



# Brookfield: Breakdowns Research

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## Primary Research Sources

[Link to latest 10K/Q, investor presentations, etc.](#)

[Latest 10k, Brookfield, Latest Investor Presentation](#)

## Summary:

Brookfield Asset Management (BAM) is a global alternative asset manager headquartered in Ontario, Canada, with a history of over 100 years. As of December 2021, Assets Under Management (AUM) stood at \$690 Billion (of which \$364 Billion are fee-bearing). They are considered asset-heavy, given that they invest in real assets. The paragraph below gives a brief overview of the company:

- *"Brookfield is a name that towers over the global investment industry, even if it receives less scrutiny or attention than rivals of similar size. The name adorns the skyscrapers of London's Canary Wharf, Berlin's reconstructed Potsdamer Platz, and New York, where Brookfield dwarfs every other commercial landlord. And it reaches far beyond real estate; Brookfield's eclectic investment portfolio includes 14,500km of railways and toll roads, about one-seventh of France's mobile phone masts, and Westinghouse, the formerly bankrupt nuclear reactor maker" - FT*

## Company History & Key People

### Company History

- A complete history of Brookfield is difficult to piece together, given how many entities with different histories have merged to become the company it is today:
  - **The 1950s:** Brookfield started out as Edper Investments, a company Edward & Peter Bronfman created in 1959 with some seed money of \$15 million following the sale of their share of Seagrams.
    - Samuel Bronfman, founder of the Seagram Company made a fortune out of alcohol, and in 1952, [he forced his nephews, Peter and Edward to sell their shares](#) for less than what they were worth. One key player in this company would be the South African-born accountant Jack Cockwell who helped the two brothers build an asset management juggernaut.
    - *"From 1954 to 1968, Edper involved itself in real estate, financial, and industrial ventures. Edward and Peter Bronfman, nephews of Samuel Bronfman, the builder of Seagram Co. Ltd., became known for the dizzying array of companies they amassed under one or another holding company. "It was a very, very complex organization," Desjardins Securities analyst Michael Goldberg told the Financial Post in 2003"- FT*

- **1979:** Edper acquired a controlling interest in Brascan after Brascan had sold its power business to the Brazilian government. After this, Brascan's focus shifted to North America. Brascan's history can be traced back to 1899.
  - **1899:** William Mackenzie and Frederick Stark Pearson founded *the São Paulo Tramway, Light and Power*. It was formed to engage in the construction and management of electricity and transport infrastructure in Brazil. It provided electricity and tram services in São Paulo and Rio de Janeiro.
  - **1904:** The *Rio de Janeiro Tramway, Light, and Power* was founded.
  - **1912:** The *Brazilian Traction, Light, and Power Company* was formed in Toronto, Canada, to develop hydroelectric power operations and other utility services in Brazil. It became the holding company for the *São Paulo Tramway and Rio de Janeiro Tramway*.
  - **1966:** The Brazilian Traction, Light, and Power Company changed its name to *Brazilian Light and Power Company*, and in 1969, it again changed its name to *Brascan Limited* (a portmanteau of Brazil and Canada).
- **The 1980s:** In the next two to three decades, Edper grew to become a behemoth with a diversified portfolio of businesses ranging from real estate to financial services with the help of Jack Cockwell. In 1989, Edward sold his shares and took up philanthropy while Peter stayed on.
- **The 1990s:**
  - In 1993, real estate prices were falling sharply which led to Peter Bronfman selling his stake and exiting the company.
  - In 1997, Brascan Limited merged with The Edper Group to form EdperBrascan, where 1 Brascan share was exchanged for 1.5 new EdperBrascan shares.
  - In the 90s, Brascan bought a stake in the World Financial Center owned by the unraveling Olympia & York
- **2000:** EdperBrascan changes its name to Brascan Corporation and the company listed on the NYSE under the ticker BAM. During this time, the current CEO Bruce Flatt succeeded Jack Cockwell. The latter had tapped Bruce as his successor.
- **2005:** Brascan was renamed *Brookfield Asset Management*. Besides managing its own portfolio, the company started earning management fees from client investments.
- **2019:** Brookfield acquired a 61.2% interest in Oaktree Capital Management. ~52.8 million Brookfield Class A common shares were issued in connection with the transaction's closing. Oaktree is a private equity firm founded by Howard Marks and Bruce Karsh, who is now on the Brookfield board.

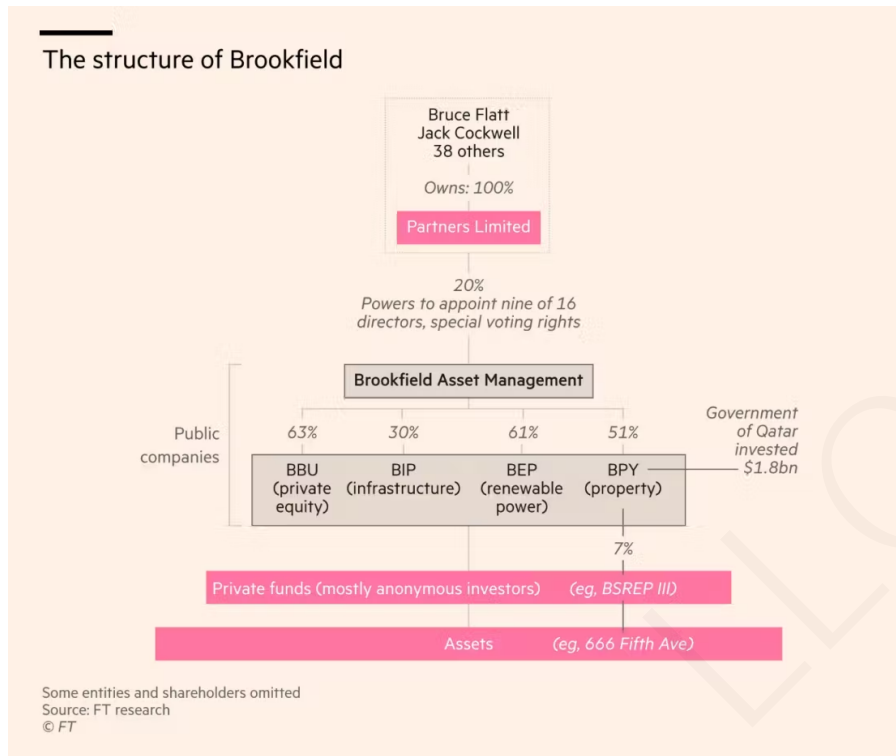
### Key People

- **Bruce Flatt**, CEO since 2002, has an accounting background and joined Brookfield in 1990. Prior to being appointed CEO, he was in charge of Brookfield real estate and investment operations.
- **Frank McKenna** has been a Director since August 2006 and became the Board Chair in August 2010.
- **Brian Lawson**, Vice Chair of the Board, joined Brookfield in 1988 and has held several senior management positions, including being CFO from 2002 to 2020.
- **Howard S. Marks**, a very well-known writer and investor in his own right, has served as a Director of Brookfield since February 2020.
- **Jack Cockwell**, the mastermind in creating Brookfield, serves on the Board as a Director.

### Business Model & Secret Sauce

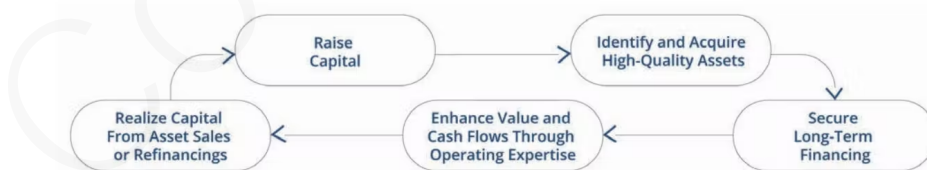
- The company has quite **a complicated structure** that many find difficult to understand.
  - *"...what Brookfield is, and how it operates, is maddeningly difficult to ascertain. To unpack the Canadian group's accounts is to discover not so much a company as a giant, triangular jigsaw board that spreads across the world and covers assets worth \$500bn. Hundreds of corporate entities are locked together by*

elaborate contracts, giving 40 people at the top the right to rule huge sections of the puzzle almost as if it were their own"- FT



Source: FT

- BAM purchases top-notch assets and companies that provide significant performance through all market cycles.
  - Their investment framework is guided by the maxims of acquiring **high-quality assets and businesses, investing on a value basis to maximize return on capital, enhancing the value of investments through operating expertise, and investing in areas where they have competitive advantages** while **building sustainable cash flows**. Capital is deployed with a **long-term perspective** but the firm is always prepared to move swiftly when the right opportunities present themselves.
    - *"We are disciplined in acquiring high-quality assets and businesses that we believe can deliver strong performance across market cycles. And we take a long-term view in deploying capital—but are ready to act decisively when the right opportunities emerge" - BAM.*

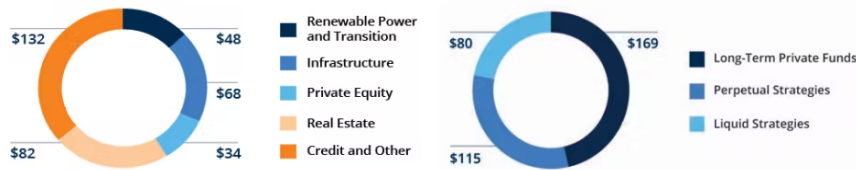


### A typical investment cycle (Source: BAM)

- The company's **investment portfolio** includes renewable power and transition, infrastructure, private equity, real estate, and credit & insurance solutions. The organization's objective is to consistently deliver more than 15% total return to shareholders annually. Strategic partnerships and acquisitions coupled with flexible capital and global scale have accelerated growth across the portfolio.
  - **Renewable power and transition:** The company is one of the largest investors in renewable power globally with \$67B of AUM, 3,200 operating employees, and 6,003 power generating capacity. The facilities have a generating capacity of roughly 24,000 megawatts, and have entered into long-term offtake contracts for the sale of power. The acquisition of TerraForm in 2017 was a significant addition to solar and wind assets.

- **Infrastructure:** Has \$138B of AUM cutting across utilities, data sector, transport, and midstream. There are more than 44,000 employees and 260 professionals operating in this business segment. The company has made some acquisitions to strengthen its position which includes Summit DigiTel in communication, Northern River Midstream, a Canadian natural gas processing and gathering company, and TDF, a communication infrastructure company in France.
- **Private Equity** which cuts across business services, industrials, and residential sectors has \$110B of AUM, 99,000 employees, and more than 100 professionals. It is focused on acquiring high-quality businesses with significant barriers to entry. They own and operate PE assets primarily through the 64% economic ownership interest in Brookfield Business Partners (BBU).
- **Real estate:** The company owns, develops, and operates prime properties in retail, office, multifamily, hospitality, and other sectors. Has \$264B of AUM, 24,400 operating employees, and more than 500M square feet of commercial space making the firm one of the largest investors in real estate globally.
- **Credit & Insurance Solutions:** In partnership with Oaktree, a credit investing leader, in which Brookfield has a majority interest, they offer comprehensive alternative investment products, and have \$750B of AUM. The company is looking to grow its credit business 2X over the next five years. The insurance solutions business provides capital-efficient investment vehicles to insurance companies and investors through reinsurance deals, direct equity investments, and hybrid solutions.
- Three key pillars driving growth for the organization are Asset Manager, Insurance Solutions, and Capital. These key businesses generate substantial cash flow and are expected to compound at more than 15%.
  - **Asset Manager:** This segment is expected to grow AUM to approximately \$2T with a fee-bearing capital of \$1T by 2027. In a Q1, 2022 letter to shareholders the company communicated its plans to spin off this business into a separately listed entity. The spin-off was approved unanimously by the Board of Directors in September 2022. The transaction involves publicly listing and distributing 25% interest and will result in Brookfield being divided into two publicly traded companies, Brookfield Corporation (what's now Brookfield Asset Management) and Brookfield Manager. The Manager will give shareholders access to global alternative investments while Brookfield Corporation will continue focusing on deploying capital across its existing businesses. The shareholders will vote on the matter on 9th November 2022.
  - **Insurance solutions:** The flexibility of capital, vast experience in investing for its own accounts, and a reputation for fairness makes the firm a partner of choice for regulated insurance businesses. The synergies within the investment platform are expected to drive growth to **\$400B of AUM**.
  - **Capital:** The firm has a large discretionary pool of alternative assets that are focused on return, have no restrictions, and compound capital at 15% on a baseline basis. Total equity capital is expected to grow to \$300B by 2027.
- The CEO **shares** some **guiding principles** that the company's success can be attributed to:
  - Measuring success on a total capital basis over the long term: *"And that gets you staying away from the short-term objectives within a company, which is often where companies make mistakes"* - **Bruce J. Flatt**.
  - Taking of calculated risks, but also comparing that risk with the return.
  - Focusing on the longer term: *"We'll sacrifice short-term returns to achieve long-term success"* - **Bruce J. Flatt**
  - Seeking profitability rather than growth: *"Because growth doesn't necessarily in what we do add value. Sometimes it does, but it doesn't necessarily add value"*- **Bruce J. Flatt**.
- **Offerings:**
  - The company has around \$364 billion of fee-bearing capital from 2,100+ unique institutional investors that is invested across several areas. There is also \$40 billion of additional committed capital that will be fee-bearing when invested:

AS AT DEC. 31, 2021 (BILLIONS)



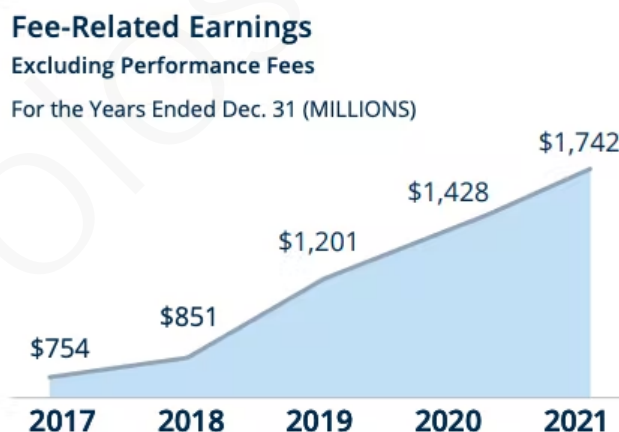
- The company's key **investment Strategies** are:
  - Long-term Private Fund:** These funds have "a long duration, are closed-end and include opportunistic, value-add, core, and core plus investment strategies". They earn a base management fee, carried interest, and one-time transaction and advisory fees.
  - Perpetual Strategies:** This capital is invested in the company's perpetual affiliates (Brookfield Business Partners L.P., Brookfield Renewable Partners L.P., Brookfield Renewable Corporation, Brookfield Infrastructure Partners L.P, Brookfield Infrastructure Corporation, and Brookfield Property Group) and in their core and core plus private funds. These vehicles can continually raise new capital and earn base management fees, incentive distribution fees and performance, and carried fees.
  - Liquid Strategies:** These are publicly listed funds and separately managed accounts from which the company earns a base management fee.
- Investments are funded with asset-level debt with no recourse to the company. The company has been slowly transitioning into increasingly **sourcing its capital externally**.

## Economics

### Key Metrics:

The charts are from the 2021 annual report.

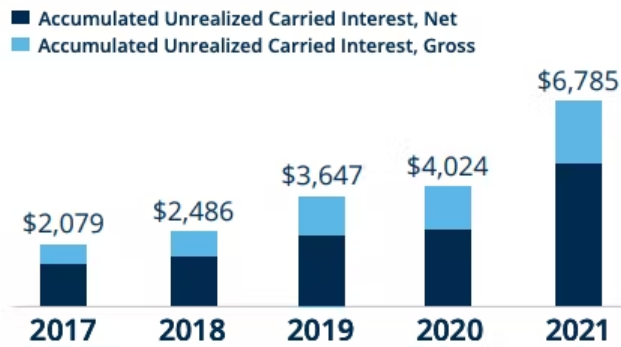
- Fee-related earnings:** These are fee revenues less direct costs associated with earning those fees.



- Carried interest:** This is a contractual arrangement where the company receives a fixed percentage of investment gains generated within a private fund as long as the investors have received a predetermined minimum return.
  - Realized carried interest:** Brookfield realizes carried interest when a fund's cumulative returns are in excess of preferred returns and are no longer subject to future investment performance, for example, clawback.
  - Unrealized carried interest:** These are not included in the Consolidated Balance Sheets or Consolidated Statements of Operations as they are still subject to clawback.

## Accumulated Unrealized Carried Interest

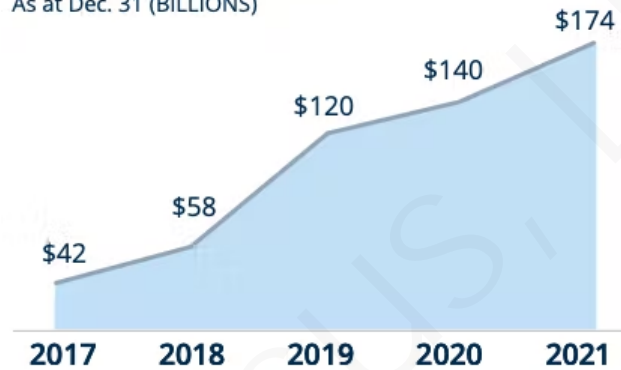
As at Dec. 31 (MILLIONS)



- **Carry eligible capital:** Capital that has been committed, pledged, or invested and for which they can earn carried interest.

## Carry Eligible Capital

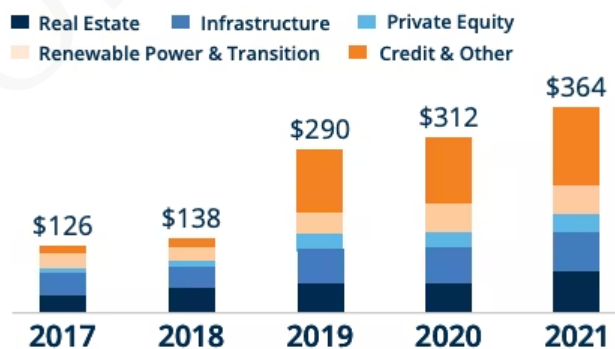
As at Dec. 31 (BILLIONS)



- **Fee-bearing capital:** Capital committed, pledged, or invested in the perpetual affiliates, private funds, and liquid strategies for which they can earn fee revenues.

## Fee-Bearing Capital

As at Dec. 31 (BILLIONS)

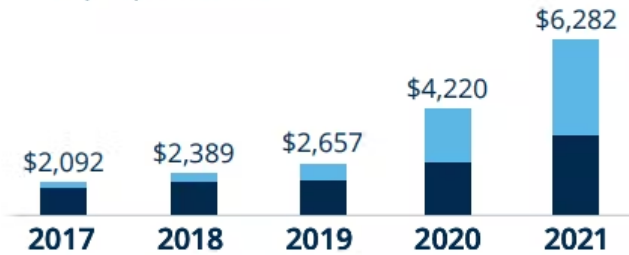


- **Distributable Earnings:** Earnings available for distribution to common shareholders or to be reinvested into the business.

## Distributable Earnings

For the Years Ended Dec. 31 (MILLIONS)

- Distributable earnings before realizations
- Realized carried interest and disposition gains from principal investments



### Financial Overview:

Brookfield Asset Management						
USD Millions except for EPS and DPS Figures						
	2017	2018	2019	2020	2021	CAGR
Revenues	40,786	56,771	67,826	62,752	75,731	16.73%
Growth rate		39.2%	19.5%	-7.5%	20.7%	
Gross Margin	8,398	11,252	10,222	9,575	11,731	8.72%
Growth rate		34.0%	-9.2%	-6.3%	22.5%	
Net Income	4,551	7,488	5,354	707	12,388	28.45%
Growth rate		64.5%	-28.5%	-86.8%	1652.2%	
Total assets under management	283,141	354,736	544,896	601,983	688,138	24.86%
Growth rate		25.3%	53.6%	10.5%	14.3%	
Fee-Bearing Capital	126,000	138,000	290,000	312,000	364,000	30.37%
Growth rate		9.5%	110.1%	7.6%	16.7%	
Fee-related earnings (b4 performance fees)	754	851	1,201	1,428	1,742	23.29%
Growth rate		12.9%	41.1%	18.9%	22.0%	
EPS	0.89	2.27	1.73	-0.12	2.39	28.01%
Growth rate		155.1%	-23.8%	-106.9%	-2091.7%	
Distributable earnings	1.42	1.63	1.79	2.74	3.96	29.23%
Growth rate		14.8%	9.8%	53.1%	44.5%	
DPS (cash + special)	0.44	0.40	0.43	0.48	0.88	18.92%
Growth rate		-9.1%	7.5%	11.6%	83.3%	
	2017	2018	2019	2020	2021	Average
Gross margins	20.6%	66.5%	52.4%	7.4%	105.6%	50.50%
Net margins	11.2%	13.2%	7.9%	1.1%	16.4%	9.95%
DPR	49.4%	17.6%	24.9%	-400.0%	36.8%	-54.25%
Year-end Share Price	29.0	25.6	38.5	41.3	60.4	
P/E	32.6	11.3	22.3	-343.9	25.3	

### Revenues

- The company's revenues grew 21% YoY to \$76 billion in 2021. The CAGR over the last five years was 16.73%.
- Brookfield generates revenues from various business segments including asset management, renewable power and transition, infrastructure, private equity, real estate, and residential development. The largest contributor to its revenues is the private equity business which contributed 61% of the firm's total revenues in 2021.

	Revenues <sup>1</sup>			FFO			Common Equity		
	2021	2020	Change	2021	2020	Change	2021	2020	Change
AS AT AND FOR THE YEARS ENDED DEC. 31 (MILLIONS)									
Asset Management	\$ 5,236	\$ 3,524	\$ 1,712	\$ 2,614	\$ 1,776	\$ 838	\$ 4,905	\$ 4,947	\$ (42)
Renewable Power and Transition	4,580	4,085	495	1,044	1,044	—	5,264	5,154	110
Infrastructure	11,947	9,301	2,646	797	569	228	3,022	2,552	470
Private Equity	46,683	37,775	8,908	2,030	935	1,095	3,565	3,965	(400)
Real Estate	9,955	8,883	1,072	1,185	876	309	32,004	19,331	12,673
Residential Development	2,560	2,243	317	258	66	192	2,392	2,730	(338)
Corporate Activities	151	871	(720)	(370)	(86)	(284)	(8,942)	(6,986)	(1,956)
Total segments	\$81,112	\$66,682	\$ 14,430	\$ 7,558	\$ 5,180	\$ 2,378	\$42,210	\$31,693	\$ 10,517

1. Revenues include inter-segment revenues which are adjusted to arrive at external revenues for IFRS purposes. Please refer to Note 3(c) of the consolidated financial statements for further details.

## Revenue Contribution By Business Segment

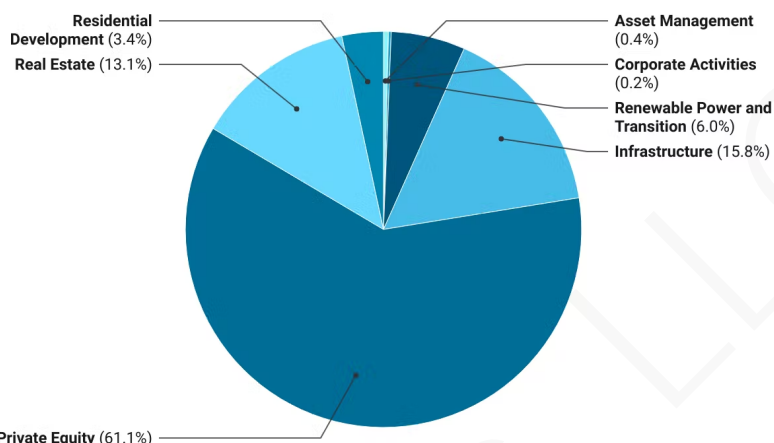


Chart: @ekmokaya • Source: Company Financial Statements • Created with Datawrapper

- **M&A:** BAM is quite active in M&A. The company's acquisitions in 2021 and 2020 contributed incremental revenues and net income of \$4.5 billion and \$651 million, respectively, by the end of 2021. These were ~6% of the total revenues.

We have summarized below the impact of recent significant acquisitions and dispositions on our results for 2021:

FOR THE YEAR ENDED DEC. 31, 2021 (MILLIONS)	Acquisitions		Dispositions	
	Revenue	Net Income (Loss)	Revenue	Net Income (Loss)
Renewable Power and Transition	\$ 205	\$ 24	\$ (89)	\$ 48
Infrastructure	1,929	171	(511)	(39)
Private Equity	1,678	(12)	(1,183)	(413)
Real Estate	682	468	(478)	(907)
	\$ 4,494	\$ 651	\$ (2,261)	\$ (1,311)

## Cost structure

- **Direct costs** are the main cost items for BAM and consist mainly of employee expenses, professional fees, business-related technology costs, and other shared services:
  - The company's direct costs grew 20% from \$53 billion in 2020 to \$64 billion in 2021. Direct costs have grown at 18.6% CAGR over the last five years.
  - The cost of sales, which stood at \$44 billion, took up 69% of all the direct costs in 2021.
  - The company's other direct costs include all other attributable expenses such as compensations, depreciation, amortization, selling, general and administrative (SG & A), property taxes, and sales taxes.



## Brookfield Asset Management Direct Costs

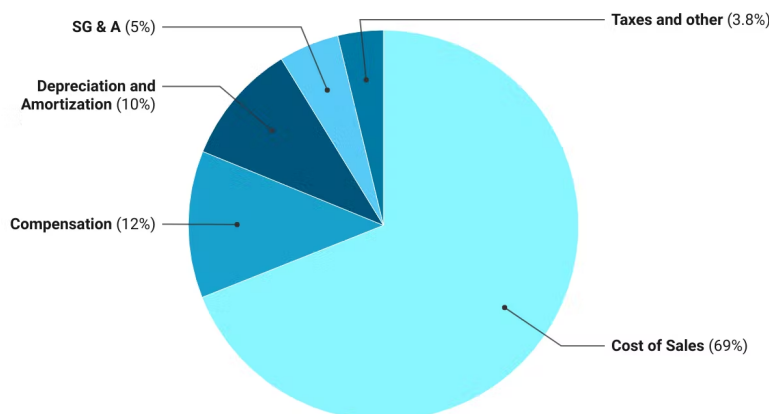


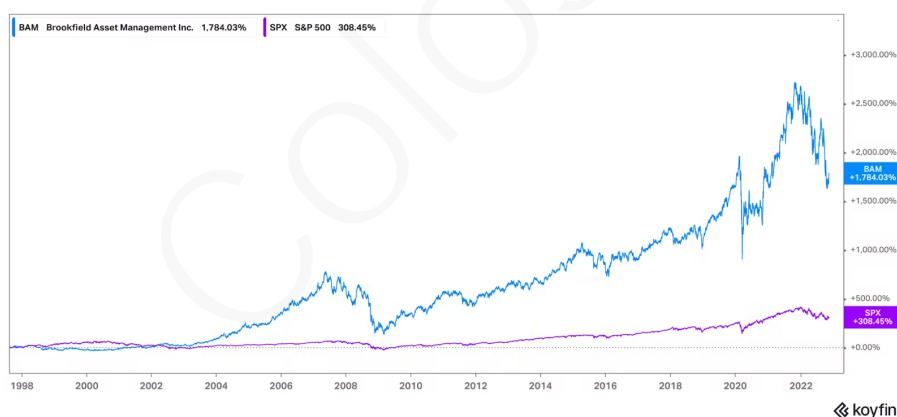
Chart: @ekmokaya • Source: Company Financial Statements • Created with Datawrapper

## Profitability

- **Gross Profits:** The company's gross margins stood at 15.5% in 2021, compared to 15.3% a year earlier. The gross profits recorded an 8.7% CAGR in 5 years to 2021. The gross margins averaged 50.5% over the last five years to 2021. The total gross margins grew by 22.5% to \$11.7 billion in 2021.
- **Net Profits:** BAM's net profit margins averaged 9.9% over the period 2017 to 2021. The net profit grew at a 28% CAGR on its net income over the last five years to \$12.4 billion in 2021.
- **Distributable earnings:** These are earnings available for distribution to common shareholders or to be reinvested into the business. BAM generated close to a 50% increase in distributable earnings to \$6.3 billion and raised \$71 billion in the capital in 2021. Its distributable EPS has had a 29% CAGR over the last five years reaching \$3.96 in 2021.

## Brookfield Asset Management vs. S&P 500:

Brookfield Asset Management Vs the SPX



## Competitive Position

- **Scale and a global reach:** In Q2, 2022 AUM stood at over \$750 billion with over \$400B in fee-bearing capital. The company has more than 2,000 investments, operates in over 30 countries on five continents, and has 1000+ investment professionals and 180000+ employees. They deploy this scale to great advantage.
  - "Size does not necessarily generate profitability. But given our scale, we've been able to use size as a differentiator. And today, given the size of the organization that we have and the size of capital that we have

to put to work, there are often only one or two other people in the world that someone can bring a transaction. That gives us a competitive advantage. And if we can use our other advantages, it differentiates our money from others” - [Bruce J. Flatt](#)

- “Our reputation is that if you have a large transaction if you have a difficult transaction . . . go to Brookfield” - [FT](#)

- **Decentralized structure:** The company gives significant leeway to managers of the various companies under the holding company as long as they operate under the guiding principles we highlighted above.
- **Excellent capital allocation & diversification:** Bruce, the CEO on a [podcast](#) with Rockefeller Capital Management President and CEO Greg Fleming, refers to the business as a “mini Berkshire Hathaway”. The company’s portfolio is highly diversified and consists of *long-term hard assets that are very important in periods of high inflation. It also lowers investment-related risks* by aggregating funds from several investors and assisting them in diversifying their portfolios. The company leverages its long history of owning and operating real assets to identify and monitor risks which reduces the crucial elements that might endanger the investment.
  - “When we buy real assets, you put a lot of money in upfront. Your expenses are relatively small compared to that and your margins are high. So, when inflation impacts it impacts the whole asset, but it impacts the expenses only to a small extent. So, over time, the revenues compound much, much more when you get an inflation coming into the revenues and it impacts” [[CNBC](#)]
  - “we own one of the largest portfolios of inflation-protected assets in the world. Our underlying businesses are essential in nature and therefore continue to generate stable and growing cash flows throughout cycles. These assets are highly cash-generative with high margins and are largely inflation protected, hence are very attractive to buyers through market cycles” - Q3 2022 [Earnings Call](#)
  - “We put our capital to work alongside our partners in virtually every transaction, aligning interests and bringing the strengths of our operational expertise, global reach, and large-scale capital to bear on everything we do” - [Brookfield Asset Management](#).

## Industry

- The investment management sector did well despite the volatile market conditions brought about by the pandemic in 2021. According to a [Deloitte LLC report](#), alternative investment is expected to grow across the various asset types as signaled by the high levels of satisfaction among investors in the first half of 2021.
- According to market research by GlobeNewswire, the global asset management market was valued at [\\$250.12 billion](#) in 2021, and it is expected to reach a value of [\\$1113.53 billion](#) by 2028, at a CAGR of 23.78% between 2022 and 2028. North America has major players in the Asset Management industry, as depicted below:

### Biggest Asset Managers by AUM (USD)

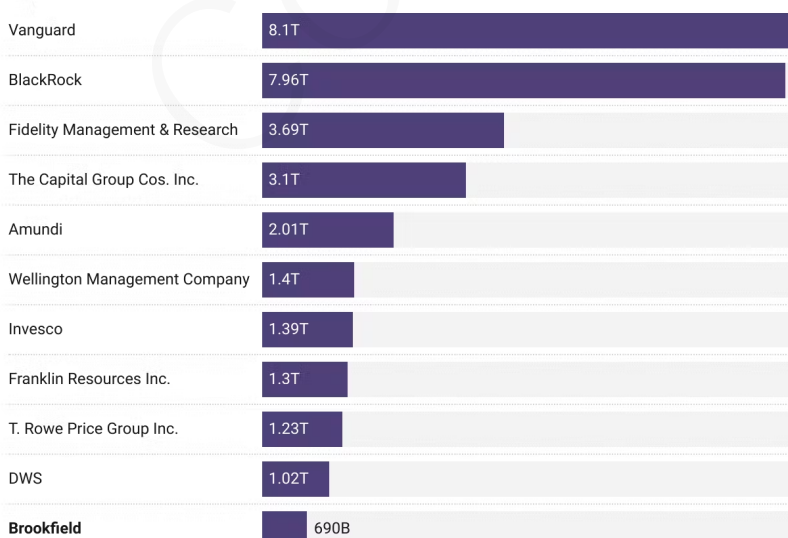


Chart: @ekmokaya · Source: Company Annual Reports & Disclosures · Created with Datawrapper

- According to analysis research by [Seeking Alpha](#), Brookfield Asset Management has a lead over the other industry peers in revenue growth. However, its five years net margins to 2021 remain way below the industry average.

Industry	Net Margins (5-yr)	Employees	Revenue Per Employee (\$ mln)	Revenue Growth 5-year
Asset Management	16.32%	13848	1.86	15.0%
Brookfield Asset Management	5.03%	180000	0.45	26%

## Risks

- **Complex Ownership Structure:** The company's complex organizational structure might enhance and breed secrecy risks. The structure has several layers that might help encourage engagement in money laundering, corruption, sanction circumvention, and tax abuse. The company has two types of shares that allow for **close control**. **Class A** shares are traded on public exchanges and give the owners the right to vote for half the board of directors. **Class B** shares are owned mostly by insiders and give the owners the right to vote for the other half of the directors. This close control perpetuates the perception of secrecy and allows it to keep a number of things under wraps.
  - *"Those insiders wield such power that the companies below them could face risks similar to those of "pyramid control companies," according to a draft investor disclosure that Brookfield filed with the Securities and Exchange Commission in 2013" - FT*
- **Increasing Costs:** Cost of sales, which accounted for 69% of total revenue in 2021, remains the company's biggest expense. Its net margins decreased from 6.9% in 2012 to 5.07% in 2021 due to its increased costs. The company's growing costs might endanger its profitability, which is already significantly lower than its rivals.
- **Financial Risk:** The company's long-term debt for 2021 was \$165B, an 18.47% increase from 2020. The company's debt has grown at a 22.7% CAGR over the last 5 years to 2021. The company had a high net debt-to-equity ratio which stood at 122.8% by the end of 2021. The company accumulating more debt might further eat into its net income.
- **Competition:** Brookfield has over ten competitors with more Assets Under Management. These companies might eat into the company's market share and suppress its growth.