



**Third Quarter 2024  
Earnings Call Transcript**

*November 12, 2024*

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

**Jamie Lillis**, *Managing Director, Solebury Strategic Communications*

**Ryan Caswell**, *President*

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

## 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*

**Ian Zaffino**, *Oppenheimer*

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

### Operator

Good afternoon, ladies and gentlemen, and welcome to the Cannae Holdings Third Quarter 2024 Financial Results Conference Call.

During today's presentation, all parties will be in a listen-only mode. Following the Company's prepared remarks, the conference will be open for questions, with instructions to follow at that time.

As a reminder, this conference is being recorded and a replay is available through 11:59 p.m. Eastern Time on November 26, 2024.

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

### Jamie Lillis

Thank you, Operator, and all of you for joining us.

On the call today, we have Ryan Caswell, Cannae's President, 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 a 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 Ryan.

### **Ryan Caswell**

Thank you, Jamie. Good afternoon, everyone.

On our first call this year, Bill outlined the strategic plan designed to increase the net asset value, or NAV, of our portfolio and close our share price discount to NAV. Our strategy has three main levers, including improving the performance and valuation of our portfolio companies, making new investments primarily in private companies that will grow NAV and returning capital to shareholders.

I believe that we are making progress on all fronts, and I will highlight a few items relating to each. As I did last quarter, I will then discuss the results of several of our portfolio companies in more detail.

We are working to rebalance our portfolio away from some of our public company investments and into private company investments. As part of this strategy, in October, we announced the acquisition of a 53% stake in the Watkins Company. Watkins was founded over 150 years ago and has a strong market position and brand recognition within the fragmented spices, seasoning and extracts category - one of the highest growth categories within the overall U.S. food industry.

We are excited about the deal structure as the existing owner, one of only two owners in the history of the company, is partnering with us and will own approximately 40% of the business. Additionally, we are partnering with KDSA, an investment firm focused on founder-led and family-owned businesses in the food and beverage sectors. We believe the company has a substantial opportunity to grow distribution across existing and new retailers, expand into other ancillary products, and could be an attractive platform for future acquisitions, all of which will accelerate the Company's growth and profitability. Furthermore, we believe this business will provide cash flow to Cannae through preferred dividends and equity distributions.

As part of our portfolio rebalancing, we sold the final shares held in Dayforce this quarter. This concludes an incredibly successful investment for Cannae from first investing in Dayforce, then known as Ceridian, 17 years ago when it was a large service bureau-based business. Over the years, we applied our playbook to improve the Company's management and operations, conduct accretive M&A, and drive synergies and efficiencies across the business.

We sold Comdata in 2014 and subsequently IPO'd the remaining business in 2018. Since that time, Cannae has sold 37 million shares of Dayforce, realizing \$2.8 billion from the sale of those shares and distributions.

I would like to thank Dave Ossip and his entire management team for all the success and partnership over the years.

I now want to spend a few minutes discussing how we are improving the value of our portfolio companies as it relates to Black Knight Football.

We continue to invest time and capital into building out Black Knight Football. And although still early in the investment cycle, we believe we are starting to see the impact of these actions on value creation.

As we discussed previously, last season, AFC Bournemouth achieved their highest Premier League point total in the 125 year history of the club. We also noted on previous calls that we believed our capital investment in players was starting to create valuable player assets, and this came to fruition with the sale of Dominic Solanke to Tottenham for up to £65 million, or \$84 million.

First off, I want to thank Dom for all of his achievements in Bournemouth and wish him continued success as he moves on his career. Dom transfer is the largest in the Cherrie's history and the second largest in the Premier League during his summer transfer window.

More importantly, despite the sale of one of our best players, we continue to have success on the field. The teams currently sits in 12<sup>th</sup> place in the Premier League but only 3 points, or one win, from seventh and recently beat Manchester City, the previous Premier League champion, for the first time in Bournemouth's history and it was Man City's first defeat in their last 32 Premier League matches. We believe this, in conjunction with our activity across the other Black Knight clubs, is evidence that our actions are building a valuable platform, teams and brands within global football, which should create value for our shareholders.

Lastly, we have returned significant capital to our shareholders this year. Through the third quarter we have returned \$243 million of capital to our shareholders through a combination of share buybacks and dividends. In December, we will pay a third quarterly dividend of \$0.12 per share which provides a consistent capital return to our shareholders as we continue to executive our strategic plan with the goal of increasing our share price.

I will now spend a few minutes on updates on some of our portfolio companies.

First, DNB. The company posted revenue of \$609 million, representing constant currency organic growth of 3.4% over the prior year's third quarter, and 3.9% constant currency growth year-to-date. Adjusted EBITDA was \$247 million for the third quarter, representing growth of 5.1% over the prior year's third quarter. The Adjusted EBITDA margin also expanded 60 basis points to 40.6%, and free cash flow conversion continued to improve. Net leverage was maintained at 3.7x, and the team expects that to be down to 3.5x by year-end.

Anthony Jabbour also noted on DNB's third quarter call that the Board continues to work with their advisors to evaluate enquiries received from both strategic and financial buyers. Beyond that, we will not provide further comment today on DNB's potential strategic alternatives.

Moving to Alight. My financial discussion will focus on the continuing business given Alight closed on its \$1.2 billion sale of its professional services segment and payroll and HCM outsourcing in July of 2024. The continuing business total revenue was \$555 million for the third quarter 2024, down 24% from 2023. Adjusted EBITDA was \$118 million for the third quarter, a 3.5% increase from 2023. Adjusted operating cash flow for the nine months was \$199 million, or 53% of Adjusted EBITDA.

Furthermore, Alight's net leverage was 2.9x, which reflects a \$740 million paydown in conjunction with the sale of the business noted above. Alight also announced it would begin paying a \$0.04 per share quarterly dividend. We believe Alight's remaining business will be more attractive to public shareholders

given the higher percentage of recurring revenue, higher EBITDA margins, better cash flow conversion, with lower leverage and now a quarterly dividend.

Computer services, or CSI, continues to perform well after posting a record number of core banking deals in 2024. The Company has now generated record growth in the first half of fiscal year 2025. The Company has also been an effective acquirer. In the prior fiscal year, CSI acquired loan origination software provider Hawthorn River, and has already increased the Hawthorn River customer base, expanded its software seats and secured new core deals. This year, CSI announced the acquisition of Velocity Solutions, which currently services more than 30 million consumers and business owners, and CSI is optimistic about the prospects of that business.

We continue to work with JANA Partners on situations involving undervalued public companies where there's a specific catalyst to unlock value and Cannae can participate in that catalyst as either an acquirer or capital solution. While nothing concrete to report yet, we are extremely pleased with the partnership to date and optimistic about its prospects. JANA has also seen strong underlying business performance since our investment.

Lastly, I'll spend a little more time on Watkins' financial profile and deal structure.

During the last 12 months, the Company generated about \$75 million of net sales and has historical revenue growth in the mid to high single digits and strong EBITDA margins and free cash flow. Cannae invested \$80 million to acquire approximately 53% of Watkins on a fully diluted basis, including \$20 million structured as a convertible preferred investment with an 8% annual dividend. The deal was also financed with \$56 million of debt. We believe that our stake was acquired at an attractive valuation given the growth, margin and cash flow profile of the business when compared to public comparables and precedent M&A transactions. Going forward, we believe this business will provide cash to the holding company.

In conclusion, we are optimistic about our portfolio companies and will continue to look for new investments that will grow NAV.

I'll now turn the call over to Bryan to touch on our financial position.

**Bryan Coy:**

Thanks Ryan.

Cannae's third quarter 2024 total revenues were \$114 million compared to \$144 million in the prior year, primarily comprising our restaurant revenues. The change in revenues is largely in line with the reduction of store locations as the 2024 third quarter results reflect 35 fewer locations than the comparable period in '23.

Our restaurant brands continue to work hard on improving guest traffic and growing revenue including a focus on value-oriented bundling and price reductions, particularly at our O'Charley's locations. While the third quarter was tough across the casual dining industry from a guest count perspective, we are starting to see guest count improve through the first few weeks of the fourth quarter with the strategy of targeted offerings.

Third quarter 2024 operating expenses were \$132 million, down 33% from the prior year quarter, driven by restaurant items and lower external manager fees. The cost of restaurant revenue in the current year quarter was \$93 million, which is a 20% decrease from the 2023 quarter attributable to the lower locations. The cost of restaurant revenue was higher as a percentage of restaurant revenue, a few

percentage points due to the bundling and pricing activities. The guest count strategies discussed above are having the intended effect of increasing traffic but have also decreased interim margin performance as the cost of restaurant revenue contains certain fixed components, such as rent and management labor. We believe this can be offset with the other cost rationalization measures that we've put into place are realized in the first half of 2025. The team has also identified other cost efficiencies in the supply chain, our menu offerings and brand support. While we are not where we want to be from a growth and profitability perspective at restaurant group, we're encouraged by what we're seeing in the dedication from the team members.

Separately, the 2023 third quarter also included \$31 million of non-cash charges that were related to locations and lease agreements closed.

And finally, the fees to the external manager were \$3.7 million in this year's third quarter, approximately \$6 million lower than the nearly \$10 million in the prior year as a result of the amended management agreement and wind-down schedule.

Lastly, Cannae recorded \$23 million in recognized gains for the third quarter 2024 compared to \$130 million of losses in the prior year. The 2024 net gains were primarily noncash fair value pickups relating to Dayforce and Paysafe shares, while the prior year losses were non-cash impairments of System 1 and Sightline.

One post quarter item that we wanted to flag was with regard to Sightline Payments. While senior management has been rationalizing their cost and employee base while concurrently advancing development of its embedded banking product and looking for additional capital, the Company faces a challenging liquidity situation post quarter end.

As a result, in the fourth quarter we wrote off the remaining book value recorded for Sightline and this is reflected in the sum of the parts table published today and going forward, Cannae's balance sheet and liquidity position remained solid following the Watkins transaction and additional investments in Black Knight Football.

Cannae has \$40 million in corporate cash today, \$49 million of capacity in our margin loan and holds listed securities with a gross fair value in excess of \$1.4 billion.

With regard to leverage, Cannae has \$101 million outstanding on our margin loan and \$60 million under our FNF note that matures near the end of next year.

At our close today, Cannae's aggregate net asset value was \$2.1 billion or 34.29 per Cannae shares. That means today's closing price of \$21.63 represents a 37% discount to its intrinsic value.

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

#### **Operator**

We will now begin the question-and-answer session. To ask a question, you may press star, then one on your touch-tone keypad. If you're using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star, then two.

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

**Kenneth Lee**

Hey, good afternoon and thanks for taking my question. Just the first one on BKFC. What's sort of like the outlook for additional capital or investments for BKFC? And could you perhaps just give us a little bit more detail in terms of any near-term outlook in terms of investments such as physical planned CapEx or player acquisitions. Thanks.

**Ryan Caswell**

Hey Ken, thank you for the question. As you know, the transfer windows are really kind of where player acquisition or sales occur. So, the next one occurs in January. We don't believe there will be any capital required ahead of that. But I think at that time we will figure out what the rest of the year budget looks like. There will probably be some capital investment for the second half of the year, but we will not know until the transfer window concludes. In terms of CapEx in the business we are very close to finishing.

The real CapEx is at Bournemouth in the training facility which we've discussed before. We are actually very close to being through that and that should be open, I believe it's in the first quarter, I think February timeframe.

And so that is really the only CapEx. We continue to look at a stadium in the future, but that is further out and we will either finance that on the balance sheet or we may look to raise third party capital, but that's much further and we'll give you more visibility as we have more visibility in how that plays out.

**Kenneth Lee**

Got you. Very helpful there. And just one on the JANA Partnership. Looks like there was nothing to report there but just wanted to get a little bit more color around the outlook for potential private investments. What are you seeing in your pipeline there? And do you see a potential acceleration in terms of potential transactions, especially given the current macro backdrop? Thanks.

**Ryan Caswell**

Yes, thanks, Ken. So, we continue to have very constructive discussions with the JANA team around potential opportunities where we can partner together. Once we identify an opportunity, it will take time to play out.

So I wouldn't expect, in the next couple months there will be anything, but we are very excited and optimistic about the relationship. We think that both parties, them through their expertise and us, through our capital, can uncover some very attractive situations for Cannae's shareholders.

**Kenneth Lee**

Got you. If I could just squeeze one more in. Just relatedly, if there were to be any kind of new private investments with that partnership, what kind of financing sources or capital sources could you look? Would you consider ever raising equity capital as part of the options there? Thanks.

**Ryan Caswell**

Okay. Yes, no problem. I think the most obvious places that we would look to create capital for new investments are through the sale of our public securities. We've talked about transitioning out of those public securities into private investments. So that would be option number one. We could potentially look for some other debt financing.

I do not believe, especially at the current prices, that we would be looking to do any form of equity offering, if that's what you were referring to, as capital. We would, initially, we'd be looking to redeploy capital from our public investments into whatever new investments we find.

**Kenneth Lee**

Got you. Thank you very much there.

**Operator**

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

**John Campbell**

Hey, guys good afternoon. Ryan, just going back to the strategic focus on shifting away from the private portfolio. You guys have made steady progress over the last probably year or so. I'm curious about your sense of urgency there.

Obviously, you've got the DNB development. You're not going to comment on that. But on the other public investments, I'm thinking mainly where you've got sizable ownership, you've got fundamentals that seem to be kind of on better footing. I think Alight is probably the shining example there. But if you can't get the public markets to recognize the value, at what point do you feel compelled to push for a strategic sale? And it doesn't have to be just Alight but of any of the entities.

**Ryan Caswell**

Look, I think a strategic sale of any of those is obviously up to the board of that entity. So I believe that we're going to think about it just more in terms of what are the near term investment opportunities that we have and how do we get liquidity through the securities that we own? Right.

And so, we may start selling down certain public positions to create liquidity for Cannae. But in terms of full company sales or things like that, we obviously believe they're attractive businesses. But that question is much better directed at the boards and the management teams of those businesses.

**John Campbell**

Okay, fair enough. I guess you'll still get a Christmas card from them this year. On the Black Knight Football investment obviously you guys have the momentum going. I think that's really clear to see at Bournemouth. But within the Cannae stock, I just don't think you're getting any credit for that value you've created. It's probably too small to do a whole lot with right now. It doesn't seem like Bill's going to really look to monetize that anytime soon. So, I mean, a couple of these international clubs do have stock, publicly traded stocks. So I'm just curious if there's a way or if you've explored a way to create a tracking stock or maybe spin out a portion of that value so we can get a public market value and tie it back to Cannae.

**Ryan Caswell**

I think it's a really good idea, John. I mean, I think we will think about all different ways to create value or to get value recognized for our securities. And so, I don't know if there's a tracking stock or what the specific would be. But you can—we agree with you. And we want to be able to find a mark for the Company and whether that's through third party investment, whether that's through a tracking stock,

whatever it may be. But trying to find ways to demonstrate the value that we're creating will be very helpful for the business and for Cannae stock.

**John Campbell**

Yes, agreed there. And then last one for me, just want to circle back on the \$0.12 quarterly dividend, just how you're feeling about the sustainability of that level of commitment and then how much of that you're able to actually source through free cash flow versus kind of dipping into the capital pool?

**Ryan Caswell**

Yes, so right now we are dipping into the capital pool. We do believe it's sustainable. I think one of the interesting things around Watkins, we've also talked about some of the stuff we're doing around the restaurant group.

We are starting to get some businesses that are producing cash flow for the holding company of Cannae. And the goal is to get enough of those that it fully covers the dividend. And so that we're not dipping into our capital pool, but that will be a progression. And so today, again, we're dipping into the capital pool, but hopefully six months, 12 months from today will be dipping much less so.

**John Campbell**

So. Okay, that makes sense. Thanks, guys.

**Ryan Caswell**

Thank you.

**Operator**

As a reminder, if you have a question, please press star, one.

The next question comes from Ian Zaffino from Oppenheimer. Please go ahead.

**Ian Zaffino**

Hi, thank you very much, guys. I wanted to ask you on kind of philosophy on the portfolio construction, right? When you're going to the market and you're looking for deals or deals come to you, what deal size are you kind of looking at? If you had your wish, how many positions would you have? How large would they be? And I just think I kind of look at the sum of the parts. Thanks, Bryan, for updating this. It's just kind of all over the place. You have things that are worth less than a dollar per share, and I just don't see the focus here. And so maybe you can kind of help me understand, what are you trying to achieve as far as position size, number of positions, etc. Thanks.

**Ryan Caswell**

Hey, and thanks for the question. I do think that we have--there's probably some outsized positions in our portfolio. Some of those are the amount of capital we invested. Some of those have grown. I would think going forward, investment size would be in the, call it \$100 million plus type of range. I think we invested \$80 million in Watkins. That seems like a good starting point.

I do think we'll look at some bigger stuff, but I don't believe that you'll have some of the larger deals that we did historically. I think we'll continue to be a bit smaller in scale than that, given the capital base that we have today, is how I think about the portfolio construction.

**Ian Zaffino**

Okay, so I guess to kind of define what you said, maybe 20, 25 positions, something along those lines.

**Ryan Caswell**

Yes, it's probably less than that, but I think let's call it \$100 to \$300 million type positions. So, it'll be—I think it'll be less securities than that. And obviously all of that is dependent on our ability to sell down some of the bigger positions that we have and reinvest that capital.

**Ian Zaffino**

Okay, thanks. And then also on the football side, soccer side, can you talk about maybe some of the synergies you're seeing there between the teams' desire to get bigger there, maybe talk about some of the improved performance, I guess maybe both on and off the field. Thanks.

**Ryan Caswell**

Yes, thanks, Ian. We have been spending a lot of time at what I'm going to call the holding company and trying to create more synergies across the business, both on kind of the football side or the soccer side, as well as on the commercial side.

We announced on our last call, we hired Tim Bezbatchenko, who's now the President of Black Knight Football. Under him, we've started to hire additional people and really are building out the kind of the specific recruiting processes, commercial processes, and sporting performance processes so that we are leveraging the expertise and the best practices across the business.

And so, we believe this is an area of a lot of opportunity that we're just kind of scratching the surface. We think that probably the biggest and most important point will be on the player acquisition and just creating different teams with different purchase prices of players that we can ideally send through the system. So, again, I think we are early in where we're trying to get to, but we're spending a lot of time in trying to build this out such that it becomes a real competitive advantage across each of the different clubs.

**Ian Zaffino**

All right, thank you very much.

**Ryan Caswell**

Thanks.

**Operator**

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

**Ryan Caswell**

Thank you, Operator. We will continue to work hard to drive value for our shareholders and look forward to speaking with you again on our fourth quarter 2024 earnings call. Thank you again for your time today.

**Operator**

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