

## Brookfield Business Partners – Q2 2024 Results Conference Call & Webcast

August 2, 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
- Paul Lepage, Brookfield Business Partners L.P., Managing Director
- Alan Fleming, Brookfield Business Partners L.P.; Managing Director

### Participants:

- Geoff Kwan; RBC Capital Markets, Research Division; Analyst
- Devin Dodge; BMO Capital Markets, Research Division; Analyst
- Gary Ho; Desjardins Securities Inc., Research Division; Analyst
- Jaeme Gloyn; National Bank Financial, Research Division; Analyst
- Dimitry Khmelnitsky; Veritas Investment Research Corp.; Analyst
- Nik Priebe, CIBC Capital Markets, Research Division; Analyst

## PRESENTATION

**Operator**^ Welcome to the Brookfield Business Partners' Second 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 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 will be available on our website.

We'll begin the call today with a business update from Anuj Ranjan, our Chief Executive Officer. Anuj will then turn the call over to Paul Lepage, a Managing Director on our Business Operations team who will discuss our approach to managing cybersecurity risk and the incident response at CDK Global, our dealer software and technology services operation. We'll end the call with Jaspreet Dehl, our Chief Financial Officer discussing our financial results for the quarter. Adrian Letts, a Managing Partner and senior leader on our Business Operations team is also joining us on the call this morning. After we finish our prepared remarks, the team will be available to take your questions.

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

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

Through the first half of the year, we've made great progress on a number of fronts to build value in our business. Our financial results were strong, but were impacted by a couple of one-time events in our operations. This includes a cybersecurity incident at CDK Global, our dealer software and technology services operation and increased costs on a project nearing completion at our construction operation. That being said, we continue to progress our value creation initiatives across the business, which should be captured in earnings as these one-time events pass.

Paul is going to speak a bit more about the incident response at CDK later in the call, but I would like to take this moment to commend the CDK team for their quick and successful handling of the situation, and their ongoing commitment to support their customers.

Stepping back, our business fundamentals are sound. While the global operating environment continues to be fluid, activity levels across our operations remain stable and the progress we're making on our value-creation plans is contributing to our underlying margin performance. Simply put, we think owning high-quality businesses that are mission critical providers of essential products and services and having the deep operational capabilities to run them better is a real advantage in any environment.

Another key differentiator for our franchise is our strong access to capital, which has enabled us to opportunistically manage our maturities. Over the past few months, we've refinanced more than \$11 billion of debt in our operations and reduced the spread of these borrowings by an average of 50 basis points. Going forward, this will reduce our annual interest expense by approximately \$15 million and we'll stand to benefit even further as rates decline.

In addition, we've been focused on monetizing our more mature operations. While overall private market transaction activity has slowed down, we see the market increasingly as a tale of two cities. On one hand, it's much harder in today's environment to sell lower quality businesses, which have historically relied on low-cost capital to grow. On the other hand, great businesses with strong underlying fundamentals are generally sought after by investors in any environment. To that point over the past year and a half, we have sold or reached agreements to sell 10 businesses for approximately \$3 billion of total proceeds at our share.

Most of the returns we've achieved have come from buying good businesses on a value basis, improving their operations and recycling capital to support our growth. In some cases, we can do this in a relatively short period of time, and in other cases, holding a business for longer may be the best means to continue to compound value. Many of our businesses generate stable cash flows and in some cases, we may also be able to prudently increase leverage as a viable option to fund distributions.

No matter when we choose to monetize a business, our objective is to maximize value. We've built a great track record as a public company, realizing a 3x MOC and a 30% IRR on the sale of 20 businesses. Today, we own great companies, and we are continuing to build value as we advance our improvement plans, which should create opportunities for us to generate meaningful proceeds from our next phase of monetizations.

I now want to pass the call over to Paul Lepage. Paul is a senior leader on our Business Operations team and spends a lot of his time working with our operations to help them build out their digital and technology capabilities.

Paul over to you.

**Paul Lepage**^ Thanks Anuj and good morning, everyone.

I'd like to take some time today to talk about our approach to managing cybersecurity risk, provide you with an update on the incident response at our dealer software and technology services operation, CDK Global and share some thoughts on how we're strengthening our protocols across all our operating companies.

Managing cybersecurity is and always will be part of our sound business practices and good governance framework for all our operations. This starts with the right culture. We've always had a safety-first mindset across all of our operations. This mindset increasingly encompasses an equal emphasis based on physical safety and information security.

Cybersecurity reviews are a key part of diligence prior to acquiring a business and this extends to the management of our portfolio companies. Post acquisition, we establish an oversight committee to ensure adherence to cybersecurity programs and standards, including the National Institute of Standards and Technology or NIST framework, to guide how our operations manage, respond to, and reduce cybersecurity risk.

We also engage leading third-party industry experts to assess the effectiveness of foundational cybersecurity controls, which includes scans for potential vulnerabilities, ongoing network monitoring and the review of overall threat detection capabilities. Where it's needed, we support our operating companies with technical tools, processes, and resources to address the potential gaps and to assist in remediation activity.

However, the frequency and sophistication of cyber incidents globally is intensifying. To put this in perspective, more than 2,000 cybersecurity incidents are reported daily, and last year alone, cyber incidents affected over 20% of the S&P 500 companies.

As we disclosed, CDK Global was impacted by a cyber incident during the quarter. As a reminder, CDK is a leading provider of cloud-based software to automotive dealerships. It's a trusted partner to its customers, providing mission critical services that enable automotive dealers to run their business more efficiently. We privatized the business two years ago and have been focused on the execution of our value creation plan, which includes investing approximately \$500 million in product and technology R&D, infrastructure and modernization of the software stack.

Immediately after detecting unauthorized activity on its network, CDK mobilized its incident response team and shut down its systems to contain the threat. The cyber attack was orchestrated by a highly sophisticated threat actor that infiltrated CDK's IT infrastructure. With the assistance of leading third-party experts CDK moved to quickly begin restoring its systems with a focus on putting its customers first, limiting the disruption to customer operations and remediating the impact as quickly as possible.

Within two weeks, CDK was able to bring substantially all its dealer customers back onto its core dealer management system and within three weeks the business has restored substantially all its major applications and third-party system integrations.

CDK continues to be focused on being a best-in-class partner to its customers. This includes supporting

them as their businesses get back to normal operations, providing one-time billing credits and rebuilding trust.

As a market leader, the business is continuing to invest in its systems and technology to protect against evolving cyber threats. It's also working to support the industry including making free tools and resources available for any dealer to help them assess their security frameworks, evaluate risk, and enhance employee cybersecurity training.

On behalf of Brookfield, we want to thank all CDK customers and partners for their support and patience during the outage.

With that, I'd like to turn the call over to Jaspreet to review our financial results.

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

Second quarter Adjusted EBITDA was \$524 million compared to \$606 million in the prior period. Excluding contribution from nuclear technology services and other small operations sold last year, prior year Adjusted EBITDA was about \$550 million. Adjusted EFO of \$289 million in the quarter included \$103 million of net gains on the sale of our Canadian aggregates production operation, as well as public securities in our Industrials segment.

Turning to our segment performance, our Industrials segment generated second quarter Adjusted EBITDA of \$213 million, which increased from \$196 million in 2023. Our advanced energy storage operation continues to generate strong performance benefiting from favorable pricing, improved mix driven by the shift to higher margin advanced batteries and ongoing operational efficiency initiatives. This was partially offset by reduced contribution from our engineered components manufacturer due to the impact of lower volumes given overall reduced market demand.

Moving to our Business Services segment, which generated \$182 million of second quarter Adjusted EBITDA. Performance benefited from the increased contribution of our residential mortgage insurer. This was offset by the one-time impact related to the cybersecurity incident at CDK. The total impact to Adjusted EBITDA of the costs incurred at CDK was \$38 million at BBU's share and included one-time billing credits provided to customers as well as remediation out of pocket costs. A portion of these costs were offset by an insurance recovery. Results this quarter also reflected the underperformance at our construction operation where we recognized costs due to weather and construction delays at one project nearing completion in Australia. The project is expected to be completed later this year.

Finally, our Infrastructure Services segment generated \$157 million of Adjusted EBITDA compared to \$216 million during the same quarter last year, which included \$60 million of contribution from nuclear technology services, which we sold late last year. Results also benefited from improved contribution from offshore oil services.

Turning to our balance sheet. We ended the quarter with approximately \$1.6 billion of liquidity at the corporate level and no significant upcoming near-term maturities on our debt. This provides us good flexibility to continue to support our growth and optimize our balance sheet.

With that, I would like to turn the call back to the operator for questions.

## QUESTIONS AND ANSWERS

**Operator**^ (Operator Instructions). Our first question comes from the line of Geoff Kwan from RBC Capital Markets.

**Geoff Kwan**^ Hi, good morning. First question was just on the CDK situation. Just wondering what the likelihood of any sort of future negative financial impacts from the incident, whether in Q3, or future quarters. Then similarly, how would you describe the risk of the potential for market share losses? Remind me how long the contract terms are, the likelihood clients may look to get some pricing concessions, the competitive environment, whether or not competitors may try to get a little overaggressive on pricing in RFPs?

**Jaspreet Dehl**^ I'll start off on the financial impact and then pass it over to Paul to address the balance of your questions. We incurred remediation out of pocket costs, as well as costs related to providing credits to our customers. All of those have been accrued in the quarter offset by some insurance recovery. We think we've captured the bulk of the costs associated with the incidents in the quarter, and we're not expecting that there's going to be any additional material impact going forward just from the incident.

**Paul Lepage**^ Just to answer a portion of your question. Most of these contracts are multi-year agreements with an average of three to five years in length. The business has benefited from high customer retention rates that are reflective of the value of the service it provides to its customers. Our focus from a CDK perspective with the systems back up and running is continuing to be that best-in-class partner and manage relationships with its customers, and we're going to do this by building the best and most secure platform for the industry.

**Geoff Kwan**^ My second question is on a similar topic but just more broadly speaking, the comments around using third-parties on the cybersecurity front for investee companies and also supporting them with other resources to help to minimize a threat actually coming to fruition. But in light of what happened at CDK, I'm just wondering is there anything that you've learned from it in terms of whether or not it's having the proper protection at each of your investee companies, whether that's the right third-party providers or other factors and also having the right proper training and culture in IT personnel around cybersecurity risk for the various businesses that you own?

**Paul Lepage**^ What I'd say is that we've always had the emphasis on this. The whole industry is focused on information security first and driving stronger on those practices. We've had a long history in doing this on physical security. We now have to continue to increase our focus on information security within all of our portfolio of companies.

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

**Devin Dodge**^ Thanks. Good morning. I want to start with a question on BRK Ambiental. I believe the recent restructuring is pretty far advanced. But there appears to be also a fair bit of investor activity in this sector lately. Just wondering if you think an IPO was still the most likely exit or are there other options that look more probable at this point?

**Jaspreet Dehl**^ I'll start and then Anuj can add if he wants. As you're well aware, we've executed on our operational improvement plan at BRK, and we think that business is well set up for a monetization. The IPO was a natural track to monetization for that business. Like we do with every investment that we make, we always look at all options, and we're doing the same thing at BRK Ambiental. The IPO market in Brazil is still very difficult. The rates were going down. I think that's kind of stalled a little bit. We haven't seen much, or I'd say even any new IPOs, or real equity capital market activity in Brazil. So that is still an option, but we are looking at other options as well to monetize and get at least some proceeds back up to BBU.

**Devin Dodge**^ Switching gears to Nielsen, this isn't an investment we talk about much, but just wondering, if you could provide an update on the business and how much progress has been made toward that profit improvement plan.

**Paul Lepage**^ Nielsen is a \$400 million BBU investment in preferred security. As you know, Nielsen is a data-as-a-service offering. It's the leading provider of audience measurement services for TV and audio, and it's got a growing presence in streaming and digital services. Our value creation plan and execution is focused around driving top line growth but also driving at all elements of the value creation plan that we've put in place. So far the impact of that is 400 basis points in margin improvement, and the company has got a lot of early wins within the digital and streaming environment. But there's still lots of work to do to deliver the best offering for this buy-side and sell-side advertising ecosystem in an evolving market.

**Devin Dodge**^ Okay and then just maybe one last one. I was wondering, we saw Brookfield announced a carve-out of a thermal management business. Just wondering if BBU was involved there?

**Anuj Ranjan**^ Yes we did sign a binding agreement to acquire nVent, which is a great industrials business that we're quite excited about. It is a carve-out of a larger corporation. It's going to take four to five months until close, so we have some time. We've been advancing many of our capital recycling initiatives at BBU, including many monetizations that are hopefully on the way, and I would just say that in four to five months when it's time to close depending on our liquidity and our priorities for capital allocation at the time, we'll be able to make that decision.

**Operator**^ Thank you. Our next question comes from the line of Gary Ho from Desjardins Capital Markets.

**Gary Ho**^ I want to go to DexKo here. We saw lower results this quarter just driven by lower volumes. Can you give us some color on how you're managing through this environment and outlook for the back half and into 2025?

**Adrian Letts**^ The market does continue to be affected by some softness in North America and in particular, parts of our international market. The team is continuing to do a fantastic job in managing cost to offset some of the volume decline. We're seeing some green shoots, but we expect the market to recover through the course to the back end of this year and into 2025. To a certain extent when we underwrote and bought the business, we expected this to happen. We feel well set up and the team is doing a great job, as I said, as we see the market recover through towards the end of this year and then into next year.

**Gary Ho**^ My second question is around Clarios. Another solid quarter generated healthy free cash flow

and was mentioned you used that to pay down debt. Also given your focus on progressing options for the business to generate proceeds. How's the IPO process progressing or other initiatives that you plan to service value on this asset?

**Anuj Ranjan**^ At Clarios, as you said, the business has been performing exceptionally well. We're very, very pleased with how things are going at the business. We continue to evaluate all strategic alternatives, which include an IPO.

I'll just say that we're quite encouraged by the progress we're making so far on all of those alternatives. So, we're feeling pretty good about not only an IPO but many of the different alternatives we're looking at for the business to recycle some capital for BBU.

**Gary Ho** ^ Just my last question, I want to go back to the CDK front. Given some of the one-time billing credits to clients and what not. When we look at the peak of the incident, there were a lot of questions on what CDK's exposure is to BBU. We saw the stock down 10% over several days during the outage. I'm wondering if management has given some thoughts, whether if you provided us some valuation marker on at least some of your significant investments, whether that might have reduced the volatility on the trading of BBU stock should another event happen in the future?

**Jaspreet Dehl**^ Gary if I could frame your question to make sure I understood, are you asking how we assess how material the CDK incident was for BBU because of the volatility that you saw in the stock? Is that a fair summary of your question?

**Gary Ho**^ No it's more the stock was down 10%, which would be a significant part of the valuation of CDK assets. So had you provided some valuation marker of what CDK would have been worth as a percentage of your NAV maybe your stock wouldn't have been so volatile through that period.

**Jaspreet Dehl**^ It's hard to comment on the volatility of the stock. As you're aware, we're not disclosing NAV but we do give you all of the components for the NAV. We share that with our investors. If I just step back, at our share, CDK generates about \$250 million of Adjusted EBITDA for BBU today. We provide you with proportionate debt that is on that business, and you could put the right multiple on it and get a good sense of what the value of that business is to BBU. I'm not sure that giving investors an exact number versus giving them the components where it's easy enough to calculate that number would have made any directional difference one way or the other, but that has been our approach. We've been guiding people to think of BBU as a high-quality industrials and services business. We've been giving you all of the inputs into calculating values for our larger businesses including CDK, and we think that information is available to investors to assess the impact of any type of incident on value.

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

**Jaeme Gloyn**^ Just wanted to clarify on the interest cost savings. I think you mentioned it was \$55 million in savings on this recent round of refinancings. Is that a \$55 million benefit to BBU? Or is that to the operating companies? And if it's the operating companies, what would be the benefit to BBU?

**Jaspreet Dehl**^ Our proportionate share of that will be about one third. On a full year basis, it will be

about \$15 million. That's from the spread reduction that we were able to achieve from the refinancing. As rates go down, that should have an additional positive impact.

**Jaeme Gloyn**^ Yes. That brings me to my follow-up which is — this recent round of refinancing it's all floating rate debt. Is it unhedged? Are you making a call on that to unhedge it? I also noticed that 70% of the debt is fixed or hedged. I think that's an increase from more like the 50% range in previous quarters. So maybe just talk through how you're thinking about rate environment and your financing strategies?

**Jaspreet Dehl**^ This 70% is actually down from 75%. What the 70% represents is all of our debt that's fixed that has hedges on in so like derivative hedges, as well as debt that's naturally hedged. The biggest part of that is our financing business in Australia, where there's the floating debt on both the asset and liability side so there's an actual hedge there. If you take all of those pieces together, we're about 70% hedged. Last quarter that number was 75%. The 50% you're thinking of excludes the natural hedges in the business.

How we're thinking about rates, we believe we're at the end of the rate hiking cycle and we should see rate cuts coming soon. Most of our hedges are on about 18 months to three years is the typical timing of the hedges. We usually hedge based on the maturity of the debt or the whole period on our investments. And some of these hedges have been in place for a while. As we're looking forward now as our hedges start to roll off, we'll make a decision on whether we want to continue to hedge or let them roll off and keep the debt floating. But I think we've got some hedges in place that will keep rates pretty consistent for us in the business, the base rates, for a little while. But hopefully as the rates start to come down we're able to take some advantage of that as hedges roll off.

**Jaeme Gloyn**^ Okay and was this recent round hedged or unhedged?

**Jaspreet Dehl**^ It's probably fair to think of that 70%. All of the spreads that were reduced were all floating rate debt. We look at the entire company and based on the business, we'll hedge anywhere from 50% to 75% to 80% of the floating rate exposure. You can think of 70% of the base rate on the stuff that we refinanced as hedged.

**Jaeme Gloyn**^ Last one just on the Sagen, another \$50 million dividend this quarter. Can you just refresh, what's the cumulative dividends that have been up streamed from Sagen and relative to the total investment in Sagen?

**Jaspreet Dehl**^ In total so far, including the dividend that we got this quarter, we've gotten back 85% of the capital that BBU invested, and we invested \$855 million. We've got circa \$100 million of equity at risk still in the business.

**Operator**^ Our next question comes from the line of Dimitry Khmelnsky for Veritas.

**Dimitry Khmelnsky**^ First question on CDK. How big are the switching costs per dealership to move to another platform if they were to choose those actions?

**Paul Lepage**^ It depends on the dealer size. A large dealer that would have multiple rooftops would have to look at a pretty long process to move from one platform to the next on the Dealer Management Software. There are other peripheral applications that may be easier in terms of shorter time to migrate,

but for the most part, it's a long process. It's a process that would entitle months to move from one platform to the next.

**Jaspreet Dehl**^ Dimitry if you think about a core accounting system or SAP type of system in any kind of operating business and you're trying to rip that out and implement a brand-new system, what that process would look like, that's probably a good proxy.

**Dimitry Khmelnitsky**^ Then switching to BrandSafway, I wonder if you can disclose the Adjusted EBITDA and Adjusted EFO for that business over the past 12 months?

**Jaspreet Dehl**^ BrandSafway is in our Infrastructure Services segment and we equity account for BrandSafway so if you look at our segment disclosure, you can pick up the Adjusted EBITDA performance there. But the business generated approximately \$30 million in Adjusted EBITDA at our share. I don't have the number exactly in front of me.

**Dimitry Khmelnitsky**^ I think it was moved into two segments. It was reclassified, I think into two separate segments. Is that still correct?

**Jaspreet Dehl**^ No, it's always been in the Infrastructure Services segment.

**Dimitry Khmelnitsky**^ Then what other options do you consider to monetize BRK Ambiental besides a potential IPO?

**Jaspreet Dehl**^ There's a number of options. It's a great business and it's a great platform for water and sewage treatment in Brazil. There's a number of strategics that might be interested in partnering with us and buying a stake in the business either the business as a whole or in our more mature concessions. When you think about the business, it's got concession agreements with a number of different regions and municipalities. Those concessions are at different stages of development. Some of them are more mature than others and there has been interest on some of the more mature concessions. It could be a partner in the whole business, it could be a partner in parts of the business and then per concession, or if the market is better, an IPO is always an option as well. We think this would be a really good positive outcome.

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

**Nik Priebe**^ I just want to go back to CDK for a moment. My understanding is that the internal view is that this incident won't necessitate the down streaming of any capital to prop up the balance sheet or liquidity position there. Is that still the expectation?

**Jaspreet Dehl**^ Yes, that's right. This business generates a lot of free cash flow. It's got significant liquidity. We're not anticipating down streaming any capital.

**Nik Priebe**^ Then, there have been some press reports about auto dealerships bringing forward legal action in response to the outage. Is there any sort of cyber insurance coverage that would protect CDK from lawsuits stemming from an incident like that?

**Jaspreet Dehl**^ The business does have cyber insurance which we have drawn on to address the cyber

incident. To the extent that there's litigation, which at this point we're still assessing, we're not sure there's too much merit to a lot of these. I don't think they'd be covered by insurance.

**Nik Priebe**^ Then just last question for me just on Clarios. If I take the last 12 month Adjusted EBITDA number and then gross it up to 100% basis, it implies about \$2.2 billion. Now I'm cognizant that U.S. GAAP EBITDA is a little bit lower than EBITDA presented under IFRS. But as we approach the end of the company's fiscal year in September, is it safe to say that EBITDA will exceed \$2 billion on a U.S. GAAP basis for the full year? I'm just thinking about this in the context of a pricing scenario for a potential IPO.

**Jaspreet Dehl**^ Yeah. Look, it will be at, and about \$2 billion. The U.S. GAAP to IFRS adjustments, if I just think about the scale of those adjustments, it should be a little bit over \$2 billion. But there's still a quarter of performance to go. We'll see how things pan out.

**Operator**^ Thank you. This does conclude the question-and-answer session of today's program. I'd like to hand the program back to Anuj Ranjan, for any further remarks.

**Anuj Ranjan**^ Thanks everyone for joining this quarter. And we look forward to seeing you all at the Investor Day in September.

**Operator**^ Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect.