Fourth Quarter and Full Year 2020 Earnings Call Transcript

February 22, 2021

CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

John Campbell, *Stephens*

Ian Zaffino, *Oppenheimer & Co.*

PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Cannae Holdings, Inc. Fourth Quarter and Full Year 2020 Earnings Conference Call. During today's presentation, all parties will be in a listen-only mode. Following the company's brief prepared remarks, the conference will be open for questions, with instructions to follow at that time. [Operator Instructions] As a reminder, this conference call is being recorded.

I would now like to turn the conference over to Shannon Devine, Investor Relations for Cannae Holdings. Please go ahead.

Shannon Devine

Thank you, operator, and good afternoon, everyone. We appreciate your participation in our fourth quarter and full year 2020 earnings conference call.

Joining me today are Cannae's Chairman, Bill Foley; Chief Executive Officer, Rick Massey; President, David Ducommun; and Chief Financial Officer, Bryan Coy. As a reminder, a replay of this call will be available through 11:59 PM Eastern Time on March 1, 2021.

Before we begin, I would like to remind you that this conference call may contain forward-looking statements that involve a number of risks and uncertainties. Statements that are not historical facts, including statements about our expectations, hopes, intentions or strategies regarding the future are forward-looking statements. Forward- looking statements are based on management's beliefs as well as assumptions made by and information currently available to management. Because such statements are based on expectations as to future financial and operating results and are not statements of fact, actual results may differ materially from those projected.

We undertake no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise. The risks and uncertainties which forward-looking statements are subject to include but are not limited to the risks and other factors detailed in our quarterly shareholder letter which was released this afternoon and in the statement regarding forward-looking information, risk factors and other sections of Cannae's Form 10-K and other filings with the SEC.

Let me now turn the call over to Bill.

William P. Foley, II

Thank you, Shannon. Earlier today, we released our fourth quarter and full year 2020 results in the form of a shareholder letter. Today, I would like to make myself and our senior management team available to answer your question.

Our portfolio companies saw continued growth and our new investment efforts finally became visible to the market in Q4 and early Q1 of 2021. Specifically, Cannae announced definitive mergers of Foley Trasimene Acquisition Corp. II with Paysafe Group Holdings Limited and Foley Trasimene Acquisition Corp. with Alight Solutions. Both target businesses are examples of companies that serve multitrillion-dollar industries which offer tremendous potential for future growth through continued scale and transformation led by technology initiatives.

We expect the pace of investments in the SPAC market to continue, most recently evident in our intent to invest $50 million and $125 million, respectively, in Austerlitz Acquisition Corp. I and Austerlitz Acquisition Corp. II and participate as an anchor member of the sponsored group of each. Our efforts are focused on high-quality companies with defensible, profitable business models. We are confident in our approach to sourcing transactions, demonstrating our disciplined value-based approach which we believe ultimately delivers superior long-term returns to our shareholders over market cycle.

I would now like to turn the call over to the operator to open up the line for Q&A.

Operator
We will now begin the question-and-answer session. And the first question comes from John Campbell of Stephens, Inc. Please go ahead.

John Campbell

Hey, guys. Good afternoon.

William P. Foley, II

Afternoon, John.

Richard N. Massey

Thank you, John.

John Campbell

Hey, kudos to whoever got the Hannibal artwork on the front of the shareholder letter. I think that's a nice touch, but...

Richard N. Massey

Bill picked that out.

John Campbell

Yeah. Speaking of Hannibal, I think he probably had a easier time scaling the Alps than you guys have had, I guess, closing the kind of big discounts with NAV. It has been a little surprising to us to actually see that kind of widen of late. I'm sure that's not lost on you guys, but I just wanted to get your latest thoughts on the discounts, ways you think you might be able to insert yourself to close it. And if investing directly into the CNNE stock with buyback, if that's risen up the kind of pecking order, if you will, of late.

William P. Foley, II

Yeah. John, that's a good question and good comment actually that you just made. We had deferred stock buybacks other than, when we had the dip in the market and the stock got down to the 20s, we did buy some shares back at that point in time and we've been trying to accumulate capital to support some of the investments we've been making.

However, now, we're at the point that with our Dun & Bradstreet investment lockups having expired, we have no lockups on the Ceridian investment. And fairly soon, we're going to first have public company stocks, shares in both Paysafe and Alight, and we have some other monetization events that are going to be occurring in the next six months.

So, I am actually very open to share repurchases. I just want to do it thoughtfully so that we're not going to inhibit our ability to continue to make some of these great investments that we have found over the last six months or so.

John Campbell

Okay. That's great color and kind of related to that, you guys have a lot of SPAC activity. It's super exciting. You've got Austerlitz obviously on the way. You've got Trebia still kind of pending, but you guys – you did participate in the PIPEs, I guess, above Foley Trasimene I and II. Just wanted to get your appetite. I'm guessing that may be is what you were hinting at, but your appetite for the PIPEs, the other remaining SPACs.

And then, if I'm doing my math right here, with the cash that you closed the quarter, you've got CoreLogic monetization there. I think you can get all the first three SPACs, maybe the forward purchase agreement with Austerlitz I with that. It looks like you've got about $600 million or so of debt capacity, but if you can maybe help bridge us out where additional funds come from and kind of how you're seeing the world kind of shake out over the next couple months.

William P. Foley, II

Well, I'm not anxious to dispose of any Dun & Bradstreet shares, although we can do that at this point. I really feel like there's a lot of upside in that stock. What the company has to do is really start showing real revenue growth over the next 12 months and we believe that will begin occurring, particularly with the Bisnode acquisition, inorganic revenue growth. But we also believe there's going to be growth in terms of the sale of products and services by Dun & Bradstreet – additional sales of products in Dun & Bradstreet, by Dun & Bradstreet into the regions that Bisnode operates in. So we're – I'm not anxious to – that'd be my sort of last resort would be to dispose of some Dun & Bradstreet shares.

We continue to have 14 million shares of Ceridian. Obviously, we're not engaged and involved with management of that company any longer and we just want to be timely about sales of Ceridian shares. And again, not be the guys of the company that sold shares at $90 in the stock, three months later, it was $130.

So those are really kind of the primary sources of capital we have coming in. We have a couple of minor investments that are going to be monetized, but they've been within the company for many, many years, one in Colt where we own debt. And it looks like Colt is going to be – have a monetization event sometime the next four or five months and a couple other smaller investments that will be disposed of in the next six months or so. So we've got our cash flow pretty well-figured out and organized.

In terms of PIPE participation, we thought it was important in these very large transactions to support the transaction by participating in the PIPE and one of the advantages that we have at Cannae is the partnerships the– not only our own investment ability, but also the partnership we have with Fidelity National Financial, which is always trying to increase its ROI on this investment portfolio which, frankly, is very short-term and is primarily invested in money market funds and short-term bonds. So we like the idea that we can provide capital for these PIPEs to demonstrate our support of the various acquisitions that we're concluding.

One thing I would say is that I wouldn't – if as an investor, I wouldn't expect to see large PIPEs again. They're complicated. They end up taking a lot of time that could be spent really looking for companies and improving the business operations of the company. So the PIPE of $2 billion on Paysafe was just a real grind to get that raised and then the PIPE on Alight was much easier, but still, it was a $1.3 billion PIPE at the end of the day.

So, we're really trying to look at PIPEs in a more modest fashion. In Trasimene II, our goal would be to perhaps have a $0.5 billion or $600 million or $700 million PIPE on our acquisition – next acquisition. And with Austerlitz I, that would be even a smaller PIPE. And the Trebia SPAC is fairly far along in negotiating and concluding that transaction and we expect that to be announced sometime in the next 45 days or so. And that PIPE, again, will be a small PIPE. It won't be a large PIPE.

So, we don't want to get stressed out by the PIPE investing and we want to make our PIPE investments smaller in size. Did I cover everything, John, or have I missed a bunch of stuff?

John Campbell

No, that was very helpful. That's exactly what I was looking for.

Richard N. Massey

Hey, John.

John Campbell

Yeah. Go ahead, Rick.

Richard N. Massey

I was just going to – sorry, I was just going to say Bill is modest. That $2 billion PIPE that he pulled off in Paysafe was the largest equity PIPE ever. So, he was right. It was a slog for him. I don't know how many dozens and dozens of calls, so pretty amazing and it's all done on Zoom.

John Campbell

Yeah, incredible.

Richard N. Massey

Pretty amazing.

John Campbell

Changed the game for you, guys, I'm sure. No doubt about it. Last one I got on the SPAC and I'm going to hop back in the queue, though it sounds like that there's maybe – your SPAC appetite, if you will, you've done five in kind of short order. It seems like it's not quite quenched yet. I mean it feels like you've got some other things kind of in the works longer term.

William P. Foley, II

Well, as you know, John, once you've kind of signed a term sheet on a particular acquisition, you've got to put the microphone down or the Zoom line down in terms of companies you've been looking at and wait to have another vehicle to acquire a business. But during that period, from November, December and January, we investigated and looked at and talked to many different management teams in many different industries of many different companies. And our model now is what has always has been is invest in utilities, invest in companies, their uniqueness in their particular marketplace, but, now, we're really focused on management.

We want to invest in companies that we have confidence in the management team, because my own group of managers are really pretty well-engaged and whether it's Black Knight or it's Dun & Bradstreet or Paysafe or it's Alight. So, we need to have – to buy companies that have demonstrated management teams that we can rely upon and we don't have to worry about doing the management makeover that we did at Dun & Bradstreet.

So, our focus has not changed in terms of the companies we're looking for. We're a value investor. We want to have companies that are a fortress with a moat, they are utilities in their industry in some fashion or another and that we have confidence that we can push through transformation and also generate synergies. But we've got to do it with – we're now much more focused on existing management and working with existing management.

John Campbell

Makes sense. Thanks, guys.

Operator

The next question comes from Ian Zaffino of Oppenheimer. Please go ahead.

Ian Zaffino

Hi. Great. Thank you very much. Bill, I know you talked about Optimal Blue a little bit as far as pricing increases. Can you give us just a little bit more color there? Maybe what's Optimal Blue's value proposition to the customers you were able to push through pricing? I don't think you lost any customers at all. What's sort of their secret sauce there and what type of pricing are you actually getting?

William P. Foley, II

Well, they are increasing pricing. I think Du could actually address the specifics of Optimal Blue a little better than I can. We did a pro forma on Optimal Blue before we invested with THL and with Black Knight. And basically, it was going to be a 20% revenue grower and EBITDA expanding by a much larger percentage. And it actually has overachieved in the first whole quarter of ownership.

So, we really believe that Optimal Blue – the goal being with Black Knight to start penetrating what I'd call the small and medium-sized business operators in terms of the mortgage space where they are penetrated, but Black Knight is not necessarily penetrated with these loan origination products. That's more of an Ellie Mae playground.

So, Optimal Blue is the access point for Black Knight to really penetrate the lower – I'd say the smaller mortgage space as opposed to just the very large mortgage providers that we normally do business with the Black Knight and through our empower system.

The other positive, though, is that Optimal Blue is now being sold into the empower base, and it's been very successful and well-received. So it's a unique product – set of products that Black Knight did not have access to and had portions of the products, but not the Optimal Blue PPE product. So Optimal Blue is really working out as a terrific investment that's really performing and, of course, as I believe – as I know you know, that we do have a protocol arrangement with Optimal Blue that put it three years. Our investment can be called at fair market value or 2x our investment, and that's three to five years. And at four to six years, we can put the investment at the same basis to Black Knight and actually move out of the investment and Black Knight would be the sole owner of Optimal Blue.

So, we feel like we have an exit strategy. It's a great company that's being well-run by Black Knight, but it does have its own set of financials that we're making sure that all the revenue and all the EBITDA appropriate to Optimal Blue stays with Optimal Blue. It doesn't get mixed into Black Knight.

And, Duke, you know a little more about the specifics of Optimal Blue.

David Ducommun

Yeah. The value proposition to their customers are it's new technology, it's slick, it's easy to use, the better mousetrap, and it has the most number of integration. So it integrate into your mortgage insurance, your rate locks, kind of all the different products that an originator or trader would use, you can use your Optimal Blue calculators to get price. Also, it's a better marketplace.

So, kind of once you're the market share leader, those advantages only snowball, that's integrated into all the different LOS systems, especially in the lower middle market. And right now, their customer base is doing really well, which is an opportune time for Optimal Blue to get higher prices and given how reliant their customers are on the product to produce mortgages or trade mortgages, it's really a small piece of the profit pie for that. So I hope that answers your question.

Ian Zaffino

Yeah. No. That was very helpful. And I guess the second question, Bill, you talked about your appetite for pipe. Is that – or lack of appetite. Does that mean Austerlitz is maybe the last SPAC we see given that you don't really want to deal with the whole pipe process behind it?

And then if you were to do that or not do that, does that mean all your investments will be in existing public equities out there as you look for more opportunities to deploy capital?

William P. Foley, II

Well, they're going to be investments in private companies. For example, Optimal Blue and AmeriLife are both examples of that and that where we're a 20% or 25% owner of those businesses.

Maybe I didn't express myself very well. We like the PIPE concept, the way to really leverage the initial investment in a SPAC and be able to buy a larger company. I felt like with the Trasimene II that we pushed the envelope a little bit in terms of having the $9 billion investment and having to raise a $2 billion PIPE. It was really complicated.

It was pressing the marketplace. And so, I'd rather see PIPEs in the form of Austerlitz I and II more or less equal to the initial investment made by the people that buy the stock on initial public offering.

So, I like PIPEs, it's the way to buy a bigger or larger company with a set – a fixed amount of capital and it allows you to return a reward to some of your initial public company investors that invested in Austerlitz I or II. So it really drops the dilution they suffer or face by being a SPAC investor. If they come in and they invest in the PIPE to an equal amount of what they invested in the original transaction, the original IPO, then they're basically on the traditional SPAC and drop the dilution from 20% to 10% and I like that. It makes us more competitive in terms of being an alternative to an IPO process, long drawn-out IPO process, and allows us to really go to the financial sponsors and talk to them about key assets that they have that they're thinking about taking public.

But we definitely like PIPEs. We think it's a great way to reduce dilution to our original investors. We just don't want to – I mean a PIPE is twice the size of the original IPO. It's really kind of pushing the envelope. That's what we found from our – well, now, we're about to have another experience with Trebia. And the PIPE idea with Trebia is much smaller than the first two PIPEs that we did.

Ian Zaffino

Got you. Got you. All right. That's really helpful. And if I could ask one just final question. In your kind of opinion, as you look at the SPAC you just did, Alight, I guess, from a stock price perspective, has not performed as well as Paysafe. Is there something the market is missing? Anything that you think that you should point out to sort of maybe fix this information gap with the Street and maybe Alight's actual business?

William P. Foley, II

Yeah. So, Alight is really a terrific company, I mean does business with 70 of the Fortune 100 and half of the Fortune 500. And it has moved itself from being just a services provider to really being a process provider. And that transformation is happening as we speak and it's been very, very successful.

The thing that Alight needs to do and that Stephan and his management team are working on, the conversion of customers for a large customer takes a year to implement, so that implementation process has got to be halved and then halved again. And it's the same situation we saw at Ceridian, where, initially, it was taking us a year to implement a customer and now, we're down to about six to eight weeks.

So, you don't have all that deferred revenue that is waiting to come on that you can't recognize, because you're in this implementation process. So, I think that's one area that Alight is working on and that we're working with the management team to really shorten that implementation period.

Other than that, Alight has got – it's a M&A-ready target-rich environment for Alight in many, many different ways and we're already looking at – we have our top 10 targets that have already been developed. And you'll see some interesting transactions with Alight once we can get through our F-4 filing, which actually has been filed and get through our common period and then do our de-SPACing. So, once that happens and we have a public security with much lower debt-to-cap ratio, you'll see some interesting things in Alight. And so, we're very confident about that company.

Ian Zaffino

Very helpful. Thank you very much.

Operator

And the next question is a follow-up from John Campbell of Stephens. Please go ahead.

John Campbell

Hey, guys. Thanks. One more on the SPAC. Bill, you've kind of hit on a couple of these, but could you just give us a broad kind of sweeping update on the timing, maybe the de-SPACing of WPF and BFT? And then it sounds like Trebia, maybe 45-day kind of window is what we should be looking at. And then anything else from Austerlitz?

Mainly just major milestone dates we should be thinking about.

William P. Foley, II

Yeah. So on our first one, BFT, which is we've now gone through – we just finished our third round of comments on BFT, we're hopeful that we'll be going effective with the SEC sometime in the next 10 days or so. And then the shareholders, the proxy we filed will go through the shareholder vote and we'll de-SPAC. And our target date for that, if we hit our milestones and who knows? Sometimes you get hung up on various things.

Paysafe should be – or BFT should be de-SPACed sometime before the 31st of March. Alight is about 30 to 45 days after that to get through the whole shareholder process, the whole vote process, and then to conclude the transaction and be traded – have WPF traded as Alight.

Trebia is – again, because we haven't announced the transaction but we're working hard on one particular transaction, and we've got to get our audits. Our audits' completed and then file the F-4, go through the comment period, get you to get – respond to the SEC and then do the same thing again.

Alight or Trebia is probably early June is kind of our target date. And then on the two Austerlitz companies, because they're just now getting through the SEC and we're going to – we're starting our marketing of those two SPACs, we are not allowed to talk to potential companies that we would be buying. We've got to wait until our IPOs are finished.

But as I mentioned, because we had three SPACs available, we've been talking to a lot of different companies and a lot of different kind of utility industries. And we're very excited about the potential we have available to us. We just can't conclude anything because obviously, when you're in the SPAC process, you can't really speak to a target until you've already had your IPO.

John Campbell

Okay. Makes sense and then last one I've got, Bill, I got to carry on the tradition of asking you about the Knights, but the Tahoe setting, that was pretty awesome. The sun obviously wasn't your friend that day, but did you stay up till midnight to catch the conclusion of the longest game in NHL history?

William P. Foley, II

I didn't go back at 9 o'clock and watched the last two periods. I actually watched it from a friend's house and – because it was really cold. I mean it was really cold, but the setting, though, I'm sorry the game wasn't – couldn't proceed with the second, third period in the afternoon because it was an unbelievable setting with the lake and we had a lot of fans. They were on kayaks and they were in little boats and waving the VGK flags. So it was really a fun experience and the boys really liked it. They thought it was great and we didn't – the game didn't turn out the way we wanted it to turn out, but the setting – I hope they do more of these...

John Campbell

Yeah.

William P. Foley, II

...in settings like this. This is really fun.

John Campbell

Yeah. Good experience, for sure. Okay. Great. I appreciate all the time, guys. Thank you.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Bill Foley for any closing remarks.

William P. Foley, II

Yeah. Thank you very much and thanks, everybody, for taking time out of your busy schedules to listen to our story again and we've gone to the shareholder letter as opposed to a presentation over the phone, and we have a lot of great information in that shareholder letter about our performance over the last 90 days and over the past 12 months. And thank you for your time and I look forward to speaking to you again after the second quarter, roughly the first quarter, during the second quarter. Thanks, everybody.

Operator

The conference is now concluded. Thank you for attending today's presentation and you may now disconnect.