

**Brookfield Business Partners – Q1 2024 Results Conference Call & Webcast**

**May 3, 2024**

**Corporate Speakers:**

- Anuj Ranjan, Brookfield Business Partners L.P.; CEO
- Jaspreet Dehl, Brookfield Business Partners L.P.; CFO
- Adrian Letts, Brookfield Business Partners L.P.; Managing Partner
- Alan Fleming, Brookfield Business Partners L.P.; Managing Director

**Participants:**

- Geoff Kwan; RBC Capital Markets, Research Division; Analyst
- Gary Ho; Desjardins Securities Inc., Research Division; Analyst
- Devin Dodge; BMO Capital Markets, Research Division; Analyst
- Nik Priebe, CIBC Capital Markets, Research Division; Analyst

**PRESENTATION**

**Operator**^ Welcome to the Brookfield Business Partners' First Quarter 2024 Results Conference Call and Webcast. As a reminder, all participants are in listen-only mode and the conference is being recorded. After the presentation, there will be a question and answer session (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.

We'll begin the call today with an update on our business and initiatives from Anuj Ranjan, our Chief Executive Officer. Anuj will then turn the call over to Adrian Letts, Managing Partner on our Business Operations team, who will share some perspective on our value creation initiatives and progress at DexKo. We'll end the call with Jaspreet Dehl, our Chief Financial Officer, discussing our financial results for the quarter. The team will then be available to take your questions.

I'd like to now pass the call over to Anuj.

**Anuj Ranjan**^ Thanks Alan, and good morning. Thank you all for joining us on the call today.

We had a good start to the year. Adjusted EBITDA was \$544 million, and our overall Adjusted EBITDA margin increased from 19% to over 20% for the quarter. We're pleased with these results and the continued performance of our largest and highest-quality operations which are contributing to our resilient earnings.

Apart from our financial results, we're continuing to make good progress on our capital recycling initiatives. Since the start of the year, we've generated about \$300 million of proceeds through both distributions from our operations and agreements we reached to sell two of our smaller businesses. We have now monetized a total of 20 businesses since taking BBU public, and generated about \$6 billion of proceeds from these sales,

realizing a 3x average multiple on those investments and a composite IRR of over 30%. These strong returns clearly demonstrate our track record of building real intrinsic value in our businesses.

As you're aware, it's been an eventful few months in the global capital markets. Markets still seem to be functioning well, but sticky inflation and increased geopolitical tensions have contributed to more volatility. That being said, activity levels seem to be picking up.

At BBU we continue to be able to refinance our operations and have favorable access to capital. Just last month, at BrandSafway, our work access services operation, we completed the repricing of a \$1.3 billion term loan and ultimately reduced the interest rate spread on the debt by 100 basis points, saving us \$13 million annually. Strong demand also allowed us to upsize the offering by \$150 million. In some cases, we've been able to prudently upfinance borrowings to fund distributions, which we did in our Canadian entertainment operation during the quarter and expect to see more opportunities like these as the earnings of our largest operations continue to increase.

Stepping back, our global presence and the types of businesses we own give us a very unique vantage point to stay on top of emerging opportunities across the world. The biggest of these today seems to be the rapid rise of artificial intelligence, or AI.

What we've been doing over the last few years is exploring where machine learning can benefit our business, experimenting with ideas and building capabilities. We created an AI Value Creation Office comprised of leaders across the organization with the purpose of leveraging the best ideas and the scale of the broader Brookfield ecosystem to build real value in our business.

It's early days, but the number of ways we're using AI across our operations are tangible and growing. To give you a few examples, our dealer software and technology services operation recently launched an AI virtual assistant tool that uses machine learning, natural language processing and generative AI to automate certain tasks for its customers. Other operations are exploring more opportunities to automate processes that improve efficiencies, such as our lottery services business, which is using AI tools to draft responses to new customer proposals. Our residential mortgage insurer, on the other hand, is developing predictive models based on decades of proprietary housing data to help it assess risk and adjust underwriting criteria.

The pace of change being driven by AI is also giving rise to new risks and our primary goal is to ensure we are identifying those areas and factoring the risk of disruption into everything we do. Over time, the integration of AI as a productivity tool is likely to enhance virtually every aspect of our business and our job is to stay on top of it. But what AI is unlikely to do is replace the human judgement that underpins our investment philosophy.

I now want to pass the call over to Adrian Letts. Adrian joined us about two years ago as a senior leader on our Business Operations team and has been working closely with Denis looking after the global operations of our business. We're excited to have him on the call today and to give some perspective on our value creation plans.

**Adrian Letts**^ Thanks so much for the introduction, Anuj, and good morning everybody.

It's a pleasure to be joining you on the call today. I thought I'd spend some time talking about key areas we're focused on to drive value creation across our businesses. And specifically touch on a few value drivers at our engineered components manufacturer, DexKo, which is one of the larger businesses in our Industrials segment.

As many of you know, we have a dedicated team of operating professionals around the globe with a full range of backgrounds, functional expertise, and industry knowledge. Many of these people are senior executives who are experienced in repositioning and running businesses. Each of them is on the ground working closely with management teams to execute operational improvement plans, drive business performance, and unlock value.

What's interesting is that while our businesses operate across very different sectors and regions around the world, there tend to be a lot of similarities in the levers we're pulling to drive value creation. In almost all cases, we're consistently focused on the same four or five key things. These include:

- Ensuring we have the right management team in place;
- Getting the operating model right;
- Optimizing supply chain and procurement;
- Improving the cost structure; and
- Focusing on pricing and commercial execution to drive growth.

Priority areas may change from business to business, but having a clear framework supports our ability to drive repeatable outcomes across our operations. As I mentioned before, a great example of this in practice is at DexKo, our engineered components manufacturer.

DexKo is a leading manufacturer and distributor of engineered components for industrial trailers and a broad range of towable-equipment providers. The company offers a broad portfolio of axle assemblies, hydraulic components, chassis, towbars, and aftermarket parts that are critical to a diverse set of end markets. It sells its products to OEMs, global distributors, as well as directly to customers through its own distribution network. For decades, DexKo has been providing best-in-class service driven by the ability to deliver quality, performance, and on-time delivery.

When we acquired the business in 2021, we saw an opportunity to leverage our operational expertise to build value across three main areas, which included improving manufacturing efficiency, enhancing the supply chain, and optimizing integration with recent acquisitions.

We've achieved significant progress across all three of these pillars. The business has completed 16 add-on acquisitions across North America and Europe, of which three were completed just this quarter. These acquisitions have materially grown the distribution network, expanded the business' presence in growing markets such as towbar and hydraulics and we have created value through synergies achieved by integrating the businesses into the DexKo platform. DexKo has consistently improved margins year-over-year as it has continued to deliver on operational efficiencies and driven a positive relationship between commercial pricing and material cost.

Today, we are seeing elevated customer inventory levels following a period of reduced demand post the COVID pandemic, resulting in softness in end markets in which the business operates. Despite this challenging environment, the business continues to execute exceptionally well. DexKo's broad diversification across end markets, global footprint and variable cost structure have supported a resilient performance. Internationally, performance in the growing towbar, hydraulics and electronics business is also contributing to results.

Looking forward, DexKo continues to make strategic add-on acquisitions to expand its own distribution network, as well as expand its ecommerce offerings and portfolio of products. As customer inventory levels return to normalized levels, the profitability of the business should recover supported by DexKo's strong brand recognition, industry-leading products, and unmatched customer delivery and service model. In

addition, DexKo's highly variable cost structure is conducive to meaningfully positive operating leverage as the economic backdrop improves and key end markets return to constructive, long-term growth.

With that, I'll hand it over to Jaspreet for a review of our financial performance.

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

First quarter Adjusted EBITDA was \$544 million compared to \$622 million in the prior period. Excluding contribution from our nuclear technology services operation, as well as some of the other smaller operations that we sold last year, prior year Adjusted EBITDA was \$548 million. Adjusted EFO of \$331 million this quarter included \$62 million of net gains primarily related to the sale of public securities in our Industrials segment.

Turning to our segment performance, our Industrials segment generated first quarter Adjusted EBITDA of \$228 million which increased compared to \$219 million in 2023. Strong performance at our advanced energy storage operation driven by increased volumes and sales of higher margin advanced batteries was partially offset by reduced contribution from our engineered components manufacturing operation given lower volumes, as Adrian just discussed. Adjusted EFO increased to \$180 million and included approximately \$47 million of net gains during the quarter.

Moving to Business Services, the segment generated first quarter Adjusted EBITDA of \$205 million. Results benefited from increased contribution from our dealer software and technology services operation and continued strong performance at our residential mortgage insurer. This was partially offset by underperformance at our construction operation where we recognized additional costs primarily due to weather-related construction delays at one project in Australia. This project is expected to be completed by mid-year this year.

Finally, our Infrastructure Services segment generated first quarter Adjusted EBITDA of \$143 million compared to \$225 million during the same quarter last year. Last year included \$75 million of contribution from our nuclear technology services operation which we sold in November 2023. Resilient performance of work access services and lottery services was offset by reduced contribution from offshore oil services due to lower fleet utilization from our shuttle tanker operation.

Turning to our balance sheet, we ended the quarter with approximately \$1.6 billion of liquidity at the corporate level and have no significant debt maturities coming due over the next twelve months. This provides us with flexibility as we continue to optimize our balance sheet and grow the business.

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, Desjardins Capital Markets.

**Gary Ho**^ Thanks, good morning. A couple of questions just on your larger investments. Starting off with Clarios, very strong results there. Can you provide a bit more color on the strength, and sustainability of that? I think in your letter to the shareholders you mentioned other options that you can generate proceeds in addition to an IPO route. Maybe just walk us through your process there.

**Jaspreet Dehl**^ Hi Gary, it's Jaspreet. Maybe I can start off and just talk to business performance and then hand it over to Anuj to talk about options and monetization. As you are aware, we bought Clarios in 2019,

so it's been 4 years now. When we bought the business, it was generating \$1.6 billion of EBITDA and we've been very focused on improving the business, as well as growing that EBITDA.

We are now approaching \$2 billion EBITDA for the business, and we continue to see opportunities for step change improvement in the business. If you look back at the quarter over quarter financial performance of the business, it has improved consistently over the last number of quarters. Look, we're very pleased with the overall performance. The business continues to generate a lot of free cash flow, and we're focused on deleveraging continuously as well.

**Anuj Ranjan**^ It's Anuj here. The performance has been so strong, especially in light of the shift to AGM and some of the additional market share we're acquiring in a higher, more profitable segment. We now have multiple options in front of us. Whether it's a partial share, a dividend recapitalization, or a public listing, all are on the table. The business is performing very well, so there's no rush for us to suboptimize with that choice. As a result, there's no specific timeline, and we're going to seek to maximize value.

**Gary Ho**^ Ok great, and then the other one I wanted to chat a little about is CDK. That story's playing out nicely. I know you've owned this for around two years and quite a bit ahead of your schedule in terms of turning around that business. Can you elaborate what innings you're in in your value creation progress and what are the monetization strategies with that one?

**Jaspreet Dehl**^ Sure, again I can start and then Anuj or Adrian can add in. I think we've talked about CDK. When we bought that business, we identified an opportunity to improve margins by 1,000 basis points and we've executed on that. Our plan was to do that over a 3-year period and we've executed on all of that in about 18 months, so as you said, well ahead of plan.

The business is performing very well. We've sold a non-core part of the business last year at a very strong multiple, and we've carved-out another part of the business which services the light vehicle/recreational vehicle industry and that business is being run on a stand-alone basis and will be a huge value creation lever for us in addition to the core business.

There are additional levers within the business. On the auto dealers' side, there is a lot of focus today on upgrading the technology stack in the business. The team recently rolled out some AI capability, Anuj touched on this earlier. We continue to enhance the product and the business continues to perform exceptionally well, we do want to make sure that we've completed that technology enhancement as we pivot towards monetization. As you well know, everything is on sale for the right price, so we will be looking at all options at the right time.

**Anuj Ranjan**^ Yeah, I think that was great, thanks Jaspreet. Just to add, in addition to enhancing EBITDA margins which hit 47% this quarter up from 33% at acquisition, as Jaspreet said, the business is also growing on a topline basis quite well with recurring revenues up significantly and continuing to grow as we focus the business on more profitable revenue streams. I would just say that we're still in the early stages of this business. There's a lot of growth and a lot of opportunity left and again, we're in no rush.

**Gary Ho**^ The Multiplex cost overrun, are you able to quantify that? I'm assuming that's more one time as the project is nearing completion. Is that correct?

**Anuj Ranjan**^ Yes, look just to step back a little bit on Multiplex. Overall, it's been performing well. We've changed management several years ago, focused the business on specific markets and projects which meet our governance and contractual standards and that improved the overall performance. Construction as an industry always has some variability. One project in Australia in particular which has otherwise been a great

market for us has suffered primarily from delays as a result of two very rare weather-related events in a short period of time.

We're focused on this project and staying close to it. Some time ago we recognized the challenges that weather events can have. We've changed our contracts going forward to reflect this risk, we're much better protected against similar issues in future projects.

**Operator**^ Thank you. Our next question comes from the line of Devin Dodge with BMO Capital Markets.

**Devin Dodge**^ Good morning. I wanted to come back to Clarios. Jaspreet, as you mentioned, EBITDA I think it's close to that \$2 billion figure if not, even maybe a bit above that. What do you see as the biggest opportunity to drive earnings growth from current levels and are there any updated targets for the earnings power of that business that you can talk about publicly?

**Jaspreet Dehl**^ We're not going to talk about earnings targets, but we have spoken about when we bought the business we had \$400 million operational improvement target and I think last year in our Q4 discussion we talked about being about two thirds of the way through on that, execution of that improvement target, and that continues to progress well so we'll continue to see upside there.

In addition to that, there's a number of other levers within the business. The biggest one I'd say that's a huge value driver for the business is that transition towards the AGM battery. As you know, the AGM batteries are twice as profitable for the business as the traditional SLI batteries. And what we've been seeing in the last number of years is that more and more of the overall sales volume pivoting towards AGM batteries.

Today, for this quarter, about 30% of our sales were for AGM and that number would have been single digits when we bought the business. We're continuing to see that because the sales in the OEM channel of AGM is significantly higher, closer to 60-70%. As we're selling into AGM in the OEM channel, that will translate into aftermarket sales for the business. That is going to continue to drive profitability and then you know there are regions where the business continues to grow as well. I'd say a number of levers. The car parc is at \$1.3 to \$1.4 billion and continues to grow, so just a lot of tailwinds for the business.

**Devin Dodge**^ Ok, thanks for that, Jaspreet. Maybe just switching over to BrandSafway. There's been a lot of effort and progress in solidifying the capital structure of that business. Do you think this investment could be at, or near a turning point? Just wondering what you're seeing in terms of demand in the order book and just the stronger financial position of the business to restart or get more active on its rollup strategy.

**Jaspreet Dehl**^ As you know, the business went through a difficult time over COVID just given the underlying characteristics of the business. It's very labor intensive, but we've seen significant turnaround in the business that I think we're up about 40-45% from trough levels. We've seen consecutive quarter over quarter EBITDA improvement in the business and the cash flow profile continues to improve. On the back of that, we were able to do a repricing of the debt that we had put into the business last year. We were able to compress the spread of the debt by 100 basis points. That will save about \$13 million annually in interest expense for the business.

The relative underlining performance of the business has significantly improved. If you look at what's driving that improvement, a lot of that improvement is driven by pricing actions that we've been able to take and just better commercial go-to-market for the business. As well as a lot of SG&A and cost initiatives that we've undertaken.

The two primary end markets that BrandSafway services is industrial and commercial, more on the commercial real estate side. On the industrial side, we've seen improvements in the business. There are opportunities in new industries like data centers, EVs, semiconductors, so on that side of the business, we see growth, and we see quite a lot of opportunity.

The commercial side on the top line has been a bit slower to recover, but we've pivoted the business towards higher growth regions and we're starting to see some stability there. Look, I'd say all in all, we're pretty pleased with where the business is today and being able to reprice the debt and compress the spread as much as we did. I think out of 150 refinancings that were in the market, there must have been 2 or 3 that we were able to compress the spread as much as we did at BrandSafway, so that definitely speaks to the improvement and some of the resiliency as seen in the business.

**Devin Dodge**^ Ok, good color, I'll turn it over. Thank you.

**Operator**^ Thank you. Our next question comes from the line of Geoff Kwan with RBC Capital Markets.

**Geoff Kwan**^ Hi, good morning. You've been reasonably active monetizing some of your smaller legacy assets. Just wondering if that's something you're planning to continue to do when you take a look at the portfolio, and how many assets would you still have that fit in the category of kind of smaller legacy assets and how much of the capital would be represented by these types of investments?

**Anuj Ranjan**^ Thanks. It's Anuj here. I'll start and Jaspreet or others can jump in. Yes, we've been monetizing some of our businesses as you saw, and you know we've been very pleased with the monetization rate recently and of course from the inception of BBU. We have about 23 businesses total in the portfolio but five make up the vast majority of our earnings. From time to time where we can recycle capital, and have better uses for that capital, where we fully realized our value creation plans within some of those smaller businesses, we'll definitely continue to monetize going forward.

The capital markets have improved, the credit markets have improved and overall, I'd say the environment is more conducive to seeing more monetizations and realizations in the near and medium term.

**Geoff Kwan**^ Ok my other question was on Healthscope. What is the prospect of seeing material improvements in there? Is that just a more of a tougher environment in the near term and hopefully things improve towards the end of the year, or 2025 or what are the kind of drivers or what are some of the catalysts that are needed to see improvement in financial performance there?

**Adrian Letts**^ Thanks for the question. It's Adrian speaking. I think the first thing to say is we genuinely continue to believe Healthscope is a good story over the longer term. It's critical infrastructure and very important to the dynamics of the Australian economy. But you're absolutely right in the short term, there are challenges and we remain very focused on executing our improvement plan and working together with the board of stakeholders to create a more sustainable operating environment. I think that will take a little bit of time to your point, but we remain confident.

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

**Nik Priebe**^ Just going back to CDK. Adjusted EBITDA, at least the reported figure which reflects BBU's share, was up almost 30% but part of that was related to the organic growth and part of it was related to, or at least attributed to an increase in your economic ownership. Are you able to just breakdown or say what EBITDA growth would have been organically on a 100% basis excluding the impact of your increased ownership percentage? I'm just trying to get a sense of what the recent organic growth trajectory has been in that business.

**Jaspreet Dehl**^ Sure Nik. The impact of the ownership change in the business, we went from 20% ownership to 26%, so you could back into the math, but I'd say about \$10-15 million.

**Nik Priebe**^ Got it, that's very helpful. Then just turning to Clarios, it's been three consecutively strong quarters in terms of the earnings contributions from that business. Obviously that helps accelerate the deleveraging objective by growing the denominator of that ratio. You know the goal to get to 4x but where would the leverage ratio of Clario hit today on an LTM basis?

**Jaspreet Dehl**^ It'll be just around 4x. 4x to 4.1x, right around there.

**Operator**^ Thank you. And I'm shown no further questions, so with that, I'll hand the call back over to CEO Anuj Ranjan for any closing remarks.

**Anuj Ranjan**^ Thank you and thank you all for joining. We look forward to speaking again next quarter.

**Operator**^ Thank you for participating. This does conclude today's program, and you may now disconnect.