

TRANSCRIPT: Q2 2024 CONFERENCE CALL / WEBCAST

August 8, 2024 at 10.00 am (ET)

Corporate Speakers:

Bruce Flatt, *Chief Executive Officer*

Nick Goodman, *President*

Angela Yulo, *Vice President, Investor Relations*

PRESENTATION

Operator

Hello, and welcome to the Brookfield Corporation Second 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, Investor Relations. Please go ahead.

Angela Yulo, Vice President

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

On the call today are Bruce Flatt, our Chief Executive Officer; and Nick Goodman, President of Brookfield Corporation. Bruce will start off by giving a business update, followed by Nick, who will discuss our financial and operating results for the quarter. 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 request that you refrain from asking more than two questions.

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

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 U.S., 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. And welcome, everyone, on the call. Results for the second quarter were strong with each of our businesses performing well and continuing to deliver strong cash flows.

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Distributable earnings before realizations were \$1.1 billion for the quarter and \$4.4 billion for the last 12 months, representing an increase compared to the prior year quarter of 11% on a total per share basis. Total distributable earnings increased by 80% to \$2.1 billion for the quarter as transaction activity continues to pick up. With regard to the economy, inflation is cooling down, short-term interest rates are starting to decline in major economies around the world and risk appetite has been coming back.

In just the last six months, we successfully financed approximately \$75 billion of debt and realized \$15 billion from monetizations across a number of assets globally. With this constructive economic backdrop, albeit volatile over the last week, liquidity continues to return to the private markets, setting us up well to capitalize on attractive growth opportunities, monetize mature assets and deliver strong returns.

As we look forward, we believe this should be a great environment for real assets and specifically for those investment teams with operational expertise and access to scaled capital. At the same time, we continue to take the opportunity to repurchase our shares at significantly lower prices compared to our view of intrinsic value.

Since the start of this year, we completed over \$800 million of share buybacks, which added very meaningfully to the value of our company based on our view of that value.

We intend to continue to allocate capital to share repurchases when it makes sense, enhancing the underlying value of the business for each remaining share.

As we plan for the future, it is important to reflect on what has been the foundation of our growth and success from the past.

Our ability to consistently generate strong investment returns over the long term is certainly one of those. This has contributed to our success in the past and should continue to drive success for years to come.

Our investment philosophy has been and continue to be built on our key principles, which have applied while investing our own capital for over 100 years. And this has enabled us to compound our own capital, build a large perpetual capital base and establish ourselves as one of the largest global asset managers with a very strong investment track record. These same principles though should apply as we further scale our Wealth Solutions business, which after just three years has generated annual returns compound of 20% and looks to be only getting started.

Our strong investment performance has led, therefore, to our clients meeting their financial objectives, our manager further deepening client relationships, our balance sheet continuing to compound at approximately 20% annualized for the past 30 years and our ability to realize carried interest, which can be reinvested back into the business or return to shareholders.

Our differentiated platform, which has evolved with the backbone of the global economy has enabled us to continue to compound capital and deliver strong returns on a per share basis to our shareholders over the longer term.

Note that we invest into the backbone of the global economy. But that economy is always evolving, and we must change with it.

I would note for you that 50% or more of the assets that we own today, did not exist as an asset class 20 years ago.

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One of the few areas where we are seeing very strong investment opportunities is the AI revolution.

Fortunately, we are at the center of the backbone of this revolution and our combined development pipeline of renewable power and data centers is by far the largest of any entity globally.

There is an increase in demand for power to run data centers used in computing capacity for AI. It is the largest builder of renewables and data centers combined in the world -this is very exciting for us.

However, our scale must increase dramatically to meet the needs of our customers.

As a result, we have acquired several renewable operating and development platforms as well as data center businesses over the past number of years to scale our capabilities.

Our recent agreement with Microsoft and our advancements through our Westinghouse business also give us an enormous lead in pursuing this.

Before I pass the floor over to Nick, I will end by saying that we look forward to seeing you at our Investor Day on September 10 in New York.

Additional details for that are on our website. And as always, thank you for your continued support and interest in Brookfield.

I'll now turn the call over to Nick.

Nick Goodman, *President*

Thank you, Bruce. And good morning, everyone.

We delivered strong financial results in the second quarter, generating stable and growing cash flows across our business. Distributable earnings or DE before realizations were \$1.1 billion or \$0.71 per share for the quarter, representing an increase of 11% on a per share basis over the prior period.

Over the last 12 months, DE before realizations were \$4.4 billion or \$2.77 per share. Total DE was \$2.1 billion or \$1.35 per share for the quarter and \$5.8 billion or \$3.67 per share over the last 12 months, with net income of \$1.1 billion at our share or \$3.4 billion in total over the same period.

So focusing first on our operating performance.

Our asset management business generated distributable earnings of \$636 million or \$0.40 per share in the quarter and \$2.5 billion or \$1.61 per share over the last 12 months.

We continue to see strong fundraising across our diversified fund offerings.

Assets under management are now approximately \$1 trillion and fee-bearing capital was \$514 billion as of June 30, and that's 17% higher than 12 months ago.

Inflows during the quarter were \$68 billion, backed by the scaling of our credit platform.

This increase supported the 11% growth in annualized fee-related earnings compared to the prior year quarter.

We expect fundraising to ramp up in the back half of the year with closes anticipated for our latest flagship funds in the market, which should result in further earnings growth.

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During the quarter, our ownership in BAM decreased by 2% to 73% as we used approximately \$1 billion of BAM shares as part of the consideration for the acquisition of American Equity Life or AEL. This demonstrates the valuable currency and liquidity that BAM and our other listed securities provide us.

Our Wealth Solutions business had another strong quarter, continuing to deliver growing long-dated annuity-like cash flows.

Distributable operating earnings were \$292 million or \$0.19 per share in the quarter and \$1 billion or \$0.63 per share over the last 12 months.

We doubled the size of the business in the quarter, taking our insurance assets to over \$110 billion, on the back of the acquisition of AEL and the origination of \$3.5 billion of new business through our annuity channel. Excluding AEL, the net investment spread on our assets was consistent with the prior quarter at approximately 2%.

Now as you may recall when we acquired American National or ANICO back in May 2022, the annualized spread earnings of the business were approximately \$300 million.

Our investment thesis at the time was predicated on being able to leverage the credit origination and investment capabilities of our asset manager to rotate the investment portfolio into higher-yielding assets, with the target of doubling the yield on the investment portfolio and thus, the earnings of the business.

Within 12 months of taking ownership of ANICO, the annualized spread earnings had indeed doubled to over \$600 million.

We have a very similar plan with the AEL, as we steadily repositioned the investment portfolio, we expect the spread earnings of the AEL business to increase from roughly 1.5% today to closer to 2%. And this will have the effect of growing our annualized earnings from \$1.4 billion today to \$2 billion. Through our combined Wealth Solutions platforms, we are raising close to \$2 billion of retail capital per month, which now includes approximately \$400 million a month from retail products for high-net-worth clients.

Our operating businesses continued to deliver resilient and growing cash flows, generating distributable earnings of \$371 million or \$0.24 per share in the quarter and \$1.5 billion or \$0.93 per share over the last 12 months.

Cash distributions are underpinned by the high-quality earnings of our businesses, operating funds from operations or operating FFO in our renewable power, transition and infrastructure businesses increased by 7% over the prior year quarter, while same-store operating FFO in our private equity business grew by 17%.

In our real estate business, our core portfolio delivered 3% growth in same-store net operating income over the last 12 months.

In the quarter, we signed nearly 5 million square feet of office and retail leases, and focusing on our core office portfolio, rents on newly signed leases increased by 23% compared to those leases expiring. A few highlights of our robust office leasing activity include nearly 670,000 square feet leased in South Korea, over 400,000 square feet in Toronto and New York and over 400,000 square feet in London and Germany. And in our retail portfolio, occupancy levels remain high at 95%.

In our renewable power and transition business, we expanded our footprint into a number of key renewables markets.

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During the quarter, we agreed to acquire a majority stake of Neoen, a leading global renewables platform located in Australia, France and the Nordics. Backed by our expertise and reputation as the largest provider of renewable power and data centers, our combined 230-plus gigawatts is the largest operating and development pipeline behind the AI revolution taking hold, and this should be a tremendous tailwind for the earnings of our operating businesses.

Now moving on to monetizations. With transaction activity picking up, we expect an increased level of monetizations going forward.

During the quarter, we advanced or completed several sales at strong investment returns including on a luxury hotel in South Korea, an office asset in Washington, D.C., a road fuels operation in Europe and several renewable assets.

In addition, we realized a gain of approximately \$950 million on the sale of 2% of our BAM shares, and this assists with increased float in the shares.

Over the last 12 months, we generated \$2.3 billion of unrealized carried interest, increasing our total accumulated unrealized carried interest to \$10.7 billion, of which \$9.5 billion is directly owned by the Corporation.

We also recognized \$234 million of net realized carried interest into income to date this year, and we expect to realize additional carried interest through the end of the year.

Fundamentals remain strong across our businesses.

However, our total consolidated net income was impacted in the quarter, mainly from the accounting treatment of recent acquisitions in our infrastructure business, resulting in higher noncash depreciation and amortization costs. Given the quality of our assets and the continued recovery in transaction activity, we see many tailwinds that will drive further earnings growth in each of our businesses.

Outside of our financial results, our conservative balance sheet and strong liquidity position continued to differentiate our franchise.

We have approximately \$150 billion of deployable capital at quarter end which includes \$62 billion of cash and liquid assets at the Corporation, our affiliates and our Wealth Solutions business. With this large-scale capital, we are well positioned to focus on attractive growth opportunities.

We continue to capitalize on the narrowing credit spreads and strong demand in the capital markets.

We executed on approximately \$75 billion of financings across the group to date this year, supporting growth in ongoing operations. Notable highlights include at the Corporation, we issued \$650 million of 10- and 30-year bonds, tightening credit spreads by 55 and 10 basis points, respectively, relative to the most recent comparable issuances.

At Brookfield Renewable Partners, we successfully compressed the credit spreads on a CAD \$400 million bond issuance by an average of 65 basis points and we closed approximately \$160 million of 60-year subordinated notes of Brookfield Infrastructure Partners. These financings demonstrate the very strong interest in businesses aligned with global secular trends.

In our real estate business, we refinanced an approximately \$800 million New York office loan with a new 5-year loan at a spread of 225 basis points, a strong signal of the significantly improved

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financing markets for real estate. And lastly, we repriced approximately \$11 billion of financings across six portfolio companies, reducing the credit spreads by 55 basis points on average.

Shifting to capital allocation.

We reinvested our excess cash flow back into our businesses and returned \$408 million to shareholders through regular dividends and share buybacks during the quarter. To date this year, we repurchased over \$800 million of shares in the open market, adding approximately \$0.55 of value to each remaining share, and we expect to continue to further allocate capital to share repurchases over the remainder of 2024.

In summary, we achieved strong financial performance, and we expect this momentum to continue to build over the balance of the year and beyond. With the improving market conditions, we anticipate transaction activity to pick up over the coming quarters, positioning us well to execute on monetizations and further bolster our earnings. With that, I am pleased to confirm that our Board of Directors has declared a quarterly dividend of \$0.08 per share payable on September 27 to shareholders of record at the close of business on September 12, 2024. Thank you for your time, and I will now hand the call back to the Operator for questions.

QUESTIONS AND ANSWERS

Operator

[Operator Instructions] Our first question comes from the line of Geoff Kwan with RBC Capital Markets.

Geoff Kwan, *Analyst*, RBC Capital Markets

My first question was on the wealth segment. They closed their first SMA for third party, I think insurers to manage the investments in Q2.

I'm just wondering if you can talk about the pipeline and the opportunity to do more of these types of transactions, potential timing, fee structures and margins?

Nick Goodman, *President*

Geoff, it's Nick. Yes. Listen, happy to comment, and I think we're going to see more of these, and I think the scale will continue to build. And there's a couple of driving forces behind it.

One, I think as we grow the insurance business on our books and the appetite that we have to originate credit is growing significantly, and the capability that we have to originate that is really strong in the asset management business.

So we will scale up our capability alongside our capital and then we can bring our clients alongside us as we scale. And we will build these SMAs and they can then invest alongside BNRE.

So I think we signed one in the quarter, you continue to see these scale up because we're able to originate the exact type of credit assets that these clients want to be invested in. The fee structures will evolve over time, but broadly consistent with other credit SMAs. And we should

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have a lot of operating leverage in that business because we have a lot of the credit sourcing and underwriting capability in place.

And I think it should be a strong tailwind of growth for earnings for the asset management business.

Geoff Kwan, Analyst, RBC Capital Markets

Okay. And just my other question is, and you talked about it earlier, it seems like the general consensus is monetization markets are improving, maybe there's a bit of a quality bias for a high-quality business or easier to transact, maybe less so for lower-quality businesses. And really, my question is, I'm wondering how this might play out within the real estate space, in particular, when real estate M&A really starts to pick up, do you think there might be some sort of lag effect on when you might be able to monetize assets within the T&D portfolio?

Nick Goodman, President

Geoff, you're right. The initial transactions have a bias for quality.

But I would say that within the T&D, we own high-quality assets, there may be not the assets we consider core once we want to own for a long term, but they are high quality. And also remember, they are geographically diverse.

So a lot of the transaction activity is returning.

We've sold a T&D in Brazil, and we are working on transactions across the globe, and we sold one asset in the U.S. So I think it will be dependent on the assets.

But even within T&D, we have high-quality assets, and we expect that, a) transaction activity picks up; b) it looks like interest rates are going to be coming down, which will be a positive catalyst for credit capacity and investor appetite and valuations, and that should be a strong tailwind for monetization.

Geoff Kwan, Analyst, RBC Capital Markets

Okay. Yes. No, sorry. I know there's a lot of quality in there. I was just thinking if I remember correctly, there's like 170-ish assets and some obviously are maybe more opportunistic than some of the others, and that's what I was kind of getting at.

Nick Goodman, President

Yes. They are. And Geoff, I would also just take the opportunity to comment on. If you look at the equity we have in real estate, 5% is in what we have consider regional office in the U.S. So it's not a significant number, and it's not going to be a major driver of monetization activity even if we are successful because that number is relatively small in context of the overall portfolio.

Operator

Our next question comes from the line of Mario Saric with Scotiabank.

Mario Saric, Analyst, Scotiabank

Nick, just sticking to real estate, the core real estate same-store NRR growth remains healthy at 3%, but higher debt costs have impacted the FFO. That said, the core FFO has showing sequential improvement this quarter.

As kind of monetary policy looks like it's going to be easy in the second half of this year. Could you remind us of the FFO kind of sensitivity within BPG to variable debt costs? That's something like, for example, if rates come down 25 basis points, it could impact your annualized FFO out of BPG by x percent.

Nick Goodman, President

Yes. Listen, I think, Mario, you're right, interest rates are coming down.

On top of interest rates coming down, credit spreads have compressed significantly. They're in about 150 basis points in some areas compared to 12 months ago. They're 25, 50 basis points off historical average, but we still think there are further room to compress.

So I think that, combined with interest rate cuts with maybe about 30% variable rate debt in the portfolio today, will be a positive catalyst as we work through.

Now to give you the exact percentage, it varies, because it depends on when we refinance fixed rate debt into a lower rate market and the impact of floating rate but with hedges rolling off, but you are going to see the impact coming through earnings almost immediately as rates start to come down.

Mario Saric, Analyst, Scotiabank

Okay. And my second question is more of a kind of a thematic long-term question.

I think Bruce highlighted the need to evolve with time with respect to invested capital as the new asset classes emerge.

I think, I guess, collectively, how do you think about that concept as it pertains to the BN corporate structure? Do you see the present BN corporate structure with respect to investments in listed subsidiaries fully owning the real estate and the Wealth Solution business, is that something you expect to endure over the next 1, 5, 10, 20 years?

Or is the optimal structure still a work in progress? And the genesis or the reason behind the question is that despite the pretty strong move in share price recently, it still materially lags your estimated intrinsic value.

Nick Goodman, President

Yes. That's a good observation, Mario. And listen, our primary focus is on being invested in assets that are going to generate attractive long-term returns. And in the real estate that we own, the insurance that we own, they are generating excellent returns, and insurance is just getting going and has enormous potential. So that's the primary focus.

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Now as these businesses evolve and as the markets evolve, we do assess the structure real time. And as you saw, as our asset management business grows, great tailwind, a deep public market developed for that business.

It reached a scale where we thought it was better served in the public markets.

But as we sit here today, the structure we have and the structure that we're planning on having for some time, and that may evolve.

But right now the focus primarily is on compounding value in the business.

And we may make decisions over time that can improve our access to capital. And so it's always going to be an evolution, and we'll see how it plays out.

Operator

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

Cherilyn Radbourne, Analyst, TD Cowen

As you're no doubt very aware, there's been concern raised this quarter about the potential for spread compression in insurance. Can you talk about how you see the trade-off between growth versus maintaining desired spread and/or ROE in that business going forward?

Nick Goodman, President

Yes, absolutely, Cherilyn.

I would just tell you the primary focus on our business is return on equity.

So we will stay incredibly focused and disciplined on that, which is why we want to draw out for people that the spread of our pre-existing business this quarter was maintained at 2%.

Now AEL comes on at a lower spread, but that will gravitate towards 2% as we reposition the investment portfolio. And how we manage that is as the rate environment changes, we are fairly quick to react in changing the rate that we offer annuitants.

So as the rate market has evolved and dynamic has changed, we've lowered the rate that we've been offering annuitants by up to 50 basis points in just the last week, and we're matching that against the investment opportunity that we see, with a primary focus on maintaining those 18% to 20% ROE.

So our primary focus is going to be return on equity.

Cherilyn Radbourne, Analyst, TD Cowen

Okay. And then switching gears a little bit here in terms of the deal pipeline. There's been a so-called wall of debt maturity that's been talked about for a while, which BAM touched on in part in the context of real estate yesterday. Maybe you want to expand on that, but can you also touch

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on what Oaktree sees developing in terms of the potential for a distressed credit cycle at some point?

Nick Goodman, *President*

Yes. Listen, we've not seen the distress yet.

We've seen opportunities and gaps in the financing market in certain areas, which has provided the opportunity for us to make pretty attractive loans, but still too good credits.

But just for one reason or another, they've fallen out of favor with the capital markets.

So maybe stress, the opportunity to deleverage, provide gap capital where the banks have had to take a step back.

So it's maybe being driven by regulatory impacts, market dynamics as opposed to necessarily underlying portfolio stress or distress.

But without a doubt, there was a lot of leverage added when rates were zero and credit spreads were tight. And as those do come up for renewal, I think across Oaktree and our credit funds, we are going to see the opportunity to provide lending to cover the gaps but still for high-quality assets, and we have the capital available to participate.

Operator

Our next question comes from the line of Sohrab Movahedi with BMO Capital Markets.

Sohrab Movahedi, *Analyst*, BMO Capital Markets

Nick, I just wanted to go back to the answer you gave to the earlier question here on insurance spreads.

I mean 1.5, or the credit spread, sorry, for the insurance, 1.5% to 2% spread. Like, what dictates where on that range you operate? How much of it is kind of macro as opposed to, I don't know I'll call it a management decision?

Nick Goodman, *President*

Yes. A lot of the plan with AEL, Sohrab, is just reallocation of the existing investment portfolio. There's no real macro thesis here.

It's just we look at the portfolio, a lot of it is held into short term liquid assets that are lower-yielding relative to the credit opportunities that we see. So it's really about bar-belling the portfolio.

They will maintain some liquid, but they're overallocated to short-term cash and liquid assets. And between that and repositioning, similar to the ANICO portfolio, we just see an uplift in the spread without really adding that much risk to the portfolio.

Sohrab Movahedi, *Analyst*, BMO Capital Markets

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And maybe just for crystal clarity because I think I got a little bit confused from the earlier answer. Like you are probably price takers on the rate that the annuitants want, like you can't really price up, too far up market, otherwise, you won't get any volume, right?

Nick Goodman, *President*

But that's the point, Sohrab, I think that's exactly the point.

We will offer it at a rate that we are comfortable we can earn a spread on it. That means for that quarter, then maybe our sales are a little bit lower, then we are willing to live with that.

Now in the current environment, we believe at the rate we've been offered were still running about a \$15 billion inflow run rate, and we think we can maintain it at these levels.

But I think our point is, we are a price taker, but we're going to set at a price where we're comfortable we can earn a good return.

Sohrab Movahedi, *Analyst, BMO Capital Markets*

Okay. I appreciate that. And just on that same topic, 18- 20% type of ROE that you're targeting for that business is still predicated on around the 10x leverage.

Nick Goodman, *President*

Yes. In that range, 8-10x leverage.

Operator

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

Alex Bernstein, *Analyst, JP Morgan*

It's Alex Bernstein on for Ken.

We wanted to double click on the realization pipeline. You made some comments today suggesting that transaction activity is due to go up. Those comments were in line with some of what we heard in the BAM call yesterday, especially as pertaining to the renewable sector. With that in mind, is it still the case that your guidance for the year holds at the prior \$400 million to \$500 million that you mentioned?

Or is it possible that we might see some upside to that number?

Nick Goodman, *President*

Yes, North. Yes, listen, you're right, the comments are consistent with what was said on the BAM yesterday, and we are seeing sales activity picking up U.S., Canada and globally. And in the short term, those sales activity, what it means immediately is it means our return of capital at excellent returns, either to be in or our listed affiliates, depending on who made the investments.

So we have that immediate impact. And then longer term, it turns into carry.

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But I think I would temper expectations on carry realization because the assets we are monetizing are in later vintage funds, where we are working on returning original capital, working our way through the preferred return.

But what it does is it sets us up really well going into 2025 as we execute on these sales and more to come, then you'll start to see that carry realization come through our earnings.

Operator

Thank you. As there are no more questions, I will now turn it 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.