Brookfield Business Partners (Q1 2022 Results Conference Call & Webcast)

May 6, 2022

Corporate Speakers:

- Alan Fleming; Brookfield Business Partners L.P.; SVP, Investor Relations
- Cyrus Madon; Brookfield Business Partners L.P.; CEO
- Patrick Fragman; Westinghouse Electric Company; CEO
- Jaspreet Dehl; Brookfield Business Partners L.P.; CFO

Participants:

- Devin Dodge; BMO Capital Markets; Equity Research; Analyst
- Geoff Kwan; RBC Capital Markets; Research Division; Analyst
- Gary Ho; Desjardins Securities Inc.; Research Division; Analyst
- Jaeme Gloyn; National Bank Financial, Inc.; Research Division; Analyst
- Nik Priebe; CIBC Capital Markets; Equity Research; Analyst
- Dimitry Khmelnitsky; Veritas Investment Research Corporation; Equity Research: Analyst
- Matthew Weekes; Industrial Alliance Securities Inc.; Equity Research; Analyst

PRESENTATION

Operator^ Welcome to the Brookfield Business Partners' First Quarter 2022 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. (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, 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.

On the call with me is Cyrus Madon, Chief Executive Officer, and Jaspreet Dehl, Chief Financial Officer. We are also joined today by Patrick Fragman, Chief Executive Officer of Westinghouse Electric Company, our nuclear technology services business. I'll first turn the call over to Cyrus to share an update on our business and then Patrick will discuss our strategic priorities and recent developments at Westinghouse. Jaspreet will finish with a discussion of our financial results. We'll then be available to take your questions. And with that, I'll pass it over to Cyrus.

Cyrus Madon^ Thanks very much, Alan. Good morning, everyone. Thanks for joining us today. We've had a great start to 2022. Adjusted EBITDA increased 30% over the prior year and we're continuing to be very pleased with the overall performance of our operations. Most of our businesses are global providers of essential products and services. Their scale, pricing power and durable market positions are serving us well in a volatile environment.

We've had a busy few months since our last update, announcing several meaningful acquisitions and committing $1.6 billion of equity across seven new investments. Each of the businesses we acquired were at reasonable valuations and are either market leaders or businesses with exciting growth potential that we can scale. These new businesses should contribute to our growth and the substantial levels of cash flows our operations are generating today.

In April, we agreed to acquire CDK Global for $8.3 billion. CDK is a leading provider of technology services and software solutions that help automotive dealers run their businesses better. This is a very high-quality, market-leading business and exactly the type of opportunity we've been looking for to continue growing our presence in the technology area. We are going to leverage our operating capabilities to enhance the business' services and productivity to grow margins and cash flows and improve CDK's value proposition to its customers.

The other technology services investment we announced during the quarter was Magnati, a leading technology-enabled payment solutions provider in the Middle East. We're investing $65 million and partnering with the seller to help enhance the business' technology offering and accelerate its growth.

In March, we entered into a partnership to acquire Nielsen, the global leader in third-party audience measurement, data and analytics across all forms of media and content. Nielsen provides essential measurement data to the $100 billion video and audio advertising industry. As the media landscape continues to evolve, Nielsen is really well-positioned to lead the way in providing a unified measure of viewership across all media platforms. We're making our investment through preferred equity, providing us with governance and a level of downside protection while also enabling us to fully participate in the company's upside potential.

We also announced the acquisition of La Trobe, an Australian non-bank lender and asset manager. La Trobe plays a critical role in lending to a growing proportion of high-quality borrowers in Australia who require specialized underwriting expertise. It also manages credit funds on behalf of high-net-worth retail investors. We're investing about $250 million for 35% ownership and plan to support La Trobe's growth by diversifying its product platform to grow its asset management business.

During the quarter, we made two non-control investments in companies to help finance their growth. In May, we provided Chorus Aviation with $374 million of financing to help its growth plans. We also agreed to subscribe for $267 million of convertible preferred shares in Jindal, an India-based flexible packaging company. Our share of both commitments is about $100 million.

Now apart from growth, we're moving forward with initiatives that will meaningfully enhance our liquidity and crystalize value for our business. We're currently progressing efforts to monetize our interest in Westinghouse and we're positioning Clarios for a possible sale or public listing. Conditions to support the dispositions or for an IPO of each of these businesses have improved markedly over the last couple of years and the proceeds we expect to generate from these sales will fund our growth for years.

A lot has changed since we pursued a public offering of Clarios shares last summer. Investor focus has rotated from growth back to businesses with underlying profitability and cash flows. Clarios has performed exceptionally well, generating record financial performance, paying down debt and executing on its operational improvement plans. All this progress should help us optimize the execution of a future IPO.

To remind you, every single car – whether it is a full battery electric, hybrid, stop-start, or internal combustion engine – requires a low-voltage battery solution. The demand placed on these batteries only continues to increase with the shift toward electric vehicles. Clarios is the leader in advanced battery technologies largely designed to support the needs of electric vehicles. Over the last 12 months alone, Clarios has partnered on over 30 new full-battery EV platforms and expects to be delivering solutions on nearly 200 full-battery EV platforms within the next five years.

Westinghouse, our nuclear technology services company, is a business of similar exceptional quality. Patrick is going to talk more about what's going on in the business, but I'll just say that Westinghouse has really come into its own over the last few years. The business is benefiting from exceptionally strong industry tailwinds and is in a great position as the global leader in nuclear technology, and we invite you to ask Patrick any questions you have.

As you know, our objective is to build long-term growth in intrinsic value per unit. We've had a very successful start to the year working toward this objective. Our focus over the coming months is to close our recently announced acquisitions and advance our monetization initiatives. We look forward to updating you on our progress and thank you for your continued support. With that, I'm going to turn it over to Patrick.

Patrick Fragman^ Thank you, Cyrus. Good morning, everyone. As a reminder, Westinghouse literally pioneered the nuclear commercial industry – half of the nuclear reactors operating in the world have Westinghouse technology. It's the global leader in providing mission-critical technologies, products and services across all three phases of the nuclear power lifecycle. At the design stage: nuclear design and engineering services for new reactors of various sizes; operation and maintenance: fuel, maintenance and engineering services for operating reactors; and at the end of the lifecycle: decontamination and decommissioning of reactors which reach the end of their operational life.

Nuclear power has always been a phenomenal option and a reliable source of clean energy for many countries. There are more than 400 reactors operating in the world. Today, the convergence of the macroeconomic, energy market and geopolitical factors are creating significant tailwinds for both the nuclear industry in general and for Westinghouse in particular.

Governments around the world are making ambitious commitments to a net-zero carbon future and going into the implementation of those objectives, they realize that nuclear power is currently the only form of clean baseload power that can help them to achieve these goals. Over the last 50 years, nuclear has displaced more than 60 gigatonnes of CO_2 emissions over – which for context, represents about two years' worth of total global energy-related CO_2 emissions. Going forward, it's estimated that the average annual nuclear power generation output may need to more than double by 2040 to meet global climate goals.

This demand for clean baseload dispatchable nuclear power is leading to likely extensions of existing nuclear power plants, as well as a renewed focus on the development of new reactors and new plants. In addition, just as we saw recently in the U.S. and also in Belgium and Korea, there is a tendency to reverse or freeze decisions to stop or shutdown existing nuclear plants.

Apart from decarbonization, the increasing price of fossil fuels, recent geopolitical uncertainty and the drive for energy independence – accelerated by the current situation in Eastern Europe – is creating an immediate need for energy security. The simple reality is that if a country does not have its own natural gas or large hydro potential, nuclear energy is virtually the only way to guarantee sovereignty over energy in the long run 24/7. The U.S. as well as nations across Europe are evaluating clean energy solutions, including nuclear, to reduce their dependency on foreign energy producers.

Other nations are considering alternatives to reduce their dependency on Russian energy service providers. Today, Westinghouse is the only alternative to the Russian companies to supply fuel to Russian reactors outside of Russia and we are already in intense discussions to provide fuel to several operators of those Russian reactors in Eastern Europe, including in the EU.

As the global leader in nuclear technologies, Westinghouse is uniquely positioned to support its customers with the solutions required to service and extend the operating life of reactors and support the development of new reactors that will be critical to many countries in order to meet their climate goals and reduce their reliance on foreign energy producers and fossils.

Starting with our Operating Plant Services business, Westinghouse technology effectively is the foundation for half of the operating reactors in the world. As the leading OEM, we provide nuclear operators with fuel, outage and maintenance services, instrumentation and control systems, engineering services and spare parts required not only to operate their plants safely but to continuously improve the performance of their plants over time. Our long-term customer relationships, combined with the mission-critical nature of our technology, products and services, underpin our strong recurring revenue, resilient cash flow and overall stability of our financial performance.

As renewed interest in new nuclear capacity is accelerating, Westinghouse continues to pursue a long-term new plant strategy to support the development, the licensing and the engineering of new nuclear capacities around the world. Our technology portfolio includes our AP1000 plant, our versatile and proven 1,000 megawatts reactor with unique, fully passive safety features that make it the safest, most innovative and best-performing reactor in the world. Four AP1000 are in operation in China and four additional AP1000 reactors have recently been announced in China to move forward for buildup. Two AP1000 plants are nearing completion in the U.S. with additional opportunities under discussion in several countries throughout Europe. To give you an illustration of a new build contract, each of those new build programs represent about 20% increase in the size of Westinghouse when we talk about volume.

We're also at the leading edge of developing new technologies, such as micro reactors. Our innovative eVinci micro reactor is a game changer – it's a nuclear battery currently under development. It's 100% factory-built, 100% factory-fueled, and 100% factory-assembled before being shipped to site and it will operate 365 days, 24/7, for eight to ten years. Once commercialized, we expect eVinci to serve as a diverse and reliable energy source for remote communities and mining sites, clean hydrogen production, industrial power, maritime energy applications and off-grid applications – the list is very long and will definitely grow over time. Over the long term, we see the potential market opportunity for advanced reactors and eVinci to be in excess of $100 billion.

In addition to these growth opportunities, we are continuing to support investments in innovation and M&A to further strengthen Westinghouse's capabilities and enhance the value we deliver to our customers. Since 2019, the business has completed seven small, yet strategically important, add-on acquisitions. Most recently, Westinghouse signed an agreement to acquire an eighth, BHI Energy, a leading provider of maintenance and outage services to nuclear plants in the U.S. BHI Energy is highly synergistic with our existing core plant servicing operations, further enhancing our outage maintenance capabilities and increasing the suite of customer offerings globally.

We also see a robust and actionable pipeline of M&A opportunities that we will continue to explore moving forward. A key area of focus of ours is our environmental services, where today we have significant capabilities in decommissioning and decontamination. We are already pursuing additional opportunities to augment those existing skills through targeted M&A.

In addition to investment in M&A, we also maintain a strong focus to continue to invest in innovation, which is the DNA of the company. We are currently developing exciting solutions in the areas of advanced nuclear fuels, digital technologies, medical isotopes, long-duration energy storage and high temperature steam electrolysis in support of hydrogen production. Everyone has in mind that hydrogen will be key to decarbonize the transportation sector moving forward.

Overall, it's an incredibly special time as macroeconomics, energy markets and geopolitical factors all converge to create significant tailwinds for nuclear power in general, and Westinghouse in particular. These factors, combined with the company's leading global market position, advanced technology portfolio, earnings growth and M&A investment capabilities, position well Westinghouse for sustained and profitable growth.

With that, I'll hand the call to Jaspreet, and I'm available to answer your questions.

Jaspreet Dehl^ Thank you, Patrick, and good morning, everyone. As Cyrus mentioned, we're off to a really strong start to the year. Adjusted EBITDA increased to $506 million from $387 million last year with improved contributions from each of our three operating segments. We also completed the creation of our paired corporate entity, BBUC, to help expand our investor base and support opportunities to grow our business.

I thought I would start with a few comments on the overall operating environment, particularly the impact of inflation and supply chain bottlenecks. We have not been immune to these impacts and like most companies, we're seeing higher freight costs in both common carrier truckload shipments and oversea container costs, higher labor cost and price pressures across various commodities. As essential product providers and market leaders in their industries, our focus across our operations is on implementing price increases where we can or leveraging the strength of our contractual relationships to pass on the impact of higher costs.

Labor is one area where we're generally seeing blanket increases across our operations – it's possible that higher wage rates result in a structural increase to costs. In some cases, we have mechanisms that are helping us manage through a tight labor market. This is the case in our work access services operation, where we're utilizing the embedded cost and margin escalators built into our customer contracts to pass on wage rate increases. In other cases, we're prudently planning for higher wages. For example, within our construction operations, we're pricing in expected wage rate hikes into the contract value for new bids.

Most of our largest operations have strong competitive positions and we have been focused on leading with price. In other operations, we have contractual arrangements that allow for inflation adjustments or pass-through of higher costs. For example, at our recently acquired engineered components manufacturer and at our advanced energy storage operation, we’ve been successful in implementing global price actions to keep up with rising transportation, labor and material cost inputs. In other cases, like at our water and wastewater services operation in Brazil, we have contracted revenues and cash flows with cost escalators providing us with an opportunity to directly pass-through higher input costs to our end customers.

So far, we've been able to manage the impacts but the situation, particularly with the lockdowns in China, remains fluid and we're working with all our management teams on initiatives to continue to support our margins.

I'm now going to turn to our segment performance for the quarter. Within Infrastructure Services, Adjusted EBITDA increased more than 50% to $208 million, benefiting from our recent acquisitions and the resilience of our operations. Adjusted EFO improved to $139 million for the quarter.

Nuclear technology services continues to perform well, generating Adjusted EBITDA of $81 million for Q1. Results were driven by the timing of fuel deliveries and increased customer outage and maintenance activity in the Americas. We're focused on cost-saving initiatives and new business opportunities to offset potential near-term disruption to our operations in Ukraine.

Work access services contributed $17 million in Adjusted EBITDA. Utilization rates within the business are improving, driven by increased customer maintenance spend and turnaround activity in our core industrial markets. Commercial end markets have been slower to recover and we're reviewing broader regions and opportunities in that sector.

Offshore oil services operations reported Adjusted EBITDA of $70 million. Performance during the quarter benefited from continued profit-sharing arrangements tied to the higher price of oil and production volumes of our customers.

Now moving on to our Industrials segment. First quarter Adjusted EBITDA increased to $217 million. Adjusted EFO was $122 million compared to $421 million in the prior year. Last year, our Adjusted EFO included $328 million of gains from the partial sale of our investments in graphite electrode operations as well as in public securities that we held. Excluding the gains, Adjusted EFO increased approximately 30% in line with Adjusted EBITDA.

Our advanced energy storage operations reported Adjusted EBITDA of $112 million for the quarter. Continued strong aftermarket demand for both advanced batteries in the Americas was offset by lower volumes in Europe and reduced original equipment battery demand, primarily due to the ongoing global auto production slowdown. While below prior year, current quarter volumes are in line with expectations as last year Q1 was a record quarter for Clarios. In the prior year, the business benefited from prolonged cold weather impacts and pent-up demand, particularly in Europe as lockdowns lifted and economies reopened. We continue to generate strong margins and expect the combination of recent pricing actions and the continued execution of our operational improvement plans to offset the impact of inflation and higher input costs through the balance of the year.

And finally, within our Business Services segment, we generated first quarter Adjusted EBITDA of $114 million and Adjusted EFO of $80 million.

Our residential mortgage insurer contributed Adjusted EBITDA of $71 million, benefiting from the resilient Canadian housing market which resulted in low mortgage default rates and increased premiums earned. During the quarter, the business paid a dividend of approximately $320 million, of which our share was $130 million. The business has maintained a strong credit rating and is very well capitalized to manage through an expected normalization in Canadian housing market activity and home price appreciation.

Performance at our Indian non-bank financial services operation was impacted during the quarter by a higher level of provisions recorded to adequately reserve for potential losses on the commercial vehicle loan portfolio.

At our healthcare services business in Australia, we generated Adjusted EBITDA of $13 million. Performance was impacted by government restrictions on elective surgeries that were in place for most of the quarter. As restrictions lift, admissions at our hospitals are expected to rebound and we've seen this happen before. We're optimistic that the worst of the pandemic-related headwinds are behind us.

Now turning to liquidity, our balance sheet is in good shape and we ended the quarter with $3 billion of corporate liquidity. Subsequent to quarter end, Brookfield Asset Management committed for an additional $500 million of 6% perpetual preferred equity securities. This long-term, non-dilutive perpetual financing further enhances our liquidity and provides us with an attractive cost of capital to continue funding our growth.

We're very well positioned to manage through the current rising interest rate environment. Nearly all our large-scale businesses are financed with long-dated maturities. And over the last few years, we've taken advantage of an ultra-low interest rate environment to de-risk the balance sheet. Approximately 60% of our non-recourse borrowings are either fixed or hedged and the weighted average interest rate on these borrowings is 5% with a weighted average term of approximately five years.

And 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 is from Devin Dodge with BMO Capital Markets.

Devin Dodge^ Thanks. I wanted to start with some questions on Westinghouse. It might be for Cyrus or Jaspreet to start with but in the past, I think you targeted an EBITDA range of $700 million to $800 million. I think you're close to that – at least the bottom end of that range on a trailing four-quarter basis – but I think Patrick was talking about some improvement opportunities in the base business and there's upside from recent acquisitions. Can you frame how we should be thinking about the earnings power of this business with everything in the portfolio now or perhaps what sort of EBITDA range is being used in the marketing process to prospective buyers?

Cyrus Madon^ Well, I don't think we're going to get into what we're providing in the marketing process but as to our shorter to medium-term targets, I think Patrick is best placed to speak to that.

Patrick Fragman^ As far as the existing performance we've seen for 2021, we have already reached the range that was mentioned. So, definitely given the opportunities we have in the pipeline, we can now have our sight on goals enabling us to improve that performance. We have already reached that range last year.

Cyrus Madon^ And it's Cyrus here. We have told you that we're targeting $700 million to $800 million over the next few years and that continues to be our target. Longer term, there are lots of opportunities in this business, which again, Patrick, maybe you want to comment on that.

Patrick Fragman^ Indeed, there are lots of opportunities – some of them being incremental and of recurring nature. For instance, we discussed the current situation in Central and Eastern Europe offers opportunities that will be long-lasting. And there are some of them which might be more programmatic. For instance, an AP1000 program will immediately create a step-up, which will spread over 10 to 15 years and will be substantial. I was mentioning one of those programs alone can create an uplift of 15% to 20% in terms of overall magnitude compared to the current size of Westinghouse. So it's very meaningful.

Devin Dodge^ Okay. That's good color. And maybe another one for Patrick. Look, I really like the rundown you gave in the prepared remarks, lots to chew on there, but maybe tying in something that Jaspreet was talking about, a lot of companies are struggling to the find labor or covering wage inflation through pricing. How big of a challenge is this for Westinghouse and can you speak to how quickly you're able to adjust prices across the book of business just to cover off these inflationary headwinds?

Patrick Fragman^ I would say first, it is the fact that a large chunk of the business is linked to multi-year type of agreements with our customers which have already embedded some contractual provisions, enabling us to take into account commodity prices or things like this. So, there is a form of already relationship we have with our customers which enables us to give visibility to both parties. It would be fair to say that as far as labor is concerned, we are in a knowledge-type of business. We're using very specialized labor, whether it's white collar or blue collar, people who have a great amount of loyalty to the company. Even the companies we are acquiring, they usually have people who have a lot of interest in the company.

And I would say, in terms of the traction, the current tailwinds behind the nuclear energy, we see it in the number of people who apply to join our business is only growing as well. So, I must say so far, so good. We are offering nice opportunities in all the countries where we work and therefore, we are not too impacted so far by tensions which can affect other sectors.

Jaspreet Dehl^ And Patrick, would it be fair to say on the maintenance work that we do, we typically bill based on the volume of work that we've identified and that would be at our current cost?

Patrick Fragman^ Yeah absolutely, Jaspreet, and we have a way to manage our own resources and external resources in a flexible way so that we flex effectively for the most efficient model.

Devin Dodge^ Okay. Thanks for that and maybe just one last one. We saw that BRK applied to become a Category A issuer in Brazil. Can you speak to the implications of the motivations for that change and whether we should use this as a potential precursor to an IPO?

Jaspreet Dehl^ Devin, it's Jaspreet. We've owned BRK for a number of years. There's been a lot of hard work that's been put into that business to do the original carve-out and stand it up. We've grown the business quite a bit over the last few years as well through organic growth, implementing good capex programs. We acquired quite a significant concession last year in Maceió which increased the size and scale of BRK. So, it's definitely one of our more mature assets and as Cyrus said, we're always looking to make sure that we're maximizing value and at the right price, we want to monetize these assets and reinvest into new opportunities. So, it's one of the options to BRK and we want to make sure that we're maintaining full flexibility in terms of monetizing the business at the right time.

Operator^ Our next question comes from Geoff Kwan with RBC Capital Markets.

Geoff Kwan^ Hi, good morning. Cyrus, I have a question for you first. You had talked about a little over a year ago the plans to monetize Westinghouse and Clarios. The stock jumped but ultimately neither was completed last year and maybe this partly explains the decline in the stock. By talking about both potential monetizations again today, do you have greater line of sight that you feel like these deals can be done? And in terms of timing, are these things you think could be done at some point this year?

Cyrus Madon^ Look, on Westinghouse to be a little more specific, what we had talked about some time ago was selling a minority interest in the company and while we received interest, it wasn't at a level that was attractive for BBU. All the things you heard today from Patrick – today, we see pretty significant tailwinds that have become more apparent for Westinghouse and we're now considering a monetization of all of the business. I think that's a very different value proposition for a potential buyer. Hence, I would say our confidence is much higher this go around.

As for Clarios, you're well aware we tried to do a public offering – we didn't get a value we were comfortable with. A lot has changed, as I mentioned earlier in my comments, it's become very apparent that Clarios is the leader in electric vehicles today and that is only going to continue. So again, I think the perceived tailwinds will be much stronger for that business. What we're highly focused on now is deleveraging the business as a path toward a potential IPO. And the more we deleverage it, the higher certainty we will have of success because if we only need to raise a little bit of capital, we can have almost 100% certainty that we'll have a successful outcome.

So, that's really what's changed, Geoff. Clarios – we will work on deleveraging first and consider an IPO maybe later towards the end of this year perhaps as late as early next year. We'll see but we are highly focused on both these initiatives.

Geoff Kwan^ Okay, that's helpful. And then back on Westinghouse, those 25 Russian technology nuclear power plants, did Westinghouse reach out to those and try to convince them to switch or was it them approaching Westinghouse? And if it was a mix between the two, what did that mix look like?

Patrick Fragman^ So, the total number of Russian reactors outside of Russia and Belarus is 33 reactors. We are already supplying eight of those 33, which will lead indeed to the 20-plus reactors. It would be fair to say that as soon as the tragic conflict in Ukraine broke out, the customers and us immediately reached out to each other. It's a small-knitted family, the companies are very closely connected and we have regular contact with each of those customers in any case. So, fairly immediately the companies started to work together to try to find solutions and we were readily available to work out those solutions for our customers.

It has already started to materialize – you've probably seen that a few days ago, CEZ, the operators in Czech Republic, has announced an award to Westinghouse for fueling the Temelín plant as of 2024 and we expect that this is only the start of a string of opportunities that will materialize in the next month.

Geoff Kwan^ And in terms of that transition, are there abilities for those customers to switch over to Westinghouse immediately? I don't know if there's any financial penalties or you kind of have to wait until those contracts are out and then they switch over to Westinghouse?

Patrick Fragman^ So, usually there are two factors which may affect the timing. The first one is some of those customers have an inventory of existing fuel and it does make sense for them to use that value and to burn that fuel before they move to another fuel. The other thing is there is usually a country-specific process in order to introduce a new fuel. It's called a licensing process, which is usually a three-part type of exercise where Westinghouse, the customer and the nuclear regulator are together making sure that the fuel can be inserted safely in the given reactor.

We have the product for most of those plants. We are fine-tuning the product for the remainder of those plants and definitely, we have already the experience and the references to address those reactors. So, it's really a matter of executing those plans.

Geoff Kwan^ Okay. And if I can just sneak in one last question. I mean you talked about the broader perhaps interest and renewed interest in nuclear energy. When you kind of take a look at over the next five to ten years, are there certain countries or regions where you see perhaps could be the key drivers of growth in nuclear energy beyond what you would have seen before this whole Russia/Ukraine situation?

Patrick Fragman^ No, it's a great question. Even before Central and Eastern Europe was a region, which by essence already combined the seats for such a move. Why? Because it's a region which was heavily fossil intensive – coal and gas. Secondly, it's a region which has very little of its own resources. What the tragic events in Ukraine have done is they have catalyzed and accelerated the thinking. So definitely, we see a regional approach to be made in Central and Eastern Europe. But it's also the case in the U.K., you've probably seen the announcements of Prime Minister Johnson a few weeks ago, announcing eight sites, one of them being one of the sites where we have made some proposals for AP1000 reactors, and we do expect that the U.K. will go hard and strong on nuclear energy in the near future.

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

Gary Ho^ Great, thanks and good morning. Yes, maybe just sticking with Patrick, just wondering if you can elaborate on some of your recent acquisitions at Westinghouse? And maybe could you provide some color on valuation range, what those were done at for these tuck-ins as well what else are you looking at that is on your wish list?

Patrick Fragman^ We usually don't disclose transaction prices and so on but maybe what I can give you is a little bit of color on the impact of those businesses. What we have done so far is acquisitions that were fairly small in volume but enabled us to bridge some geographical and portfolio gaps which were incremental in the range of a few percent of our annual revenues and EBITDA.

With BHI, it is a different story – it's a larger, more established company and this is a company which effectively represents a range of 5% to 10% of our annual profit level. So, it gives you a perspective on how we are scaling up on the size of those acquisitions. We are looking essentially at companies which are well performing, if not best performing, in their market segments and that definitely eases the integration and speeds up the accretion of those companies inside Westinghouse's financials.

Gary Ho^ Okay, got it. And then the second part to that, I found the small modular reactor really intriguing. I'm wondering if you can provide a bit more details in terms of the mix of revenue or EBITDA today and where that could go to five years out? And where are you seeing the greatest opportunity in terms of regions and/or discussions with partners?

Patrick Fragman^ Great question. I will try to be brief on that. There are various types of smaller reactors. You have the micro reactors like the eVinci which we are developing –

it's a few megawatts. It's really a game changer – think of it as a nuclear technology. A few years ago, we were saying it's mid-term, now we are saying it's becoming short-term, we're developing it for the end of the decade. So, this is something that we believe will effectively create demand fairly quickly as we complete the development which includes the licensing of the reactor.

You have larger reactors – we are part of several programs and they are also called SMRs. And then, you have the Generation IV reactors, we have currently one type of development in our portfolio and it's called a lead-fast reactor, or LFR, with the support of the U.K. government. So, all of this combined gives us a full portfolio which enables us to be positioned not only in the short term but also in the long term. The Generation IV reactors are reactors that more or less will come to the market around the 2040s, so it is really a long-range type of development.

Gary Ho^ Okay, then I have a couple of questions on Sagen as well. Given the higher mortgage rates and slowing housing activity here in Canada, what is the implication for earnings for Sagen looking out? And also, if you can provide a bit more color on the India Mortgage Guarantee Corp stake and whether you are looking at other regions as well to expand?

Jaspreet Dehl^ Hi, it's Jaspreet, I'll take that and then if Cyrus wants to comment on expansion, I will pass it on to him. Since the acquisition of Sagen, the business has been performing exceptionally well, 2020 and 2021 were both record years in terms of transactional volume. We're definitely planning for a normalization and expecting lower volumes of premiums written for this year relative to the last couple of years, but we are not expecting that this is going to have any immediate impact on earnings because the premiums that we have written over the last couple of years will get amortized into earnings over the next five-year period. And you're exactly right, the housing activity has slowed down but that hasn't really resulted in higher losses for the business. We're expecting that losses will continue to remain low for at least the foreseeable future and that's really due to home prices which have stabilized but there are still supply shortages in the country. So, that will provide a floor and some resiliency for home pricing. The economy has now reopened and we are continuing to see recovery and the quality of the portfolio is very strong. So, we are not expecting in the near-term losses are going to spike. Over the longer term, we'll go back to trend level of losses.

The other thing that is interesting about Sagen is that with the slower activity and low losses, it actually frees up cash within the business as you need less cash to reinvest into new underwriting. So even if activity slows down, it will free up some cash that can then be used at the BBU level for other growth activities. I would say all in all, Sagen continues to perform well.

The India acquisition is small. We just announced it and we think there's an opportunity set there. It's a new industry for the country and we think Sagen can provide value and it will be accretive to the business overall, but it is very small today.

Cyrus Madon^ It's small but it could grow a lot. Cyrus here. It could grow a lot and that's why we were intrigued by the opportunity, so stay tuned on that. We're not looking at any other regional expansion at this time.

Gary Ho^ Okay, great. And then my last question, Cyrus while I have you is going back to the monetization discussions. Maybe I can ask it this way, under what conditions may the monetization of Westinghouse or Clarios not take place? I know it is kind of choppy markets out there. I think in the last Investor Day, you mentioned kind of nine to ten times multiple for these businesses in your intrinsic value. What if you do not get those multiples, would that mean the monetizations will not go through?

Cyrus Madon^ Well, look, obviously there is a point at which we wouldn't sell if price levels are ridiculously low, but we are pretty confident on Westinghouse. We've actually had some inbound interest, I don't want to go into too much detail but we are reasonably confident on Westinghouse. Clarios will in part be dependent on capital market conditions at the time. Obviously, there are no IPOs today as we sit here, so that will be dependent on capital market conditions. But again, our confidence level for Clarios has grown too, only because of what I said that it's become apparent now that it is the leader in electric vehicle 12-volt battery systems and that may not have been as clear outside the company a year ago as it is today.

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

Jaeme Gloyn^ Yes, thanks. I guess another one on Westinghouse and the potential monetization here. Listening to the answers, it sounds like there is a lot of good things in the pipeline. But those good things are perhaps likely not to really materialize until maybe 2024 or beyond? Or are there some other factors that might take some of the tailwinds out of those revenue initiatives, whether it's input costs, competitive dynamics, or other factors that could reduce some of those tailwinds that sound like a really good momentum in the business?

Patrick Fragman^ Look, there are a certain number of things that I believe will start materializing not in the next years but in the next month. The discussions we are having on fuel for Russian reactors, as I was saying, our first award was already announced a few days ago and we do expect more awards to be announced in the coming months.

New build, it is well known publicly that we are proposing our AP1000 reactors to several countries in Eastern Europe. We do expect decisions to be made before the end of the year, at least in one of those countries. So, in terms of materializing fully, definitely some of those programs will spread over years but there should be decisions that will give strong indications in nature in the very next month.

Jaeme Gloyn^ Okay. And for Cyrus, on Westinghouse given these tailwinds, it is obviously a more attractive asset to potentially sell but on the other hand why not let this subside and play out internally within BBU?

Cyrus Madon^ Yes, it's a great question. It's something we debate all the time, it's such a great company. It really would be nice to own this forever but the reality is we just have so many other incredible opportunities that we see every day. You've seen how active we have been buying things. Look, we have made many times our investment in Westinghouse. We've already pulled out more than our invested capital just through regular dividends and if you valued on any reasonable range of value, we've made multiples of our original investment. And I would say, our job is done here and we are onto the next five great investments where we think we can replicate the same type of outcome. To do that though, we need to recycle and generate capital. That is our business at BBU.

Jaeme Gloyn^ Great, fair enough. Okay, last one for me just thinking about all of the deal activity that's been underway and financing these deals through the debt public markets. I saw just recently that it looked like one public debt deal might have been pulled and replaced with some term financing from one lender. Maybe just talk about the market dynamic for financing these recent transactions?

Cyrus Madon^ Yes, so it is a very interesting dynamic. There are points in time where there's demand from bond buyers and there are points in time where there is more demand from term loan buyers. When we buy a business and we are financing them, we are always considering which of those buckets provide the best opportunity for us to have the best execution on financing. I will say in general, the U.S. loan market is pretty supportive today. There is lots of demand today for floating rate debt and that's what we are executing on, so that's what you are seeing. Jaspreet, any other comments?

Jaspreet Dehl^ I would say that is exactly right, Cyrus. We've been able to obtain committed financing to support the acquisitions that we've done. The U.S. loan markets are supportive of new LBO activity, but also of refinancings and as long as you've got quality credit and the businesses that we have been buying are good businesses. We are maximizing the use of floating rate instruments just because that is best execution and they've got minimal call protection and there is more investor demand. I touched on this before, but we've obviously very mindful and we want to make sure where it's appropriate, we're then turning around and hedging or managing the risk in an increasing rate environment. I'd say in Europe, it's a little bit different – the high-yield market is basically shut and we've seen an increasing shift to loans there so that is where we are focused.

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

Nik Priebe^ Yes, thanks. I think most of my questions on the topic of monetizations have been answered. Maybe more of a high-level question here but how do you think about the relationship between private equity buyout multiples and rapidly rising interest rates? You've been quite active on the acquisition front lately so are you factoring in multiple compression over the investment horizon to the IRR that you underwrite new deals on or how are you thinking about that in general?

Cyrus Madon^ When we buy something, we take a very long-term view. We assume we're going to own something for at least ten years and that sort of mutes the impact of multiple expansion or compression when you look at investment and it needs to hit our targeted returns. We need to factor in a prudent level of leverage with appropriate interest rates. We need to factor in what the likely refinance rate is going to be in five years or seven years. So, we do all of those things when we're coming up with the price that we need to pay and still earn the appropriate return. I don't know if I fully answered your question but that's how we look at things.

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

Dimitry Khmelnitsky^ Hi, thanks for taking my question. My first question is for Patrick, if I may. How exposed is Westinghouse to fixed price construction risk?

Patrick Fragman^ Hi Dimitry, great question and the answer will be fairly straightforward. Our business model is effectively to not take any construction risk and liabilities in particular on the new build contracts. So, the way we approach them is effectively to take the lessons from the past. We are a great technology company. We are great at supplying engineering, products and equipment. We are not a construction company.

Dimitry Khmelnitsky^ Got it. Okay, thank you. How involved is Westinghouse in decommissioning and waste management business? Perhaps if you can disclose what percentage or what part of the business is driven by these activities?

Patrick Fragman^ Great question as well, Dimitry. So, it used to be a small fraction of the business. It has been growing in particular in the last years with the new leadership in place on that business. We have very specialized services on the decontamination and decommissioning. To give you an idea, we have about 50% of the market in Europe for specialized services to decommission the hot zone in the nuclear reactors. Part of that business is also environmental services that we offer to governments, like the DOE in the U.S. or the U.K. government, to clean up certain sites or to do nuclear material management. It's a business which has great potential and it's a business where we won't continue to invest inorganically. We have already in the investment pipeline quite a few things in order to make this business even more sizable at the scale of Westinghouse.

Dimitry Khmelnitsky^ Are you considering potentially partnering with companies that provide these types of services, for example SNC-Lavalin?

Patrick Fragman^ I think the discussion on partnering is really dependent on specific situations project-by-project. There are cases, for instance, for DOE contracts where we are already partnering with companies such as the ones you have in mind. After that, it depends on the situation – sometimes we are partners, sometimes we are competitors. We have a very flexible approach to those questions.

Dimitry Khmelnitsky^ Awesome, thank you. I have a question that is unrelated to Westinghouse, which is probably for Cyrus, if I may. It has to do with the potential Clarios monetization, are you considering a partial sale or an outright sale of the entire stake?

Cyrus Madon^ Look, I think the likely exit is an IPO. That said, at the time we will consider a full or partial sale as well. But just given the size of the business, given how attractive this company should be as a U.S. public company, the likely exit probably is an IPO.

Dimitry Khmelnitsky^ Got it. And then last question is on Cardone. Can you provide any update on Cardone, how is it doing and maybe if you can touch on its operating results if possible?

Jaspreet Dehl^ Yes, hi Dimitry, it's Jaspreet. So, Cardone as you know is a challenged investment for us. We're very focused on the operational turnaround there and I would say the team has done a great job on the operational front and we are seeing really, really good progress there. They've revamped the organizational structure and there's been improvement in commercial strategy in being able to take pricing actions, especially in the current environment. Also, winning new business with customers that in the past have moved away from Cardone and they've now come back, just seeing the ability of the business to execute and the higher fill rates that they've been able to provide. We've also been focusing the business on more higher-margin products. So, I would say on the operational front, things are progressing as we would like and going according to plan.

What still continues to be challenging there is just the broader environment. This is a miles driven business and it was impacted by COVID when people stopped driving and we started to see some recovery but now with the higher oil prices, miles driven haven't quite recovered to where we would like. So, that is going to be important to really start to see that positive momentum for Cardone.

Dimitry Khmelnitsky^ Thanks a lot Jaspreet for that. And maybe you can elaborate just a little bit on the revamped organizational structure and the changes to commercial strategy?

Jaspreet Dehl^ We have put in place a new management team since we started to get more involved and recapitalize the business. We've got a new CEO, we've got a new CFO now in the business and these are folks that are very operationally focused and have been in these types of situations before. We have also reoriented the organizational structure to be more focused on commercial activities so there's someone leading that side of the organization now, building back relationships with our customers in order to win back orders from customers that we've lost. As well as refocusing the commercial strategy on the higher margin products and when we took over this business, they had 40,000 or 50,000 SKUs and really focusing the attention on where we are making money and which SKUs should we be selling. Those are some of the things that the business has been working on.

Operator^ Our next question comes from Matthew Weekes with iA Capital Markets.

Matthew Weekes^ Hi, thanks for taking my questions. I think I just wanted to ask about some of the newer businesses to come into the portfolio and contribute, DexKo and Modulaire. I'm just wondering so far from what you have seen, are those businesses performing in line with expectations? What sort of trends are you seeing on the demand side there and in terms of executing the operational improvement plan and tuck-in strategies for those?

Cyrus Madon^ Look, they are both performing well. They are both performing as or better than expected and we see tremendous opportunity for both of them: (a) in improving operations, and (b) tuck-in acquisitions. So on both fronts, we see great opportunity.

Cyrus Madon^ Okay, I think that concludes our call today. Thank you very much for joining us. We hope you were enlightened on the nuclear industry by Patrick. Thank you, Patrick, for joining us today.

Patrick Fragman^ Thank you, everyone.

Cyrus Madon^ And look forward to speaking to you next quarter.

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