



**Second Quarter 2023
Earnings Call Transcript**

August 9, 2023

C O R P O R A T E P A R T I C I P A N T S

Rory Rumore, *Investor Relations, Solebury Strategic Communications*

Rick Massey, *Chief Executive Officer*

Bryan Coy, *Chief Financial Officer*

Ryan Caswell, *President*

C O N F E R E N C E C A L L P A R T I C I P A N T S

Kenneth Lee, *RBC Capital Markets*

John Campbell, *Stephens, Inc.*

P R E S E N T A T I O N

Operator

Good afternoon, ladies and gentlemen, and welcome to the Cannae Holdings, Inc. Second Quarter 2023 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 August 16, 2023.

With that, I would like to hand the call over to Rory Rumore of Solebury Communications.

Rory Rumore

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, 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 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 Chief Executive Officer Rick Massey, who will open with a few brief remarks and then open the line for your questions.

Rick Massey

Hi. Thanks, Rory.

Hello, everybody. Thank you for joining our second quarter conference call.

Not a lot of news to report to our investors this quarter. The headline is going to be that we bought back 3.1 million shares of our stock in from May through July, so it's kind of a quarter. We started right after the end of the first quarter call. We took a pause during the first quarter on buybacks, but we got back with both feet in May through July. We bought back, as I said, 3.1 million shares, average price \$19.72. That's about 4% of the Company. That pretty much matches our most aggressive buybacks.

We continue to believe that our shares represent the best value for us, when we consider this at shares versus making an investment in another company or an existing company. So, we're pleased to report that.

No real activity. No sales of any of our portfolio companies or acquisitions of shares of any of our portfolio companies. Just a couple of notes on a few of our portfolio companies that we continue to believe are woefully undervalued, particularly when compared to their peers.

Dun & Bradstreet, for an example, showed up with about a 4% growth rate, and that includes headwinds that we all knew about with GSA and credibility. We still believe that that business is going to continue to grow. We think its growth is going to accelerate. Bill is very pleased with the results of their operations.

The stock market seems to be sort of in a wait-and-see mode, but its trading at today about nine and a half times 2023 EBITDA. That's at least a 50% discount to some of its peers, and we all know who they are, in spite of the fact that its margins are better than many and it's growing faster. And it has no more leverage than some of its peers, and yet it's trading at nine and a half times. We think it's way undervalued. We think the team has done a great job. Anthony has brought in a couple of really sharp people, Ginny Gomez being the number one sharp person, and she has really turned around the marketing business, as well as the credit risk segment.

Alight showed revenues this quarter up 12.7% year-over-year, and I hope those of you who also own Alight shares have paused to think about the progress that that company has made, just since it went public and it was showing 2% revenue growth, and here it showed up with 12.7%. It re-guided and beat, and the stock sold off a bit on the fact that it's BPaaS billings weren't as robust as many in the industry would estimate. It's sort of our fault, ours being Cannae's and Alight management—that we've not emphasized more of the non-BPaaS section of that business that grows mid single digits, is solid as a rock, 100% retention. Once a customer is on their payroll, their wealth, their health business, it's very, very hard to get them out. And that really is the foundation of that Company's revenue growth and its cash flow.

You'll probably hear us telling a slightly different story in the future, just so that we don't lose sight of the 70% of this Company that's not BPaaS and still a great company. That's trading at about 10 times 2023 EBITDA, Alight is. Compare that to—we're not going to name the peers, but this Company is growing faster, and it's trading at about a 50% discount to certain peers. There's no explanation for that other than there is a PE overhang, and we think that's keeping a clamp on the stock. We really like the team. We really like the company. It's going to continue to rock for some time.

One last note, and that's on CDAY that's Ceridian. They beat revised guidance. Their revenues were up 26.5% or 27% of the stock. That's been a very good performing stock.

Did you check the price before the call, Bryan? Anyway, I think it's in the low \$70s. Yes.

Bryan Coy

\$72.

Rick Massey

It's trading really well.

I'm not going to go through everything in our portfolio. A bunch of them are undervalued. We continue to work really hard with these management teams to maximize value and help them grow a streamlined organization.

With that, we'll answer questions.

Operator

Thank you. Your first question today comes from Kenneth Lee from RBC Capital Markets.

Rick Massey

Hi, Ken.

Kenneth Lee

I just wanted to ask about, at a high level, what's the latest thoughts around capital allocation? Obviously, you've stepped out on the repurchases. In the past, you've talked about potential investments in private companies, but just wanted to reassess and see what your latest thinking there is in terms of capital allocation.

Rick Massey

We had our board meeting today, and Bill and I reported on our pipeline and that very view and the Board agreed that the best use of our capital today, or cash if you will, is in buying back our shares. It's hard to beat a 45% discount. So, a 90% pop on your net asset value from buying it back, so it's sort of hard to beat. As long as it's trading at that substantial discount, that's going to be the case, Ken.

Kenneth Lee

Got it. Very helpful there. Just one quick follow-up on that one. Maybe talk about a little bit about potential capacity for share repurchases, and whether that could either include taking on debt or other options there. Thanks.

Rick Massey

We've got a revolver. We may ping it, but we're going to fund our repurchases with the sale of existing portfolio securities. We have a number of very liquid securities. They're trading at various levels of discounts to what we think is the appropriate valuation, but we have some that are trading at very nice valuations that we've held for some time. Again, I'm not going to name names, but I think you can expect to see us peel off quite a bit of our—I would almost call them legacy shares of various things.

I don't think you're going to see us in the market selling Alight. I don't think you're going to see us in the market selling Paysafe, because we think we've got quite a bit of upside left on Paysafe, but everything else may be free game.

Kenneth Lee

Got it. Very helpful there. That's it. That's all I had. Thank you.

Rick Massey

Okay. Thanks, Ken. Great questions.

Operator

Thank you. Your next question comes from John Campbell from Stephens, Inc.

Rick Massey

Hi, John.

John Campbell

Hi, guys. Good afternoon.

Thanks for taking my questions. Just back to the buybacks. I mean, it was obviously great to see the step up in activity. But as far as the rate of buybacks, you guys, it looks like you called out the 3.1 million repurchase May through July. Just from a housekeeping standpoint, I'm curious what the repurchase activity was in the quarter versus what you did in July. Just trying to get a sense for whether that remained constant or if the rate picked up month-to-month.

Bryan Coy

Hi, John, this is Bryan. We bought almost all of that within the quarter. I think we bought less than 100,000 within July, because we get blacked out after we start getting information.

Rick Massey

The vast majority of it was in the second quarter.

John Campbell

Okay, exactly what I was looking for. Then on Sightline, there's a blurb in the shareholder letter. But from a big picture standpoint, are you guys at the spot you feel like you would be at this point, relative to the original investment. Then also, any updated thoughts on the monetization timeline?

Rick Massey

It's not going as planned. I'm not really at liberty to go through all of that, except that product rollouts have been slower. They've had to go back and there have been a lot of modifications. Customer uptake has been slower than expected, and that's despite a fairly booming gaming market. So, yes, we've been disappointed with it.

Bill is focused on it very much and is talking to the CEO. We've got some options that we're going to pursue on Sightline. Before the end of next quarter, you might see something on that.

John Campbell

Okay, that's helpful. One other item I just wanted to clear the air on. I mean, you guys obviously had some back-and-forth correspondence with the SEC just relating to the classification of the Investment Company Act of 1940. To be clear, we fully agree with your stance there. That has never really been a worry for us. But just for the sake of investors that are tuning into your story, maybe if you can provide a quick rundown of why that's not the right classification for you guys, and why it's important that you steer clear of that.

Rick Massey

You are a careful reader, John. I give you congratulations. You get a homework gold star. Investment 40 Act investment companies are basically mutual funds, management of the funds are passive, they own lots of positions, and we are not that. As I mentioned during the call, we're very active with our portfolio companies, we're involved in the various aspects of management. Bill's the chairman of a number of them, I'm the comp committee chairman. We're all over the day-to-day operations, and classifying us as, essentially, a mutual fund is just not appropriate.

We've had those conversations with the SEC. Part of the problem, frankly, again, we were light in describing the level of activity that we have with our portfolio companies. When the SEC read our 10-K from a few years back, they said, "Well, you're just a passive investor." And we dissuaded them of that, and we changed a lot of the language in our 34 Act materials to reflect our fairly active roles with these companies. It's not right, and it would not be appropriate to regulate us as such. We've not had any correspondence with the SEC on that issue in, what, Bryan, a year - over a year?

Bryan Coy

More than a year.

Rick Massey

My experience as a lawyer way back in the old stone age when I was a lawyer, they don't ever agree with you and cut you loose. They just stop communicating. And usually, if you go a year without a communication, you can generally view that they've moved on, and they're not going to pick on that issue anymore, John.

John Campbell

Yes, that makes a lot of sense. I mean, it's pretty clear to us that the Foley playbook is just the opposite of what would qualify you for the Investment Company Act of 1940, so I agree with you there. If I could squeeze in one more...

Rick Massey

Yes, well you know us.

John Campbell

Absolutely.

Rick Massey

Take as much time as you need.

John Campbell

Just last one on Bournemouth and FC Lorient. I mean, that was great to see them both finish healthily above the relegation line. I'm just hoping if you could provide a rundown of what's on tap for the offseason, what you guys are looking to achieve heading in the new season, and any progress you've made?

Rick Massey

Ryan, our President, is the expert.

Ryan Caswell

Yes. I think one of the big things we've been focusing on is just the transfer window and transfer activity. We've got a few players in and there's hopefully a couple more—this is at Bournemouth. We got a few players in, there's hopefully a couple more to come shortly. So, just to improve kind of the overall makeup of the squad.

I think one interesting is there was actually a player that Bournemouth acquired, and then loaned to Lorient to basically show the benefits of the multi-club model. Bournemouth will look to get that player back next year likely. I think the other big thing we're focused on is just all of the commercial side of the business. I was going around today at the stadium and just looking at different things that we have done, both to improve the stadium, improve the revenue per match as well as kind of looking at all the different sponsorship and opportunities we've done there.

In short, to answer your question, I think there's room both on the football side to improve both of the overall teams to, again, move up the table, which will both help from a revenue and a brand side, as well as basically make the commercial operations better to generate more dollars that were not being picked up before. Those are kind of the big offseason priorities, and then obviously we need to translate that into success on the field.

John Campbell

Yes. Makes a lot of sense, and we'll look forward to Analyst Day at Bournemouth next year.

Rick Massey

Yes. That would be great.

John Campbell

Thanks for taking my questions, guys.

Rick Massey

Hey, sure, John. Thank you.

Operator

Thank you. This concludes our question-and-answer session. I would now like to turn the conference back over to Mr. Rick Massey for any closing remarks. Please go ahead.

Rick Massey

Before we get off, if Ken, John, anybody else has a question, let us know. I'll go slow in my exit. We want to make sure we answer all your questions.

Thank you. You've asked all the right questions in terms of what our capital allocation plans are. We told you what they are. We sure like our stock down here at \$20 or wherever it is right now. We hate it from a valuation standpoint, but we like it from a valuation standpoint, if that makes sense.

We are very appreciative of your interest. Feel free to connect with Bryan or me anytime. Night or day, we are always happy to answer any questions or listen to your comments. Thank you very much.