



Third Quarter 2021 Earnings Call Transcript

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CORPORATE PARTICIPANTS

Jamie Lillis, *Managing Director, Solebury Trout*

Richard Massey, *Chief Executive Officer, Cannae Holdings Inc.*

David Ducommun, *President, Cannae Holdings Inc.*

Bryan Coy, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

John Campbell, *Stephens, Inc.*

Ian Zaffino, *Oppenheimer*

PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Cannae Holdings, Inc. Third Quarter 2021 Financial Results 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 opened 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 p.m. Eastern Time on November 23, 2021.

With that, I would like to turn the call over to Jamie Lillis of Solebury Trout.

Jamie Lillis

Thank you, Operator, and thank you to all of you joining us today.

On the call today we have our Chief Executive Officer Rick Massey, Cannae's President David Ducommun, and Bryan Coy, the Company's Chief Financial Officer.

Before we begin, I would like to remind you 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 the 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 Cannae's CEO Rick Massey, who will open with a few brief remarks and then open the line for questions.

Richard Massey

Great. Thanks, Jamie.

Our leader Bill is momentarily delayed. He's actually off working on—he has an excused absence because he is working on Cannae business or maybe potential piece of Cannae business, so he may join us, he may not during the call, so you've got the backup quarterback today.

Before we start, I just want to refer you to our—what we think is a pretty nice document, our Third Quarter Quarterly Update. It's on our website. It's got a lot more detail about our numbers, our portfolio companies, Bill's outlook on the business, recent events and so forth. It's going to cover a lot more detail than we're going to be able to on this call. I always want to start off by acknowledging that. Duke and Bryan do a really nice job on that.

We're an active manager and results of our active management approach began this quarter with Dun & Bradstreet's third quarterly results which were driven by an acceleration in organic revenue growth which as we believe is a key to improving the company's multiple valuation. We think eventually they're going to get a re-rate as their organic revenue continues to accelerate. In the quarter, they grew revenues 22%. They had Adjusted EBITDA growth at 12%, both compared to the third quarter of 2020.

The best part of the story was their organic revenue growth accelerated to 3.7% in constant currency as compared with about 120 basis points below that in the second quarter. That was 3.3, sorry, not 120 basis points.

The growth is all in execution of Anthony's—Anthony Jabbour's strategy which is continued growth in international. They got low digit growth in North America and they got that from what he calls the 'four horsemen.' They added new logos. They upsold new products to their existing enterprise customers. They effected price increases, and they continue to grow their small and medium size marketing business. They have a lot of organic growth momentum and we believe that's going to accelerate through 2022.

It's been said that D&B is a 'show me' stock and we believe they're beginning to show you. We're happy owners. I'm happy to own it personally. I know a number of you on the call own it. I think you're going to be happy shareholders. It's been sort of some dark days here lately but they're coming out—we believe they're coming out of the ditch and it's going to be a great stock to own.

We're also pleased with Alight and Ceridian. They posted great results this quarter. Alight reported earlier today 20% revenue growth in the BPaaS revenue, which is their enterprise software platform. They had a 42% increase in BPaaS bookings in the third quarter, so incredible growth in the growth engine of Alight.

They actually reported that at the end of the third quarter they had achieved already 99% of the revenue that they had originally projected to achieve for the full year. So, obviously we're really happy with this company.

They've done a few deals to expand their product offerings. Those are listed in the quarterly report and in their own press release, but that was Benify, ConsumerMedical, and the AON retiree health exchange. We think Stephan and his team, Katie, Katinka are best in class, and we share his vision, Stephan's vision, with unlocking the power of Alight's BPaaS platform. It's funny because we were just talking, Alight started this year or started out as a public company. They talk about organic revenue growth of 1% for 2021. Then sometime in the second quarter they said, "Well, we're going to get maybe 3% revenue growth. Three, four, maybe up to 5%." Then today they guided to 5% to 6% in 2021 and that obviously bodes very well. I don't think they guided for '22, but you can expect the revenue to continue to accelerate. This company, in my own personal opinion, is going to be a high single digits grower in the very near future. That's going to get you a re-rate, a much higher multiple of EBITDA and we think you're going to be a very happy owner there.

Ceridian continues to deliver consistent results and continues to gain a wider following as evidenced by their inclusion in the S&P 500. This is an affirmation of their consistent growth and outstanding leadership. Their cloud revenue increased very strongly in the third quarter, which supports our belief that Ceridian has a long runway ahead for value creation and growth. We are very excited about—Bill in particular is very excited about their prospect to their Wallet product and its expanding features set.

CDAY is up almost three times in the past five years and it represents a MOIC from our original investment of, what? Eleven times? More than that? I'm sorry, I didn't write the number down but it's incredible.

David Ducommun, our President here is the man in charge of our Sightline investment—besides Bill—and I particularly and we are all very excited about it. Sightline, we put in 240 on a \$1 billion post-money valuation and Cannae now owns 33% of Sightline. It is the provider, the lead, maybe the only provider of a cashless payment solutions to online and physical casino gaming betting markets. Its solution includes cashless payments methods for slot machines and table games, and casinos, plus payment methods for iCasinos and online sports betting. We are very impressed with the management team there. We think this ultimately is a public company, don't we, Duke?

David Ducommun

We do.

Richard Massey

They are really—everybody says transformational. This company is transforming the payments business inside of these casinos from cash and ATMs and all this old school cash advances and so forth, to a slick digital wallet. It's just a very exciting business.

Paysafe, another one of our portfolio companies, announced several wins across digital commerce verticals as well as three acquisitions that broadens their position in ecash and open banking. They report Thursday morning before the market opens.

Trebia's merger with System1 continues to move forward. They're in the middle of the registration process. We think that's going to happen kind of fourth quarter of this year, first quarter of next year. We got a chance to meet—I got a chance to meet Michael Blend, very impressive, very smart guy. It is not an easy business to understand and we're going to ask you to have the patience to study this business because we think it's a Rule of 40 company but it also generates a gob of cash, and that's a pretty rare combination. We like the business. We think it's durable. We like the management. We think it's going to be a lot bigger.

We're encouraged with our progress as we work with our management teams to unlock the value within our portfolio, but we know we got a lot more to do, and we, and particularly Bill, will remain engaged in supporting our portfolio companies.

I'm going to mention this again, but I can't go without mentioning our portfolio conference next month. All of our significant portfolio companies will be (inaudible). Cannae's as well at Black Knight and FNF. It's here in Vegas on December 8th. If you have not been invited and would like an invitation I'm sure Jamie can get you there or Bryan Coy, our CFO.

With that, we're ready Operator for Q&A.

Operator

Thank you.

Our first question comes from the line of John Campbell with Stephens. Please proceed with your question.

John Campbell

Hey guys, good afternoon.

Richard Massey

Hey John.

John Campbell

Rick, you mentioned the backup quarterback comments. I think Brady coming in for Bledsoe several years ago, I think that worked out alright. I think we're in good hands.

Richard Massey

No. I would say this is more like Bledsoe going in for Romo.

John Campbell

I got you.

In the Shareholder Letter, I noticed the cash balance. You guys mentioned as of yesterday that was \$81 million. I think you ended the quarter \$173 million in Holding Company cash and then you picked up the \$120 million or so of the CDAY shares sold a couple of weeks ago. It looks like a pretty big deployment there. Was that just to pay off the debt? Is that kind of a short-term thing or is that a new investment maybe you can shed some light on?

Bryan Coy

John, this is Bryan Coy.

We entirely paid off the margin loan in October, all \$200 million of it.

John Campbell

Okay. That math squares up. Then outside of the CDAY monetization you guys did a couple of weeks ago, it looks like you got a couple of more coming. You've got partial Legendary Baking sale and then you got the Triple Tree bill. You guys have been busy. I think you're always busy, but just curious about the expected gross proceeds from those bills and any other ones I might be missing here.

Bryan Coy

John, this is Bryan. Proceeds we'll get this year on that will be probably less than \$50 million all in. We've got some earnouts that will come and in the two or three years ahead and another—I think combined with all of the properties in there you mentioned it may be another \$5 million to \$10 million that will come in January.

John Campbell

Got it. Then, you know, a question I think we ask quite often, things tend to be fluid so I think the answer to this might change. Here and there you guys probably are going to address this in a couple of weeks in Vegas, but just talk to me a little bit high level about the investment strategy and just kind of the way you think about it going forward. You guys were very heavy in SPACs late last year and then the latest large investment was back on the private side with Sightline which looks like a really enticing type deal. Is that a shift in strategy or is it going to kind of—will it come and go, depending on what the market's giving you? Just any kind of high level thoughts there.

Richard Massey

We're opportunistic investors. If you go back and look at 2020, I would say in 2019 had you told us that were going to do, what, four SPACs and have two of them deployed and two looking, that would have been a surprise to us.

We are not—we're going to get these two that we have open. We're going to get those deployed but I'm not sure we're going to go back into that realm. Our bread and butter has been and probably will continue to be, John, making private investments in companies, having more influence on their management, more likely taking stuff that looks more like control positions or at least shared control with management or founders. That's kind of where we cut our teeth and that's where I think you'll see us heading.

That's not to say we won't do another SPAC, but at that—that gold vein is going to run out eventually.

John Campbell

Yes. Makes sense to me. I'm going to jump back in the queue. Thanks, guys.

Richard Massey

That's all you had?

John Campbell

I'll be back.

Operator

Our next question comes from the line of Ian Zaffino with Oppenheimer. Please proceed with your question.

Ian Zaffino

Hi. Great, thank you very much.

You know, as far as the SPAC comment you made, there's still a SPAC that hasn't found its target yet, right? What should we expect there as far as the consummation of a deal or announcement of a deal on ASZ?

Richard Massey

ASZ, we have identified and have had discussions with a number of very attractive targets. We have identified a number of others. People are still wanting to talk to Bill and partner with us. We are going to be patient about it, in part because we've got plenty of time. ASZ is not even a year old yet. And we are a little nervous about valuations right now.

We are disciplined investors. We're not going to let it rot and we're not going to get in a hurry and cut corners and not do something that's going to meet Bill's standards.

There are plenty of companies out there, believe it or not. As fished out as the SPAC market might seem, there still are companies that will only talk to—when we compete we're not competing with other SPACs. We're competing with IPOs and M&A.

Ian Zaffino

Okay, great. Then as far as capital, you have the private investments now. You also have a buyback in place. How are we thinking about maybe shareholder returns versus alternative investments out there?

Richard Massey

We are in a spot. I kind of—let me—I want to answer your question but I want to twist it just a little bit.

Presently we have two backstops out there. We have the resources to satisfy those backstops and within the next few weeks we're going to have a much better picture of the extent to which those are going to be called. That's going to give us a much better picture of how much available capital that we have for other investments and how much we have for buybacks. But other investments and buybacks are always going to be on the plate and we're always going to think about them, and we're always going to think about the return on alternative investment and the return on buying our own stock back. I'll say the return on buying our own stock back even at 36 and change still looks pretty good to me.

Ian Zaffino

All right, guys. Thank you very much. I'll hope back in queue.

Richard Massey

Thank you, Ian. Thanks for your interest.

Is that—John, I know you had—you may still be on the phone. I know you had a question around all that. I hope I answered that one too.

Operator

Our next question is a follow-up from John Campbell with Stephens. Please proceed with your question.

Richard Massey

Okay, all right, all right.

John Campbell

Here we go. Told you I'd be back.

Richard Massey

Oh well.

John Campbell

One last question for me. I've got kids myself. I know it's impossible to name your favorite child, but in the past you guys have kind of called out—you've pointed to Alight as one of the top risk-related return potentials out of the portfolio. Obviously it's had a really good move. It's good to get past the (inaudible) event and all that stuff. It feels like it's got a lot more to go but considering that move and then considering some of the disconnects you guys are seeing across the portfolio, curious if Alight still holds that throne or what else might kind of stand out to you guys at this stage.

Richard Massey

You know, this is just me and not Bill and not Duke and not Bryan, but I still love Alight. You can see the results. You go look at what they reported this morning. They were just knocking the thing out of the park. We love the management team. It's a big idea. I do think they're going to get a re-rate. I do think they're going to hit high single-digit revenue growth eventually. And I think eventually some big ass company is going to come buy them. Hopefully we'll get a double or a triple and then that happens.

But, I'll say me personally—and Duke knows more about this than I do—this Sightline investment could be a real, a real—it's growing like a weed. It also is a big idea. Big total addressable market. It's got the only real product in this whole cashless gambling, casino gambling business, so I really like that.

And look, Anthony has almost completely dug his way out on Dun & Bradstreet. They got behind the eight ball on organic revenue growth for reasons that I'm sure you area aware, and I think he's bowed out. I think they're showing a lot of momentum and I think that one is going to be—that one's going to trade nicely next year. Lord willing and the markets hang on.

John Campbell

Got it. Thanks for the color, guys.

Operator

There are no further questions in the queue. I'd like to hand the call back to management for closing remarks.

Richard Massey

Oh, I think that's me. Thank you, Operator. We continue to be excited about our opportunities. I want to remind you again about our Portfolio Company Conference in Las Vegas on December 8th and 9th. Management teams from, like I said, our substantial portfolio will be hosting presentations, group meetings, one-on-ones and so forth. It will be really fun. Bill will give the keynote or something like that, the introduction. Bill will be there. The whole team will be there. You're going to be very impressed with these folks. So, we hope to see you there.

Thank you for your interest in our company. I know it's a lot of work to understand this but I think if you do it, it will pay off.

Thank you, Operator.

Operator

Ladies and gentlemen, this does conclude today's teleconference. Thank you for your participation. You may disconnect your lines at this time, and have a wonderful day.