



**Third Quarter 2022 Earnings Call
Transcript**

November 9, 2022

Corporate Participants

Jamie Lillis, *Investor Relations, Solebury Strategic Communications*

Richard Massey, *Chief Executive Officer*

David Ducommun, *President*

Bryan Coy, *Chief Financial Officer*

Conference Call Participants

Chris Sakai, *Singular Research*

Kenneth Lee, *RBC Capital Markets*

AJ Hayes, *Stephens, Inc.*

Presentation

Operator

Good afternoon, ladies and gentlemen, and welcome to the Cannae Holdings, Incorporated Third Quarter 2022 Financial Results Conference Call.

As a reminder, this conference call is being recorded and a replay is available through 11:59 PM Eastern Time on November 16, 2022.

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

Jamie Lillis

Thank you, Operator, and all of you for joining us this afternoon. On the call today we have our 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 any 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 the 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 your questions. Rick?

Richard Massey

Thanks, Jamie. Hey, everybody.

Bill is occupied working to make us some money on another project, so I'm pitching in. And as anybody who knows me, I'm not much of a script follower, so I'm just going to go down the list of things that occurred over the past quarter, the most important of which is that we bought back in the quarter about 2.1 million shares for an average price of \$20.76, which continues to be about a 43% discount to what we believe is our net asset value. We are vigorously buying back shares and continuously. We have been, as you know for some time, over the past year—what have we bought back, Bryan?

Bryan Coy

Thirteen point seven five million shares, 15%.

Richard Massey

Fifteen percent of the Company we bought back and we're on pace to keep on doing that. We hope our shareholders are happy with that. We've exhausted almost all of our original authorities, and our Board has authorized another 10 million shares, so we're going to keep buying back as long as it trades at a discount.

We raised a little cash. We sold CorroHealth for \$80 million. We sold 75% of our stake of AmeriLife for \$243 million. AmeriLife was a 2.7x multiple of our initial 2020 investment. We're very pleased with that. We're going to get another closing for the second half. And when is it? December?

Bryan Coy

Yes, end of this month.

Richard Massey

Like November, and that will get a smaller amount of cash, not much less cash and then we're going to roll a piece in the surviving company, which we still believe is bound for great things. It's just been a great trade for us.

Dun and Bradstreet, as you probably know, had a pretty good quarter. They matched their estimates and their guidance. They grew about 4% in organic revenue with—this is all constant currency. Their overall

revenue is up about 7% in constant currency, and they've maintained a 40% EBITDA margin throughout. They're in sort of an investment cycle now and they're starting to see the investments in new products come to fruition. So, we're really pleased. We were just looking at some comps and the market is way undervaluing Dun and Bradstreet even when you adjust for earnings growth—revenue growth, etc.

Alight is one of my favorite companies in the world. They generated 8.7% overall revenues and nearly 10% growth in their flagship employer services segment, which is really their core segment. At the same time, they're just starting to see some margin expansion from their investment cycle. The BPaaS offering that they offer, that's a Business Process as a Service. I'm sure all of you guys know about their offerings and so forth, WorkLife and etc. But that's really the transformative revenue line for Alight and that grew 56% year-over-year through the first nine months of the year. So they're already about to hit their guidance and they've got two months left of the year. They're doing really well. And you're going to see some really nice surprisingly large new logos added over the next, call it, 60 days. They've signed them. They're not able to announce them just yet, but it just shows that they're just continuing to sop up all the Fortune 100 companies and make them customers. So we're very excited about Alight.

Duke, do you want to talk about Sightline?

David Ducommun

Sure. Sightline continues to make progress and their core segment, which is cashless gaming, they're currently working with Resorts World in Las Vegas, kind of put their flagship end-to-end cashless gaming system in place, and hopefully by the end of the year they'll be in a position to start to retest that.

In other good news, JP Morgan Payments made a strategic investment in the business that came in at a premium to the value we invested in. There is more liquidity for the Company. A great stamp of approval from an A tier strategic partner. So we hope more good things are to come.

Richard Massey

Thanks, Duke. The only other thing, we had a couple of new investments that we've announced, one of them is Computer Services of glorious Paducah, Kentucky, a company that I've known since I was a young man, so it's just been some time. They do core processing for small banks and credit unions. And I'm talking like sub-billion asset banks. It's an unbelievably durable customer segment. And these guys pretty much—I wouldn't say they own it, but they've got a great big market share.

And Frank Martire, who as you all know probably, has an incredible track record both at Metavante and after Metavante was acquired by FIS, he became the CEO, Executive Chairman, Chairman of FIS for decades. And he's bringing his team to bear to grow that business. He's got great plans, and we have all kinds of optimism about multiples of our money.

Looking at their numbers with an exit at the same multiple that you're buying it, you're looking at kind of a 3x your money in 5 years. You might get lucky. There might be a buyer that comes earlier. But we really like the business. It generates cash. It's right up our alley. We all know this area very well, bank technology.

And then, as you probably know, we committed \$125.7 million for a 50.1% ownership in an English Premier League football club called AFC Bournemouth. Many of you have asked us why. You're technology guys, why did you do a team? And the short answer is this is a Bill Foley company.

Bill started a hockey team from scratch five years ago, and he's been offered valuations of about 4 times the original equity investment. I'm lucky to have been one of those. And we believe Bill and his team can

work the same magic with Bournemouth. It is way under invested in facilities, in sponsorships and gear sales, media rights, all the stuff that Bill and his team at the VGK, Vegas Golden Knights, have really knocked it out of the park. I mean they're top of the NHL in virtually every revenue category. So we think that they're going to apply that—Bill has already got plans for how he's going to grow the business side of this. I asked to invest in this deal. I asked on behalf of Cannae because I think we're going to make 3 or 4 times our money at a minimum over the next five to seven years.

So with that, I think that covered—unless you all have something, I think that covered all the major stuff for the quarter, and we'll turn it over to Q&A. If you're ready for that, Miss Operator.

Operator

The first question today comes from Chris Sakai with Singular Research. Please go ahead.

Richard Massey

Hey, Chris.

Chris Sakai

Hi, good afternoon. Just wanted to know, so you've got a bunch of cash from the Amerilife sale plus \$249 million on the balance sheet. So what are you guys planning on doing with that? Just buying back more shares?

Richard Massey

Yes. I'd say there are three options for us, and they're going to be sort of real-time decisions. As we are going to be relatively aggressively buying back our shares as we have with the cash that we have as long as the discount is in the 40-plus percent range, probably a 30-plus percent range, it's just really cheap, and it's probably the best return that we can get with our capital right now is just to buy back our own shares at this huge discount to NAV.

But we're also supposed to be in the business of finding new investments, and we have a pretty robust pipeline of things. There's nothing that's going to happen today, but we could use some of that capital to support new investments. And one of the things that Bill has us doing is finding ways to bring in third-party capital to get a deal done, so as to preserve more of Cannae's capital on a deal-by-deal basis. So we've got some help, and we're looking through that prospect.

And then third, there is a chance that there are two portfolio companies that may need some future money, Computer Services, the Paducah, Kentucky core processor. They're fairly levered, but they have a pretty robust shopping list. We have right of first refusal on new capital raises out of that partnership. I expect we'll get a chance to throw a little bit of capital into that. I don't know if it would be a lot. 20's to 30's is probably what we're talking about, but we'd like to increase our exposure. It's only \$84 million today in the core business. And then the other would be Sightline sometime down the road. Duke would know more about that than I do.

So those would be the three and maybe we've got some other needs for other portfolio companies. But I'd say top of the list is buying back our shares and continuing to look for opportunities to do better than buying back our shares, but we haven't found one yet.

Chris Sakai

Thanks for that. And then where are you guys seeing better valuations now, in private or public equity?

Richard Massey

Public, without a doubt.

Chris Sakai

Okay. Last for me, how long was the soccer team investment in the works? How long has that been going on discussions for?

Richard Massey

Bill and a couple of our guys, Ryan Caswell and Alex Ciniello, were approached a year and half ago by a fellow who wanted to pull the multiclub team together. And it was exciting to Bill, and he did a lot of his own homework on it. In the process, I think Bill's interest was known and Bournemouth became available because the current owner, shall we say, had potential sanctions issues and wanted to go to cash in pretty much everything that he has and go somewhere else, too. So we got a bargain on that, and that's how it happened.

I'd say the past 15 months. It's not spontaneous if that's the question. This is something that Bill put a lot of thought into. And the most important part was the recognition of how most of the business lines operate. Now what I mean by that in a soccer team or futbol, they operate very much like the business lines in an NHL team. Concessions, tickets, alcohol sales, sponsorships, jerseys and other gear, stuff like that. And he felt like he could master that.

And then he'll learn. And he's got management over there, very skilled management that know the player part. The player and how do you win games and how do you stand the Premier League, I think he, in fact, had the team over here lately just to talk about how to fill the holes in management on that part of the operations. But he's going to bring his people to bear on helping build the business side—the business revenue. I call it business. It's just like the non-player revenues.

Operator

The next question comes from Kenneth Lee with RBC Capital Markets. Please go ahead.

Kenneth Lee

Hey, good afternoon. Thanks for taking the question. Just one on the AFC Bournemouth—and pardon me if I've been jumping around on the calls. But I wonder if you could just talk a little bit more about how the mechanics and the economics could flow to Cannae. And then in terms of the \$126 million commitment, is there any kind of obligation in terms of future player transfers, any kind of investments in infrastructure within Bournemouth in terms of the stadium and things of that nature? But I just want to get a better sense of the financial commitments there. Thanks.

Richard Massey

Got it. Good question. So we have a hard commitment for \$125.7million. I don't know what it is in pounds, maybe £110 million. And that's it. No future obligations. In fact, we've overfunded it. So the maximum of

our investment is \$125 million. It could very much be lower because there's about 33 million of—and I know I'm probably getting my dollars and pounds mixed up, but there's about 33 million of extra capital.

After you build a facility, there's an earnout in the deal where if they stay in the Premier League, we owe the seller £20 million if they stay in next year. There is a stadium—Bill wants to own and develop the stadium. They have a very poor, small stadium, and he wants to improve it and sell more tickets, of course, and all that stuff.

And there is a pretty healthy, very adequate player transfer budget for the next year or two in that. And the fact is this business cash flows. So this isn't like a lot of the ones that you'll look at that have just deep holes. I believe that 125 million, in dollars, is the most we're going to do, and it could be less.

Now Cannae's investment is as a limited partner. Bill is the general partner. We do not pay him any fees. He does not earn any fees as a managing general partner. He's kind enough to do that. He does not get any kind of promote from the money that we raised, that we committed to the team. And we'll make the same return that he makes, we are totally aligned with Bill in that transaction. I hope that answers your question.

Kenneth Lee

Absolutely, absolutely. Very helpful there. And then switching gears, just one follow-up, if I may. You talked about potentially bringing in third-party capital when you're looking around for potential new investments. Just wanted to get a little bit more color around what kind of form that could take?

Richard Massey

Well, of course, it's somewhat nebulous now because we don't have a hard target—it's abstract because we don't have a hard deal to talk to you about. But just say—we're talking about a deal where we could be buying a private company, but we could also go do a LBO. The total check with enterprise value could be \$1 billion, \$1.2 billion, \$1.4 billion. We don't want to put too much leverage on the business, so call it 3 times.

So, we'd need to raise \$800 million. Maybe more than that, maybe up to \$900 million. And Cannae would do, call it, \$100 million, and then we would raise the other \$800 million.

The form is called a special purpose vehicle. They're not uncommon out there in the world today. We just haven't pursued it as an alternative. But we're going to miss some deals because we don't have enough capital. And what we want to do is to go raise the capital from third parties so we get some good deals.

Operator

The next question comes from John Campbell with Stephens. Please go ahead.

Richard Massey

Hey, John.

AJ Hayes

This is AJ Hayes, stepping in for John today. Thank you for taking our questions. So you guys slightly touched on Sightline. But can you add some color on the benefit Sightline may realize as a result of the

strategic relationship with JP Morgan payments? And then can you maybe add some update on the Sightline's fundamentals and then maybe how you're thinking about monetization of Sightline long term?

David Ducommun

Sure. Let me answer these in order. The strategic partnership with JP Morgan is incredible. We put a representative on the Board. They're both a huge partner with the payment network and in helping us with our approval issues with Visa and Mastercard. We think they can give us some important strategic advice to help get approval rates up.

I think they can help us more efficiently design our network. They obviously have access to an incredible customer base in their own right. I think the opportunities in a partnership with JP Morgan affords a growing payments company like Sightline are virtually unlimited. It's really unlocking both their intellectual capital and just breadth of network access. I think it can do wonders for Sightline's business.

And so when you talk about the fundamentals of the business, I'd say online gaming has been a little bit challenged this quarter. I think with the demise of the \$2,000 free sign-up credits from the casinos, you've seen overall volumes kind of stagnate and, in some cases, even drop. Sightline is not immune from those trends. That being said, their core business is really developing the cashless solution inside the casino, and that's what's going to differentiate them long term from their competitors.

From our perspective, I don't think a monetization of this business is near term in the next couple of quarters, and we really want to see them execute in Resorts World. I think we want to see them get picked up in another large casino empire, whether it be Caesars or MGM, and really see the acceleration of that cashless solution.

And I think once we have both confidence that they're on that S curve of adoption and we have year-over-year comparables so we can make predictable earnings estimates to the Street, I think that's the time to potentially explore what's next for this company, whether it be IPO or sale or what their next strategic alternative is.

But my guess is we're probably at least a year away from an event like that.

AJ Hayes

Okay. And then you kind of touched on the near-term trends in the sports betting arena. But can you maybe provide an update on your bigger-picture thesis for that space and why you continue to find it so attractive?

David Ducommun

Continue to find it attractive? We believe that the liberalization of gaming markets is a matter of when, not if. The trends have all pointed to yes, but the timing has sometimes been in fits and starts. But we think that where this is headed is kind of beyond a doubt. We know what the future holds, and we're just ready to ride that wave as it continues to unfold.

Richard Massey

What are the big new states, Duke, out there that you think are going to be opening up?

David Ducommun

Michigan is opening up. New York has opened up. New Jersey has obviously opened up. Nevada was always opened up.

David Ducommun

I think if you get some movement in California, Texas, Florida, that obviously will be game-changing for the industry.

But even with the states that have legalized now, just continued growth and adoption and continue the user sign-up. It's still growing even without the free money out there, but the pulling of the proverbial punch bowl away I think caused at least a pause for a quarter or two and the rapid acceleration of the growth in that industry. But it's still supposed to be a \$50 billion industry by 2025.

Richard Massey

When I go look at DraftKings, they're trading back down to their SPAC level, like \$11, \$10. Is that because people have pulled back all these incentives and they're just not growing?

David Ducommun

A combination of slowdown in the top line, and I think for some of these names specifically, there may be liquidity concerns. I don't think that—we don't have that issue at our business. Obviously, we're private and have great partners around the table, including one of the largest banks on the planet. But we do still live in the same macro environment as those guys.

Richard Massey

Thanks. Sorry about that.

David Ducommun

We're a little bit better managing our P&L though, we hope.

Richard Massey

Hope so.

AJ Hayes

Great. Really appreciate the color there. Last question, just at a high level, should we be viewing the wind-down of Austerlitz 1 and 2 as the last of the SPAC activity for Cannae?

Richard Massey

I would never say never, but we do not have any plans. But we believe that the SPAC could be—they're not properly structured now, but they could be, and it could be a great alternative to an IPO for some companies. And because of the size and the quality of the amount of secondary sales that you can get, you can't do those in traditional IPOs. You might do 10% of the company in an IPO and you could do a lot more of that.

So there are vehicles that have a use that are valuable. It got just terribly abused. And it's going to take a while before there is a market again for those. And I don't want to say we'll never pursue them again. But I'd say right now, I don't see it on the horizon.

Operator

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

David Ducommun

Actually, this is David Ducommun, I am going to finish this out. Thank you, Operator, and thanks for everyone who joined our call today. We remain focused and excited that we exited the third quarter in a strong position, and we look forward to the continued opportunities that we see ahead.

Along those lines, we want to invite you to three upcoming events. We're going to be at the Stephens conference this month, November 15 and 16. We're going to be at the Credit Suisse conference in Phoenix, end of the month, November 29 and 30. And we all hope you'll come join us for Cannae's Annual Portfolio Conference on December 14 and 15 in the Wynn Las Vegas.

Thank you again, and we look to see you at one of our future events.

Richard Massey

Thanks, everybody. Have a good week.

Operator

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