

TRANSCRIPT: Q1 2024 CONFERENCE CALL / WEBCAST

May 9, 2024 at 10.00 am (ET)

Corporate Speakers:

Bruce Flatt, *Chief Executive Officer*

Nick Goodman, *President*

Sachin Shah, *Chief Executive Officer, Wealth Solutions*

Angela Yulo, *Vice President*

PRESENTATION

Operator

Hello, and welcome to the Brookfield Corporation First Quarter 2024 Conference Call and Webcast. (Operator Instructions)

I would now like to hand the conference call over to our first speaker, Ms. Angela Yulo, Vice President. Please go ahead.

Angela Yulo, Vice President

Thank you, Operator. And good morning. Welcome to Brookfield Corporation's First Quarter 2024 Conference Call.

On the call today are Bruce Flatt, our Chief Executive Officer, Nick Goodman, President of Brookfield Corporation and Sachin Shah, Chief Executive Officer of our Wealth Solutions business. Bruce will start off by giving a business update, followed by Nick, who will discuss our financial and operating results for the quarter. And finally, Sachin will provide an update and the outlook for our Wealth Solutions business.

After our formal comments, we'll turn the call over to the Operator and take analyst questions.

In order to accommodate all those who want to ask questions, we ask that you refrain from asking more than two questions.

I'd like to remind you that in today's comments including in responding to questions and in discussing new initiatives and our financial and operating performance, we may make forward-looking statements, including forward-looking statements within the meaning of applicable Canadian and US securities law.

These statements reflect predictions of future events and trends and do not relate to historic events.

They are subject to known and unknown risks, and future events and results may differ materially from such statements.

For further information on these risks and their potential impacts on our company, please see our filings with the securities regulators in Canada and the US, and the information available on our website.

With that, I'll turn the call over to Bruce.

Bruce Flatt, Chief Executive Officer

Thank you, Angela. Welcome to everyone on the call.

We generated strong financial results in the first quarter with distributable earnings before realizations of \$1 billion for the quarter, and \$4.3 billion for the last 12 months. This represented an increase compared to last year of 10%.

The outlook remains strong with each of our underlying businesses continuing to execute their respective business plans, driving organic earnings growth, supplemented by strategic acquisitions.

Of note, our Wealth Solutions business reached a significant milestone through its recent acquisition of American Equity Life (or "AEL"), our Asset Management business announced an important investment in Castlake further enhancing our asset-backed lending capabilities, and our operating businesses continued to deliver resilient earnings backed by strong demand for their high-quality assets.

Sachin Shah, the CEO of our Wealth Solutions business is with us today and will spend more time on the AEL transaction in his remarks.

Since the start of the year, we repurchased over \$700 million of our shares at excellent prices. We continue to allocate capital to share repurchases, enhancing the value of each of your remaining shares.

Shifting briefly to the markets. The macro environment continues to normalize. With interest rates expected to have peaked and inflation beginning to cool, liquidity has returned to capital markets. Most major economies in the world are performing better than anticipated, and risk appetite has come back to most markets. With conditions less restrictive, it appears that we are in a more stable and constructive market than in the past couple of years. With this backdrop, transaction volume is picking up, in particular, for high-quality businesses and assets of the type that we own.

This enabled us to advance a number of monetization initiatives, which Nick will touch on in his remarks. At the same time, though, we anticipate seeing investment opportunities from companies with balance sheets and capital structures that cannot withstand this more normalized rate environment. With a record \$150 billion of capital to deploy, this should be an excellent period for us also to invest.

Turning to the performance of our business today. Our advantage of scale, our global platform, and our operating capabilities, combined with the synergies across our Brookfield ecosystem, make our franchise stronger and more resilient than it has ever been. The compounding of all of these factors enables us to achieve strong and stable financial returns throughout market changes, and we've always found this as the safest way to long-term wealth.

In terms of generating and earning returns, we offer a few comments on the many ways to make a good return for stakeholders. As we own and build the backbone of the global economy, there generally are three main drivers of performance for private investors like us.

The first is margin expansion and growing a business. In other words, earning more by running a business well.

The second is multiple expansion. For instance, convincing someone of the long-term benefits and having built the business getting a higher multiple than you paid for an income stream.

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And lastly, adding more financial leverage, which amplifies returns by having the excess return earned on a smaller amount of equity.

Most of the returns on our investments come from managing our businesses well and growing the underlying cash flows. In addition, we have found that the safest way to earn good returns is through finding businesses that continuously deploy capital in a more productive way, grow their operations, and also operate in a cost disciplined fashion, therefore expanding margins.

As the era of free money diminishes, running businesses better through operating capabilities is becoming increasingly relevant to differentiating reasonable returns from excellent returns. This drives our approach to continuously growing our operating teams and assisting our underlying businesses to be better and improve.

In summary, we continue to execute on our business plans and growth initiatives, differentiating ourselves through our significant amount of deployable capital, global scale, and the deep operating expertise I just mentioned. As always, we remain focused on generating strong returns and compounding wealth over the long term for shareholders.

Thank you, as always, for your continued support and interest in Brookfield. With those comments, I'll turn the call over to Nick.

Nick Goodman, *President*

Thank you, Bruce. And good morning, everyone.

Results for the first quarter were strong as our businesses continue to generate stable and growing cash flows.

Distributable earnings or DE before realizations were \$1 billion or \$0.63 per share for the quarter, and \$4.3 billion or \$2.70 per share over the last 12 months. This represents an increase of 10% per share over the prior year after adjusting for the distribution of 25% of our manager in December 2022.

Total DE was \$1.2 billion or \$0.77 per share for the quarter, and \$4.9 billion or \$3.07 per share over the last 12 months, with net income of \$5.2 billion over the same period.

And starting with our operating performance:

Our Asset Management business generated distributable earnings of \$621 million or \$0.39 per share in the quarter, and \$2.5 billion or \$1.58 per share over the last 12 months. We continue to see strong demand for our private fund strategies with total inflows of \$20 billion in the first quarter.

Fee-bearing capital was \$459 billion as of March 31st, 6% higher than 12 months ago with fee-related earnings in line with the prior year quarter. We recently announced the acquisition of a majority stake in Castlelake, a premier asset-backed lender focused on aviation, specialty, and real estate finance, broadening our presence in asset-backed lending. We expect fundraising to build throughout the year, leading to strong growth in earnings.

Our Wealth Solutions business had a strong quarter, continuing to generate stable and growing long-dated annuity-like cash flows. Distributable operating earnings were \$273 million or \$0.17 per share in the quarter, and \$868 million or \$0.55 per share over the last 12 months. The average cash yield on our capital today is 18%. As at the end of the quarter, the average cash yield on our

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investment portfolio was 5.7%, approximately 2% higher than the average cost of capital, which has a duration of 10 years on average.

Sachin will speak to our Wealth Solutions business in more detail. However, it is worth emphasizing that with the close of AEL in May our annualized earnings are now approximately \$1.4 billion, and we are on track to grow annual earnings to approximately \$2 billion, driving significant cash flow growth at the corporation.

Through our combined Wealth Solutions platform, we continue to raise approximately \$800 million a month from retail products for high net worth and mid-market clients. We remain on track to reach over \$1.5 billion of monthly retail flows in aggregate or close to \$20 billion annually.

Our operating businesses continued to deliver stable cash flows, generating distributable earnings of \$337 million or \$0.21 per share in the quarter and \$1.5 billion or \$0.95 per share over the last 12 months. Cash distributions are supported by the resilient and high-quality earnings across our businesses.

In our real estate business, we continue to see the outperformance of our high-quality assets in an increasingly bifurcated market. Specifically, in our core portfolio, same-store net operating income grew by 5% over the last 12 months and occupancy levels remain at 96%. In the quarter, we signed over 7 million square feet of office and retail leases. Focusing on our office portfolio, leasing spreads increased by 14% in the quarter, and our leasing activity remains robust. A few examples of our leasing activity include 233,000 square foot lease in Toronto, 179,000 square feet in New York and 211,000 square feet between London and Berlin.

In addition, a large office tenant recently announced that they'll be extending its long-term lease at Canary Wharf. And looking ahead, our office leasing pipeline remains strong at roughly 1 million square feet. While in our retail portfolio, leasing activity continues to trend positively, with leasing spreads of 15%.

Overall, we see many tailwinds for the earnings and valuations in our real estate business with core operating cash flows continuing to grow, interest rates and inflation peaking and expected to come down, financing spreads tightening and transaction activity picking up.

In our renewable power and transition business, we continue to see robust demand for clean energy with accelerated global trend of digitalization. Subsequent to the quarter, we signed a landmark agreement with Microsoft to deliver over 10.5 gigawatts of new renewable energy capacity between 2026 and 2030 through the development of projects in the US and Europe to support Microsoft data center growth.

Now turning to monetizations. Across all our businesses, we are very active on a number of sales processes. With transaction volume picking up, we're seeing a flight to quality with buyers focused on the highest quality businesses and assets. We recently announced the sale of a 49% stake in a premier office asset in Dubai, generating an above-hurdle return. We're also progressing the sales of a hotel at our premier mixed-use complex in Seoul, Korea, a fiber platform in France and our road fuels operation in Europe. Most importantly, substantially all sales were completed or expected to be agreed at prices in line with our carrying values. In addition, we are advancing a significant pipeline of renewable asset sales, targeting \$3 billion of proceeds in aggregate this year at attractive returns.

Over the last 12 months, we recognized \$547 million of net realized carried interest into income.

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We also generated \$1.7 billion of unrealized carried interest, increasing our total accumulated unrealized carried interest to \$10.1 billion, of which \$9.1 billion is directly owned by the Corporation. With our asset sales pipeline active, we expect to realize additional carried interest into income through the remainder of the year.

Shifting to our balance sheet and liquidity. We continue to maintain a conservatively capitalized balance sheet and high levels of liquidity. Today we have a record \$150 billion of deployable capital, enabling us to invest opportunistically and at scale.

With liquidity coming back to the capital markets, we executed on approximately \$40 billion of financings across the group over the last few months. Notable highlights would include, at the corporation, we issued \$750 million of 30-year bonds to enhance liquidity. The offerings saw the highest demand for investors we've ever seen and speaks to the significant appetite for quality in duration in the market today. In addition, our corporate credit rating with S&P was reaffirmed the A3 and A- respectively.

In our real estate business, we completed close to \$15 billion of financings including \$4 billion in our office portfolio. As an example, we executed on \$2 billion of debt at our premier mixed-use complex in Seoul, Korea.

We've repriced approximately \$12 billion of financings across six portfolio companies, extending duration and reducing spreads by 40 basis points on average.

And lastly, our renewable power and transition and infrastructure businesses executed on key financings including the issuance of \$3.85 billion of investment-grade bonds as part of our partnership with Intel for their semiconductor facility in Arizona—with the issuance being heavily oversubscribed. These financings emphasize the continued demand from lenders for transition and digitalization opportunities.

Moving on to capital allocation. We reinvested our excess corporate cash flow back into our businesses and returned \$626 million to shareholders through regular dividends and share buybacks in the quarter. To date this year, we repurchased over \$700 million of shares in the open market, adding approximately \$0.50 per share of value to each remaining share. We will continue to allocate capital for further share repurchases should prices remain attractive for us.

Overall, we have had an active start to the year, delivering strong financial results and executing well on our strategic plans. As we look ahead over the course of 2024 and beyond, we expect that the continued momentum in our financial performance, combined with our record level of deployable capital, sets us up to grow earnings and enhance value even further.

With that, I'm pleased to confirm that our Board of Directors has declared a quarterly dividend of \$0.08 per share payable at the end of June to shareholders of record at the close of business on June 13, 2024.

I thank you for your time, and I'll now pass the call over to Sachin.

Sachin Shah, Chief Executive Officer, Wealth Solutions

Thank you, Nick. And good morning, everyone. With the recent close of the acquisition of AEL, we thought it was worthwhile to provide an update on our Wealth Solutions business and its outlook going forward.

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As many of you know we launched Brookfield Reinsurance in late 2020 to focus on annuities and retirement income at a moment in time when historically low rates presented a unique opportunity to learn the business and potentially meaningfully benefit if rates gradually normalized to higher levels. Our strong capital position, decades of investment experience and deep operating capabilities positioned us well to build a scale business as demand for retirement income was on the rise.

As we set out to build the business, our focus, as always, was on compounding capital at 15% to 20% returns on equity over the long term while managing downside risk. Today in the United States, there is a significant shortfall in retirement funding for aging populations to the tune of a \$7 trillion deficit. There are approximately 60 million people in the US who are 65 years or older, representing one out of every six people, 100 years ago, that number was one out of every 20 people. And over the next two decades, the US will add another 25 million people to that aging cohort. Accordingly, as the population gets older in the Western world, the retirement deficit that exists today will only compound.

Furthermore, less than 50% of US workers qualify for retirement benefits through their employer, putting significant pressure on government entitlements. As a result, the demand for private sector solutions that provides stable annuity-like income for an aging population are not only large today but will grow well into the future. Accordingly, in 2023, record annuity sales surpassed \$385 billion in the United States.

Our business today is primarily focused on long-duration, fixed annuity and pension products, where we provide a fixed rate of return to individuals for a predictable number of years. These products help individuals plan for retirement, manage and protect their wealth and ensure they have a stable income source well into the future. These products also have a very stable and predictable profile for us, allowing us to focus on investment returns rather than insurance outcomes.

As we have built out our business, we have maintained this core principle where our products are designed to provide long-term stable income to individuals and a predictable profile to us, which then allows us to utilize our investment capabilities to generate consistent excess spreads. The stable profile of individual income requirements and the long-dated nature of our investments ensures our earnings are highly predictable and very cash flow generative over a very long period of time.

In effect, we are leaning on the skills that have made us successful for decades, while generating stable and growing utility-like earnings similar to the earnings generated by our other Brookfield businesses.

Three market differentiating capabilities unique to Brookfield continue to underpin our business.

First, Brookfield Asset Management's leading investment franchise sees over \$50 billion of credit opportunities across Brookfield's ecosystem annually. These investment products are ideally suited to insurance balance sheets due to their low volatility, capital efficiency and stable returns. Importantly, our Wealth Solutions business and the credit business within Brookfield Asset Management complement each other and should grow in tandem, driving earnings and cash flow generation.

Second, Brookfield Corporation has a \$155 billion permanent capital balance sheet, underpinned by its long-term approach to investing capital, earning attractive risk-adjusted returns with downside protection and not taking undue risk with capital. We have applied the same philosophy

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to growing our Wealth Solutions business. Our \$8 billion of equity capital within Brookfield reinsurance has been invested from Brookfield Corporation's balance sheet, providing 100% alignment with insurance policyholders, distribution partners and other stakeholders.

And third, our operational expertise. Historically, we have been successful across Brookfield when we manage operations to lower risk and drive growth. In this case, that approach led us to quickly being more than just a financial investor and focused us on building out our own direct policy origination platform. The ability to get closer to customers, create new products, manage risk, and align business initiatives to our long-term objectives supports our ability to deliver high 'teens returns and compound capital over the long term.

Our progress in building out the business took its first major step in 2022 through the acquisition of American National, a writer of premiums across life, annuity and property and casualty product lines. At the time of our acquisition, American National had never sold more than \$1 billion of annuities in any year of its 100-year operating history. Following our acquisition, we focused the business through strategically exiting a number of non-core product lines, optimizing the investment portfolio and improving capital efficiency. In our first full year of operations, we sold over \$6 billion of annuities out of American National. In 2024, we are targeting \$11 billion of annuity and pension origination. Today our investment is realizing over 20% returns on invested equity and our growth prospects are tremendous.

To further scale and diversify our capabilities, we recently completed the acquisition of American Equity Life. Although we only closed last week, we have hit the ground running to integrate the business seamlessly into our broader operations. We have improved AEL's credit rating given our financial strength, and we are positioned to record the highest annuity sales in the company's history over the next 12 months.

With the acquisitions we have made over the last few years, and our organic growth, we have built the business into one of the leading providers of annuities and pensions in the US. We now have over \$110 billion of diversified insurance assets and the capability to originate over \$20 billion of annuity sales annually in the near term. Our business today generates approximately \$1.4 billion of new annualized earnings on \$8 billion of invested capital. As we optimize and reinvest the asset portfolio, we expect earnings to grow significantly from here as our portfolio today has over \$25 billion of cash and shorter duration financial assets. And as we reinvest these assets over the next 18 to 24 months, the existing business is on track to surpass \$2 billion of cash earnings annually. Applying a conservative multiple to these long-dated annuity like cash flows, we believe we have built a business and the franchise that is worth in excess of \$20 billion.

Given our scaled operational capabilities and significant embedded growth, combined with our M&A capabilities, we see a credible path to once again doubling this business over the next five years as we continue to target 15% to 20% returns on our equity compounding over the long term.

With that, I will turn the call back over to the operator for questions.

QUESTIONS AND ANSWERS

Operator

[Operator Instructions] Our first question comes from the line of Mario Saric with Scotiabank.

Mario Saric, Analyst, Scotiabank

The first one is maybe for Nick, just on carried interest and utilization. Nick, on the last call you talked about realized carry maybe being in the \$400 million to \$500 million range for '24, fairly consistent with '23. Q1 was off to a surprisingly solid start, just shy of \$200 million with the language suggesting transaction markets should continue to improve.

So I guess the question is, it's \$400 million to \$500 million still a reasonable range? Or can we see BN exceeding that level?

Nick Goodman, President

Yes. I think it's still a reasonable range. We expected it to be a little bit front-loaded this year just given monetizations and where they're coming from and in which funds. So I would still work off that previous level we gave you.

Mario Saric, Analyst, Scotiabank

Okay. Then my second question, just on real estate debt. I think you mentioned \$15 billion of refinancing was highlighted. Can you talk about what you've seen in terms of spreads on both the unsecured and secured market quarter-over-quarter for the types of assets that you're looking to refinance as well as kind of lender appetite in terms of where LTVs are going?

Nick Goodman, President

Yes. Sure. I would say as a general comment, liquidity in the capital markets has been very strong to start the year. We highlighted a number of financings that we are continuing to execute very strong financings across the business every day. I think when you're bringing high-quality assets to the market, the bid is very strong and especially when people are looking for backed by long duration cash flows.

In real estate specifically, it's been a really strong start to the year, I think in the market in the US There's more CMBS issued already this year than in totality in last year. We've seen demand strong across the spectrum, retail very strong, multifamily, logistics and all those kind of assets industrial, and we're starting to see the bid improve for office as well. We see some office assets start to come into conduit. CMBS for the highest quality real estate, we're starting to see the liquidity and appreciation of the bifurcation of office and the demand for debt on high-quality real estate improve.

So spreads have tightened I see across the board. I'm not sure LTVs are drifting that much higher, but demand is definitely stronger across the capital stack, but the flow of demand for the AAA is

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driving down the spreads, and that helps the overall cost. So I would say generally, we see spreads continue to tighten. But more importantly, we're seeing the demand debt being there, which is supporting refinancings and will start to support transaction volume in the US.

Outside of the US, the markets are very strong. We did \$2 billion financing in Korea, which is predominantly office, the \$600 million office financing in Perth, Australia.

So I would say that demand and depth of appetite for real estate across the spectrum including office, continues to be very robust globally.

Operator

Our next question comes from the line of Ken Worthington with JPMorgan.

Ken Worthington, *Analyst*, JPMorgan

Part of the Brookfield game plan has been to monetize the non-core part of the real estate holdings, and the thought was this could be done over, say like a five- to seven-year period. Nick, you and Bruce called out this morning the improving conditions. You called out the monetizations that you're executing on. How do you see the monetization picture developing for what you'd previously called out as those non-core balance sheet investments versus how you're seeing the Brookfield funds monetize given the difference in the investment mix?

And I guess the follow-up would be, is AEL going to be a factor in terms of the monetization picture going forward?

Nick Goodman, *President*

Yes. So let me address the different parts of that, Ken, and maybe I'll start with insurance first.

I think we've identified that the core real estate that we own, the top 35 office and retail assets that we want to own all of a portion of a very long time, which are truly some of the best real estate in the world with long-duration cash flows, high-quality assets. Those are perfect assets for insurance companies to look to own. So as we think about the long-term ownership of the core, I wouldn't just say AEL, but the broad Wealth Solutions and insurance platform will play a part in that, and we expect to make progress on that in the next 12 months.

As it speaks to monetizations, yes, liquidity and transactions has started to pick up. We sold an office building in Brazil. So it's not specifically assets outside of office, but we're seeing capital markets improve, liquidity improves and that supports transactions. So our plan on T&D hasn't changed. Office in the US maybe has a little bit more time to go before transaction activity really picks up, and that will be supported by the improved liquidity in the capital markets, but our outlook for that hasn't changed and our strategy is the same.

Operator

Our next question comes from the line of Cherilyn Radbourne with TD Cowen.

Cherilyn Radbourne, *Analyst*, TD Cowen

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Good morning. I wanted to start with a question on Wealth Solutions, so probably for you, Sachin. In the letter, you mentioned further growth through pension risk transfer and international expansion. So I was hoping you could touch on the current environment for pension risk transfer deals and comment on some of the complexities and opportunities associated with international expansion?

Sachin Shah, Chief Executive Officer, Wealth Solutions

Sure, no problem. So the pension markets both in the US and the UK are very strong. The UK has been at it now probably for about six or seven years, where every year, you get a very large set of pensions coming off corporation balance sheets into private hands. And as a result, we've seen very meaningful growth in some of the pension aggregators in the UK. But there's still probably 20 years and close to \$1 trillion of pensions that have to come off corporation balance sheets in the UK alone over the next two-decade period. So we see tremendous growth there, and it's a market where we think given our asset origination and what's called matching adjustment in the UK, we could be highly successful. The US is much earlier in their transition from pension sitting on corporate balance sheets. So I think we have not only a longer runway but given the scale of US companies, even a larger volume of pensions that will come off.

All that being said, we started building out our US pension business last year. We, in the last 12 months, have done \$3 billion of US pensions in terms of transactions that we've won. We're still just in the very early days. I think that's a business that can comfortably scale to \$7 billion to \$10 billion a year in the US for us. In the UK, we're in the process of getting licensed. We should be in a position by the end of the year where we're actually bidding on transactions. Similar to our US strategy, we'll start small and eventually migrate into the larger transactions.

Cherilyn Radbourne, Analyst, TD Cowen

That's great color. Then just in terms of capital allocation during the quarter, we noticed that there was just over \$450 million that was reinvested back into the operating businesses. Can you give us some color as to what that went towards?

Nick Goodman, President

Yes. For sure, Cherilyn. So that was, as you said, capital allocation, so taking the consolidated cash flow that we have, we used that to retire corporate bonds within BPY, which I think we've talked about in the past, deleveraging that corporate balance sheet as a capital allocation decision when we weigh up that against other things we can do. So that's where the cash went in the quarter.

Operator

Our next question comes from the line of Geoffrey Kwan with RBC Capital Markets.

Geoffrey Kwan, Analyst, RBC Capital Markets

Discount to NAV remains wide, but it has narrowed meaningfully in the past couple of quarters. And just given your outlook for capital deployment, how has that changed your appetite for share buybacks given where the discount is today?

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Nick Goodman, *President*

Geoff, I think it remains the same. We have complete conviction not only in the intrinsic value of the business. But if you listen to all the remarks today the growth potential and the tailwinds that we have across the franchise, we still see tremendous growth from here to date. So we still see buybacks being a very attractive use of our capital, we weigh that up against other opportunities that we have, and we have lots of strategic initiatives going on in the organization, a couple executed recently, which are all highly additive to the franchise, but they're just as attractive now as they've been over the last few months.

Geoffrey Kwan, *Analyst, RBC Capital Markets*

Okay. And just my second question, maybe expanding on Ken's question on the T&D monetization. I mean if we're looking at over the next five years, if we've seen the monetization market, call it, opens up at some point this year, do you see that monetization of the T&D portfolio as you've got a, I don't know call it, a material amount of the portfolio that could get monetized kind of call it out of the gate? Or is it something that may be a little bit more back-end loaded thinking about that profile?

Nick Goodman, *President*

Listen, Geoff, I think we'll just take it as the market comes, like to be clear, T&D still is good real estate. These are good assets. We're comfortable owning them. When the transaction market improves, if transactions are at levels that are attractive, we'll look to monetize. We think over the next five years that market will be there, but we're under no pressure to do this.

And when you think about it in the context of the overall business of Brookfield, this is not a material driver to us achieving our strategic objectives. This is about rightsizing the business over time, and we'll do it when it makes sense. So that's how I summarize the approach.

Operator

Thank you. I would now like to turn the call back to Ms. Angela Yulo for closing remarks.

Angela Yulo, *Vice President*

Thank you, everybody, for joining us today. And with that, we'll end the call.

Operator

This concludes today's conference call. Thank you for participating and you may now disconnect.