



# **First Quarter 2021 Earnings Call Transcript**

*May 10, 2021*

## CORPORATE PARTICIPANTS

**Richard N. Massey**, *Chief Executive Officer and Director*

**David Ducommun**, *President*

**Bryan Coy**, *Chief Financial Officer*

## CONFERENCE CALL PARTICIPANTS

**Ian Zaffino**, *Oppenheimer & Co.*

**James Hawley**, *Stephens*

## PRESENTATION

### Operator

Good afternoon, ladies and gentlemen, and welcome to the Cannae Holdings, Inc. First Quarter 2021 Earnings Conference Call. I will momentarily open up the conference lines for questions. Until then, all parties will remain in a listen-only mode with instructions to follow at that time. As a reminder, this conference is being recorded. Joining me today are: Chief Executive Officer, Rick Massey; President, David Ducommun; and Chief Financial Officer, Bryan Coy. A replay of this call will be available through 11:59 PM Eastern Time on May 17, 2021.

Before we begin, I would like to remind you that this conference may contain forward-looking statements that involve a number of risks and uncertainties. Statements that are not historical facts including statements about our expectations, hopes, intentions or strategies regarding the future are forward-looking statements. Forward looking statements are based on management's belief 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 the statement regarding forward looking information risk factors and other sections of Cannae's Form 10-K and other filings with the SEC.

We will now begin the question-and-answer session.

We will now begin the question-and-answer session. Our first question comes from Ian Zaffino from Oppenheimer. Please go ahead.

### Ian Zaffino

Hi, guys. Thank you very much.

### Richard N. Massey

Hi, Ian.

**Ian Zaffino**

How are you?

**Richard N. Massey**

Good. Thanks for your coverage and your interest.

**Ian Zaffino**

Absolutely. I didn't know if you guys could maybe talk a little bit about the Wynn deal and Austerlitz I and tell us about maybe, Bill your role when it comes to that? Thanks.

**Richard N. Massey**

Yeah, sure. So that's probably why Mr. Foley is not on the call when we announced the – for those of you who don't know, today, Austerlitz I announced a merger agreement with the interactive gaming sports betting and gambling assets that Wynn owns, an incredible set of assets. And Austerlitz I will be merging and has \$690 million of cash and the debt will be injected into Wynn to essentially fund its blowout marketing efforts that it's going to undertake in the next few months, leading up to the NFL 2021 season. Cannae had a forward purchase agreement, which is essentially a standby source of capital, Wynn wanted no more than \$690 million of capital. So that forward purchase agreement will not be effectuated. And the only involvement that Cannae has is it has agreed to backstop the full \$690 million against redemptions. And we actually hope there are redemptions because we'd love to buy this at whatever, \$10 a share. So that's our role. That's Cannae's role. So we're getting our 50 basis point fee for the standby plus the opportunity to buy some shares.

**Ian Zaffino**

Okay.

**Richard N. Massey**

It's...\$3.25 million, no \$3.5 million. Sorry.

**Ian Zaffino**

And – okay. So now, Bill, because I know you have an interest in the iGaming side on Paysafe, I didn't know if he was going to be involved in this or is anything that might be shared as far as knowledge gained from the Paysafe side, or should we really assume that they're completely separate?

**Richard N. Massey**

I'm not sure about the latter question about whether there's something to be done between the two. Obviously, Paysafe is in the vendor side of the business, the payment side in particular. And Wynn is in the front end. The – they're actually a B2C company. There will be – and we look forward to seeing your name on the on the WynnBET site. And we'll be following your bets. But I'm not sure – there is plenty of expertise that Bill is going to bring to bear based on what he's learned not only with the not only with the Paysafe but with Sightline and other company, a small company we invested in that basically owned the brick and mortar payments side of the business. We have the large casinos and so Bill's got a lot of data now in his head about how this industry works and he's already got ideas on the kind of products that from that, he's got ideas about the products that we think – that he thinks Wynn might be successful at all.

**Ian Zaffino**

Got you. And then on the other Trebia side and this will be my next question before I let someone else jump on. On the Trebia side, I guess from the wording of your letter you're kind of playing things a little bit close to the vest. But should we assume that the deal that was targeted, something did it worked out and now you're on the prowl for something new or is it the existing target is still kind of in play?

**Richard N. Massey**

I don't know if it's appropriate for me to comment on it except to say we're not looking for something new right now. How about that for a skating around on the answer?

**Ian Zaffino**

Perfect. Thank you very much.

**Richard N. Massey**

Anybody else?

**Operator**

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

**James Hawley**

This is James Hawley stepping in for John Campbell.

**Richard N. Massey**

Hey James, how are you doing? We heard that – we heard Campbell was going to bail on us.

**James Hawley**

It's not like that. Come on. Congrats on the new deal. That's really exciting.

**Richard N. Massey**

Thank you.

**James Hawley**

So my first question.

**Richard N. Massey**

Tomorrow morning, I would get up and have breakfast and go down to the trading floor and buy as much of this as you can because it's very reasonably priced.

**James Hawley**

Yeah, it looks very attractive, it's very exciting. Just to back pedal a little bit so I just had a couple of questions here on some of your older deals. So given that the market kind of in the SPAC environment, in the recent months here, Alight's been kind of lagging a little bit. So, and it's – a lot of it is SPAC-related

and then it's not necessarily company-specific. So can you talk a little bit about what you're seeing there and anything that you would comment on versus kind of the overall environment and then Alight itself?

**Richard N. Massey**

We'll have two comments, and one I'll make and then the other, if Duke are you on, you can make. So, Alight continues to blow through with its plan. They had a great fourth quarter. They're going to have a great first quarter. And we believe that there is a stable of shareholders out there in the world who really want to own this thing. I don't know if you noticed but we've picked up one or two sell-side research analysts and they are kind of in like the \$20 price target. So it's a double. And we think he's right. This is really, really a cool company and it's got the best management in that industry.

So we're still very excited about it. We have no reason to believe investors won't be but you're right, this is more SPAC-specific than it is, sort of company specific. One thing that Duke has done, Duke is a smart dude and he did a bunch of stuff. We started – when we see a stock trading at \$10 or slightly below, we worry about redemptions and Duke got a piece of research that I'm sure he'd be glad to share with you, a regression about really what factors in to the redemption risk. Would you mind hearing this?

**James Hawley**

Yeah, sure. Go ahead.

**Richard N. Massey**

It's been interesting. It's probably going to be interesting for you on either SPACs. Duke, are you on the line and would you mind addressing that?

**David Ducommun**

Yeah. Happy to walk through it. So we saw a Alight trading around \$10 bucks. We got a little worried internally that there could be redemptions in the deal even though we love the business and they continue to outperform. And what we found were three things, first, if the stock is trading above \$10 bucks or \$12, let's say, there's no redemption risk. So this only applies to stocks in the \$10 range. Once you get in the \$10 range, there's really two things you look at. It's the size of the SPAC and more importantly the amount of turnover. So, in general, just larger facts tend to get redeemed less, there were bigger books to fill out. I think you get more sophisticated investors. We found even Multiplan, for example, like didn't get redeemed. It was a very large SPAC. It may not have been the best received deal but still didn't get redeemed despite performance issues that were fairly large.

More instructive, what we found was turnover, our Alight shares have turned over almost 200% since we announced the deal, which means the shares are now held in the hands of long-term investors who know the company they're buying and are comfortable with the assets. So those are shareholders we expect would not redeem. It's when there's really light turnover and maybe 20%, 30% of the shares turnover post deal announcement that your shares would still really held by the original hedge funds that bought into your SPAC and may or may not like the underlying asset. So that's a quick explanation. Does that make sense? I'm happy to dive into some more of this. But we looked at every SPAC deal that's been done and kind of come out of this and spend a lot of time with it on a deal-by-deal basis as well.

**James Hawley**

Yeah, that's really helpful. That gave a lot of color. That was definitely helpful. Just to switch here. I don't want to stay on for too long here so give someone else a chance, just one other quick one here. Any thoughts again on recent buybacks and any appetite for that going forward here?

**Richard N. Massey**

It's cheap. And it's below book, so it would make total sense to buy it back. But we've got, as you can probably tell, right, it's all about capital allocation, and we think we get better returns at this stage investing in some of these portfolio companies than we would buying back our own shares, although it is very tempting, and it's not to say we wouldn't – Bill wouldn't want to pull the trigger on it tomorrow because it is frustrating how low it's trading despite all the great wins we've had just this year. So it is. It's – you're right to ask. And I'd say it's on the drawing board. It's not something we forget about. Duke, do you agree with that?

**David Ducommun**

I agree with that. I absolutely agree with that.

**James Hawley**

Okay. Thanks guys. Appreciate the time and congrats again.

**Richard N. Massey**

Sure, man. Thanks for your interest.

**Operator**

The next question is a follow-up from Ian Zaffino with Oppenheimer. Please go ahead.

**Ian Zaffino**

Maybe a question for Bryan and I guess for all you guys. But how are you thinking about not like per se current liquidity but maybe like access to liquidity?

Obviously this is a big kind of event and has been on the Austerlitz I side. You have other SPACs out there. Should we expect sort of like the same deal size on these other SPACs as this Wynn deal now? And how are we thinking, Bryan, again on the liquidity side and access to that and maybe what we should expect. Thanks.

**Bryan Coy**

Now that's a fair question. I'll start with part of it, maybe Rick or Duke, you want to jump in on the other side as far as deal size? As far as liquidity, we ended the quarter with nearly \$400 million in corporate cash. Still have not drawn on any of our credit lines. We have \$100 million still with the FNF revolver and up to \$500 under the margin loan we entered into last year. And neither of those have been drawn on. In addition to that, we still have quite a sizable chunk we still have 14 million shares of Ceridian. Even at today's price, that's about a \$1.2 billion of powder sitting there, Ian. Rick, do you want to talk about the deal size or part of that question?

**Richard N. Massey**

So I'd like for Duke to, if you don't mind.

**David Ducommun**

Yeah, I'm happy, too. I'd say we're here to approach them on a case-by-case basis. I think that our appetite for really large forward-purchase agreements has probably waned a little bit. But it's hard to never say never, just depends on what's in the pipeline and our degree of conviction frankly with the transaction. But I think we'll always be judicious but capital resources, as Bryan laid out, we've got plenty of sources of liquidity for existing and new transactions.

**Ian Zaffino**

Okay, great. Thanks for the color guys. Appreciate that.

**Richard N. Massey**

Sure, Ian.

Any more questions, operator?

**Operator**

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

**Richard N. Massey**

Thank you for your interest in our company. We appreciate that you understand that it's undervalued. And we hope and thank you for helping us tell the story. Please feel free either of you guys to reach out to Bryan or me or Duke with any more questions that you might have. Have a great rest of the day.

**Operator**

This concludes the conference call. Thank you for attending today's presentation. You may now disconnect.