

Brookfield

TRANSCRIPT: Q3 2024 CONFERENCE CALL / WEBCAST

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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 Third 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 third 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.

In addition, when we speak about our Wealth Solutions business or Brookfield Wealth Solutions, we are referring to Brookfield's investments in this business that supported the acquisition of its underlying operating subsidiaries.

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

Bruce Flatt, Chief Executive Officer

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

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We delivered strong financial results in the third quarter. Distributable earnings before realizations increased 19% to a record \$1.3 billion. That was \$0.80 per share for the quarter and \$4.6 billion or \$2.90 per share for the last 12 months. Nick will cover these results later in the call.

Focusing first on the market. A reduction in short interest rates globally, combined with solid growth and resilient economic data, is increasing the market's confidence in pricing risk. This is leading to liquidity returning to the capital markets and transaction activity picking up.

In the past few months alone, we have seen increased level of monetizations totaling over \$17 billion across our business.

We expect this momentum to continue across the franchise as high-quality, cash-flowing businesses with compelling growth profiles are proving to be highly attractive to both buyers and to lenders.

Nick will speak to asset sales that we advanced across the business, all of which are expected to generate attractive returns. At the same time, we committed approximately \$20 billion towards new investments and have a very robust pipeline that we are working on. So while 2024 has been a good year, 2025 should be better.

We continue to focus on building long-term wealth for all stakeholders. The secret to achieving this is deliver strong compound returns over a long period of time. Our core principles in this regard are very simple: invest in good businesses, run them well allocate excess free cash flow wisely, align everyone with long-term objectives, and evolve with the world around us. These principles, combined with making sound strategic investment and business decisions, have been the foundation of Brookfield. All of this has enabled us to deliver compound annualized returns of 19% over the past 30 years and will continue to be extremely important going forward.

Our ability to sustain our growth will be driven by our ability to continue to evolve our business with the world around us. A few examples.

First, a few years ago, we made the decision to build a Wealth Solutions business when interest rates were zero. This led us to acquire three insurance companies and reinvest a large portion of our excess cash flow during that period of time into our Wealth Solutions business.

In hindsight, this was well-timed and today the business is heading towards \$2 billion of annualized earnings and is positioned as a top-tier underwriter of annuities in the United States. Next is expansion outside of North America with the business announcing its first transaction in the U.K. today and next steps will be growth in Asia.

Second, our ability to evolve and adapt with the world around us is critical to our success. 25 years ago, investing in the backbone of the economy meant buying hydro dams, building pipelines, railroads and ports.

While we still build those assets and they're still critical today our investable universe has expanded significantly as the trends of decarbonization, digitalization, and deglobalization are reshaping the backbone of the global economy.

We have evolved our business accordingly, increasingly raising and deploying significant sums of capital into the energy transition and into infrastructure revolving around AI.

On the back of this, we set up our global transition business, which has the potential to be our largest business over time.

Brookfield

And we grew our capability around production and relocation of data centers. When you add in the impact of the AI revolution and the expected incremental demand for data centers, compute capacity, chips, clean power, we find ourselves very well positioned around the most significant investment opportunities of this generation.

We will continue to invest in a disciplined manner to create value for our clients, but at the same time, will remain focused on adapting with the ever-evolving backbone of the global economy to ensure we are able to participate in the next emerging investment opportunity. Third, we have widened our service capabilities and product offerings to capture the growing demand for alternatives by high net worth and retail investors via our Wealth Solutions business and our private wealth platform.

Looking forward, we are focused on deepening our distribution capabilities, expanding into new markets and evolving our product offerings.

As we expect to scale our private wealth and retail fundraising to nearly \$40 billion a year in the next five years, these inflows will add to our already large pool of discretionary capital at the corporation and will, at the same time, continue to benefit BAM as it manages most of the capital raised across our franchise. All of this should drive significant earnings and cash flow generation for our stakeholders for years to come.

Lastly, we spun off our Asset Management business, which has surfaced significant value for shareholders, now with a market capitalization of \$85 billion-plus. The business is currently taking steps to position itself for inclusion in the U.S. indices, which should further enhance its shareholder value. We are quite sure that BAM will eventually be included in all major U.S. indexes due to its size and location of business. The only question is when, not if.

Thank you for your continued support and interest in Brookfield, and I will now turn the call over to Nick.

Nick Goodman, *President*

Thank you, Bruce. And good morning, everyone.

Our financial results in the third quarter were strong. Distributable earnings or DE before realizations were a record \$1.3 billion or \$0.80 per share for the quarter, representing an increase of 19% over the prior period. Over the last 12 months, DE before realizations were \$4.6 billion or \$2.90 per share.

Total DE including realizations was \$1.3 billion or \$0.84 per share for the quarter and \$6 billion or \$3.78 per share over the last 12 months, with total net income of \$1.5 billion for the quarter.

Starting with our operating performance. Our focus on operational excellence continues to drive strong results.

Our Asset Management business generated distributable earnings of \$694 million or \$0.44 per share in the quarter and \$2.6 billion or \$1.64 per share over the last 12 months.

We continue to see strong fundraising momentum with total inflows of \$21 billion in the quarter and \$135 billion for the last 12 months, most notably from our credit franchise and insurance inflows.

Fee-bearing capital at quarter end was \$539 billion, 23% higher than 12 months ago. This increase supported the 14% growth in fee-related earnings compared to the prior year quarter.

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During the quarter, BAM closed on the previously announced strategic partnership with Castlake and completed the acquisition of SVB Capital. With the anticipated closes on our latest flagship funds, we expect strong fundraising through the end of the year and into 2025, driving further earnings growth.

Our Wealth Solutions business is growing fast with its earnings doubled compared to the prior year quarter. Distributable operating earnings were \$364 million or \$0.23 per share in the quarter and \$1.2 billion or \$0.75 per share over the last 12 months. The business benefited from the acquisition of American Equity Life, continued growth in our annuity platform and strong investment performance.

During the quarter, we generated approximately \$4.5 billion of organic inflows, primarily driven by retail and institutional annuity sales. As a result, our insurance assets increased over \$115 billion at quarter end. By leveraging our investment origination capabilities, we generated an average investment portfolio yield of 5.4%, 1.8% higher than our average cost of capital.

As we continue to gradually reposition the investment portfolio, we expect to achieve spread earnings of approximately 2%, growing our annualized earnings from \$1.5 billion today to \$2 billion in the near term.

Today a subsidiary of Brookfield Wealth Solutions announced an agreement to reinsure \$1.4 billion of U.K. pension liabilities. This is our first transaction outside of North America as we continue to look to diversify and expand our Wealth Solutions business.

We have also been selected to participate in a CAD \$1.5 billion pension risk transfer transaction, whereby we will insure 75% of the liabilities. This is the second-largest pension risk transfer ever in Canada, illustrating our market-leading position.

Through our combined Wealth Solutions platforms, we are raising close to \$2 billion of retail capital per month, which now includes approximately \$450 million a month from our private wealth channel.

Our operating businesses were very resilient, generating distributable earnings of \$356 million or \$0.23 per share in the quarter and \$1.5 billion or \$0.93 per share over the last 12 months. Cash distributions from our renewable power and transition, infrastructure and private equity businesses are supported by their strong underlying performance.

In our real estate business, our core portfolio delivered 4% growth in same-store net operating income over the prior year quarter. In the quarter, we signed approximately 6 million square feet of office and retail leases including over 1 million square feet of office leases in India and strong leasing in New York, Toronto, and Europe.

In our retail portfolio, our occupancy level remains high at 95%. Overall rents on the newly signed leases in our office and retail portfolios were approximately 10% higher compared to those leases expiring. With interest rates having peaked and capital markets opening up, we expect a strong recovery across real estate markets over the next couple of years.

Shifting now to monetizations, we have seen a considerable pickup in transaction activity. We closed or advanced over \$17 billion of asset sales across the business in recent months.

A few notable examples of asset sales include in our real estate business, we closed on the sale of nine retail parks in the U.K. Over the three-year hold period, we enhanced cash flows by increasing occupancy rates. The sale of this portfolio generates an approximately 30% IRR and 2.2x multiple of capital.

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We also agreed to sell the PGA National Resort in Palm Beach, Florida, an office asset in Sydney, Australia, and a portfolio of manufactured housing assets in the U.S. Property transaction markets are recovering.

Our renewable power and transition business recently signed four transactions with excellent outcomes. To date this year, this business raised over \$2.3 billion of proceeds from asset monetizations, generating an IRR of approximately 25% and a multiple of capital of 2.5x.

Overall, the larger monetizations were related to our second and third vintage funds across real estate and infrastructure. These monetizations advance the funds further towards the point of realizing carried interest, which we expect to happen in the next six to 18 months and will result in substantial cash flows to the corporation.

Over the last 12 months, we generated \$2.4 billion of unrealized carried interest, increasing our total accumulated unrealized carried interest to \$11.5 billion, of which \$10.1 billion is directly owned by the corporation. We also recognized \$295 million of net realized carried interest into income so far this year, and we expect to realize additional carried interest through the end of the year.

Outside of our financial results, we continue to strengthen our business by differentiating ourselves with our access to large-scale capital.

Our balance sheet and liquidity are robust, and the combination of the two positions us well to capitalize on investment opportunities through market cycles and protect us against downside risks. With interest rates coming down, liquidity continues to return to the capital markets.

In the past few months, we've executed on over \$30 billion of financings across the business.

Notable highlights include in our real estate business, the CMBS markets remain very active. We recently refinanced an \$850 million loan on a high-quality mall in Las Vegas with a new five-year term at a fixed rate, which is substantially more favorable than a year ago.

We also financed office properties for approximately £465 million in the U.K. Over \$400 million in India. These financings demonstrate that there's significant liquidity for high-quality office properties.

In addition, we executed on over \$2.5 billion of financings for two recent acquisitions in our infrastructure and private equity businesses.

We repriced over \$5 billion of financings across four portfolio companies, reducing the credit spreads by 45 basis points on average.

Turning to capital allocation.

We reinvested our excess cash flow back into our business and returned \$203 million to shareholders through regular dividends and share buybacks during the quarter.

Over the last 12 months, we repurchased approximately \$1 billion of shares in the open market, adding approximately \$0.80 of value to each remaining share, and we expect to continue to allocate capital to share repurchases.

Bringing it all together, our financial performance was strong, and we expect continued growth in our results over the remainder of the year and into 2025. As the economic tailwinds turn in our favor, we are well set up to drive strong earnings and deliver 15%-plus total returns on a per share basis to our shareholders over the long term.

Brookfield

With that, I am pleased to confirm that our Board of Directors has declared a quarterly dividend of \$0.08 per share payable on December 31st to shareholders of record at the close of business on December 16, 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 Mario Saric with Scotiabank.

Mario Saric, Analyst, Scotiabank

My first one just on capital allocation.

On page 5 in the Supplemental, I noticed that you changed the disclosure in terms of capital returned to common shareholders, turning to capital return as opposed to distributions. The stock's moved up nicely this year, part of which perhaps related to a pretty active NCIB.

Should we infer from the disclosure change that you expect share repurchases to be a structurally bigger part of returning capital to shareholders than it has been the last four to five years outside of this year? Or am I reading a bit too much into it?

Nick Goodman, President

I think you're reading too much into it. There was nothing more substantial than just we thought it was a better illustration of the complete return of capital that we've delivered over recent time.

Obviously, with the disconnect between our view of value and where the shares have traded, we've done close to \$1 billion of share repurchases in the last 12 months. And as we said, we continue to see that disconnect and we'll allocate capital to buybacks, but there's nothing more to it than that.

Mario Saric, Analyst, Scotiabank

Got it, okay.

Then my second one, just pertaining to the Wealth Solutions business. The 180 basis point spread to liability cost was up 10 basis points quarter-over-quarter but still below on your target 200 basis points.

I appreciate it takes time to redeploy the AUM into higher-yielding private funds. But how would you kind of define your \$2 billion annualized DE target? You mentioned it was in the short term. Like how would you define short term? And when do you think you can hit your 200 basis point spread?

Brookfield

Nick Goodman, *President*

Listen, I think if we're being conservative, I'd say in the next 12 months.

It just takes time. There's some easy wins. When you take over the portfolio, investing some of the cash, reinvesting shorter-dated assets. The rest of it, it just takes time to reallocate into higher-yielding opportunities. But I think over the next 12 months, we should get there comfortably.

Operator

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

Sohrab Movahedi, *Analyst, BMO Capital Markets*

Nick, just looking at the real estate portfolio.

I mean I think over the past year, maybe the transition and development bucket is down about \$1 billion or so. I think if I've got my numbers right, maybe about 13 properties, number of properties kind of disposed of. Can you remind us what's the eventual plan with that lump sum?

Then secondarily, given where the rates have moved, is there any thought as to changing the discount rate you're using to come up with the value of these portfolios?

Nick Goodman, *President*

Sure. So just tackling the first part, Sohrab, like our plans are consistent.

We're executing on what we've been laying out for the last couple of years, which is where the T&D portfolio were assets bought with a specific business plan in mind, a value creation strategy. And as we execute on that, we plan to monetize those assets and recycle the capital elsewhere in the business.

We've executed those plans for a lot of the assets, and now we're just waiting for the right market conditions to monetize and we'll just execute that at the right time.

On the discount rates, we made the point when rates went to zero, we didn't take our rates all the way down. And as rates have come back up, we have taken them up slightly.

We will assess that over time, but I think we feel where we've had our discount rates has been consistent. Again, this is a long-term view on what we think a sustainable value of these assets is, not fluctuating them based on short-term movements and price in the market.

So we'll assess it at year-end but I wouldn't expect any significant changes.

Operator

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

Cherilyn Radbourne, *Analyst, TD Cowen*

Brookfield

First, in terms of the structural changes that are being made to improve BAM eligibility for U.S. index inclusion, a related question that I get a lot is how you can improve the liquidity of the public float of BAM. And related to that, what is BN's desired stake in BAM longer term?

Nick Goodman, *President*

Cherilyn, listen, I think the first thing, as you know we're doing for BAM is and what we're very focused on right now is positioning it for broad index inclusion in the U.S. We think that will be highly beneficial to the stock and, therefore, to our shareholders.

As it relates to our ownership and the liquidity, we're down to 73%. We used a small amount of our ownership as consideration for the AEL transaction.

I wouldn't say we have a specific target in mind, but it's obviously a business with a very strong growth profile ahead of it and one that we have a lot of conviction in. And we will be a significant owner of that business for the long term. We have some flexibility around the ownership, nothing imminent planned. But obviously, we're very supportive of the business and we'll see how things evolve over time.

Cherilyn Radbourne, *Analyst, TD Cowen*

Okay. Then on the insurance side, I was hoping you could go into a bit more detail on the international expansion including today's announcement and just how competitive you see the U.K. I believe it's Japan that you're targeting in Asia. How competitive are those markets relative to North America?

Nick Goodman, *President*

Yes, so Cherilyn, the first comment I'd make on that is that we want to set this business up like we set up our other businesses, which is we don't want to be beholden to any one market as it relates to capital deployment. And having a global footprint will allow us to allocate our capital where we see the best investment opportunities at any point in time.

So we've obviously built a scaled platform in the U.S. We see a lot of growth potential here, but we want the flexibility to move globally.

And so, having a presence in the U.K. and Asia will allow us to do that. Obviously, markets are competitive in the U.K. They're competitive everywhere, but we think we can find areas in which we can participate, where we can drive strong returns. This transaction in the U.K. is just a very good example of that.

Operator

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

Robert Kwan, *Analyst, RBC Capital Markets*

Brookfield

Just wanted to ask a little bit more around the asset transaction environment. And from the BAM call there was a statement that it's a good environment to be a buyer and a seller, and we've heard that with a bunch of the affiliates, too.

But just from the top of the house, what business segments do you think offer the best opportunities for asset monetization activity? And similarly, where are you seeing the best value for acquisitions?

Nick Goodman, *President*

Yes. Thanks, Robert. Listen, I would say that it's almost within each of our business groups, there's different areas within those where there's good opportunities to buy and sell.

They all have their own specific themes and trends right now but we're looking for opportunities to buy assets where maybe there's capital structures out the last few years that have become broken but they're underlying them as high-quality assets or operations where we believe we can generate attractive returns markets that have fallen out of favor, assets that have fallen out of favor with the public markets.

I'd say we see those opportunities across the different businesses that we have in specific areas or markets. So it's hard to be specific to any one asset class.

But we're definitely seeing a number of attractive investment opportunities now coming to us, where having capital and operating expertise is putting us in a unique position to be able to find those opportunities where we can drive value creation. Whereas at the same time, once those assets are stabilized and we've derisked the operations, there are buyers for those assets on the other side.

So that's how we're seeing the good opportunity on both sides, and I'd say it's prevalent across all of our businesses right now.

Robert Kwan, *Analyst, RBC Capital Markets*

And just as a second question related to that, just with your expectation of increased monetization activity, what are you thinking about with respect to the realized carried interest, say over the next 12 months?

Nick Goodman, *President*

Yes. The one thing I'd like to remind you and everyone, I know most people know this, but the way the carried interest works for our funds is as we monetize assets and we return capital to our shareholders, carry is collected on the fund in its entirety, not on individual investments. That's the way that we operate.

So we have to return all the capital to shareholders in the fund. We have to work through the preferred return, and then we start to realize carried interest. And we recognize it into our statements when we're past that period where we believe there's minimal risk of clawback.

So as we monetize our assets right now we are returning that initial capital to shareholders in this next vintage of funds at excellent returns. And as we work our way through that, you'll start to see the carried interest being realized.

Brookfield

That just takes time, so you're starting to see progression this year. You see a small step-up next year.

Then '26 and beyond, you'll see a significant step-up as we work our way through the various stages of that.

Operator

Our next question comes from the line of Dean Wilkinson with CIBC.

Dean Wilkinson, Analyst, CIBC

Just first question on sort of the discount to plan value. I think historically, the market or investors may have erroneously described the discount as purely real estate.

But when I look at it, Brookfield property group, Wealth Solutions, and the target carrier are almost equal components of plan value. Which one of those buckets do you think that the market most misunderstands and how do we close that gap?

Nick Goodman, President

Dean, listen, it's very hard for me to assume what other people are thinking when they value our business.

We believe all of them are highly valuable. And different [businesses] have different discussions and focus around them, the carried interest.

As I said, we just need to execute and deliver the returns, and it's going to realize and crystallize a significant amount of cash for us over time. We just have to execute.

On the insurance business, we are building and scaling a business, so maybe we just have to prove it out, the track record and the proof of execution will lead to that higher multiple of earnings coming through in the valuation.

Obviously, real estate, we execute and we monetize.

So we believe all of this will come to fruition and all of it will present itself in plan, in value over time and price. We just have to execute. How the market allocates each value to each of those, we can't really influence.

Dean Wilkinson, Analyst, CIBC

No, fair enough.

Then just a question on, I'll call it, the sort of reallocation of how you hold the BAM shares. Is there anything that comes out of that vis-à-vis taxes or a realized disposition gain? Or is that accounting stuff behind the scenes?

Brookfield

Nick Goodman, *President*

Yes. There's no impact to us whatsoever. The only difference is at the end of this, we'll own liquid Class A shares as opposed to the privately held shares we have today.

Dean Wilkinson, *Analyst, CIBC*

Right. So it's just the IFRS book value that changes?

Nick Goodman, *President*

No. I don't think there's any change to that. There's no change at all.

Operator

Our next question comes from Kenneth Worthington with JPMorgan.

Alex Bernstein, *Analyst, JPMorgan*

This is Alex Bernstein on for Ken.

We first wanted to touch on insurance. We appreciate you've narrowed your focus to the annuities business, with annuities now accounting for 91% of total insurance liabilities, up from 88% the quarter prior.

But we wanted to touch on the P&C business as well and check if there were any negative impacts on results from hurricane or other weather-related events in Q3, just given some of the prominent headlines there.

If so, if there are any expectations on what that hurricane activity may look like for Q4 as well.

Nick Goodman, *President*

Yes. So there was a small impact but not material in the third quarter.

In the fourth quarter, currently, we don't expect anything significant because we've actually taken steps in Argo to derisk some of our exposure to the market and in Florida, where we have reinsured a lot of our exposure in that market.

So we're not currently expecting anything material in the fourth quarter.

Alex Bernstein, *Analyst, JPMorgan*

Great. That's great to hear. And maybe one more broader question just thinking about the U.S. election, the Trump victory and what increasingly looks like a red wave that's happening here. You mentioned earlier on the call today that the energy transition business could become one of your largest over time. Appreciate that it's a global mandate and Brookfield, in particular, is a global investor.

So I presume you're, to some degree, insulated from what happens just in the U.S. specifically.

Brookfield

But wanted to check if you anticipate any regulatory changes or, in general, any changes as relating to the opportunity here in energy.

Nick Goodman, *President*

Yes. Listen, I would reiterate the comments that Connor has made about the business, which is we invest based on underlying demand and fundamentals.

In the markets we operate in, renewable energy, solar, and wind is the lowest cost producer of power.

The underlying demand for clean and green power, specifically from technology companies, the corporates, is significant.

We think that that is a long-term trend that is not necessarily going to change and it's going to support our business renewables, both in the U.S., internationally. So I think we're still as optimistic about that business as we've ever been.

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.