

Brookfield Business Partners (Q2 2021 Results)
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Corporate Speakers

- Alan Fleming; Brookfield Business Partners; SVP, Investor Relations
- Cyrus Madon; Brookfield Business Partners; CEO
- Denis Turcotte; Brookfield Business Partners; COO
- Jaspreet Dehl; Brookfield Business Partners; CFO

Participants

- Gary Ho; Desjardins Securities Inc.; Analyst
- Geoffrey Kwan; RBC Capital Markets; Analyst
- Nikolaus Priebe; CIBC Capital Markets; Analyst
- Dimitry Khmelnitsky; Veritas Investment Research Corporation; Analyst

PRESENTATION

Operator: Welcome to the Brookfield Business Partners Second Quarter 2021 Results Conference Call and Webcast. As a reminder, all participants are in listen-only mode, and the conference is being recorded. (Operator Instructions)

Now I'd like to turn the conference over to Alan Fleming, Senior Vice President of Investor Relations. Please go ahead, Mr. Fleming.

Alan Fleming: Thank you, operator. 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 security regulators in Canada and the U.S., which are available on our website.

On the call with me today is Cyrus Madon, Chief Executive Officer; Denis Turcotte, Chief Operating Officer; and Jaspreet Dehl, Chief Financial Officer. I'll turn the call first over to Cyrus to provide an update on our business, and then Denis will discuss recent activities at our advanced energy storage operations. Jaspreet will finish with a review of our financial results. We'll then be available to take your questions.

And with that, I'll pass the call over to Cyrus.

Cyrus Madon: Thanks very much, Alan. Good morning, everyone, and thanks for joining us today. So we've had a busy few months since our last call. We had a great second quarter. We continue to be pleased with the performance of our business. We

generated strong growth in EBITDA and FFO, and we're seeing positive momentum across our operations.

We've also been executing on a number of initiatives to build long-term value across our business. Earlier this week, we announced the launch of a structure which will give investors the option to invest in BBU either through corporate shares or our existing limited partnership units. Brookfield Business Corporation, or BBUC, will be a paired entity with our limited partnership but also a separately traded publicly-listed corporation with an expected initial market cap of around \$2.5 billion.

Turning to our acquisitions over the last few months, we've committed about \$1 billion to acquire three high-quality businesses. Each of these share the qualities we look for. They're industry leaders. They provide essential products and services. They're cash-generative and generate strong returns on capital.

In June, we agreed to acquire Modulaire Group for \$5 billion. Modulaire is a leading provider of modular building leasing services in Europe and Asia. This is a business we've come to know over the years as a customer of our construction operation. It has an excellent value proposition as a large-scale operator with an established branch network. We're acquiring Modulaire for about 9.5x normalized EBITDA, which we think is reasonable value, considering its financial profile, its growth outlook and market leadership position. We've identified opportunities to improve its operations and leverage our commercial relationships in the infrastructure, real estate and industrials markets to help grow this company. We're investing \$500 million for a 30% ownership interest, with the balance funded by our institutional partners.

In July, we agreed to acquire DexKo Global for \$3.4 billion. DexKo is a leading provider of highly-engineered components primarily for industrial trailers and towable equipment manufacturers. DexKo has a reputation as a solutions provider for its customers and holds leading market positions across North America, Europe and Australia. Like many of our operations, DexKo's business has durable cash flows due to a strong competitive position and flexible cost structure.

We're paying about 10x normalized EBITDA to acquire this business, and we believe there are opportunities to create value. We're investing \$400 million for our 35% ownership interest, with the balance funded by our institutional partners. We plan to support opportunities to both enhance margins and accelerate growth in partnership with DexKo's management team.

Finally, earlier this week, we agreed to acquire Aldo. Aldo is a leading Brazilian distributor of solar power kits for small businesses and households. These kits generate power where it's consumed, which is referred to as distributed generation. Distributed generation is a fast-growing market in Brazil, and Aldo is well-positioned as a leader with a cost-efficient e-commerce platform and large network of resellers. We're funding about \$115 million of a \$320 million equity investment for a 35% ownership interest.

The purchase includes an earn-out dependent on meeting certain targets, which we expect the business to self-fund.

We also continue to progress our capital recycling activities. During the quarter, we generated about \$130 million of net after-tax proceeds from the sale of common shares of GrafTech. Over the last three years, we've generated about \$1.8 billion from the monetization of this investment, which we've used to help fund our growth. We're exploring options to monetize some of our other mature businesses and hope to complete one or two of these by the end of the year.

Over the last few months, we were exploring a public offering of our advanced energy storage operations. And as Denis will touch on later, we decided not to move forward with an offering at this time due to market conditions. We'll look to revisit a potential offering in the future, but we're in a position to be patient. And in the meantime, we'll continue focusing our efforts to enhance this business further.

Looking ahead, our focus is on completing the initiatives underway between now and the end of the year while continuing to improve our existing operations. Our balance sheet is in excellent shape. We're well-positioned to continue building on strong performance in the second half of this year.

So with that, I'm going to hand it over to Denis.

Denis Turcotte: Thanks, Cyrus. Good morning, everyone. Our business operations team is continuing to work closely with the management teams across all our operations to advance their business plans by providing support and expertise to unlock value, enhance cash flows and grow their businesses. We've made good progress executing on our plans at our advanced energy storage operations, and I wanted to spend some time today highlighting our activities there.

It has been two years since we acquired Clarios, one of the world's largest suppliers of energy storage solutions. It sells more than 150 million batteries each year to original equipment manufacturers and aftermarket customers. Despite a challenging operating environment last year, we continued to execute on key priorities and transform the business through a combination of growth and business improvement initiatives particularly focused on its U.S. operations.

We have worked with the company to strengthen its organizational structure, improve plant performance and build functional excellence in the areas of talent management, supply chain, procurement and process engineering. To date, we've generated \$175 million of annual earnings improvement primarily focused within our U.S.-based battery manufacturing operations by de-bottlenecking assembly plants, optimizing the transportation network, reducing costs in general and improving the efficiency of our closed-loop recycling system. The success of these initiatives has enabled us to increase our total profit improvement target by \$100 million to over \$400 million annually.

The rapid growth in vehicles with nonconventional powertrains globally is driving volume growth and a mix shift at Clarios to advanced batteries. From a product and engineering perspective, we have repositioned the business to successfully pursue significant opportunity we see in these higher-margin advanced batteries. And today, we have about 50% of global production capacity. Our advanced products are well-positioned to enable the increasing electrical load requirements seen in nearly all vehicles entering the market today. We are at the forefront of advanced technology development, and our leading global position with original equipment manufacturers allows us to work closely with each of them during the development of future platform launches, designing energy storage technologies that will cost-effectively help them meet increasing environmental safety and vehicle electrification requirements.

We sell our products to almost every major OEM in the world and work with electric vehicle manufacturers to support their low-voltage needs. Today, we ship batteries for electric vehicle platforms manufactured by almost all electric vehicle manufacturers. We have a clear product roadmap of the largest global OEMs for the next decade. And the vast majority of electric vehicle platform launches, which we've already developed alongside our OEM partners, will be spec'd with Clarios advanced battery solutions.

We are also a leading provider of low voltage lithium-ion solutions and have been in the business for many years. The cost reduction curve for low voltage lithium-ion has not been the same as high voltage, and our traditional advanced battery low voltage solutions provide a cost-competitive product with unparalleled safety, reliability and sustainability.

We are partnered on a global basis with both established and emerging battery EV manufacturers on their new product launches and now have over 40% market share in battery electric vehicle platforms in the rapidly-expanding China market. As the world's preeminent supplier of low voltage batteries, we are best positioned to provide a full spectrum of solutions for our OEM partners.

As Cyrus mentioned, the positioning of this business and success of our operational improvement efforts supported exploring a public offering of Clarios over the last few months. Given market conditions, we decided not to move forward with an IPO at this time. We have an exceptional business with stable aftermarket profitability and exposure to high-growth automotive electrification trends. Our view of value in this business is unchanged, and we'll look to reap this at an offering in the future. In the meantime, we'll continue to focus on advancing our plans to unlock value and position the business to maximize its long-term success.

With that, I'll hand it to Jaspreet.

Jaspreet Dehl: Thanks, Denis, and good morning, everyone. As Cyrus mentioned, we reported strong performance in the second quarter, generating Company EBITDA of \$381 million compared to \$286 million last year. Company FFO, including gains on the sale of our GrafTech shares during the quarter, increased to \$356 million, or \$2.40 per

unit compared to \$173 million, or \$1.15 per unit last year. Excluding gains, Company FFO for the quarter was \$207 million, or \$1.40 per unit.

Q2 last year was significantly impacted by the economic shutdowns experienced across the globe. If we compare current quarter company FFO, excluding gains on dispositions, to Q2 2019, which would have been the pre-pandemic period; on a per unit basis, FFO has increased from \$1.06 per unit in Q2 2019 to \$1.40 per unit in 2021. This is a CAGR, or a compounded annual growth rate, of 15%.

Before providing an overview of segment performance for the quarter, I wanted to spend a few minutes on the launch of our corporate structure. This is an important step in our ongoing efforts to broaden our investor base. We hope BBUC will attract new investors who want to invest in our business but prefer not to own limited partnership units, while also providing a tax reporting framework that may be preferable for some investors.

As a corporation, BBUC should be eligible for broader index inclusion, which should also add to the growth of our ownership base with passive index investors. BBUC will be created through a special distribution that's effectively the same as a unit split. Existing unitholders will receive one share of BBUC for every two BBU units held. Following the spin-off, we intend to pay an identical dividend on every unit and every share of \$0.25 per annum, which will be paid out quarterly. This will equate to a 50% increase in dividends paid.

As a paired entity, BBUC shares will be structured to be economically equivalent to BBU units and have identical distribution. The shares of the newly-created corporation will be exchangeable into BBU units any time at the option of the shareholder. This exchange feature mirrors the structures of the recent corporate spinouts of Brookfield Infrastructure and Brookfield Renewable, which trade well and have been well-received by the market. We're hoping to obtain the necessary regulatory approvals to complete the special distribution of BBUC shares by the end of the year.

I'll now turn to segment performance for the quarter. Within business services, we generated Company EBITDA of \$145 million. This was a meaningful increase compared to last year. Our residential mortgage insurer contributed Company EBITDA of \$74 million. Results benefited from strong housing market activity in Canada and loss ratios that remain well below normal. Home sales volumes have started to level off following recent regulatory measures that should support maintaining reasonable risk levels of the industry.

Healthcare services in Australia performed well in the second quarter and generated Company EBITDA of \$19 million. Despite short-term lockdowns in Australia, demand for elective surgeries remained strong and increased surgical volumes offset higher than normal operating costs. We're investing in our mental health facilities to meet the growing need of an underserved area of the market, as well as in several of our flagship hospitals to strengthen our position as a leading acute healthcare provider in Australia.

Our construction business reported Company EBITDA of \$20 million for the second quarter. We benefited from strong project execution and normalized productivity levels. During the quarter, we secured six new projects, including the greenfield Western Sydney Airport. This brought our backlog to \$7.8 billion from \$6.8 billion in the prior quarter.

Moving now to our industrial segment. We generated Company EBITDA of \$145 million for the second quarter. Our advanced energy storage operations reported strong performance and Company EBITDA of \$106 million in the quarter. Battery volumes increased 18% year-over-year, driven by normalized demand in both aftermarket and virtual equipment manufacturing channels, as well as increased demand for higher-margin advanced batteries. As part of our broader initiative to consolidate our business, we sold down part of our interest in an Indian battery manufacturer and used the proceeds to reduce operating level debt.

Performance at our water and wastewater operation in Brazil remains stable. We're progressing our capital expenditure programs to build out our service network. In July, we began providing water services to the city of Maceió, and we're developing plans to build approximately 3,000 kilometers of pipeline and installed 400,000 new customer connections, which we expect will be funded through ongoing operating cash flow.

And finally, our infrastructure services segment generated Company EBITDA of \$125 million for the second quarter of 2021. Nuclear technology services reported Company EBITDA of \$57 million. Results in the quarter were in line with the timing of customer outage activity and planned fuel assembly shipments. The business continues to perform well and recently completed two add-on acquisitions to broaden our nuclear technology offering and strengthen our operational presence in the Canadian market.

Offshore oil services contributed Company EBITDA of \$43 million this quarter with lower activity levels. In July, we announced steps to strengthen the capital position of this operation, including an exchange offer for debtholders which will extend maturities and reduce cash interest payments for the business. These steps will enhance liquidity as we reposition the operations.

And finally, our work access services business contributed \$25 million in Company EBITDA for the quarter. This is a 25% improvement over Q2 as activity levels slowly recover.

Turning to liquidity. We're in a great position, with \$1.5 billion of available liquidity after accounting for our recent funding commitments. We have spent the last year refinancing borrowings at the operating level and capitalizing on favorable credit markets to drive down our interest costs and extend debt maturities. We remain confident in the strength of our financial position to continue to support our business and fund our growth activities.

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

QUESTIONS AND ANSWERS

Operator: (Operator Instructions) Our first question comes from Geoff Kwan with RBC Capital.

Geoffrey Kwan: My first question was just it seems like there's early cases, I guess, of COVID counts increasing again. Are there any of your businesses that are seeing any sort of early impacts in terms of its production, servicing, supply chain or anything like that?

Denis Turcotte: I think the short answer is nothing material. And that response is influenced by the fact that we've been in this for 18 months now. And we acted very quickly to make sure each business was hyper-focused on not only the direct impacts of COVID, but what are the secondary and tertiary implications of it. So they all remain hyper-focused. And in fact, they're all moving more and more back to work and conducting more of their businesses in their offices. And travel is up, ourselves included.

So I'm always worried, of course, about things like this. You never know how it's going to unfold. But we haven't seen anything related to this kind of third, or in some cases I guess in the U.K., even the fourth wave.

Jaspreet Dehl: Maybe, Geoff, I'd just add one comment. What we are seeing is, in Australia, we are seeing some lockdowns in some of the regions just as they've had spikes in COVID cases. And that is impacting the hospitals where it reduces the elective surgeries we're able to do. As Denis said, we're not seeing a significant kind of impact on EBITDA today, but we are monitoring that, and we continue to have the agreements in place with the government to the extent that we're not able to do elective surgeries. We could go back and rely on those government agreements.

Geoffrey Kwan: Okay. And my second question was on Sagen. Previously, we had talked about potentially looking to offer mortgage insurance for mortgages that would be outside of the sandbox of what the federal government would backstop. Is that something the company is still planning on pursuing?

Jaspreet Dehl: So look, the business has been performing really well, and they've had record levels of underwriting and transactional activity. So we'll look to explore kind of other growth areas; but I think for now, we're just focused on the current book.

Operator: Our next question comes from Gary Ho with Desjardins Capital Markets.

Gary Ho: First question maybe for Denis. Just on Clarios, you increased the profit improvement target by \$100 million. Can you give us a bit of color where that's coming from? I think you mentioned U.S. operations, or is that elsewhere? And can you comment on the timing in terms of when that full \$400 million may materialize?

Denis Turcotte: Sure. Well, the \$100 million was incremental to the \$300 million that I think we've discussed in a variety of calls. But the North American operation, we found the reconfigured management team there is really strong. And they are looking at everything from OEE rates across the plant system. There's a bunch of supply chain and purchasing improvement initiatives underway. Reorganizing the business has also the net effect, we reorganized to make it more efficient, and then that effect is you reduce the headcount. And that's happening across the system, started in January and is unfolding as we speak and over the next couple of quarters. So it's really across the system, but predominantly around operations and reorganization.

Gary Ho: And then timing expectations?

Denis Turcotte: Well, this original \$300 million target was to be achieved over a three-year period. This incremental \$100 million will be from day one, say, through year four, which is kind of an incremental two years from this point.

Gary Ho: And then maybe just staying with Clarios, just on the \$1 billion IPO, what was the pushback there? Was it the leverage or valuation on your end? I just want to gauge what could be done before the next go at it.

Cyrus Madon: Look, it's Cyrus here. I think the feedback we got is that their market was very busy. It became choppy. A number of IPOs were pulled. And there was no one specific factor that caused us to pull the IPO. We probably could have proceeded at a lower amount, perhaps at a lower valuation. But just like we try to be disciplined when we're buying things, we want to be disciplined when we're selling things, and we're in no rush whatsoever to take this company public. If the opportunity arises and in the future we get a value which we think is reasonable for our unitholders, we'll reconsider it. But otherwise, we won't.

Gary Ho: And then, maybe on a related topic, we talked about the potential Clarios and Westinghouse monetization last quarter on the call. I know you're still fairly comfortable capitalized with \$1.5 billion of liquidity. But with the delay here, does that change how you view monetization of Westinghouse or other assets? I just want to get some color on how you think about monetization versus other capital deployment opportunities here.

Cyrus Madon: Yes. Look, we should be clear. We have no need to sell any of our larger businesses. So we'll just start with that. We've got lots of levers to pull here, including up-financings at the companies, cash generated at the companies. You've seen us pull out regularly large-scale dividends out of some of our businesses. We'll keep doing that. So it doesn't put any pressure on us to sell anything if we don't want to. That said, you should assume we are constantly assessing the market with most of our businesses for opportunities to realize proceeds where the values are acceptable.

Operator: Next question comes from Nikolaus Priebe with CIBC Capital Markets.

Nikolaus Priebe: I just want to ask a few questions about a pair of portfolio companies. Just looking at Westinghouse's EBITDA, contribution was a bit lower in the second quarter. And I know the recognition of earnings can display some variability there based on the timing of customer outage cycles, and it sounds like you're confident that the second half will be stronger. I was wondering if you could give us a bit of color on how maybe year-to-date results have compared relative to plan and whether you're still expecting growth for the full year there?

Denis Turcotte: Yes, Denis here. So no doubt there was a slower start to the year. And again, as for my earlier comments, it's indirectly a function of COVID and the fact that customers last year and through this year, because they planned their outages well in advance, have kind of pushed things off a little bit. But we're looking forward to a strong back half of the year and, in fact, expect that the full year results will be probably modestly better than last year. So we're looking forward to the order book we have.

Nikolaus Priebe: And then my second question, just with respect to Sagen, I think that business, premium growth has benefited over the past year from CMHC tightening its qualification criteria. I'm just wondering if I could canvas your thoughts on CMHC's decision to walk back those changes and just get a sense of maybe how defensible you think recent market share gains might be.

Cyrus Madon: Well, we can't comment on what CMHC is doing and what their strategy is. It's quite possible they'll take back some of the market share that they lost, but we expect to keep some of our gains for sure, going forward.

Operator: (Operator Instructions) Our next question comes from Dimitry Khmelnsky with Veritas.

Dimitry Khmelnsky: So first question that I have is on Everise and IndoStar. Just wondering, when you made those investments, what was the original or expected FFO yield on the going-in FFO yield on those?

Cyrus Madon: Dimitry, I'm going to ask Jaspreet the question, but I don't think we actually published an FFO yield when we made those acquisitions.

Dimitry Khmelnsky: And maybe you can perhaps comment on their contribution to this quarter's EBITDA and FFO.

Jaspreet Dehl: Dimitry, it's Jaspreet. So again, we don't disclose kind of specifically Everise and IndoStar EBITDA or FFO contribution. They are small relative to the size of our overall business. Maybe I could provide you a little bit of color on kind of underlying performance of the two businesses.

IndoStar, which is the India lending business, they did have a difficult quarter this year, just given the COVID impact on the business. India was going through a second wave of COVID, and that did impact disbursements and collections in the business. So

performance is probably below where we would have liked for this quarter. But I'd say, even kind of as early as July, we were starting to see some of that recover.

Everise is early days. We closed that acquisition in January this year. And that business is performing very well and in line with our expectations. They've won a couple of new contracts. We're starting to service more of the U.S. customers through offshore locations, which is accretive to margins. Again, it's early days, but things are quite positive in that business. But again, the overall contribution of the two businesses is fairly small to EBITDA today.

Dimitry Khmelnsky: And I wonder if you can comment on Cardone. What are the trends that you are seeing there? And how is the turnaround progressing? Any comments on that would be helpful.

Denis Turcotte: Denis here. The turnaround is on track. It was, as you remember, a difficult situation, and job one at the beginning was to put in place a competent management team. We feel very good about the team. We see not only their efforts, but we see their results in repositioning the product mix. And of course, there's been a spring-back in demand in a variety of their product categories. There's a bit of softness in some of their product categories, but the good news is that tends to be the lower-margin part of our mix. In the higher-margin elements, we're actually growing at a rate above our internal target.

So all in all, we're confident. We're on track. And we're optimistic that we're going to meet plan, but this is work, and it will take time.

Dimitry Khmelnsky: And I wonder if you can comment on BrandSafway in terms of what was the impact of shutdowns on that business in Q2 last year?

Jaspreet Dehl: It's Jaspreet, Dimitry. Maybe I can start, and then Denis can add. So we did see a significant impact last year at Brand through the depth of the COVID crisis, especially in the U.S. And as you can appreciate, this is a people-heavy business, and we typically have a lot of people on the ground when we're doing work. So maintaining kind of some of the social distancing and the safety measures became more difficult, so that had an impact on business performance. We also saw last year deferral of some maintenance work as well as some large-scale capital projects from our customers specifically in the oil and gas industry. And so that impacted activity levels and performance in Q2 last year.

What we're seeing now is, as I mentioned, kind of a slower recovery. There's only so long you can push out maintenance work, especially for large-scale kind of industrial operations. So we are seeing some of that starting to come back. The new construction maybe has been a bit slower. But I'd say year-over-year, we're definitely seeing a pickup in activity. And looking into the back half of this year and early next year, it should continue to recover,

Denis Turcotte: No, I think you did a great job. There's not a lot to add other than I would say, on the growth front, the conditions that were difficult for us over the last year indirectly are creating opportunities for us. We've got a good pipeline of acquisition targets underway. And we've got a couple of things very developed in that regard and should probably be able to announce over the next couple of quarters, at least one, if not a couple of acquisitions. Yes, so every difficulty indirectly then creates an opportunity for a company of this size, given its market positioning.

Dimitry Khmel'nitsky: I wonder if you can talk more about the recent acquisitions, the Modulaire and DexKo, maybe perhaps more specifics about plans, going forward, any potential maybe revenue synergies, et cetera, from the other businesses that you own that could benefit from that, et cetera?

Cyrus Madon: Look, Dimitry, Cyrus here. The plans for these businesses are we're going to treat them just like all our other acquisitions. We have an onboarding plan. We'll develop a detailed plan of how we're going to hit the ground running over the first few months, put in place our capital allocation strategy, look for growth opportunities, look for productivity improvement opportunities, all of which we identified before we bought it, but we'll refine those strategies and start executing.

Operator: And this concludes the question and answer session. I would now like to turn the call back over to Cyrus Madon for closing remarks.

Cyrus Madon: Well, thanks very much for joining us, and we look forward to speaking with you next quarter.

Operator: This concludes today's conference call. Thank you for participating. You may now disconnect.