

Brookfield Business Partners - Q1 2025 Results Conference Call & Webcast May 2, 2025

Corporate Speakers:

- Anuj Ranjan; Brookfield Business Partners L.P.; Chief Executive Officer
- Jaspreet Dehl; Brookfield Business Partners L.P.; Chief Financial Officer
- 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
- Jaeme Gloyn; National Bank Financial, Research Division; Analyst
- Nik Priebe; CIBC Capital Markets, Research Division; Analyst

PRESENTATION

Operator^Welcome to the Brookfield Business Partners' First Quarter 2025 Results Conference Call and Webcast. As a reminder all participants are in a listen-only mode and the conference is being recorded. After the presentation, there will be an opportunity to ask questions. To join the queue, simply press star, one, one on your touchtone phone.

Now I would 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 an update on business performance and our strategic initiatives from Anuj Ranjan, our Chief Executive Officer. Adrian Letts, Head of our Business Operations team, will then be on to share some perspective on the current operating environment. We'll end the call with Jaspreet Dehl, our Chief Financial Officer, providing a review of our financial results. After we finish our prepared remarks, the team will be available to take your questions.

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

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

We've had a good start to the year, generating over \$1.5 billion from our capital recycling initiatives and committing \$370 million to acquire two market-leading industrial businesses. We've significantly reduced our corporate borrowings and also bought back nearly 6 million of our units and shares. As you may recall we announced a \$250 million repurchase program earlier this year and we have already returned \$140 million to shareholders as part of that.

While the market fluctuations we've seen play out over the past month can be unsettling, our strategy is exactly the same - to own great businesses with market-leading positions and execute on our plans to enhance their underlying performance and cash flows.

This has allowed us to compound value through periods of uncertainty in the past and gives us confidence as we manage through the current evolving environment. The reality is that most businesses, including ours, won't be entirely insulated from the impacts of tariffs or a potential downturn in global growth. However, having experience in navigating economic cycles and the operational capabilities to adapt will allow us to position our business for continued value creation.

Regardless of where policy changes shake out; it does feel like the broader themes of relocation and digitalization are here to stay. Capital will flow to these areas as companies look to reduce dependency on cross-border trade, strengthen supply chains and invest in domestic capabilities.

The United States remains an extremely attractive destination for capital. We've been investing in the backbone of the U.S. economy for years, building a track record as an owner and operator of great businesses. Today the growth of many of these businesses is accelerating as technology, relocation and policy changes converge. Advancements in artificial intelligence, automation and robotics are ushering in a new era and will create immense opportunities to buy and completely transform many of these industrial companies at a much more rapid pace.

Growth in Europe has lagged behind the U.S. for years, but the region is uniting around a pro-growth agenda with governments signaling that they are willing to play a part in easing regulation, promoting productivity and supporting spending. Meanwhile, India remains a bright spot in the global economy and the Middle East, specifically the Gulf countries, continue to thrive, largely insulated from current geopolitical dynamics, which is supporting a highly conducive deal-making environment and opportunities for us to strategically grow our presence or monetize businesses there over time.

Over the years, we've made some of our best investments during periods of significant dislocation. Being global with a local presence and having strong access to capital puts us in a great spot to both accelerate buybacks and take advantage of growth opportunities.

Just recently, we reached an agreement to acquire Antylia Scientific, a leading manufacturer and distributor of critical consumables and testing equipment serving life sciences and environmental labs. Antylia has a sticky customer base, providing essential

products which support the accuracy and repeatability of processes and labs. The business has historically grown through a series of acquisitions and we see a lot of opportunities to improve its manufacturing, commercial strategy and supply chain to capitalize on key growth opportunities.

A lot has changed since the start of the year, but our commitment to compounding long-term growth for our investors remains the same. We're prepared for some uncertain days ahead, but are equally optimistic and confident in the quality of the businesses we own, the strength of our operational capabilities and the increased flexibility of our balance sheet to support our growth.

With that, I'll pass the call over to Adrian Letts, who oversees our Global Business Operations team and is going to spend some time talking about how we're positioning our business in the current operating environment.

Adrian Letts^ Thank you, Anuj. Good morning, everyone. I'm happy to be on the call today.

As many of you are aware, today, we have more than 30 dedicated operating professionals located around the world with a broad range of backgrounds, functional expertise and domain knowledge. Having senior executives on the ground in all the regions where we operate to support our management teams is critical to allowing us to respond quickly to an evolving global operating environment like the one we've seen over the past few months.

I'm sure the topic of tariffs and trade is top of mind for most of you - and like many, we're continuing to assess the impacts on our businesses as well as the broader risk that changing policy decisions may have on global economic growth. Our work is ongoing, but as we parse through the noise, we do not anticipate that tariffs will have a material impact on the cash flows of our businesses. While we're global, many of our businesses source, manufacture, or provide services in-region for-region. For the most part, this means that they're not heavily reliant on cross-border trade and our exposure is limited - with most of our manufacturing and operating presence being in the U.S., Europe, Mexico and Canada.

Where we do have some direct exposure, we expect the impacts to be manageable and limited to a handful of industrial operations. At Clarios, our advanced energy storage operation, a portion of its U.S. batteries are manufactured and recycled in Mexico. However, these should fall under a USMCA exemption that remains in place and the impact of tariffs on the business is not expected to be material.

We are working through some expected impacts at DexKo, our engineered components manufacturer related to tariffs on imports from China. However, on a relative basis, DexKo should fare better than most of its competitors given its sourcing and manufacturing footprint. Over time we expect most of the impact on DexKo's business can be mitigated through commercial and sourcing opportunities.

More broadly, we're leaning into our operational capabilities and evaluating proactive measures across each of our businesses to ensure we're best positioned to mitigate any headwinds and prepare for scenarios that may arise as the environment changes. Where we can, we're evaluating opportunities to near-shore production capacity, exploring alternative supplier arrangements, utilizing contract pass-through clauses and accelerating cost optimization initiatives.

Measured pricing actions will almost certainly be a lever to support margin performance in a potentially inflationary environment, but we'll need to be balanced in our commercial actions. As we're working through all of these opportunities, we're also very focused on the relative impacts to our competitors and how that may shape demand and market dynamics across industries and end markets where we operate.

For the most part, volumes across our businesses have held up well despite some demand headwinds we're dealing with in parts of Europe and some softness related to more discretionary related demand. That said, it's too early to assess the secondary impacts tariffs could have on a broader slowdown on economic and global growth.

On balance, the longer-term impacts from U.S. trade policy could be positive for businesses that we own, but we recognize the risk of potential near-term disruption. As a result, we're preparing for a more uncertain outlook over the next 12 to 18 months as both businesses and consumers adapt behavior and purchasing decisions in the current environment.

Fortunately, most of our larger businesses are global market leaders, providing essential products and services that are critical to their customers in any environment. There's always a market for these types of businesses and their strong durable competitive advantages generally enable them to pass through higher costs and underpin stable cash flows. We've seen this resilience demonstrated through past cycles including during the pandemic and our goal is to ensure we can improve the positioning of our businesses as we go through the current period of volatility.

With that, I'll hand it over to Jaspreet to review our financial results and be available to take any questions after prepared remarks.

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

First quarter Adjusted EBITDA was \$591 million compared to \$544 million in the prior period.

Adjusted EFO of \$345 million during the quarter included \$114 million of net gain related to the sale of offshore oil services' shuttle tanker operation and \$34 million in withholding tax expense related to the distribution received from our advanced energy storage operation.

Turning to segment performance –

Our Industrials segment generated first quarter Adjusted EBITDA of \$304 million, which included \$72 million of tax benefits at our advanced energy storage operation and contribution from our electric heat tracing manufacturer, which we acquired in January. Results at our advanced energy storage operation benefited from growing demand for higher-margin advanced batteries, ongoing commercial actions and the execution of optimization initiatives. The impact of end market weakness and lower volumes at our engineered components manufacturer were reflected in results as the business continues to actively manage costs to support margins and cash flow.

Moving to our Business Service segment which generated first quarter Adjusted EBITDA of \$213 million, an increase compared to \$205 million in 2024. Prior period results included \$6 million of contribution from our road fuels operation that was sold in July last year. Strong performance at our residential mortgage insurer and improved project execution at our construction operation contributed to segment performance during the quarter. Results at our dealer software and technology service operation reflect the impact of higher costs associated with the acceleration of planned technology modernization initiatives as well as customer churn.

Finally, our Infrastructure Services segment generated first quarter Adjusted EBITDA of \$104 million compared to \$143 million during the same quarter last year, which included contribution from our offshore oil services' shuttle tanker operation, which we sold in January. Stable performance at our modular building leasing services and our lottery services operations was offset by the impact of weak market conditions in work access services.

Now turning to our balance sheet and capital allocation priorities -

We ended the quarter with liquidity of approximately \$2.3 billion at the corporate level, which is pro forma for recently announced acquisitions and realizations.

Buying back our units at a significant discount to intrinsic value is an excellent use of our capital. As Anuj mentioned, in January, we launched a \$250 million repurchase program and since then, we have bought back almost 6 million units in shares, spending a total of \$140 million. We will continue to execute our repurchase program under our existing NCIB, which we plan to renew once it expires in August this year.

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 Gary Ho with Desjardins Capital Markets.

Gary Ho^ Maybe to start off with DexKo. You mentioned there's volume improvement in North America, but softness in International. You also mentioned some tariff implications.

Are you able to quantify that impact to EBITDA near term and are DexKo competitors also affected by tariffs as well?

Just trying to see how easily you can pass through potential price increases there.

Adrian Letts^ Yes. Look, thank you for the question.

Performance in Q1 was in line with plan. There's some sign of recovery in North America in Q1, but the market remains pretty muted. Trailer registrations in North America, which are a leading indicator of outlook, remain at a multi-year lows.

But I think the most important thing to point out is that the business has done a great job on cost and capital management and actually improved margins in a down market.

We're still parsing through the impacts of tariffs and putting appropriate plans in place. But to your question on competitor impact, there is going to be an impact on our competitors and I think proportionately, DexKo is well placed to manage through this.

Gary Ho^ Okay, great - my second question is on Clarios. Can you walk us through where you stand with the 45X filing? There's been many policy changes in the past couple of months. Any pivots in how you think about these credits Clarios is entitled to today?

Jaspreet Dehl^ Gary, it's Jaspreet. I'll take that.

To answer your last question first, there's really no change in terms of our views around the tax credit and it's in line with what we've said.

The business did file their tax return for the 2024 year end at the end of January and it's our understanding that it's being processed in the normal course. We are expecting the tax benefits and the credit we will get from the 2024 return in the near term.

Gary Ho^ Okay, great - then just the last one, if I can. In your letter to shareholders, you mentioned to generate proceeds from monetizations, you will look at additional ways to accelerate plans to return capital to shareholders.

Can you maybe talk us through what that might look like? Is it a bigger share buyback program - are you perhaps referring to the potential La Trobe monetization in those remarks? Any comment there would be helpful.

Anuj Ranjan^ Sure. It's Anuj here. As we've always done, we've always continued to look for opportunities to monetize or generate realizations in the market.

We've done a pretty good job over the last couple of years returning across the private equity group about \$10 billion over two years, of which a significant portion went to BBU. The nice thing is that great businesses which generate significant cash flow always have options.

We've tended to be quite creative in getting those monetizations or distributions. Whether it was Everise, Altera, Greenergy or even Clarios, we use different approaches. I'd just say that while I can't comment on any specific one company that may be mentioned in the media, I think we are always looking at opportunities, especially when we have great businesses that are getting appropriately valued. There's also a secondary market out there for private equity investments, which has been healthy.

If we are able to generate further monetizations or realizations, we do have continued capacity in our buyback, which is already currently going until August. We would look to renew that in August and afterwards continue to take our balanced approach of deleveraging, returning capital to shareholders and new investments.

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

Devin Dodge^ In the unitholder letter, there was mention of a realignment at Scientific Games. Just wondering if you could provide some additional context on how you think this will enhance value of the business?

Adrian Letts^ Thank you for the question. It's Adrian.

We're continuing to invest in digital and we're excited by the digital opportunity that we see. We think there's a significant opportunity to digitize the near \$100 billion lottery ecosystem globally and this opportunity extends well beyond online games and mobile games and it's embedding the technology into everyday customer interactions.

To support this vision, we've already begun deploying a number of innovative technologies including advanced retail vending solutions, cashless payment systems and mobile wallets to support a growth in omnichannel and customer engagement. To accelerate that, we've stood up a dedicated team.

In October 2024, we appointed a new Head of Digital, an accomplished leader with extensive experience in digital including stints at Amazon and Symantec and Albertsons.

We're actively expanding the team and at scale, we believe this has a significant opportunity to continue to grow EBITDA.

Devin Dodge^ Okay. Excellent color and maybe a second question.

We saw that Brookfield recently announced an agreement to invest in Barclays' payments business. Just given your current presence in the sector, should we assume that BBU participates in that transaction?

Then more broadly, can you speak to that investment pipeline that you see in the payments sector and where you think Brookfield can enhance the value of these businesses?

Anuj Ranjan^ Sure. It's Anuj here. I'll take that.

The answer is yes, BBU will participate in the Barclays investment. It's exactly in line with what we've already done in Network and Magnati, which have both been excellent businesses where we've continued to make great progress in operations.

Stepping back a little bit, Barclays is a great example of the type of opportunities we're looking at in financial infrastructure, where we feel that the broader global financial backbone - it does need a lot of investment and does need real operational capability to turn it around.

Often the incumbents that own these businesses have challenges making those investments today on their own balance sheet and it's opened up a lot of opportunities for us to step in and either acquire or partner with those incumbents in transforming those businesses.

We've done this very successfully in Magnati. We're continuing to do it successfully now in Network and I think we're going to apply a very similar operational value creation plan with Barclays. Just broadly, there's many, many more opportunities like that out there.

I think you can expect to see BBU continue to participate in these kinds of investments as we make them.

Devin Dodge^ Okay. Interesting. Just one last one.

Earlier this week, we saw that Schoeller Allibert reached an agreement to merge with IPL. Look, we recognize this is one of your smaller investments, but just wondering if that agreement provides Brookfield and BBU with an eventual exit.

Adrian Letts^ Thank you.

Look, as you rightly pointed out, we announced an agreement to merge the Schoeller business with IPL Plastics, which is a leading plastic manufacturer in North America and the U.K., which has a very complementary product and geographic customer portfolio.

IPL was privatized by Madison Dearborn, a private equity firm, in 2020 and the merger presents a substantial opportunity to create an international sustainable packaging producer at scale including 27 locations across the U.K., Europe and North America.

The transaction does not require any additional funding from BBU and its institutional partners. Following a debt-funded distribution to IPL shareholders, the capital structure will be 54% to Madison Dearborn and 45% to Schoeller Allibert shareholders. We expect the transaction to close in Q3 of this year.

To your question, given that we are now creating an international sustainable packaging producer with substantial scale, we think it presents a tremendous opportunity for value creation over the next few years.

Operator^ Our next question comes from the line of Jaeme Gloyn with National Bank.

Jaeme Gloyn^ First question just on CDK. The supplemental called out a little bit of churn still going through. I was wondering if you could frame that for us.

Have you seen improvements? Is it stabilizing, deteriorating? What can you tell us about how customers are still behaving with respect to the CDK business?

Jaspreet Dehl^ Yes. Sure. It's Jaspreet. Maybe I'll start and then Adrian can add.

I'd say just generally, if you look at the business performance year-over-year, the current year performance is lower. The majority of that is due to the technology investments that we've been doing in our products at CDK.

These costs - we're not able to capitalize them and we need to expense them. They flow through EBITDA and that is really the biggest piece of the year-over-year performance difference.

In terms of your question on churn. Churn is higher and where we're seeing that is more around customers that have a single product like a CRM or a single technology that they use from our stack. The customers that are core DMS customers or across multiple products and tech stacks at CDK, the churn there is stabilizing.

What we are seeing is that the impact of the overall churn is also being mitigated by commercial actions as well as extension of contracts. I'd say, overall, there's still work to be done, but the broader core DMS churn does feel like it is stabilizing.

Adrian Letts^ Then just to build on that, the investment in technology, we're taking a very customer-led approach. We believe that that will really set us up well to enhance our overall market position and as we look forward over the next 10 years, consolidate the strong position that we have.

Jaeme Gloyn^ Okay and something we don't hear too much about, but it still contributes meaningfully in Business Services is Unidas.

Can you give us a quick update on the performance of that business and the underlying market? Are you seeing any other potential macro impacts affecting that business?

Jaspreet Dehl^ Sure. It's Jaspreet again. I'll start and then Adrian can add. Unidas is our fleet management and car rental business in Brazil. I'd say, overall, the operating performance of the business has been fine.

There's two parts of the business on the fleet management side, these are medium-term lease contracts that we have with customers. We've got the ability to price the contracts in line with inflation. They are quite stable just given that the term on the contracts and the lease contracts.

So that business has been doing well. It's been continuing to grow. The other side of the business is the car rental side and again, the business is doing fine from an operating perspective.

We've spent a lot of time on transformation activities within the business since we bought it. It's got a number of branches, so maximizing utilization of the branches, sharing best practices, just improving underlying operating performance.

We did see, over the last couple of years, the used car prices, which on the car rental side, we buy new vehicles, we'll use them over a couple of years and then we sell them in the market. There was some pressure on used car prices, but we have seen that start to ease. I'd say overall, operating performance of the business is quite good.

The interest rates in Brazil have been going up. I think they're over 14% now. That has had an impact on the interest costs in the business, which impacts EFO. We are managing that, but the business is free cash flow positive. Look, I think in the long term, we're quite excited about this opportunity.

Jaeme Gloyn^ Okay and lastly, I just wanted to go back to a comment around managing through some of the potential tariff impacts, accelerating cost optimization initiatives and then pushing some pricing actions through.

Are these actions underway in any of the business lines? Maybe focus more on the pricing side - or is this just a playbook waiting to be deployed?

Adrian Letts^ I'll start. It's Adrian.

We are underway in terms of the actions that we can take, the pricing that we can put through. I think it's important to go back to the statements I made at the beginning. We're parsing through the noise. We're really trying to understand the situation as it unfolds. We're preparing, but we're also taking action where we can.

Jaeme Gloyn^ Can you elaborate on where that action may be taking place at this point?

Adrian Letts^ Look, I think there's a broad range of things that we're doing. Pricing is clearly something that we're looking at.

Jaspreet Dehl^ Yes and maybe I could just add a little bit of color there. If we step back to Adrian's earlier comments, like there's really only two businesses where we expect any first-line impact from tariffs.

One is Clarios - at Clarios, most of that impact is between Mexico and the U.S., where we have some lead recycling that happens in Mexico and again, Adrian spoke to this earlier, but with the current tariffs that are in place, we don't expect that, that's going to be any material impact.

Then the second business is DexKo- and again, Adrian touched on this already. We're looking at DexKo, we're looking at mitigation strategies including commercial and pricing actions. Just relative to how our competitors source a lot of the end products, DexKo is in a good position and if we do need to take pricing actions to mitigate the impact of tariffs, I'd say we'd be in a much stronger position to do that just given our manufacturing footprint and how we source our products.

So those are really the only two businesses, DexKo is the only one where we think there'll be more mitigation required if things do continue down the path that they are.

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

Nikolaus Priebe^ Okay. Just going back to Clarios for a moment.

Has the company had any interaction or dialogue with the IRS about the 2024 tax filing specifically and the credits that were recognized last year but haven't been converted to cash on balance sheet?

I'm just wondering if you have any visibility on how the review of that tax filing is progressing and maybe when you'd expect to hear back on it?

Jaspreet Dehl^ Look, I think the process around filing the tax return is in the normal course. There's nothing unusual about the way the process is progressing for this tax return relative to others that they've filed in the past.

Anecdotally, we've heard of others that have been receiving payments against the tax benefits - others in the industry. We still feel quite confident that Clarios qualifies under the regulations and that we will receive payment in due course.

Nikolaus Priebe^ Got it. Okay. That's helpful.

Then just at Sagen, the higher mortgage insurance cap became effective in December. Is there any early indication year-to-date what impact that might have on transactional premiums?

I'm just wondering what proportion of transactional premiums would be on those properties valued between C\$1 million to C\$1.5 million. You can start with that detail, but I'm just looking for a general sense of what it does to the size of the total addressable market for that business.

Jaspreet Dehl^ Sure. I can start and then others can add to it.

What I'd say is that the overall performance of Sagen continues to be very strong and it's supported by the resilience in the housing market.

We did see a significant increase in transactional volume this quarter from first-time homebuyers and I'd say the increase in volumes for Sagen outpaced the general housing market performance. It was driven by the regulatory changes that we saw come through, one of which you referenced, the increase in the cap from C\$1 million to C\$1.5 million.

But then the second thing was the extension of the amortization period for first-time homebuyers to up to 30 years. I'd say both of those things, the increased amortization period as well as the increased cap did lead to higher transactional volumes.

I don't have the exact numbers, but I think the number of mortgages underwritten with the 30-year amortization was higher than the number that we saw come through from the higher price cap increase.

Operator^ I'm showing no further questions at this time. With that, I'll hand the call back over to CEO, Anuj Ranjan, for any closing remarks.

Anuj Ranjan^ Thank you all for joining our call today. We look forward to speaking with you next quarter.

Operator^ Ladies and gentlemen, thank you for participating. This does conclude today's program. You may now disconnect.