Brookfield Business Corporation (Q1 2026)

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Corporate Speakers:

- Alan Fleming; Brookfield Business Corporation; Head of Investor Relations
- Anuj Ranjan; Brookfield Business Corporation; CEO
- Stuart Levings; Sagen; CEO
- Jaspreet Dehl; Brookfield Business Corporation; CFO

Participants:

- Bart Dziarski; RBC Capital Markets; Analyst
- Devin Dodge; BMO Capital Markets; Analyst
- Scott Fletcher; CIBC Capital Markets; Analyst

PRESENTATION

Operator^ Welcome to the Brookfield Business Corporation's First Quarter 2026 Results Conference Call and webcast. (Operator Instructions) The conference is being recorded. (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 Anuj Ranjan, our Chief Executive Officer, who will provide an update on our strategic initiatives.

Anuj will then turn the call over to Stuart Levings, Chief Executive Officer of Sagen, our Canadian Residential Mortgage Insurer, to talk about the positioning and performance of the business in the current environment.

Jaspreet Dehl, Chief Financial Officer, will then discuss our financial results for the quarter. After we finish our prepared remarks, the team will be available to take your questions. With that, I'd like to now pass the call over to Anuj.

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

We had a great quarter which was defined by three things: First, Clarios received $1 billion of cash tax credits. The first of similar amounts, we expect annually through the end of the decade.

Second, we sold a 27% interest in La Trobe, an Australian asset manager and lender, at an implied 3x multiple of our capital in just under four years. And third, we committed to lead a $500 million investment alongside OpenAI, the newly created OpenAI deployment company, platform built to deploy enterprise AI inside real operating companies.

We also completed our corporate simplification at the end of March. And since closing, our daily trading volumes were up 40% compared to average levels last year, and we're anticipating about 5 million shares of incremental demand from index rebalancing over the next few months, both very important steps towards improving the trading liquidity and index demand of our shares. Let me touch on a few of the defining highlights of the quarter in more detail.

Starting with Clarios which received its fiscal 2025 cash tax refund of $1 billion in March tied to its U.S. production and critical minerals factor. This is equivalent to about $1.50 per share of BBUC, and we expect these credits will continue annually through 2030.

Today Clarios is our largest and most valuable business. And with the investments it's making to expand production capacity and scale its critical minerals capabilities, we see a path to the value of our investment in Clarios doubling over the next five years.

In addition, during the quarter, we reached an agreement to sell a minority interest in La Trobe Financial at a $2 billion valuation. Since we bought the business, we transformed it from a mortgage lender to a leading asset manager in Australia and increased its AUM from $10 billion to $16 billion.

This sale realizes $1 per share in cash and results in a 35% IRR at 3x multiple of our capital in a market that is increasingly appreciating critical, cash-generative, industrial and services businesses, we expect our monetization activity to continue.

The sale of La Trobe is the latest example of our strong track record of value creation built on a simple approach of buying, building and operating vital industrial and services businesses. When the right moment arrives, we monetize to realize value and redeploy that capital into new opportunities to fuel our engine and continue compounding value at scale. We recently did just that, committing to lead a $500 million Brookfield investment in DeployCo alongside OpenAI and a group of global investors. Our share of the investment is expected to be about $150 million.

Stepping back, AI adoption is moving quickly, and the returns will not only accrue to those who build the models, but to those who can deploy them at scale inside real operating businesses against real P&L.

This requires operating capabilities, proprietary data, technical talent and experience running and transforming industrial and services businesses. DeployCo is focused on enabling large organizations from pilot use cases to full enterprise-wide implementation, addressing one of the primary bottlenecks in realizing AI-driven productivity.

The platform will combine entering talent strong commercial relationship with OpenAI, early access to models and the capabilities of best-in-class operators like ourselves to deploy AI at scale with more than 300 operating companies across the Brookfield ecosystem.

We have a direct line into where AI creates value, and importantly, where it does not. We've already been using AI in our own businesses as the latest tool to accelerate transformation, enhance growth and drive efficiencies.

We expect to draw on DeployCo's capabilities to drive even harder in these areas to automate workflows, improve decision-making and capture meaningful productivity gains in our own operations.

As we look forward, the market for what we do is as attractive as it has been in years. Demand for essential services and industrial businesses has rarely been stronger, and we have the capital capabilities and the expertise to execute.

We're in an excellent position to build on a strong start to the year and continued compounding capital for our shareholders. With that, I'll turn it over to Stuart.

Stuart Levings^ Thank you, Anuj. And good morning, everyone. I'll start with some comments on our resilient business model and then provide an update on the overall Canadian housing market and how Sagen is performing in the current environment.

As a reminder, Sagen is the leading private mortgage insurer in Canada operating in a highly concentrated regulated market with only three providers and significant barriers to entry. Mortgage insurance is mandatory for homes purchased in Canada with a down payment of less than 20%, making this an essential service for our customers. The business model generates strong margins and returns on equity that have proven to be resilient through prior housing and economic cycles.

During Brookfield's ownership, we've grown our market share, repositioned the investment portfolio, reduced our expense ratio and optimized the capital efficiency of the business.

As a result, our return on equity has expanded from low double digits at acquisition to over 20%, allowing the business to provide meaningful distributions to shareholders including BBUC. That resilience is particularly important given the backdrop of the current Canadian housing market. To put that in context, the average house price in Canada has declined by 20% since early 2022 due to weaker sales activity driven by higher interest rates, constrained affordability and lower consumer confidence.

While this has continued into the start of the year, we believe several factors including continued undersupply of housing and modest improvements in affordability, coupled with stable interest rates and a renewed focus on housing support from the federal government should provide a floor to home prices over time. Any improvement in the trade and geopolitical outlook should also bode well for a housing market recovery. Against that backdrop, Sagon continues to perform well.

Our borrowers are typically first-time homebuyers. And this cohort has been more resilient and active over the past 12 to 18 months relative to the overall market. This is due in large part to the additional support provided by the change in mortgage insurance eligibility rules introduced in late 2024.

Specifically, the increase from 25- to 30-year amortizations and from $1 million to $1.5 million price cap. These changes drove a significant increase in the volume of insured mortgages during 2025. And while the pace has slowed, this segment of homebuyers were still more active than the general market during the first quarter of this year.

We’ve also maintained a consistent focus on high-quality loans and a well-diversified portfolio, facilitated by our rigorous underwriting process. The average credit score of newly originated loans remains high with a significant portion greater than 760.

Approximately 80% of the insurance portfolio is backed by fixed rate mortgages, providing borrowers with payment stability. The majority of the remaining variable rate mortgages have constant payments, where only the mix between principal and interest is impacted by fluctuations in rates, thereby providing a similar degree of pain and stability.

In addition to the quality of our insurance portfolio, strong oversight and regulation including mandatory loan amortization, full borrower recourse and debt service stress tests for all insured borrowers served to mitigate the risk of borrower default.

For example, all insured borrowers in Canada are subject to a stress test that builds in a cushion for affordability in a rising rate environment and insured borrowers facing financial hardship can extend amortizations under our loan modification program.

As a result, the losses in our business are primarily driven by two factors. The first is unemployment, which drives the frequency of delinquencies and the second is the change in home prices which influences the degree of loss given default. We see both of these factors as manageable in the current environment.

For one, overall unemployment has remained relatively stable. And importantly, unemployment in Sagen’s core home-buying cohort, which are typically dual-income households between 25 to 54 years of age, has been quite resilient.

Second, after a period of exceptional home price depreciation, where borrowers have built significant embedded equity in their homes, the loan-to-value profile and loss ratio performance of our portfolio is now returning to more normalized levels in line with our long-term expectations.

The business continues to be very well capitalized, and importantly, our regulatory capital model is designed to perform through the cycle.

As we look forward, we expect losses to remain within our long-term expectations reflecting the strength of our high-quality, regionally diversified portfolio, loss mitigation strategies and disciplined risk management framework.

As a result, we are confident in the continued resiliency of Sagen's performance to support strong returns on equity and consistent cash generation, providing for approximately $400 million of annual distributions on our full cycle run-rate basis. With that, I will hand it over to Jaspreet.

Jaspreet Dehl^ Thanks, Stuart. And good morning, everyone. We generated first quarter Adjusted EBITDA of $582 million compared to $591 million in the prior period. Current year results reflect the impact of lower ownership in three businesses and include $27 million of contributions from new acquisitions. Excluding tax benefits and the impact of acquisitions and dispositions Adjusted EBITDA was up approximately 5% compared to the prior year.

Adjusted EFO for the quarter was $279 million compared to $345 million in the prior period. Prior period Adjusted EFO included $114 million net gain from the disposition of our offshore oil services' shuttle tanker operation.

Turning to segment performance.

Our Industrial segment generated first quarter Adjusted EBITDA of $320 million compared to $304 million last year. Excluding the impact of acquisitions, dispositions and tax benefits, segment performance increased by 7% compared to prior year.

Performance and our advanced energy storage operations was supported by the ongoing mix shift towards higher-margin advanced batteries, partially offset by the impact of slightly lower overall volume.

Results at our engineered component manufacturing increased more than 10% on a same-store basis compared to the prior period, benefiting from the recent commercial actions and increased margins despite end market softness.

Moving to our Business Services segment.

We generated first quarter Adjusted EBITDA was $208 million compared to $213 million last year.

On a same-store basis, Adjusted EBITDA increased by 7% over prior year. Results reflect solid performance and realized gains at our residential mortgage insurer which continues to generate strong returns. Performance at our dealer software and technology service operation is supported by contractual annual price increases as the business continues to make strategic investments towards strengthening customer service and product offerings.

Finally, our Infrastructure Services segment generated first quarter Adjusted EBITDA of $90 million compared to $104 million last year. Prior results included contributions from our offshore oil services' shuttle tanker operations which was sold in January 2025 as well as the impact of the partial sale of our work access services operation completed in July 2025.

Results at our lottery service operations were supported by the ramp-up of recently secured contracts and growing share with existing customers. Performance at our modular building leasing services operation benefited from increased sales of value-added products and services.

Turning to our balance sheet and capital allocation priorities.

We ended the year with $2.4 billion of pro forma liquidity at the corporate level including the fair value units we received in exchange for the partial sale of interest in some of our businesses. During the quarter, $43 million of units we received were redeemed.

Our strong liquidity position gives us significant flexibility to support our growth and balance capital allocation priorities. During the quarter, we completed the $250 million buyback program launched in February last year.

Since that time we've deployed approximately $285 million towards repurchases, including $65 million of repurchases during and subsequent to quarter end. Going forward, we expect to remain opportunistic under our NCIB program, balancing buybacks with our other capital deployment opportunities.

With that, I'd like to close our prepared remarks and turn the call back to the operator for questions.

QUESTIONS AND ANSWERS

Operator^ Our first question comes from the line of Bart Gorski from RBC Capital Markets.

Bart Dziarski^ I wanted to ask around Sagen. So Stuart, thanks for joining the call this morning. We saw the loss ratio increasing to 12%, in the last few years it has been running kind of 5%.

So could you maybe give us a bit more detail as to what drove the reserve strengthening that was described in the MD&A? And then I heard you mentioned the normalization into the long-term target. Could you just remind us what those long-term target loss ratios are.

Stuart Levings^ Yes, certainly. Thanks for the question. So principally, what's driving the loss ratio higher is the loss given default has increased a little bit more on recent delinquencies. And that's obviously because house prices have been declining, as I noted in my comments. So the frequency hasn't really materially picked up.

I mean unemployment, as you know, is the biggest driver of that, and that's been relatively stable. Certainly, in the books that we're seeing some pressure which would be the 2022 and 2023 and there isn't as much equity. And so that loss given default there is larger. And that's the primary driver of that uptick in the loss ratio. That said, we really don't see the loss ratio migrating a lot higher this year. Our long-run pricing loss ratio is in the 15% to 20% range, and I think we'll be comfortably below that still this year.

But over the longer term, it will trend back towards that 15% to 20% only because we're coming out of abnormally lower loss environments. Obviously, we saw incredibly strong house price appreciation, very strong employment. So, we can't look at the prior years of single-digit loss ratio as being normal.

So longer-term, yes, trend back towards that 15% to 20%. All that said, keep in mind that there's tremendous capital buffers in the business, and we don't anticipate that having any impact on our ability to maintain our annual distributions and the business is certainly built to handle these kinds of economic volatility that we see right now.

Bart Dziarski ^ Great. Very helpful. And then a follow-up on -- or I guess, a question around Clarios. So Anuj, you expressed confidence around the value doubling over the next five years. Maybe help us understand what you see as the key value levers to drive that increase?

And then you've held this asset or you invested in it, I guess, since 2019. So how should we think about where that value accrues to in terms of do you expect to hold it for another five years? Or would you be looking to kind of surface that value via exit?

Anuj Ranjan^ Sure. Thanks. So I'll start, and then I'll let Jaspreet to also chime in a little bit on just that bridge to value creation. I'd say this is an incredible business, it generates a lot of cash flow, it's a real market leader. And the shift that we're seeing to advance or the absorbent mat batteries is something in which Clarios is getting more market share and getting higher margins as well.

And so everything is going the right way and it's on the right trend. You layer into that some of the tax credits that we're now receiving, the more certainty we have on them going forward.

This is an incredible business to continue to hold. I think it will continue to generate significant cash flow in the business which the business can invest in the business, can delever and also in more time, pay dividends.

So this is, in our opinion, one of our real great cash compounders, the kind that we sort of aspire for all of our businesses to eventually become. And therefore, we're in no, I'd say, hurry to do anything in terms of exiting because of the cash profile we see coming in the next near term and coming years. However, of course, we're always opportunistic.

We're always thinking about value. And if the market recognizes the value in the company that we see in the cash that it generates in our hands, we will always keep our option open. I think I'll turn it over now to Jaspreet on the -- on some of the -- how we see the value double it over the next few years.

Jaspreet Dehl^ Look, I'd say just keeping at high level and simple, we talked about it at Investor Day, based on our view of NAV today, Clarios is about 30% of our NAV value which implies about $15 per share. And on an LTM basis, the business is generating about $2.3 billion of EBITDA.

And if you take a fairly conservative view on annual growth of EBITDA in the mid-single digits, and the business has comfortably been delivering that, EBITDA could exceed $3 billion in five years. And we've talked about the fact that we view this as a 9 to 10 times multiple business from $3 billion of EBITDA. That's about $30 billion of enterprise value.

And I'd say with the cash flow generation, just organically in the business, plus obviously the impact of the tax credits. Over the next five years, the business can generate circa $8 billion of cash. And when you take that cash against kind of where debt is today which is $11 billion, and you take $8 billion of cash generation over the next five years, that kind of net debt number is significantly lower, like $4 billion.

So on $30 billion of enterprise value, $4 billion of net debt, and you've got equity value look like $26, $27 billion. And that really, if you take that at BBUC share that basically double stack $15 per share contribution for Clarios. There's a lot of numbers we gave so hopefully that's clear.

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

Devin Dodge^ I wanted to start with some questions on DeployCo, that AI deployment platform you talked about Anuj. So, this is a bit of a different investment for BBUC here, it doesn't come with a control position, so I'm going to start with a 2-part question.

So first, can you speak to the role or influence that Brookfield will have in that business? And then secondly, is DeployCo primarily an advisory type business? Or is some of that capital being invested going to be used to acquire technology and equipment?

Anuj Ranjan^ Yes. Sure. Devin, happy to take that. So first is, as we've been talking for many years now about AI's role in transforming industrial and more traditional operational businesses. The real bedrock of the global economy.

And the real bottleneck, as I think we've outlined in past Investor Days and past quarters, the real bottleneck is not even the technology, it's not capital. It's actually change-management or the ability to deploy AI at scale.

OpenAI has also recognized this. The demand for their enterprise solutions far exceeds the ability to actually deploy it in enterprise. And so they saw an opportunity to create a vehicle and an advisory business, a services business, to actually go out and implement AI and some of these solutions in enterprise businesses at scale.

So, for us, first, as an investor, we thought that opportunity was very, very exciting. We believe it. We've seen it firsthand for operating companies.

We know the opportunity is there. We know the opportunity is real. I would think this is a business that can scale pretty dramatically. So that was our first interest in the business to begin with.

Second is we have managed to structure our investment as a preferred instrument which gave us a lot of confidence that we are quite well covered on a downside perspective. We will earn returns in excess of our 15% target.

We're very comfortable with that, but that we are retaining meaningful upside in this business with our partners, OpenAI and others, we're able to scale it, we can actually have some pretty dramatic upside which is also very interesting from a financial investment perspective.

Third, I'd just say the third part that was really interesting to us was that we, as an owner of operating businesses, we see this as an opportunity to benefit from what this OpenAI deployment company will do, meaning we will now have access to leading technology. We'll have access to it at very early stages.

We'll also have access to the talent that's required in the OpenAI deployment company to implement these latest technologies and AI across our portfolio companies in view.

So this, for us, is a huge advantage that we think will pay dividends across the portfolio. So all of that is why we were very excited about the investment. And again, we've signed an agreement to invest $500 million which is $150 million at BBUC's share.

I think you also asked about governance. And I'd just say that, look, we're a minority investor with a preferred instrument that helps protect us that investment has a minimum return in the high teens. That's above the 15% that we will target. So we're quite comfortable there. We have, I'd say, standard minority governance that you would have in a business like us.

Devin Dodge^ Okay. Great color there, Anuj, I appreciate that. Maybe just one quick follow-up there. Just wondering, does that agreement of this JV, does it limit Brookfield's ability to invest in the deployment of other AI models.

Anuj Ranjan^ No. It does not. And so, we will always use whatever is the best tool or technology for our portfolio companies or they will decide as they see fit. This just gives us additional, I'd say, beneficial access to not only technology early, but also the talent and the change in management capability to implement it in our businesses.

Devin Dodge^ Okay. Got it. Okay. So next question is going to be on BRK. I believe it was awarded a new concession earlier this week. Just wondering how meaningful that could be for the business.

And then just as it relates to BRK, is there any update on the monetization front, we've seen a couple of interest rate cuts down in Brazil which I'm assuming should be helpful for buyer interest out there.

Jaspreet Dehl^ I'll take that. So, you're right, towards the end of April, BRK won a new concession in the Northeastern part of Brazil. And it's fairly fresh, as you are aware, it takes time to ramp up these concessions.

It does represent a meaningful win for the business. And we do think over time it will grow substantially and add to the overall portfolio and the earnings power of the business. Again, it's small today, but once this kind of fully ramped up, we expect that it will be a significant part of the overall business.

Devin Dodge^ Okay. And then on the monetization front, any update there?

Jaspreet Dehl^ Yes. So we're still continuing to be kind of focused on monetizing the business. I think we've talked about it before that are in a base case is still an IPO.

We think this is an incredible business that would make a really great public company. And the capital markets environment in Brazil has been choppy, but it is stabilizing. Interest rates were at the peak at 15%. We've seen a few interest rate cuts and we're sitting at about 13.5% now. So that seems to be going in the right direction. So, our view would be we still IPO this business assuming we have got an appropriate window to market.

Operator^ (Operator Instructions) Our next question comes from the line of Scott Fletcher from CIBC.

Scott Fletcher^ I wanted to ask a question on CDK, certainly some headlines around the creditors there. But from maybe a bigger picture perspective, I'm just curious with the price where the bonds are, it would imply the equity is under some pressure here. In a situation like this, what is your general approach to or getting as much value as you can out of a situation like this?

Jaspreet Dehl^ It's Jaspreet. Maybe I could get started, and then I can see if Anuj wants to add anything. I'd say our general approach on just our business, we obviously look to make investments that generate our 15% to 20% targeted returns. We've got an incredible operating team that works with all of our businesses to create value. And we've built an incredible track record, not only over 25 years doing this, but even over the last 10-plus years as a public company have executed on that.

Having said that, every once in a while, there are situations that don't go our way and they don't go in with our expectation and underwriting, and we've dealt with them from time to time. And our approach is always value preservation. When we underwrite a business, we are underwriting to a base case and upside but also a downside case. And in every situation, we want to protect our capital. We want to preserve our capital, and we want to be able to at least make a decent return on the investment even when things don't go according to plan.

And when we do get into those situations, I'd say we put our shoulder behind it, we put additional focus, we swarm businesses, put our best people on it to work us through the situation.

And you've seen kind of that journey in one of our businesses, Altera, where we work with a very difficult situation just given what's going on broadly in the market, and we worked very hard to kind of turn that around and return the majority of our capital.

So, I'd say all of my comments are kind of just generally our approach to difficult situations and not kind of specific to CDK or any other situations.

Scott Fletcher^ I appreciate the commentary. I understand. The situation is hard to comment on specifically. And then just a clarification question. Just on the tax credits, they were they were both with the 2025 year that was received. Is there any additional clarity on the 2024 credits which I think are still pending?

Jaspreet Dehl^ Yes. So, what we received was $1 billion for the 2025. And the 2024 is still under processing at the IRS. We haven't received any feedback to indicate that the refund should not be coming as it is under process.

So that's really all the information that we have. The basis of that credit is no different from the 2025 credits. So, as Anuj said in his opening remarks, we feel very confident of ability of the credits to the end of the decade.

Scott Fletcher^ No. It's good news for sure.

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

Anuj Ranjan^ Thank you all for joining us this quarter. And we look forward to seeing you next quarter.

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