



CANNAE
HOLDINGS, INC.

**First Quarter 2022 Earnings Call
Transcript**

May 9, 2022

CORPORATE PARTICIPANTS

Rory Rumore, *Investor Relations, Solebury Trout*

Bill Foley, *Chairman*

Rick Massey, *Chief Executive Officer*

David Ducommun, *President*

Bryan Coy, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

John Campbell, *Stephens, Inc.*

Ian Zaffino, *Oppenheimer*

Kenneth Lee, *RBC Capital Markets*

Chris Sakai, *Singular Research*

PRESENTATION

Operator

Good afternoon, ladies and gentlemen and welcome to the Cannae Holdings Inc. First Quarter 2022 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 open for questions with instructions to follow at that time.

As a reminder the conference call is being recorded and a replay is available through 11:59 p.m. Eastern Time on May 16, 2022.

With that, I would like to turn the call over to Rory Rumore of Solebury Trout. Thank you. You may begin.

Rory Rumore

Thank you, Operator, and good afternoon. On the call today we have our Chairman, Bill Foley; Chief Executive Officer, Rick Massey; Cannae's President, David Ducommun; 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 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 Chairman, Bill Foley, who will open with a few brief remarks and then open the line for questions.

Bill Foley

Thank you, Rory.

Within a quarter that presented a challenge equity market backdrop, geopolitical tensions and shifting macroeconomic conditions, our focus remains unchanged. We repurchased 2 million shares of Cannae in the first quarter of 2022. Our repurchase activity since we approved our share repurchase program in the first quarter of 2021 totals 6.8 million shares or 7.4% of our outstanding shares. We will continue to take a balanced approach to capital allocation with a focus on repurchasing shares while also searching for private companies that fit our investment profile, and we'll continue to work with our management teams to help them execute.

We are proud of our portfolio's performance against a very difficult economic environment, with each company's strong fundamental performance in the first quarter. We are also excited with the potential for new private investments, given the compression in valuations and pullback of risk appetite. I have seen many cycles through my career and periods of volatility typically present the best investment opportunities. But we also remain committed to our repurchase program and to creating value through our work with management teams to further transform our portfolio companies.

I'll now turn the call back to the Operator to begin our question-and-answer session.

Operator

Thank you. At this time we will be conducting a question-and-answer session.

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

John Campbell

Hey guys, good afternoon.

Bill Foley

Good afternoon John.

John Campbell

Hey Bill, you talked to about moving toward a balanced approach to buybacks and kind of balancing that in with kind of new, potential private market investments. If there are no clear private company investments that kind of present themselves, how should we be thinking about the pace of buybacks from here?

Bill Foley

Well, I mean our stock price is really depressed and so I'm going to emphasize buybacks. This is a good opportunity to take our share count down significantly at a strong discount to our fair value. We're looking for different ways, different companies to invest in. We have a couple of things pending with regards to our two outstanding SPACs, but relative to other new investments, we're early stages. So, we're going to be allocating capital to buy shares back; that's the best use of our capital at this point.

John Campbell

Yes, it makes sense. Then, obviously the multiples on the public side have gotten a bit insane. You guys obviously have a lot of your investment portfolio kind of tied to public investment, so I know you're probably not chomping at the bit to unload a lot of that. Maybe if you could talk about the debt capacity? It looks like you guys drew down a little bit on the margin loan. Just talk about your debt capacity and maybe your willingness to kind of draw into that to feed both buybacks and private company investments.

Bill Foley

I'm not a big fan of taking on debt to make investments or to buy back shares, but we are really—we've drawn down about \$60 million, I think, against one of our revolvers. We have about \$33.5 million of holding company cash on hand, and so our total—our gross liquidity totals \$573.5 million. So, I'll be talking to Rick and Brian and Duc and we may just reallocate some of our available revolver capacity to buying shares back. I never thought we'd get to that point, but, frankly, at \$20, that's a pretty good investment.

John Campbell

Yes, you guys are sitting quite a bit below book at this point, for sure. I imagine that's looking very attractive to you guys.

Maybe for Brian, just a kind of housekeeping question. What was the step-up in the Corporate Tax liability in the Book Value Summary?

Brian Coy

The step-up had to deal with the Dun & Bradstreet additional shares we got. You had a big change in deferred as well. The Ceridian sales shares, the mark-to-market value dropped a bit from quarter-end, so that caused the deferred to go down as well.

John Campbell

Okay, that's helpful. I'm going to get back in the queue. Thanks, guys.

Bill Foley

Thank you.

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

Ian Zaffino

Hi. Thank you very much.

Bill Foley

Hey, Ian.

Ian Zaffino

Good afternoon, guys. Can you talk about just maybe System1 a little bit? Deal closes, it gets into conversion and now I guess you reported about a 1.4 million share sale. Maybe walk us through your thinking there as basically shareholders of Cannae as far as your investment into System1, whether near term, medium term or long term. Thanks.

Bill Foley

Thanks. That's a good question. We're locked up on System1 for the majority of our investment until late June. I think June 27 or so. However, we did have some unlocked shares that were a result of a final investment we made in the business when it was being taken public, and that totaled about 6.1 million or 6.2 million shares. I felt that with System1 trading above its \$10 mark—and it actually traded quite a bit higher than that—that we would take the opportunity prior to earnings release and prior to our lock-up, prior to our blackout period, to sell a few shares to raise some capital. So, we did. We sold about 1.4 million shares over the last 20 days or so. We're not in the market now because we are blacked out and System1 releases its earnings, I believe, on the 11th or 12th, and we like the investment. It's a terrific management team. You'll see when the first quarter numbers come out, are released, its growth is really fantastic. The growth is also translating to strong EBITDA margins and strong EBITDA growth. So, we like the investment.

We don't intend to dispose of a large portion of that investment in the near future. We want to ride System1 for a pretty good period time. But, from time to time we may dispose of some additional shares once our lock-up expires at the end of June.

Ian Zaffino

Okay, great. That's very helpful color.

Hey Brian, this might be a question for you, probably. Just the recognized losses and maybe walk us through it, cash, non-cash? Any color would be helpful. Thanks.

Brian Coy

Sure. We had two very significant non-cash items in there. The Paysafe investment we wrote down by \$236 million with the share price continuing to be depressed. The other was the Ceridian mark-to-market,

that was about \$324 million and that was offset by our cash gain on the Optimal Blue transaction was \$313 million the other way.

Ian Zaffino

Okay, perfect. Thank you very much. I'll let someone else hop on.

Bill Foley

Thank you.

Operator

Our next question comes from Kenneth Lee with RBC Capital Markets. Please proceed with your question.

Kenneth Lee

Hi, thanks for taking my question. Wondering if you could just further expand upon comments around potential opportunities in private companies, just given the current market backdrop. Are you currently having some conversations right now? Any thoughts about private company valuations and whether there is meaningful gaps between what we're seeing on the public market side? Thanks.

Bill Foley

That's actually a very good question. I'm going to let Rick—Rick has been heavily engaged in this effort over the last couple of months. Rick, why don't you respond to this one?

Rick Massey

Hey Ken, how are you?

Kenneth Lee

I'm doing well.

Rick Massey

Oh, there you are. Okay.

Two questions I heard from you. One was sort of what are we seeing out there in the market backdrop, and I would say the juiciest area in America capital that I've seen so far are small cap GARP type companies. Some of those that went GARP, not crazy, but growth companies that actually have cash flow. They've been sold off, thrown out with the bath water, and we've seen a number of them trading at very attractive multiples in terms of return on invested capital. We like them a lot, but we don't have a lot of capital to put to work on those. But we are planning on working on those and actually bringing in some help on capital. This would be something that Cannae and Trasimene would share, like, as general partners. That's one option. That assumes Cannae doesn't put a lot of capital in.

In terms of what we're thinking of doing is as Bill described it; we are in an unfortunate state where we've got to borrow because we—I don't think he's at all excited about selling anything that we own. You heard him on SST, not on (inaudible) and Dun and Bradstreet, they are way below where they ought to be and it

would be crazy to sell those and go do another deal. But selling some of those and buying back some shares might make sense.

Did I answer your questions?

Kenneth Lee

Got you. Yes, you did. Very helpful. That's all I have for now. Thank you very much.

Bill Foley

Thanks, Ken.

Operator

Thank you. Our next question comes from the line of Chris Sakai with Singular Research. Please proceed with your question.

Chris Sakai

Hi. Good afternoon.

Bill Foley

Hey Chris, welcome aboard. Thanks for following us. Welcome aboard.

Chris Sakai

Great. Okay, thanks. Thanks for that.

Just to sort of piggyback on that last question, what—you guys mentioned that you could possibly borrow to acquire a company. Do you have any sort of idea how much you would borrow in that instance? Even borrow money...

Rick Massey

It would absolutely depend on the target, but obviously the leverage part of the LBO, those have gotten a lot more expensive over the past 60 days or so, and the high yield markets, which I'm sure many of you are well aware, are almost frozen. So, I don't know that anybody is going to pull off a levered LBO anytime soon, except for the really highest quality stuff.

Chris Sakai

Right, okay.

Can you talk about, I guess, the revenue from the restaurant group? Are you seeing as the pandemic subsides, how are you seeing that? Are you seeing things improving there?

Bill Foley

We are seeing improvement. We had a very difficult—it was a very difficult January for the restaurant business in terms of spiking commodity prices and really shortage of labor, trying to keep your restaurants

open and moving forward. But following January, we started to see some really nice improvement in terms of restaurant operating margins and year-over-year same-store sales growth. We're anticipating in 2022 to—despite the bad January and part of the February—to have a strong restaurant year, so we're happy.

Over the last several years we have taken—we have reduced store counts significantly, the O'Charley's system and also the 99 system. We've sold off the baking company, the pie business and also our family dining business. The other two chains, the O'Charley's chain and 99 chain are really doing fairly well. It's not reflected perhaps in the numbers that came out in the first quarter, but you'll start seeing some pretty good improvements in those businesses going forward during the balance of the year.

We're actually for the first time in a lot of years, we're pretty happy with the restaurant business.

Chris Sakai

Okay, great. Thanks for the answers.

Bill Foley

Thank you.

Operator

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

Brian Coy

Hi John.

John Campbell

Hey guys. Thanks for letting me squeeze one more in here, and Bill, you're probably going to shoot me for this question, but I think you kind of joked at this in Vegas and I've had investors ask me this question. I've thought about it myself in the past. You've hand-selected all these portfolio assets, right? You've hand-selected these investments. They're not getting valued appropriately. You own 4% or 5% of the shares today. You're going to have a monetization event for yourself, hopefully, with Black Knight here in the future. At what point does this just become something you look at buying yourself?

Bill Foley

Well, it's still a little—it's still a little too much money. But you bring out an interesting point, and that's why we actually are going to really be talking about drawing down some of our lines of credit to start buying shares back and be really significant about it. Because at this point we really have—that potentially is our best investment, is just taking advantage of the dislocation of the marketplace and buying back a lot of shares. I guess if it gets down to a low enough number, maybe it's a number I can actually afford.

Rick Massey

Hey John, that's what you get for asking the question, John.

John Campbell

Exactly, exactly. I'm sure you could find an investor cohort that could help match you on some funds on the way up.

All right, that's all I got. Thanks, guys.

Bill Foley

Thank you.

Operator

Thank you. We have reached the end of the question-and-answer session. I will now turn the call back over to Bill Foley for any closing remarks.

Bill Foley

Thank you, and thanks to everyone who joined our call today. While the market volatility may persist, we will remain focused on driving operational improvements across our portfolio, buying back our shares, and finding exceptional investment opportunities and monetizing investments. We look forward to speaking with you again on our second quarter 2022 earnings calls. Thanks again today for your time.

Operator

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation, and have a great day.