CANNAE
HOLDINGS, INC.

First Quarter 2024
Earnings Call Transcript

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CORPORATE PARTICIPANTS

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Bill Foley, *Chairman and Chief Executive Officer*

Ryan Caswell, *President*

Bryan Coy, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

John Campbel, *Stephens*

Ian Zaffino, *Oppenheimer*

PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Cannae Holdings, Inc. First Quarter 2024 Financial Results Conference Call.

During today's presentation, all parties will be in a listen-only mode. Following the company's prepared remarks, the conference will be open for questions, with instructions to follow at that time.

As a reminder, this conference call is being recorded and a replay is available through 11:59 PM Eastern Time on May 16, 2024.

With that, I would like to turn the call over to Jamie Lillis of Solebury Strategic Communications. Please go ahead.

Jamie Lillis

Thank you, Operator, and all of you for joining us.

On the call today we have our Chairman and Chief Executive Officer, Bill Foley; Cannae's President, Ryan Caswell; and Bryan Coy, our Chief Financial Officer.

Before we begin, I would like to remind listeners that this conference call and the Q&A following our remarks may contain forward-looking statements that involve a number of risks and uncertainties. Statements that are not historical facts, including statements about Cannae's 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.

The Company undertakes 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 our other filings with the SEC.

Today's remarks will also include references to non-GAAP financial measures. Additional information including a reconciliation between non-GAAP financial information to the GAAP financial information is provided in our shareholder letter.

I would now like to turn the call over to Bill.

Bill Foley

Thank you, Jamie.

Since returning as CEO of Cannae in February, I have been focused on executing a strategic plan designed to both grow the net asset value, or NAV, of our portfolio and close our share price discount to NAV.

Our strategy has three main levers including improving the performance and valuation of our portfolio companies, making new investments in private companies that will grow NAV and when appropriate, return capital to shareholders which, until today, was done through Cannae share repurchases at a discount to NAV. I believe we are all happy with the continued success across all three pillars of our strategy.

First, I would like to discuss the performance of our two largest holdings, Dun & Bradstreet and Alight, which continued to make progress throughout the quarter, and we believe will drive additional growth in NAV. I will let Ryan get into more details on the specifics of each company’s quarter, but I want to highlight a few key points.

Dun & Bradstreet produced 4.3% year-over-year organic growth, which is up from the first quarter of last year, but more importantly, Anthony and his team continue to invest in new products and continue to build confidence in hitting their mid-term target of 5% to 7% organic growth. This is quite a turnaround from a business that had negative revenue growth when we acquired it. We continue to believe that there is a significant upside in DNB’s stock price, and we’re encouraged that DNB’s Board of Directors, of which I am the chairman, authorized a share repurchase program for up to 10 million shares of Dun & Bradstreet common stock.

In the first quarter, Alight announced the sale of their payroll and professional services business to an affiliate of H.I.G. Capital for up to $1.2 billion. The sale values the segment at approximately 10 times its estimated 2023 EBITDA and 24 times its estimated unlevered free cash flow. We worked with Stephan for more than six months on this transaction, and we were excited to get it announced as it should simplify Alight’s business, improve profitability, reduce their leverage to less than 3x debt to EBITDA, and allow the Company to buyback more shares.

I am confident in the leadership of both DNB and Alight, and we look forward to their continued progress in 2024 which we believe eventually will translate into improving stock price performance and growing our NAV.

I am very proud of our work at AFC Bournemouth, our football club. In the first full season under our ownership, the Cherries have already achieved their highest Premier League point total in the 125-year history of the club, and the season isn't over yet.

Turning to capital returns to shareholders, we completed our previously announced Dutch Tender where we repurchased 9.7 million shares of Cannae common stock, representing 13% of the shares outstanding, for approximately $222 million at $22.95 per share. While we bought the shares back at a premium to where they are trading today, we believe it was an effective use of capital given the quantity of shares acquired in such a compressed time frame. However, our stock price performance post tender illustrates that we also need to grow our NAV through increasing our portfolio to continue to close the NAV discount.

Since starting our share repurchase program, we have repurchased approximately 34% of our shares outstanding as compared to March 31, 2021, having returned more than $733 million in capital at a significant discount to NAV.

Looking forward, we have approximately 13 million shares remaining on our buyback authorization which we plan to utilize at a measured pace.

Today, we announced a dividend of $0.12 per share per quarter, payable on June 28, to provide an additional return of capital to our long-term shareholders. We will initially fund the dividends, including the one next month, through the sale of assets, but over time are looking to make cash flow generative acquisitions that will be a source of cash to fund the dividend.

In the first quarter, we sold 10 million shares of DNB for approximately $101 million and 2.5 million shares of Dayforce for total proceeds of $177 million. We used the proceeds from these sales to fund the tender offer as well as for general corporate purposes. Going forward, when we need capital to fund potential investments, share buybacks and the dividend, we expect to sell portions of our public holdings. This will also serve to gradually rebalance our portfolio away from public company investments towards high return, private investments which we expect will maximize value for our shareholders.

Lastly, in the first quarter we announced the internalization and wind down of Cannae's management agreement with Trasimene Capital, effective in July and occurring over the next three years. We felt this transaction was accretive for our shareholders as it will reduce total management expense and further aligns Cannae Management with shareholders given the majority of our compensation will now be in Cannae stock. We believe over time this will also drive an increase in Cannae's stock price.

I'd like to now turn the call over to Ryan.

Ryan Caswell

Thank you, Bill.

I will now spend a few minutes on updates on some of our key portfolio companies and provide a bit more detail on potential new investments.

For the first quarter, DNB reported revenue of $564 million, representing 4.3% year-over-year organic growth, which is an acceleration compared to 3.2% organic growth in the prior year first quarter. The Company generated 6% growth in Adjusted EBITDA in the quarter, which equated to $201 million at a 36% margin. Importantly, DNB also improved free cash flow conversion. Leverage at DNB today is 3.7

times that to EBITDA, which has moved down from 4 times one year ago and Management expects to be at 3.5 times by the end of 2024.

We remain optimistic about the future for DNB as they are improving key metrics and investing in the right areas to achieve their mid-term guidance, and we believe this will create significant upside in the stock.

Alight’s first quarter results unfortunately were below expectations with continuing operations posting $559 million in revenue, representing a year-over-year decline of 4.6% primarily associated with lower volumes, timing of large deals, and the wind down of Alight’s hosted business. However, Adjusted EBITDA increased to $116 million, representing a year-over-year gain of 4% and total company operating cash flow increased nearly 39% to $100 million from the prior year. We are pleased to see the Company now has nearly $7 billion of revenue under contract of which over $5 billion is in 2024 and 2025.

We remain confident that Alight’s business will re accelerate in the second half of the year. As Bill noted, we believe the sale of their Payroll and Professional Services businesses is an important step to improving Alight’s business model, attractiveness to investors, and valuation.

Lastly, I want to highlight that Alight’s Board authorized the repurchase of up to an additional $200 million of the Company’s Class A common stock and noted it plans to be more aggressive and consistent in its return of capital to shareholders.

Turning to Black Knight football, we are excited about the progress we have made. Since our purchase of AFC Bournemouth in late 2022, our Management team has worked to enhance the quality of Bournemouth’s competitive position and on-field performance, improve the business operations of the Club, and upgrade Bournemouth’s facilities.

In this first complete season under Black Knight ownership, the Cherries have 48 points, putting them in 10th place in the Premier League table. Our influence off the pitch is also evident as demonstrated by the 50% increase year-over-year in hospitality revenue, 40% increase in sponsorship, and a 13% increase in ticketing, all compared to the previous year. We believe AFC Bournemouth’s success both on and off the field will ultimately drive significant value creation for our shareholders.

We unfortunately have not had the same success at FC Lorient, where we own 40%. The team currently is in 17th place in Ligue 1 with two matches remaining, and in the current position, would be relegated to the lower league if the season ended today. While we are frustrated where FC Lorient sits, we would note that our put/call arrangement to buy the remaining stake had contemplated this potential scenario, and the valuation for the remaining stake is much lower if the team is relegated to the second division.

Additionally, in the quarter we closed on the 25% interest in Hibernian FC, a nearly 150-year-old Scottish Premiership club based in Edinburgh. Hibernian is sitting in 7th place in the table with three matches remaining. We are the first multi-club ownership group approved by the Scottish FA to own a stake in a team in the Scottish Premiership and are excited about the opportunities at Hibernian going forward.

Computer Services, or CSI, has also continued to outperform. In their fiscal year ended February 29, the Company secured 44 core banking deals across the U.S., a 33% year-over-year increase, resulting in record sales which should drive future revenue.

Fiscal 2024 also included the acquisition of loan origination software provider Hawthorne River, the launch of CSI’s instant payments offering, and the closing of the previously announced new investment, from which Cannae received a $37 million cash distribution. We remain very excited about our investment in CSI.

Unfortunately, Sightline has not seen the same success. As we have discussed before, the Company has experienced declining operational results and a challenged liquidity position given lower than expected uptake on certain of their cashless products, and as a result has underperformed expectations. Management has refocused their efforts to improve the Company's performance and liquidity position, including the sale of their mobile app engagement platform in the first quarter. We hope these actions drive improvement in their results and cash flow going forward.

Lastly, I want to give a quick update on Minden Mill. We have made significant progress since we closed the acquisition in May of 2023. We have completed some minor remodels around the facility and the tasting room is open for the spring and summer season. We hired a master distiller with 20 years of experience and last week launched our first product, an ultra-premium vodka called High Ground Estate Vodka.

High Ground has been reviewed and awarded an exceptional 94 out of 100 points by the Beverage Testing Institute and we are optimistic about the initial sales. The Company also has multiple other products in the final stage of development, including a bourbon blend and coffee liqueur, which are expected to be ready for sale by the end of the year. While still early, we are excited about the progress to date.

As Bill noted earlier, private company investments have been a driving force behind Cannae's success historically, and we believe a more efficient use of Cannae's capital. We are looking for new investments that will grow NAV and ideally provide operating cash flow to Cannae. We are focused on acquiring profitable businesses where we have knowledge of the sector, relationships with industry executives, and can add value through our ownerships. We have been looking to source these acquisitions across our networks as well as in conjunction with our partners at JANA, which we discussed on the fourth quarter call. We are hopeful that we can find something over the next few quarters.

I'll now turn the call over to Bryan to touch on our financial position.

Bryan Coy

Thanks, Ryan.

While we don't typically spend much time on specific income statement line items in our financials given the dynamics around the accounting treatment for our investments, I did want to address a couple of key points.

First, as discussed before, we have been restructuring our Restaurant Group, having closed more than half of the O' Charley's restaurants to focus resources on the more profitable locations. This restructuring is already producing positive results as store-level operating cash flow as a percentage of restaurant revenues has increased from 8.4% of restaurant revenues in the first quarter of 2023 to 10.0% in the first quarter 2024. It is also the driver to the overall decline in our first quarter revenues from $154 million in the first quarter of last year to $111 million in the first quarter of 2024. We believe these changes will deliver cash flow to Cannae.

Bill touched on the wind down of the external management agreement and the reduction in fees, and I wanted to provide additional detail. Management fees were $9.1 million this quarter and will be the same in the second quarter. Therefore, management fees for the trailing twelve months ending June 30, 2024, prior to commencement of the wind-down, will be $37 million. Comparatively, annual management fees for the 12 months after July will be $7.6 million, and there will also be a $6.7 million termination fee payment. Both of these values will be fixed for the next three years at which point they will be eliminated.

Bill and Ryan will also receive compensation as Cannae employees, the majority of which is in Cannae stock. We believe the reduction in management fees and majority of compensation in Cannae stock is a benefit to Cannae shareholders.

Our balance sheet and liquidity position remain solid, Cannae has $26 million in corporate cash today and $150 million in immediate capacity on our margin loan. The only outstanding debt, presently, is $60 million under our FNF note that matures near the end of 2025. During the first quarter of 2024, Cannae paid down $25 million of the note balance in exchange for a lower interest rate, saving over $4 million annually. We also transferred our margin loan to a new bank, saving approximately $1 million annually going forward on rates and extending the maturity to 2027.

At the close today, Cannae's aggregate net asset value was $2.1 billion, or $33.36 per share, reflecting the completion of our tender offer and returning $222 million to Cannae shareholders.

With that, I'll now turn the call back over to the operator to begin our question-and-answer session.

Operator

We will now begin the question-and-answer session. To ask a question you may press star then one on your touchtone phone. If you're using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been addressed, and you would like to withdraw your question, please press star then two.

Our first question comes from John Campbell with Stephens. Please go ahead.

John Campbell

Hi, guys. Good afternoon.

Bill Foley

Good afternoon.

John Campbell

Congrats on getting the dividend in place. A little surprising to us, but I totally get the rationale that things like that could be just another tool you guys could use to maybe close the discount to some extent. A two-part question here on that, but maybe if you could just start off, how long do you envision on having that dividend in place?

Bill Foley

It's going to be in place for as long as we're around. The goal, of course, is to start modestly with a $0.12 per share per quarter dividend. Then as we've done with FNF, as you know, increase that dividend as cash flow allows. We're committed to the dividend going forward on a consistent basis.

John Campbell

Okay. That makes sense. That does align with what Ryan was just saying around looking for companies that can help generate free cash flow for you guys, so that makes sense. The second part of this question is mainly related to how you fund it. Bill, you mentioned, if needed, you would look to monetization efforts to fund it. But as I look at the math here, it looks like a $30 million payout right now. You guys are saving, I don't know, $15 million or $20 million or so from the Trasimene wind down. Then Bryan just rattled off a couple of different saving areas. It just seems like maybe you don't have to do a lot of reshuffling. You could support this dividend as it is today. Is that the right way to think about it?

Bill Foley

Yes, it is. John, you got it right. We have one more management fee payment in July, and it really ramps down after that. We have been in the process of selling down our CDAY shares, and that would be to the extent we need some cash flow. That would probably be a source of that cash with the remaining CDAY shares and disposing of those. But we don't see a big risk in terms of cash flow for this dividend. We saved other money in other ways in terms of other salaries and other expenses. So, we're not quite at equality with $30 million or $31 million a year dividend payout, but we're not very far off, frankly.

John Campbell

Yes, makes sense. I want to extend congrats on the Cherries run. You've created a bunch of Cherries fans over here in Little Rock. So, congrats to you guys on a great season.

Bill Foley

Thank you.

Operator

Again, if you have a question, please press star and then one.

Our next question comes from Ian Zaffino with Oppenheimer. Please go ahead.

Ian Zaffino

Hi. Great. Thank you very much and thanks for the very fulsome conference call. I appreciate that. I wanted to basically get a higher-level view here and ask, as you move more to private, is there really a theme in private that you're going to look for? I know you touched on JANA a little bit. Can you maybe give us a little bit more of a fulsome discussion of what you're seeing, what you've been surprised by, what's been brought to the table? And any other color you can give us on what to look for maybe in a potential investment? Thanks.

Bill Foley

Yes, so we're really going to stick to our knitting. If you look at the history of FNF over the past 20 or 30 years and the acquisitions we've made, they've been in financial services, fintech space, and they've been related to the real estate market in America. So, we have a number of different ideas that we're looking at right now that some things are very, very inexpensive, particularly if there's an interest rate component involved. That's really what we're searching right now.

We've got three or four or five things that are germinated to the top of the table, and we look at three, four different transactions a week and generally speaking, discard them all. But we do have one potential transaction we're working on, which we have issued a letter of intent, and we have a couple of other ideas that should develop over the next 60 days to 90 days. But they'll be conservative. They'll be cash flow generating ideas. If that helps.

Ian Zaffino

No that does. If you could also give us maybe an update on any potential deals on the European sports side? I know that's been a common area, you talked about it maybe being synergies, you say like transfer fees, any new developments on that front? How does that compete with capital versus what I asked you in your first question? Thanks.

Bill Foley

Yes, so we are looking at a lot of different opportunities, particularly in Europe, really not Africa or South America, but particularly in Europe, teams that could be feeder teams or development squads for one of our primary league teams such as Bournemouth or Hibernian or Lorient. Again, we probably see two or three different opportunities a week, and we're just being very careful. We want to make sure that whatever we buy or buy into that it cash flows and that it's sustainable. It's not going to be an investment that requires additional capital infusions. They need to be teams that are geographically placed, so that they make sense from our multi-club model that we're trying to pursue, and they have to be in low risk countries.

You're really talking about kind of Benelux, Scandinavian teams, Eastern European teams in very stable situations. Probably not a La Liga team or a Serie A team. They're a little bit expensive, but we have seen opportunities in both of those leagues.

I'd say it's a very patient approach, and we're trying to be careful, and we want to really develop our multi-club strategy and model so that these teams support each other. They play a similar style of football, that coaches can be developed at a more junior or a higher band team, such as a Band 5 or a Band 4, where Premier League is obviously Band 1, and Ligue One is Band 1, and Serie A is Band 1, as well as the Deutsche League and LaLiga.

It's all the idea of trying to make things come together and work together and we don't have anything pending right now, but we're looking. We're constantly looking, but we're being very judicious with our cash spend. We're being very careful. We're also talking to outside investors that may want to invest with Black Knight Football Club and take an ownership position. Again, as we take in new investors, that will result in a mark to our valuation, which will be a positive.

That's kind of the football story. Ryan and I really spend quite a bit of time on the football side, just looking at different situations.

Ian Zaffino

Okay. Good. Then just one more question, if I could. If we look at kind of like Alight and, post an asset sale or that, I mean, should that be a standalone company, do you think? Or an attractive strategic partner to another company? How do you kind of think about that in general? I don't know if you can answer that, but if you can, I'd love to hear the answer.

Bill Foley

Well, what I can tell you is that by disposing of the payroll business and the professional services business, it has greatly simplified Alight. Alight is now a very significant benefits company, one of the largest in the country. Just as we responded to companies that were interested in our payroll business and our professional services business, if someone develops or a company develops that's interested in talking about the balance of Alight, then that's obviously something we'd discuss and we'd consider.

Ian Zaffino

Okay. Thank you very much.

Operator

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

Bill Foley.

Thank you, Operator. Appreciate everyone's attention. Appreciate the questions and we look forward to speaking to you next quarter. Thank you.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.