



**Second Quarter 2021 Earnings Call
Transcript**

August 5, 2021

CORPORATE PARTICIPANTS

William P. Foley, II, *Chairman*

Richard N. Massey, *Chief Executive Officer*

Bryan Coy, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

James Hawley, *Stephens, Inc.*

PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Cannae Holdings, Inc. Second Quarter 2021 Earnings Conference Call.

As a reminder, this conference call is being recorded and a replay is available through 11:59 p.m. Eastern Time on August 12, 2021.

Before we begin, I would like to remind you that this conference call 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 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 that 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.

I would now like to turn the call over to Cannae's CEO, Rick Massey.

Rick, you may begin.

Richard N. Massey

Mr. Foley is about to join us.

William P. Foley, II

Yes, I just joined. Thank you. Thanks for the introduction.

Thank you for joining the call today. With me here this afternoon is our Chief Executive Officer, Rick Massey; our President, David Ducommun; our Chief Financial Officer, Bryan Coy. And as a reminder, we released our second quarter 2021 shareholder letter, which includes our financial results, after the market closed this afternoon and which can be found on our website.

Overall, I'm very pleased with the progress Cannae made in the second quarter, executing on its pipeline of backend SPAC transactions. And I'm excited to continue the hard work of igniting growth in our portfolio companies.

As Chairman of the Board, I actively support all of our investments and will continue to guide our portfolio companies as they execute on their respective business plans. That said, the SPAC market experienced dislocation through the quarter, largely driven by non-fundamental factors which led to indiscriminate selling regardless of the Company's quality and growth prospects. Our portfolio was not immune, as Paysafe and Alight both came under pressure and now trade at levels which I believe are detached from the long-term potential that I see in both businesses.

Likewise, Cannae's shares have also traded to a significant discount to intrinsic value through the quarter, which is frustrating, and I know frustrating to you. Given my confidence in our management teams and their businesses, I took advantage of the market dislocation and our Company repurchased almost \$100 million of Cannae shares, or approximately 3% of our shares outstanding through July 13, 2021. I believe the market will recognize the unique value of our growing, profitable enterprises and that financial and cash flow fundamentals will win over in the long term.

This dislocation also afforded me the opportunity to invest an additional \$42 million in Alight to meet redemption requests from over-committed hedge funds in need of liquidity. Today, Alight is likely the most compelling risk-weighted value in our portfolio, and I was thrilled with the opportunity to increase our investment. As Chairman of the Board, I'm working closely with Alight's CEO, Stephan Scholl, to transform the company into a business process as a service enterprise. Which to investors means more products, higher margins, and more sticky, recurring revenues. Alight is mission critical to its customers and we believe once the investor community comes to see what I see in this business, significant multiple expansions will be in order.

I am also Chairman of Paysafe's board and continue to be impressed and excited with Phil McHugh's plans to drive growth and build scale as they strive to become the leading specialized payments platform globally. Today, Paysafe is in hundreds of markets focused on iGaming, financial services, travel, entertainment, and digital goods, which are all experiencing strong tailwinds as the global economy continues to recover.

The company is also well positioned as consumers continue to utilize new forms of digital payment methods, which is a growing and sustainable trend. The opportunity is for Paysafe to execute on their transformation plans, designed to accelerate growth and improve profitability, combined with opportunistic M&A. And we are working closely with the company and with Phillip McHugh on this and I'm pleased with the early success that we've achieved and more to follow in the near future on various acquisitions.

The iGaming sector is one area that I'm particularly excited about, with the given growing legalization of sports betting in the U.S., which is set to accelerate. That said, Paysafe is one of the companies most impacted by the recent broad-based index selling in the SPAC market and has been unduly punished as the inevitable shareholder rotation plays out. As the investor rotation subsides and they continue to deliver strong results, I expect Paysafe's stock to rebound.

Turning to Dun & Bradstreet, which remains our largest investment, I continue to be committed to working with the DNB management team to transform the business and accelerate growth, both organically and

through disciplined acquisitions. Importantly, DNB's second quarter results were in line with expectations and remain on track for the year as momentum is building across both segments. DNB is executing well on its international growth strategy, including the integration of Bisnode and in North America. They are experiencing continued strong retention in net new logos, coupled with new product initiatives, which taken together will drive additional revenue growth.

To supplement the building organic momentum, we will also be on the lookout for strong targets that can complement the existing DNB assets and drive further revenue acceleration. Anthony Jabbour has also brought in new senior leaders this past quarter, and I'm confident the business plans they have laid out will drive growth. The team and I are focused on executing and both know the mission and what is at stake for DNB's stock price and valuation.

During the second quarter, we monetized \$400 million of investments where we achieved significant gains. I would like to stress that risk management and portfolio balance are key aspects of our decision making at Cannae. I have also heard from many shareholders that our overweight position in D&B was a concern, and we agreed. We felt it prudent to reduce our DNB position as we strove to monetize that investment. We believe the continued strong investment returns, potential future acquisitions, and investments will continue to drive our growth in Cannae.

Thank you, now I'll turn the call over to Rick Massey and to Bryan Coy.

Richard N. Massey

Thanks, Bill. I have nothing to add. Thank you for all that and for your active involvement in all of our portfolio companies, very valuable ones.

And Bryan, this is your show.

Bryan Coy

Great, thank you.

Again, as Bill mentioned, we had a very active quarter. During this period of time, we had closed one de-SPAC. We had two additional deals, we had two monetization's and exited two of our smaller investments, and we have two more transactions in process on a smaller scale. But we accomplished quite a bit this quarter, and we're very proud of that.

I'd like to talk to a couple of those. First is the Austerlitz merger announcement with Wynn Interactive. We announced that on May 10, at our last call. The transaction itself has a pro forma enterprise value of \$3.2 billion and Cannae has subscribed to backstop the entire deal at \$690 million, and we recieved a placement fee for that of about \$3.5 million.

During the quarter, as Bill noted, we also had a couple of liquidations of part of our investments. In May, we sold 2 million shares of Ceridian at a price of \$87.50, which gave us gross proceeds of \$175 million. That's a return of more than 15 times our pre-IPO investment.

Also later in the quarter, as Bill noted, we liquidated 8.5 million shares of Dun & Bradstreet stock at a price of \$21.88. That's almost three times our pre-IPO return.

Lastly, I'd like to note that we heard from you on our share repurchase and we executed strategic purchases throughout the quarter for 2.73 million shares at an average price of \$35.33. That's nearly 3% of the outstanding shares prior to this.

Operator, would you like to start the question-and-answer period now?

Operator

Our first question comes from John Campbell from Stephens. Please go ahead, John.

James Hawley

Hi, thanks for taking my question. This is James Hawley, stepping in for John Campbell.

Richard N. Massey

Hi, James.

James Hawley

Hi, nice to talk to you again.

First thing I want to start out with here is that it's just kind of been perplexing seeing the discount to NAV persist like this. I just wanted to get your latest thoughts on maybe closing that gap and the ways you're thinking about inserting yourself to close it. And then, can you also loop in how you're thinking about buy-backs going forward, and how does that suit up on the pecking order?

William P. Foley, II

Rick, do you want to handle that?

Richard N. Massey

Sure. On the buy backs question, James.

You saw we were pretty aggressively after it. Regrettably, it didn't—maybe it will make a difference when you see the number. It's still, you know, it's one of the best if not the best investments with our capital now, but there are some other really attractive things out there, too.

We're as, as Bill said, we're risk managers and we're trying to weigh the relative risks. And what we don't want to do is to miss some of the opportunities that we have. Bill is working on various sources besides, you know, what, the sale of CDAY. That's really the only source of money that we have. And Bill is working on several, he's got some, as usual, great ideas on how to fix that liquidity issue in a prudent way. We want to chase everything that's out there and we want to buy back our stock, too.

James Hawley

Thanks. And then on...

Richard N. Massey

Let me close the gap. There's no—we either—eventually the gap is going to close as we monetize our investments. We've done the work, Duke has. We've looked at that, and the complexity of our holdings is not—isn't lost on us. And for people like you that have to follow other companies and it's a lot of work to understand this Company. It's a lot easier to just value cash, or publicly traded shares. That's what, you know, that's what we need to do to close the gap. You know, is it time for some of that? Probably. I think Bill is thinking of that. But we're not going to say. We can't say now. We can't say now what we're going to do, so.

James Hawley

All right, well thanks for the color on that. That's helpful.

And then, we've done some of the early work, too on System1 and we found it interesting, but I just wanted to hear your thoughts on what makes it such an attractive combo as well for Trebia.

William P. Foley, II

Yes, we like System1 and their management team quite a bit. There's a long, protracted negotiation with System1's management and negotiating with what they could sell down, what they couldn't sell down, buying out the financial sponsor that was involved with the company earlier. And so, we went from really trying to have a small PIPE to not having any PIPE at all. We were putting a little more leverage on the company, and so if there are redemptions, then Cannae will stand behind a portion of those redemptions and the company will stand the increased debt that we're putting on, potentially can put on the company. We'll stand behind some redemptions. Each of those gives us about \$200 million, and any redemptions above that will be funded by less stock purchase, less stock sales by management.

The company is performing very well. It was pro forma to do about \$120 million of EBITDA this year. They'll be releasing earnings shortly and they're well ahead of their plans. The S-4 should be filed some time in the next week, two weeks, and then so the conversion process becomes of course the responding to the SEC comments after 30 days, then another set of comments always come back. You figure there's about seven weeks from the date of filing to the date we become effective, and then we know there's the shareholders' vote. When you add all that up and put all that together, we're probably talking about a de-SPACing transaction in late October, early November this year.

And what that really does for the investor base that has invested in that SPAC or invested in Cannae, it allows 2021's performance to be very, very clear, and we're going to make very clear the accelerated performance for 2022. We're really happy with System1. And with the way the SPAC market is today, we're not that disappointed that we're slightly delayed in terms of closing the transaction, because it really gave us time to structure the transaction the way that for us made the most sense.

That's kind of System1, and they have a number of interesting acquisitions that are feet up for that company. And again, having liquidity and having a bank facility in place that we can execute on those transactions will all come to show the value of System1. I hope that helps.

James Hawley

Yes, definitely. Thank you for the time, guys. Appreciate it.

William P. Foley, II

Thank you.

Richard N. Massey

Bill, one of the questions—I'm sorry, please go ahead.

I was just going to repeat a question I got during your talk from one of our investors. And it was, what are your thoughts about how we're going to finance the commitments that we have in place now?

And I know you can't tip your hand. This is just an email I got.

William P. Foley, II

We do have credit facilities in place that will allow us to basically meet our commitments. And we're going to see how certain things play out before we fully engage in further sales of our securities, but you have to remember that we still do own about 67 - 68 million shares of Dun & Bradstreet. We own 12 million shares of Ceridian. The lockup period expires on Paysafe some time after August 20 for not only the shares but also the warrants. Those are all securities that could be—that we could liquidate some portion of our investment in those securities.

And then we have a number of other investments that are becoming more liquid. For example, the Bakers Square and Village Inn restaurant chains just closed, and we received the capital from that. The Legendary Baking, the pie business, is in the wind-down process, and there will be capital being recovered from that. Earlier this year we sold the Colt investment, and so that was a capital recovery. And so, we're continuing to really look at some of the assets we have, the ones that are not core, and we're closing of those.

And the ones that are core, we're working hard with the company management to get growth accelerated. In that case, I previously speak to Dun & Bradstreet, because all Dun & Bradstreet needs to do is get organic growth moving again, and they're working hard on it. They've got lots of products, lots of plans. It just takes time when you're kind of doing it yourself as opposed to buying something.

Richard N. Massey

Operator?

Operator

Yes, at this time there are no further questions. I will turn it back to Mr. Foley for closing remarks.

William P. Foley, II

That's great. To conclude, I'm very pleased with the progress that we have achieved growing our portfolio while also working with our management teams to transform their businesses as they strive to accelerate growth and improve profitability. While the markets have not yet recognized the value creation that has taken place, I am confident that they will. In the meantime, we'll continue to take advantage of the dislocation in the market. Thanks again for your time today.

Operator

This concludes today's conference call. Thank you for attending.