to get to before there's market appetite for an IPO there?

**Cyrus Madon**^ Look, once we get to something that is around the 4x range, ourselves, then we don't need to raise much money in order to get the leverage into something that's in the threes and that's probably a level that's would be quite acceptable to the market and to investors given the strength of this business.

Of course, with the proviso that the company would then have an objective to further delever as a public company. But that's probably the range at which investors would have an appetite - probably a strong appetite at that level.

**Jaspreet Dehl**^ Yes- and the deleveraging – Gary - is going to come through both continuing to pay down debt, but also continuing to enhance EBITDA.

**Operator**^ Thank you. Our next question comes from the line of Nik Priebe with CIBC Capital Markets.

**Nik Priebe**^ Just a quick question on the Clarios EBITDA contribution in the quarter. It looks like it was up by healthy magnitude sequentially and year-over-year. Was there anything one-time in nature there? Any add-on acquisitions contributing? Or is that just purely a product of organic growth in that business? I just want to drill into that headline earnings figure a little bit.

**Denis Turcotte**^ Yes. That's fundamentally organic growth, and it ends up being a fairly strong quarter for us.

**Nik Priebe**^ Got it. Okay. That's good. Then just a point of clarification on the Everise sale. Just wondering if you could provide a little bit of colour on why, in that situation you opted to sell a portion of the business as opposed to a full sale?

**Cyrus Madon**^ Look, we had a party that was very interested in the business, and we considered all the alternatives available to us, and we thought we could take our money off the table and then some. We are actually going to realize twice the capital we invested, and we still get to ride half the upside on the business. So we thought from a capital allocation and risk management perspective, it's a very good outcome and obviously, it's a very healthy and very strong return for us in a short period of time, and we continue to be able to participate in the upside of the business.

**Nik Priebe**^ Yes. Okay. Then one quick follow-on. Just on the partial sale, I think you referenced a 3.5x MOC in the note, whereas the letter to shareholders, I think there was a reference to proceeds equivalent to 2x the initial capital investment. Is the difference between the 3.5x and the 2x multiples - just the fact that it's a partial sale?

**Jaspreet Dehl**^ Yes. That's exactly right. On a cash basis, we'll have 2x the initial equity that we put in - come back out of the business and on the unrealized value of the 17% that we continue to hold - it makes up the difference from the 2x to the 3.5x MOC.

**Operator**^ Our next question comes from the line of Jaeme Gloyn with National Bank.

**Jaeme Gloyn**^ Thanks. Just wanted to get a little bit more color on the use of the proceeds from the Westinghouse sale with half going to the BAM preferred securities and half going to corporate. What's the BAM perspective here on taking in half of that exposure? Are there changes in how they're thinking about financing the BBU investment here at the preferred level? Maybe a little bit more color as to how that decision came about?

**Cyrus Madon**^ Why don't I start - Jaspreet can add on any comments if she has any. Look BAM, and Brookfield Corporation to be specific, are very supportive of BBU. We needed capital to continue growing at a point in time where we saw some incredible opportunities but didn't have the long-term capital in place. So what they agreed to do was to subscribe for these preferred securities, which only come due on the sale of one of our businesses so if we didn't sell anything, we didn't have a maturity wall in front of us. So extremely favourable from a BBU perspective.

Given the sale of Westinghouse now, contractually, BN, or Brookfield Corporation now has the right to be fully redeemed. But in order to provide BBU with continued capital flexibility and liquidity to do other things, what they've agreed is to retain half of it and have half of it effectively repaid. So that's where we've landed.

**Jaeme Gloyn**^ Is the view that on a potential attractive acquisition, they stand ready to readvance that amount or did the total capacity shrink with this repayment?

**Cyrus Madon**^ Well, look, I would put it this way - Brookfield Corporation is a very supportive shareholder and I don't think that's going to change. Our objective at BBU is to have it stand on its own two feet over time. I think that's better for all sorts of reasons. But Brookfield Corporation will be a very supportive shareholder.

**Jaeme Gloyn**^ Okay. Great. Secondly, just going to the Clarios business - very, very strong results here. Is there anything more nuanced than just a little bit of favourable mix shift to the more profitable advanced batteries that would have driven such a large result. and is this a base for Q3 that we should be thinking about going forward? A little more on that please.

**Cyrus Madon**^ Denis - you want to answer that?

**Denis Turcotte**^ I'm sorry, can you repeat the question?

**Jaeme Gloyn**^ Yes, sure. It's just on the Clarios quarter, which was really strong. I was curious if there was anything more nuanced than a favorable mix shift to the higher profit advanced batteries and whether this level of profit is something we can use as a base going forward for Q3, or was there some other factors that may pull forward or something along those lines? Anything nuanced in there we should be thinking about or is this a good base?

**Denis Turcotte**^ Look, no nuances, just phenomenal performance. This management team is really getting their stride and getting this business running at a record level. I guess we don't provide forward guidance, but I'm expecting the business to do better next year than it did this year and more importantly, the management team is highly confident that is what's going to happen.

**Jaeme Gloyn**^ Okay. Good to hear. Last one - actually, just going back to asset sales. It seems like there's been a few smaller ones, I guess, maybe not big enough to mention or to disclose directly. Should we expect to see that kind of activity continue where you're generating a couple of smaller deals? Like how many are left to sell that can generate some additional gains. It looks like pretty substantial gains in this quarter from those small sales but how should we think about that going forward?

**Cyrus Madon**^ Look, we have a handful of smaller businesses. We still have a small handful at this point left, and you should expect us over time to sell those. Then, of course, as capital markets improve and capital market conditions improve, we will start selling some of the larger businesses as well. But selling the smaller businesses is something we have been focused on.

For a couple of reasons: a) it gives us capital makes - Jaspreet happy, and b) it lets us focus our time and attention on the much larger businesses we have, where we can really drive value improvement for BBU.

**Operator**^ Thank you. I show no further questions. So with that, I'll hand the call back over to CEO, Cyrus Madon for any closing remarks.

**Cyrus Madon**^ Thank you very much for joining us this quarter, and we look forward to talking to you next quarter.

**Operator**^ Ladies and gentlemen, thank you for participating. This concludes today's program, and you may now disconnect.