

Brookfield Business Partners – Q3 2024 Results Conference Call & Webcast

November 8, 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:

- Gary Ho; Desjardins Securities Inc., Research Division; Analyst
- Devin Dodge; BMO Capital Markets, Research Division; Analyst
- Robert Kwan; RBC Capital Markets, Research Division; Analyst
- Dimitry Khmel'nitsky; Veritas Investment Research Corp.; Analyst

PRESENTATION

Operator^ Welcome to the Brookfield Business Partners' Third 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 are 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 Adrian Letts, Head of our Business Operations team, to provide an update on a few of our strategic initiatives. We'll end the call with Jaspreet Dehl, Chief Financial Officer, who will review our financial performance for the quarter. After we finish our prepared remarks, the team will then be available to take your questions.

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

Anuj Ranjan^ Thanks, Alan, and good morning, everybody. Thank you for joining us on the

call today. We had a good quarter, and we're pleased with the progress that we're making across our business.

Our financial results this quarter were very strong with Adjusted EBITDA increasing to \$844 million. This includes the significant value of credits that Clarios is entitled to receive under the Inflation Reduction Act, which is focused on enhancing domestic supply chain and promoting critical manufacturing in the United States. This gives us the ability to create an even stronger business in the U.S. and look for additional growth opportunities for the company.

We have also been busy setting the stage for the continued growth of our business. We closed our acquisition of Network International, which we plan to combine with our existing operation Magnati, to create the market-leading digital payments business in the region — Adrian will speak more about this shortly.

Meanwhile, on the capital recycling front, we generated more than \$350 million of proceeds from distributions and monetizations, including the recently announced sale of a significant portion of Altera. We are also very encouraged by the progress we are making on our monetization plans at Clarios and should be able to provide a further update soon.

Stepping back, since launching BBU, we've invested about \$9 billion alongside Brookfield's private equity business to acquire high-quality, mission critical and market leading businesses. Most of these are great compounders of value in their own right — and we're making them even better as we execute our improvement plans, leveraging our private equity playbook, which has been developed and honed over the past 25 years. By selling at the right time, we can realize strong returns and reinvest the capital to continue compounding value.

We've had great success doing this as a public company, realizing over \$6 billion of proceeds from the sale of 20 businesses delivering a 3x multiple of our capital and generating an IRR of approximately 30%. This is an exceptional composite track record and we're only just getting started.

Half of the businesses we own today were acquired over just the last three years, which means there's still a lot of runway to go as we execute our improvement plans. Most of these operations are larger scale and higher quality than the businesses we've sold, which means that the distribution should be larger and the proceeds that will come back to us in the future when we sell these businesses will be even greater.

While our trading price has increased nearly 70% since this time last year, our shares are still trading at a wide discount to intrinsic value. As rates continue to come down, our cash flows will grow, transaction activity will return and investors should resume valuing our units on a fundamental basis. All of this is good for our business and should set the stage for further

improvement in our trading performance as we continue to focus on compounding value for our shareholders.

Before I pass the call over to Adrian, I wanted to thank all of you who were able to join us in September at our annual Investor Day. It was great to see so many familiar faces in the room and for anyone who is not able to join us, the webcast and materials are available on our website.

And with that, I will now turn the call over to Adrian.

Adrian Letts^ Thank you, Anuj, and good morning, everybody. It's great to be joining you this morning.

As Anuj mentioned, we've made some great progress in our business over the past few months, including closing the acquisition of Network International and signing an agreement to sell Altera's shuttle tanker operations. Each provide an insight into our approach to value creation which I thought I'd spend some time talking about today.

Let's start with our acquisition of Network International.

As a reminder, Network International is the market-leading digital payment services provider in the Middle East, servicing over 150,000 merchants, managing 18 million credit and debit cards on behalf of leading financial institutions and processing over \$50 billion of payments annually. It's an incredible business, providing a mission-critical technology that allows both governments and merchants to securely process both on and offline payments — thereby forming the backbone of the financial economies where it operates.

Network is also benefiting from massive secular tailwinds. Both revenue and profit have grown at an annual rate of more than 15% over the past two years, driven by underlying demographic growth in the region and the continuous shift from cash to card and online payments. Despite this, the business was never really well understood as a publicly listed Middle Eastern company on the London Stock Exchange and the dislocation in the public price allowed us to acquire it for what we felt was very good value.

But what also made this acquisition particularly interesting for us is that we already own Magnati, the second largest payment processor in the region. Combining these two businesses creates a champion in the high-growth payment solution space. The combined platform will have unmatched scale and limited customer overlap. And with the majority of payment volume in the region now going through our pipes, we will have a tremendous data and information advantage, which will allow us to generate insights to improve both the product offering, but also the customer experience.

It's a tremendously exciting opportunity for us and the integration plans are progressing well.

We've stood up a dedicated transformation office overseeing key work streams and have secured some recent wins across revenue, cost and capex optimization synergies. Our ability to execute complex carve outs — like what we did with Magnati and drive large-scale transformation makes us a partner of choice in these types of situations.

Turning to Altera, which as you know, has been one of our tougher situations over the past several years. It's in these types of instances where our hands-on approach to value creation serves us exceptionally well — taking a longer-term view doubling down at the bottom and rolling up our sleeves to maximize our returns.

It's been nearly two years since Altera emerged from a process aimed at simplifying the capital structure and giving the business more flexibility to execute on its long-term growth plans. We've provided the business with additional capital to deleverage the balance sheet and put in place a comprehensive operating plan to improve performance and reposition operations.

Since then, the outlook for Altera has dramatically improved, driven by recovering customer sentiment, a renewed focus on offshore field developments and the benefits of an inflationary environment, which has increased the value of Altera's assets and allowed it to contract at higher prices.

On the back of this, last year, the business entered into long-term contracts for the redeployment of two Floating Production Storage and Offloading (FPSO) vessels on new field developments providing increased certainty to its longer-term earnings and cash flow. It also successfully completed a debt refinancing which lowered the cost of its borrowings and has continued divesting non-core assets to pay down debt.

With the business on a much better footing today, just this week, we reached an agreement to sell Altera's shuttle tanker operations for total consideration of about \$1.9 billion. BBU's share of net proceeds is expected to be \$265 million. This is an excellent outcome, and none of this would have been possible two years ago but by being patient and leaning into our operational capabilities, we are able to support the business and find a path to maximize value as we continue working towards realizing additional proceeds from the sale of other units of the business.

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

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

Third quarter Adjusted EBITDA was \$844 million compared to \$655 million in prior year. Current period results included a \$296 million benefit recorded at our advanced energy storage operations. These benefits are production credits for the twelve months ended September 30,

2024, which the business is entitled to claim under the U.S. Inflation Reduction Act, and the applicable regulations which were finalized last month.

On a same-store basis after adjusting for acquisitions and dispositions and the benefit recorded at Clarios during the quarter, Adjusted EBITDA was in line with prior year. While overall business performance has been stable, we saw some softness in select markets. At our engineered components manufacturer, we're seeing weaker sales volumes and we expect demand will normalize next year. The situation at our healthcare services operation in Australia is much more challenging, where the business has an unsustainable cost structure primarily due to wage inflation in the industry.

Adjusted EFO for the quarter was \$582 million, which included \$131 million of net gains primarily related to the disposition of our road fuels operation and the deconsolidation of our payment processing services operation in our Business Services segment.

Turning to our segment performance.

Our Industrials segment generated \$500 million of third quarter Adjusted EBITDA. Underlying performance was supported by growing contribution from our Brazilian water and wastewater services operation driven by higher billing rates as well as strong contribution from our advanced energy storage operation. Prior period results included contributions from disposed operations including our Canadian aggregates production business which was sold in June.

Moving to our Business Services segment. We generated third quarter Adjusted EBITDA of \$228 million. Prior period included contribution from our road fuels operation, which was sold in July. Our residential mortgage insurer is performing well and benefited from higher insurance revenue and investment income. Housing fundamentals in Canada remain balanced in most regions and forecasts indicate that prices are expected to increase next year as mortgage rates come down. Results at our dealer software and technology services operation included the impact of higher costs as the business accelerates its modernization and technology upgrade activities.

Finally, our Infrastructure Services segment generated \$146 million of Adjusted EBITDA compared to \$228 million last year. Prior year included \$77 million of contribution from nuclear technology services which was sold last November. Results benefited from strong performance at our offshore oil services operation. Performance at our lottery services operation saw some impact from the push out of terminal deliveries in the quarter and lower size jackpot levels, which resulted in softer industry volumes compared to last year. The business is positioned for several potential commercial wins over the next few quarters that should contribute meaningful incremental growth.

Turning to our balance sheet. We ended the quarter with \$1.6 billion of liquidity at the corporate level, which is pro-forma for recent and announced acquisitions and realizations.

Our near-term focus is to reduce borrowings at our corporate credit facility, which we've drawn as a bridge to fund a portion of our recent acquisition activity.

We'll also continue to invest in strategic acquisitions to grow our business, reinvest in our existing operations to generate incremental returns and opportunistically repurchase our units where it will enhance intrinsic value of our units.

With that, I'd 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 Gary Ho, with Desjardins Capital Markets.

Gary Ho^ Maybe just to start off on the topic of this Inflation Reduction Act benefit. Just wondering how sustainable this amount is looking out and thoughts on any chats with consultants and whatnot in terms of kind of the new Trump administration coming in, whether there could be any changes on this.

Anuj Ranjan^ Thanks, Gary. It's Anuj here. I'll start, and then let Jaspreet chime in further as well. So Clarios is entitled to these credits under regulations which were recently finalized in October but are effective as of January 2023 and the credits are effectively to incentivize domestic manufacturing and production in the United States, which includes the production of energy storage and batteries.

So based on the regulations and what the business naturally does in our current production levels, we expect the annual benefit for the business to be similar and that is a view we've taken in, of course, consultation with our advisers.

Gary Ho^ Anuj while I have you, I don't want to put you on the spot on Clarios but you teased with a further update soon comment. Maybe your thoughts on how your team is thinking about the current IPO environment, especially now with the U.S. election behind us. Is perhaps a dual listing a consideration for that asset?

Anuj Ranjan^ We're keeping all options open with Clarios. But as you know, we've had a process running for some time. It's actually been quite robust. What I can say right now is that

we're very encouraged by the conversations we're having with various parties. We should have a further update, hopefully soon.

Gary Ho^ Okay. And then last question on Altera. It sounds like you sold the shuttle tanker business. Can you give us some perspective on what this represents as a total and in terms of what's left of Altera; how much debt is left? I vaguely remember there's some kind of lease structure, not sure if that's in your proportionate debt number. Then in terms of the stub, maybe just walk us through kind of how we should think about that?

Jaspreet Dehl^ Gary, it's Jaspreet. I'll take that. The shuttle tanker business from an EBITDA perspective is about half of the business. We're selling about half of the business, and we'll get back about a little bit less than half of our invested capital in Altera.

Then we're going to continue to hold the FPSO business, which is the largest part of what will remain. In that business, there's the vessels which we've talked about before, the seven vessels, but the Knarr and the Voyageur are two that we talked about before that have long-term contracts. Then in addition to the FPSO, there's also some other non-core assets within the business that we hope we can monetize.

So I'd say we're quite encouraged just by the industry dynamics. We ran quite a robust process. There is interest in the assets and that culminated to the sale of the shuttle tanker, but we're continuing to look at opportunities for the balance of the business. In terms of debt at the end of the quarter, net debt at Altera was a little bit shy of \$700 million at our share, I think about \$650 million, \$675 million.

The overall debt within the shuttle tanker business is say about half or a little bit less than half of that. We do think that with the balance of the business, we could sell that, pay off the debt, and it should leave some equity proceeds.

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

Devin Dodge^ Just wondering if you could talk a bit about the broader environment for monetizations. Just with interest rates coming down, it should be a better environment for exits, but I was just trying to get a sense for how this is evolving, both in terms of the sectors or types of assets where you're seeing interest, but also the types of buyers that are coming forward.

Jaspreet Dehl^ Devin, I can start, and then I'll let Anuj comment. I'd say in terms of the overall monetization environment, things are looking pretty positive. The M&A environment seems to be a lot more robust. The credit markets have been open for a while, but most of the credit

market activity we've seen this year has been refinancings and repricings. The M&A market has been light but it does feel like there's a lot more activity. We can see that broadly in the market, but also in our own pipeline, a lot more of our deals seem more actionable and are moving forward quicker than we've seen over the last 12 to 18 months.

The IPO markets seem a bit more stable as well. We've seen a number of IPOs in the market. I'd say with the U.S. election behind us and the rate cut that we saw on Thursday, it sets up the market quite well for more M&A activity and specifically monetizations so we're quite encouraged.

The Altera process was the second part of your question around where we're seeing interest. Like I said, the IPO markets seem to be coming back and seem to be robust. Rates seem to be going down, which will be constructive. The Altera sale of the shuttle tanker businesses was to a strategic, and we've talked about this before, that is our preferred kind of exit though we've got the capability to monetize in various ways. It does feel like on all fronts, the monetization and general M&A market is starting to come back quite strong.

Devin Dodge^ Okay. Good color, thanks for that.

Second question on Scientific Games, Jaspreet — I think you talked about this a bit in your opening comments. But just wondering if you could provide a bit more color on the headwinds that you saw in the quarter, like if you expect these to persist? There was mention of some commercial wins there. Just wondering if you're able to scale the potential upside for us.

Adrian Letts^ So I'll start. In terms of U.S. retail sales, there was some softness. Some of that was to do with the particularly elevated levels that we saw last year in terms of jackpot sizes, which we think encourages buying at the retail stores.

In terms of the wins, you're absolutely right. There were two. There's a new iLottery contract in Delaware and then there's a systems and technology contract in Ohio. But I'll hand over to Jaspreet in terms of the value that we anticipate from that.

Jaspreet Dehl^ Yes. A couple of points I'd add is there was softness in the quarter, but the team is doing a really good job on operational improvements and managing costs. They're executing on that and on an annualized basis, we haven't seen the full benefit of that. We do think that the business is set up quite well there.

Also on the top line, we've talked about this before. Over the last twelve months, they've won a number of contracts. But it does take time to onboard the new contracts when you win one and get the revenue flowing.

We won the U.K. lottery contract last year. We're not seeing the full benefit of that in our revenues yet, the Ohio and Delaware contracts as well as a number of others that the business has won. I think some of them will start generating revenue and cash flows for us next year, and some of them will be the year after.

But I'd say if you step back, we're seeing strong growth in the business through the new commercial wins and through the cost optimization initiatives. On a run-rate basis, we think this business is still going to generate kind of strong EBITDA and cash flows in line with the underwriting when we bought the business.

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

Robert Kwan^ Back on the Brookfield Asset Management call, there was a description around just this transaction environment being a strong market for both buying assets and selling assets. Although some of those comments seem to be a little bit more skewed to stable businesses. So can you just talk about though how you're seeing like your commentary specific to BBU's strategy and the businesses you own?

Anuj Ranjan^ Why don't I start and just taking on from what Jaspreet just said, I'd say the market environment is quite enabling right now for transaction activity. It is around stable businesses, which is very similar to what we buy and what we own in BBU— businesses that generate sustainable recurring cash flow and have a good growth profile in front of them.

Obviously, financing is available, which helps dramatically and as rates come off, we should see transaction activity continue to tick up. But the other thing that we've noticed is in the 10 businesses we've sold over the last 18 months, the strategic bid what Jaspreet referenced is back. Strategics are buying good businesses that, again, generate cash flow that they want to own.

In many of our sales processes, whether it's Alterra, whether it's Greenergy, including some of the ones that we have going right now, we have seen significant strategic interest and that's been very encouraging for the businesses we own.

At the same time, the growth opportunities are also quite exciting. I'd say that the broader Brookfield and private equity group have been looking at investments and making acquisitions. For BBU, again, based on our capital priorities, we'll always have a balanced approach, and we'll possibly look at new investments as well.

Robert Kwan^ That's great. I guess just on the new investments side of things, you noted the increased involvement from strategics. Then when you pair that with your commentary that your

most recent investments have generally been higher quality than the ones you've been selling, does that then change in the cycle? Do you think there may be greater opportunities for assets or businesses that need just a little bit more work? Or would you expect to continue to target the higher quality businesses?

Anuj Ranjan^ It's a great question. We've always prioritized looking at higher quality businesses, or businesses with the potential to be very high quality. But where there's a value creation component that we can deliver, that is usually unique to us or where there is a situation around the business that causes some complexity for why we think we can buy for value.

Network was a great example of that being listed in London but being a leading Middle Eastern payments provider, it just wasn't getting the right value treatment for the quality of business it was. The fact that we own the number two player that Adrian talked about, Magnati, gave us a huge value creation potential that no one else had. It's not that we're not buying very high-quality businesses. We're just buying them where they're undeservingly unloved and we're able to do something with the business that probably nobody else can.

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

Dimitry Khmelnitsky^ On road fuels operation, can you please remind us how much Adjusted EBITDA in the EFO did it contribute on a quarterly basis?

Jaspreet Dehl^ Dimitry— we don't break out the Adjusted EBITDA in the Adjusted EFO separately. But it hasn't been a meaningful Adjusted EBITDA contribution from our Business Services segment.

Dimitry Khmelnitsky^ Okay. Then on the \$350 million of proceeds from distributions and announced monetizations, I wonder if you can break it down by components, so distributions versus the monetizations?

Jaspreet Dehl^ Sure. I can comment on some of the larger pieces of it. The largest piece is the cash that will come in from the sale of Altera's shuttle tanker business, so that's about \$265 million. It includes the proceeds from the sale of Greenergy that we received as well as ongoing distributions from some of our businesses, the largest of which is Sagen.

Dimitry Khmelnitsky^ Distributions from Sagen are not included in Adjusted EFO are they?

Jaspreet Dehl^ Adjusted EFO is calculated as Adjusted EBITDA less the cash interest and cash taxes so it's a proxy for free cash flow in the business, and there's not a lot of maintenance capex at Sagen. But I'd say it's not a direct correlation, but it's a good proxy. I'd say on full cycle run-

rate basis, Sagen should generate CAD \$500 million to CAD \$600 million of free cash flow, and we own 41% in BBU.

Dimitry Khmelnitsky^ I'm just trying to understand the difference between distributions from Sagen, which I think, as you alluded they are not part of the Adjusted EFO because you just pick up your share of Adjusted EFO from Sagen when you report results, but then, for example, there was upfinancing at One Toronto and that was included in Adjusted EFO. I'm just trying to understand the difference.

Jaspreet Dehl^ Adjusted EFO of Sagen is a proxy for how much cash the business is generating. So that's the cash generation in the business and the business does a dividend distribution from that cash, versus One Toronto, which was a dividend recap and in that instance, the dividend income that came into us, we recorded One Toronto as an equity accounted investment. I'm happy to go through the numbers in detail with you offline.

Dimitry Khmelnitsky^ I just didn't catch on your remarks related to \$350 million in proceeds in the distributions. You mentioned \$165 million. What was that related to?

Jaspreet Dehl^ That number is our total forecasted distributions. \$265 million of that is Altera proceeds that we're going to get in and then it includes Greenergy and then other distributions at Sagen.

Dimitry Khmelnitsky^ At Altera, the sale of the shuttle tanker segment. So as you exactly pointed out \$265 million of proceeds, is that proceeds to equity net of any debt repayments or these are your gross share of proceeds?

Jaspreet Dehl^ It's the net cash that will come up to BBU.

Dimitry Khmelnitsky^ Okay. Understood. Based on your previous comments on the question that was asked earlier, I think you suggested that approximately half of the \$800 million equity at your share, invested in Altera that relates to the shuttle tanker business. Did I catch it correctly?

Jaspreet Dehl^ It's a little bit less than half that we will realize once the shuttle tanker proceeds are in. We've gotten some interest income from the business along the way. Just interest cash distributions on some of our investment in Altera and then you add to that the \$265 million that will come in from the shuttle tanker and it will give us back a little bit less than half of the capital.

Dimitry Khmelnitsky^ Okay. Because if I compare the \$265 million in net equity proceeds versus the \$400 million invested, that would imply essentially an economic loss on the

disposition.

Jaspreet Dehl^ I don't think you can take the \$800 million that we invested in Altera and just divide it by two because the total investment in Altera was for the whole business. The way we're looking at it is our total capital in the business is about \$800 million.

At this point, with the \$265 million of proceeds we'll get from the shuttle tanker business, the cash interest that we've gotten along the way on our holdings will give us back a little bit less than half of that \$800 million and then we'll continue to hold the business that's generating about half of the EBITDA, which is the FPSO and the FSO as well as an accommodation unit. So there's still quite a bit of unrealized value in the business that we're going to work to unlock.

Dimitry Khmelnitsky^ Then on the CDK, did you provide any discounts versus the prior contracted price to the two North American publicly traded dealerships that you renewed the contracts with?

Jaspreet Dehl^ We're having live negotiations with all of our customers on contracts, and there's always some give and take. We can't specifically speak to any one contract or what specific discounts we might have given to one or two particular customers. But I'd say, generally, the contracts that we've been signing have been at reasonable margins that we would expect the business to generate on new contracts.

Operator^ I'm showing no further questions. So with that, I'll hand the call back over to CEO, Anuj Ranjan, for closing remarks.

Anuj Ranjan^ Thank you, everyone, and I look forward to seeing you next quarter.