

# Letter to Unitholders

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Brookfield Business Partners (“BBU”) had an active and successful 2019. Company EBITDA increased to over \$1.2 billion and Company FFO increased to over \$1.1 billion or \$7.86/unit. Our strong financial performance was a result of contributions from recent acquisitions and improved performance across our businesses. Since the beginning of 2019 we invested over \$2.5 billion to acquire new businesses and generated over \$1 billion from the monetization of mature operations and distributions from our businesses. We ended the year with \$2.3 billion of liquidity, positioning us well for continued growth in 2020.

Our overall objective to create long-term intrinsic value per unit remains unchanged, and the increase in BBU's intrinsic value is evidenced, in part, by the growth of our Company FFO per unit that has more than tripled over the last two years. Most of our value creation has been achieved by acquiring high-quality businesses for value and improving their underlying operational performance and cash flows.

## Embedded Value

We have meaningfully improved the overall quality of our business operations over the past few years by recycling proceeds from the sale of smaller businesses to fund the acquisition of larger businesses with increased scale, stronger barriers to entry and more resilient cash flows. Our largest businesses today are market leading providers of essential products and services. The resiliency of these operations should contribute to more stable performance at BBU across economic cycles.

In addition to resiliency, our portfolio of businesses has considerable embedded value growth which we will surface through initiatives currently underway. At Westinghouse, to date we have achieved over \$150 million in annual EBITDA improvements and identified opportunities to achieve up to an additional \$200 million in EBITDA. At Clarios we have an initial target of \$300 million in EBITDA improvement, and are developing additional plans to enhance cash flows and create value.

In some instances, as in the case of Westinghouse, we have been able to implement improvements and generate significant value in a relatively short period of time. In other cases the repositioning of businesses takes more time, as in the cases of GrafTech and North American Palladium, the latter of which took several years to realize the value from our efforts. BRK Ambiental (“BRK”) is a similar example of a company with significant potential where we expect to realize meaningful value creation over time.

## BRK Ambiental

At its core BRK is a simple business. It connects new customers to its water and sewage networks, provides them with quality service and receives a tariff for that service. At this stage in its evolution, BRK invests virtually all its cash flows to improve and expand its service networks and this expansion provides it with significant organic growth.

Since acquiring BRK almost three years ago, we have focused on working closely with management to better manage and execute BRK's capital projects. During 2019, the company invested almost \$250 million to expand its service networks, adding over 700 kilometers of pipe and 70,000 new connections which resulted in a 15% increase in EBITDA over 2018. Over the next five years, BRK expects to further drive cash flow growth by investing \$250 million each year in its existing operations, all of which should be self-funded.

Our efforts, working with BRK's management team, to improve business operations and create a performance-based culture, are having a positive impact. Our strong emphasis on safety has reduced workplace safety incidents by 70% and water quality programs have more rigor as a result of being centralized and standardized to ensure adherence with all required water quality standards.

In 2019 we closed the sale of BRK's three industrial water treatment operations at an attractive price and generated \$175 million of net proceeds that will be reinvested in the company's municipal operations and used to repay corporate debt. In addition, last year BRK acquired the 10% interest of a minority partner in the Recife operation at an attractive price. Recife is one of our largest operations and has strong contractual growth over the next five years.

In addition to our operations-focused efforts, there have been two meaningful improvements to the business environment for BRK. First, Brazil's new federal government has been successful in passing transformational reforms and is currently progressing new sanitation legislation through congress aimed at increasing private sector participation. Up to now only one concession of size has been auctioned in the last few years and if this legislation is passed we expect an increase in the number of new opportunities of scale in the next few years as municipalities look to accelerate the improvement in the level of sanitation services.

Second, inflation is under control and interest rates have dropped from a peak of over 14% in 2016 to 4.5% at the end of 2019. The expectation is for inflation to remain stable and for slow but steady economic growth. Brazilian investors that had grown accustomed to generating high returns from money market funds are now seeking new ways to earn more yield while maintaining inflation protection. In this environment our business, with its long-term contracts and inflation protected cash flows, is very attractive. While we still have lots of work to do to fully realize on our investment thesis, BRK has become a more robust company and remains well positioned to compound returns over the long-term.

BRK is just one example of the value creation potential within our business today. We are executing a similar hands-on approach to enhance value and improve cash flow generation across our operations. Not all of our businesses will compound growth at the same rate, but if we successfully execute on our plan, we believe our existing businesses should increase BBU's intrinsic value per unit by approximately 30% over the next two years.

## **Strategic Initiatives**

### **Genworth Canada**

In December we closed our acquisition of a controlling 57% ownership interest in Genworth, the largest private sector residential mortgage insurer in Canada, which is an essential service provider to the Canadian banking industry. We funded the acquisition with \$1.7 billion of equity, of which BBU's share was \$670 million, net of dividends received shortly after closing, for a 24% ownership in the company.

Genworth has significant scale and a long track record of generating strong cash flows across housing and business cycles. Our history of owning and operating regulated insurance companies together with our ability to provide the seller with speed and certainty of execution positioned us well to acquire this high quality, cash generative business for tangible book value. Over time we believe we can assist Genworth to enhance its business, optimize its capital structure and improve the returns earned on its investment portfolio.

The business also continues to generate significant cash flow, and since December Genworth has declared two special dividends and returned over \$300 million to shareholders. The strong cash flow profile of the company should continue to support the return of capital to BBU and help fund our future growth, absent better opportunities within Genworth.

### **BrandSafway**

Subsequent to the year end, together with institutional partners, we closed our acquisition of a 48% ownership interest in BrandSafway, a leading global infrastructure services company that provides access, specialized services, and forming and shoring solutions to the industrial, commercial and infrastructure end markets. BrandSafway's scale and reputation as a leader in engineering innovation and productivity are competitive

advantages in a fragmented industry. The recurring nature of BrandSafway's services derived from the ongoing maintenance requirements of its customers results in resilient cash flows across economic cycles.

We funded the transaction with \$1.3 billion of equity, of which we expect BBU's share to be approximately \$400 million for a 15% ownership interest in the business. We look forward to working with our partners and the management team to execute initiatives identified during our due diligence, build on BrandSafway's history as a service provider to Brookfield's broader operations and support the business' growth plans.

### **Altera Infrastructure**

In January, together with institutional partners, we completed the privatization of Teekay Offshore for an aggregate investment of \$165 million, of which BBU funded approximately \$75 million. We offered all minority unitholders the option to exchange one publicly traded unit of Teekay Offshore for one new economically equivalent unit in the private company. Unitholders who exercised this option and elected to continue to invest alongside us in the new private company hold an approximate 1% ownership interest as our partners. We are rebranding the company to Altera Infrastructure to reflect its identity as a global energy infrastructure services company committed to operational excellence and sustainable responsibility.

### **IndoStar Capital Finance ("IndoStar")**

In January, together with institutional partners, we committed approximately \$220 million to acquire a 40% interest in IndoStar, an Indian financing company primarily servicing the used commercial vehicle segment. BBU expects to fund approximately \$75 million of the equity purchase price. India is an attractive market for us, and we have been selectively pursuing opportunities over the last several years that leverage Brookfield's local presence and broader experience. The ongoing Indian credit crisis which has resulted from an increase in the number of non-performing loans within state banks has depressed valuations across India's financing sector today. We acquired this platform at approximately book value, which rarely occurs in a growth business and when it possesses a strong management team and a large retail lending infrastructure in underserved markets.

### **Capital Recycling**

In December, we completed sales of GrafTech common shares to the broader market and the company to further monetize our ownership interest. Combined, the transactions generated proceeds of approximately \$135 million to BBU. We continue to own 25% of the company.

Also, in December, we closed the sale of North American Palladium for net proceeds to BBU of \$130 million. This was a very favorable outcome for us following a successful operational transformation of the business that coincided with increased market demand for palladium. Net proceeds from the sale combined with dividends received equate to 3.3 times our original investment and a 26% IRR.

Subsequent to year end, we sold our cold storage warehousing business, Nova Cold, for net proceeds to BBU of approximately \$45 million. Since our initial acquisition in 2013 we executed a successful repositioning focused on increasing capacity utilization, providing a best-in-class service offering and selectively expanding operations which resulted in meaningful growth. While a relatively small investment for BBU, the sale generated realized proceeds of approximately 13 times our original investment and a 56% IRR.

## **Overview of Operational Performance**

Our Infrastructure Services segment generated Company EBITDA of \$468 million for 2019. Performance at Westinghouse, our service provider to the global nuclear power industry, was strong for the year and the business is now achieving our targeted run-rate EBITDA of \$600 million. Results in 2019 reflect the benefit of our ongoing profit enhancement initiatives, strong performance in the core fuel manufacturing and servicing operations and continued execution on new plant projects. Supported by strong cash flow generated by the business during the year, Westinghouse paid a \$275 million dividend of which BBU's share was \$120 million. Since our acquisition just 18 months ago, we have received more than \$250 million in dividends which represents over 60% of the capital BBU invested to acquire Westinghouse.

Altera Infrastructure's contribution for the year increased primarily as a result of our increased ownership and also benefitted from increased shuttle tanker and towage utilization. The shuttle tanker renewal program remains on track. The company took delivery of one new shuttle tanker in January and the remaining six shuttle tankers under construction are expected to be delivered over the next two-year period.

Our Industrials segment generated Company EBITDA of \$619 million in 2019. Results benefitted from Clarios, our global manufacturer of automotive batteries, which we acquired in April. The business is performing well and carve-out activities are progressing on plan with a focus on setting up new corporate functions. Going forward we plan to optimize our manufacturing operations and supply chain, and are considering alternatives related to non-core activities and joint ventures. In December we closed the acquisition of Robert Bosch GmbH's 20% interest in our European battery manufacturing and sales joint venture.

GrafTech, our global manufacturer of graphite electrodes, generated reduced EBITDA for BBU primarily due to our decreased ownership interest in the business. Overall the company's earnings and cash flows continue to benefit from long-term supply contracts.

Our Business Services segment generated \$221 million of Company EBITDA for 2019. At Healthscope, our Australian private hospital operator, we have progressed onboarding activities and now have an experienced senior management team in place to execute our overall business improvement plan. It is early days for our investment, but we are working to address many of the challenges we identified during our due diligence process to improve the company's operational discipline, achieve labor savings and optimize the occupancy of our private hospital network. At our pathology services business, we recently were awarded a new contract to provide laboratory and pathology services for a local health district, reinforcing the business' position as the market leader in New Zealand.

Financial performance at our construction services business, Multiplex, improved significantly in 2019 compared to the prior year. During the fourth quarter 2019 the company secured four new projects, most notably Westside Place Stage 2 in Melbourne valued at \$450 million. We ended the year with a strong backlog of approximately \$7 billion.

At our road fuel distribution and marketing business we are focused on enhancing margins. Results were positively impacted by stronger biodiesel blend margins in Europe, partially offset by softer margins in our Canadian retail operations.

## Capital Position and Liquidity

We ended the year in a strong financial position with total liquidity of \$2.3 billion including \$274 million of cash and liquid securities and \$2.1 billion of undrawn credit facilities. Given the substantial growth in our overall business, we increased our corporate debt facilities by approximately \$750 million in 2019. We are also confident we can generate substantial liquidity from the monetization of our larger businesses, when it is appropriate to do so to fund our acquisitions. As an example, GrafTech to date has returned more than \$1.3 billion to BBU.

## Looking Forward

The acquisition environment today is competitive. Valuations in North America and other developed markets are near historical highs driven by robust capital markets, low interest rates, positive investor sentiment and substantial capital availability of buyout firms. That said, we believe we are well positioned to continue making value investments.

A key advantage of our business model is that we have a broad mandate and the flexibility to invest in many forms. We are seeing opportunities arise from mispriced public companies that become orphaned by the capital markets for one reason or another, causing them to trade below their intrinsic value. We also benefit from being viewed as a partner of choice for owners and existing management teams. We continue to review corporate carve-out opportunities, where some operations perform well below their potential. Finally, despite robust capital

markets, from time to time stressed sellers simply need liquidity, often on an expedited basis, which creates an opportunity to buy for value.

Our outlook for BBU is positive and we are well prepared for 2020 to be another active year for our business. We have built a global investment team with significant scale and a local presence in key regions where we operate around the world. We have a strong financial position with multiple levers to generate liquidity and are confident in our ability to continue to grow our business.

On behalf of everyone at BBU, thank you for your ongoing interest and support.

Sincerely,



Cyrus Madon

Chief Executive Officer

February 2020

#### **CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS AND INFORMATION**

*This letter to unitholders contains “forward-looking information” within the meaning of Canadian provincial securities laws and “forward-looking statements” within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended, Section 21E of the U.S. Securities Exchange Act of 1934, as amended, “safe harbor” provisions of the United States Private Securities Litigation Reform Act of 1995 and in any applicable Canadian securities regulations. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, include statements regarding the operations, business, financial condition, expected financial results, performance, prospects, opportunities, priorities, targets, goals, ongoing objectives, strategies and outlook of Brookfield Business Partners, as well as the outlook for North American and international economies for the current fiscal year and subsequent periods, and include words such as “expects,” “anticipates,” “plans,” “believes,” “estimates,” “seeks,” “intends,” “targets,” “projects,” “forecasts” or negative versions thereof and other similar expressions, or future or conditional verbs such as “may,” “will,” “should,” “would” and “could.”*

*Although we believe that our anticipated future results, performance or achievements expressed or implied by the forward-looking statements and information are based upon reasonable assumptions and expectations, the reader should not place undue reliance on forward-looking statements and information because they involve known and unknown risks, uncertainties and other factors, many of which are beyond our control, which may cause the actual results, performance or achievements of Brookfield Business Partners to differ materially from anticipated future results, performance or achievement expressed or implied by such forward-looking statements and information.*

*Factors that could cause actual results to differ materially from those contemplated or implied by forward-looking statements include, but are not limited to: the impact or unanticipated impact of general economic, political and market factors in the countries in which we do business; the behavior of financial markets, including fluctuations in interest and foreign exchange rates; global equity and capital markets and the availability of equity and debt financing and refinancing within these markets; strategic actions including dispositions; the ability to complete and effectively integrate acquisitions into existing operations and the ability to attain expected benefits; changes in accounting policies and methods used to report financial condition (including uncertainties associated with critical accounting assumptions and estimates); the ability to appropriately manage human capital; the effect of applying future accounting changes; business competition; operational and reputational risks; technological change; changes in government regulation and legislation within the countries in which we operate; governmental investigations; litigation; changes in tax laws; ability to collect amounts owed; catastrophic events, such as earthquakes and hurricanes; the possible impact of international conflicts and other developments including terrorist acts and cyber terrorism; and other risks and factors detailed from time to time in our documents filed with the securities regulators in Canada and the United States.*

*We caution that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking statements, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Except as required by law, Brookfield Business Partners undertakes no obligation to publicly update or revise any forward-looking statements or information, whether written or oral, that may be as a result of new information, future events or otherwise.*

#### **CAUTIONARY STATEMENT REGARDING THE USE OF NON-IFRS MEASURES**

*This letter to unitholders contains references to Non-IFRS Measures. When determining Company FFO and Company EBITDA, we include our unitholders’ proportionate share of Company FFO and Company EBITDA for equity accounted investments. Company FFO and Company EBITDA are not generally accepted accounting measures under IFRS and therefore may differ from definitions used by other entities. We believe these metrics are useful supplemental measures that may assist investors in assessing the financial performance of Brookfield Business Partners and its subsidiaries. However, Company FFO and Company EBITDA should not be considered in isolation from, or as substitutes for, analysis of our financial statements prepared in accordance with IFRS.*

*References to Brookfield Business Partners are to Brookfield Business Partners L.P. together with its subsidiaries, controlled affiliates and operating entities. Brookfield Business Partners’ results include publicly held limited partnership units, redemption-exchange units, general partnership units and special limited partnership units. More detailed information on certain references made in this letter to unitholders will be available in our Management’s Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2019.*