Fourth Quarter and Full Year 2021 Earnings Call Transcript

February 17, 2022

CORPORATE PARTICIPANTS

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Bill Foley, *Chairman*

Rick Massey, *Chief Executive Officer*

David Ducommun, *President*

Bryan Coy, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Kenneth Lee, *RBC Capital Markets*

John Campbell, *Stephens, Inc.*

Ian Zaffino, *Oppenheimer*

PRESENTATION

Operator

Good afternoon, ladies and gentlemen and welcome to the Cannae Holdings Incorporated Fourth Quarter and Full Year 2021 Financial Results Conference Call.

As a reminder this conference call is being recorded and a replay is available through 11:59 p.m. Eastern Time on February 24, 2022.

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

Jamie Lillis

Thank you, Operator, and all of you for joining us on the call today. On the call we have our Chairman, Bill Foley; 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, 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 Chairman, Bill Foley, who will open with a few brief remarks and then open the line for questions.

Bill Foley

Thanks Jamie.

Over the last year we exited several businesses and deployed nearly $1.5 billion to acquire interest in the Alight, Paysafe, Sightline. In early 2022, we closed the business combination between the SPAC, Trebia and System1. All these companies possess similar characteristics, a utility with large addressable markets, wide moats and transformation opportunities. We will act to partner with management teams to increase value through both organic, growth and strategic acquisitions. Our approach to active management can be seen in Dun & Bradstreet's results in Q4 where organic growth continued to accelerate to 4.8%. We are fortunate to increase our shares of D&B through the sale of our interest in Optimal Blue to Black Knight this week.

In exchange for our interest in Optimal Blue, Cannae received 20.2 million shares of D&B and now holds 88.3 million shares or approximately 20.5% of Dun & Bradstreet. Cannae also received $144.5 million in cash.

Given the steep discount to fair value, we have been aggressive with our share repurchase plan. Since May of 2021, we've repurchased 5.2 million shares or nearly 6% of our shares outstanding and have 9.1 million shares remaining on our authorization.

Looking forward, we will continue to emphasize stock buybacks and we'll put more focus on corporate carve outs and on private company (audio interference), investments in private companies like Sightline, where we can take a significant ownership, and partner with management to execute their transformation strategies.

I'm encouraged by the strength of our portfolio, and we will continue to work with our portfolio management teams to unlock the unique value that exists within those companies.

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

Operator

Thank you. Our first question is from Kenneth Lee of RBC Capital Markets. Please proceed with your question.

Kenneth Lee

Hi, thanks for taking my question. Just want to gauge your appetite for taking on debt or drawing on financing facilities for share repurchases. Thanks.

Bill Foley

Yes, thanks for the question, Ken. At the present time with our cash on hand, even after tax payments and so on, we have adequate cash on hand to continue our share repurchase program. We also do have about $300 million of undrawn lines of credit that we can take down to aid in share purchases.

So, our philosophy is if we can see—if we have a sightline to another monetization event occurring in the future, then we don't mind borrowing to continue stock buybacks. And frankly, with our stock price at the current level we're buying shares for what we believe to be about 55% or 60% of intrinsic value. So, we're committed to the stock buyback program. And we're going to—as I said in our (audio interference) I don't care if we buy back every share (audio interference) the shares I own. At least, that's my goal. I'll end up with owning (audio interference)

Rick Massey

You will be the sole owner.

Bill Foley

I'll be the sole owner of a (audio interference).

Kenneth Lee

Very helpful there. Very helpful. Thanks again. And one follow-up if I may. I know that Cannae has tended to hold its investments for a longer-term holding period. But just want to see how you think about the investment portfolio as a potential source of liquidity over the near term. Thanks.

Bill Foley

Well, yes, we do see some of these assets that we've been acquiring over the last 12 months as a (audio interference) liquidity event. Again, we're trying to balance what we believe the future prospects are for that particular company and not be the (audio interference) that sell too early. Unfortunately, we’re being whipsawed by the market right now, but we've sort of—we sort of executed on that philosophy with our Ceridian investment, where we've been pairing that back fairly steadily over the last 12 months. And now we're at the point we have about eight million shares still within our portfolio.

We are locked up on a couple of investments, Alight we were unlocked in at the end of February and at the end of March, and we have a large number of shares in Alight (audio interference) million. We are locked up on our (audio interference) investment other than a small portion of it until I believe sometime in July, it's a six-month lockup from the from the time we de-SPAC.

But we're going to be looking to some of these investments to pair them back and again, raise additional capital and that capital will then be redeployed either in the form of share repurchases or investments in other companies. And we have a number of different, interesting ideas that we're following up on, including for both of the remaining two SPACs that we have in hand where we have cash and trust. So, does that help you?

Kenneth Lee

It does. It definitely does. Thank you very much.

Rick Massey

Good questions, Ken.

Operator

Our next question is from John Campbell of Stevens. Please proceed with your question.

John Campbell

Hey guys. Good afternoon.

Rick Massey

Hey John.

Bill Foley

Hi John.

John Campbell

Hey, so I've been bouncing around a couple earnings calls this afternoon, so I haven't had a chance to fully get to the shareholder letter. But last quarter you guys called out a couple of lingering items as far as like proceeds from sales and some of the other monetization events, it feels like kind of smaller stuff, but it looks like you guys did outline most of that in the shareholder letter. But just to keep it simple, if you guys can maybe talk to what you're kind of expecting as far as gross cash proceeds this quarter and including, I guess, the recent Optimal Blue announcement, which was a good deal for you guys.

And then as we think about kind of net/net out if you guys can talk about expected cash outlays this quarter.

Bill Foley

Yes, cash outlays are really primarily going to be for stock buybacks as opposed to—we don't have any current investments on the horizon that are going to be within this next 60, to 90, 120 days. Really the proceeds from the quarter, other than miscellaneous, small amounts that come in from various investments that we get distributions on, were really the $144.5 million we received in connection with the Optimal Blue sale. And so that's a pretty simple quarter, really, it's Optimal Blue out and Optimal Blue in.

Rick Massey

Stock buybacks.

Bill Foley

And stock buybacks out.

John Campbell

Okay. That makes sense. And then we've been following Sightline the last couple months and that seems like a really attractive investment for you guys. We're excited to see kind of what unfolds there. But outside of what you guys provided in the shareholder letter, just, could you maybe talk to us about where those guys are in their funding journey? And then how you're thinking about recognizing that value over time?

Bill Foley

Yes. So, they pretty much have adequate funding to do everything they need for really the next couple of years. And they were EBITDA negative in 2021. Their budget is (audio interference) EBITDA negative about $8 million in 2022, but we believe we can cross that negativity to positivity sometime just after midyear, August/September timeframe. There's been certain changes in regulation so that now you can sign up for their app off-site. You don't have to be in the casino to actually sign up for their cashless app. And (audio interference) believe that's going to add to significant growth this year.

So last year, I think they ended with about $46 million or $47 million of revenue. It's not going to be 100% growth this year, but it's going to be close to it. And then next year, in 2023, we're expecting another significant growth year. So, we're thinking sometime in late 2023, early 2024, this company is going to be ready for some sort of IPO transaction, and that would be a monetization event for us. That's sort of our target timeframe on Sightline.

Rick, do you have anything to add on Sightline?

Rick Massey

Right on the button. It's all good. It's growing really nicely, great management. You met him, I think, probably at the—well, you weren't at our conference, but I know a lot of people did, I think Ken did. I think Oppenheimer did. Really, really sharp guy, and he will make a great public company CEO.

John Campbell

Yes. That's all great to hear. Last one for me. Just on D&B, I mean you're not necessarily doubling down on it, but I mean you're accepting some D&B shares with the Optimal Blue transaction. I mean that's a vote of confidence for sure. You got Jabbour now who's the sole CEO there, so you're putting more resources there. I'm just curious if you could maybe talk, just remind us again what do you guys view as the long-term opportunity about D&B, why you're so excited about it over time?

Bill Foley

Well, D&B was a mismanaged company for 20 years, and we've now been involved with it since February of ‘19. The first 1.5 years was really about bringing synergies out of the business and getting the company back to a baseline. As you recall, we replaced, I think, 17 out of 18 managers in that first 15- or 16-month timeframe. We then now have really formulated our management team. And I was just elected Executive Chairman of the Board. Anthony Jabbour has become Executive Chairman of Black Knight.

So, he's in a position to spend more time at Dun & Bradstreet. And that's really—that's going to be one—a good part of his daily workload is Dun & Bradstreet. And the goal with Dun & Bradstreet are (audio interference) products, innovation, be disruptive and develop new products. And Dun & Bradstreet developed about (audio interference) new products (audio interference) that have now gone into their sales pipeline. They've made a couple of tuck-in acquisitions, and we're going to continue growing D&B organically and inorganically.

And we believe, I believe, the future is bright for Dun & Bradstreet. Otherwise, we wouldn't have taken 75% of the proceeds from the sale of Optimal Blue and common stock. And I like our position at this point because we took stock in, we're locked up for six months. But we don't have plans to liquidate Dun & Bradstreet. We really like the investment, like the prospects. We can see the change from the inside, internally what's going on with regard to the way we attack the marketplace and our penetration. And we have so many great prospects that I'm really enthusiastic about Dun & Bradstreet, without getting into really non-public information.

John Campbell

That's good insight. Thanks, Bill.

Operator

Our next question is from Ian Zaffino of Oppenheimer. Please proceed with your question.

Ian Zaffino

Great. Thank you very much. Hey, Bill, can you just maybe walk us through a little bit about Optimal Blue. What sort of transpired there to (audio interference)? How did you agree upon the price? And maybe talk multiples, if you can, (audio interference), but maybe your initial multiple to (audio interference) 18 months ago and then sort of the exit (audio interference) as well? Thanks.

Bill Foley

Also, what I did, because I was a—I'm no longer on the Black Knight Board, but I am on the Optimal Blue Board. I really turned the handling of the negotiation relative to the disposition of Optimal Blue to Black Knight. I left it with THL as a financial sponsor to negotiate the transaction because I felt it did get us the best value. And I would not (audio interference). I would be in a conflict situation. And we were always kind of revolving around this 2x of our investment during all the discussions. And specifically on the multiple, do you recall what it was (audio interference)

Male Speaker

It was (audio interference), and we got about 30 times (audio interference)

Bill Foley

So, it was the same multiple. But of course, Optimal Blue had grown from, I don't know, an EBITDA double in that 18-month period. And the other thing that attracted me to the sale transaction was we were a minority. We're a 20% owner of a non-public subsidiary of Black Knight. And I felt if we could convert that ownership—that private ownership interest in a controlled subsidiary of a public company, receive cash and stock in a public entity, I have improved my monetization prospects, and which is exactly what we did.

So, we made 2x, did it in about 18 months and we're now no longer (audio interference) of a minority interest in a private company that's owned by a public company, rather we have additional ownership interest in a public entity, Dun & Bradstreet, and received cash, which we can redeploy and repurchase shares with. We can pay our taxes on all the gains that we have, which are pretty significant, and we can also redeploy part of that cash on other investments. So that's the whole rationale.

Rick Massey

I would just say one thing, Ian. Bill started this process back in September, October, something like that. Yes, we're (audio interference) back then. Bill saw that Optimal Blue is heavy loaded, very sensitive to 30-year fixed mortgage rates. And during the course of all this, you can see over the past few months, I think that 30-year mortgage rate today is probably 30 bps above where it was when you started the negotiation. And so, Bill (audio interference), he came in my office and said he was happy to (audio interference) at this time because the originations were going to (audio interference)

Ian Zaffino

Okay. Good. Hey Bill, another thing that you said that kind of piqued my curiosity was this corporate carve-out. I don't think you've mentioned that before. Can you maybe give us an example or something as far as like what you're thinking as it relates to that? Would it be purchase through a SPAC? Would this be (audio interference)? How exactly (audio interference), kind of what the (audio interference)?

Bill Foley

Yes. Ian, both approaches. For our big SPAC and our smaller SPAC, we're looking at different corporate carve-out opportunities whereby the corporation or the company we're dealing with, generally speaking is a public company, so it's not a company that's (audio interference) by private equity. What we found with the private equity ownership, when you do a SPAC transaction or invest in that company, you've got a stock (audio interference) that's facing you in the future.

And that's what's true with Alight. It's not so much true with System1 because we are a partner management, and it's true with Paysafe. So, we've tried to move away from partnering with private equity and in some of our investments that we're looking at but rather look at entities or corporations that may have some stranded or step-child subsidiaries that aren't really appropriate for that particular company, to acquire those businesses either in total or in partnership with the current ownership.

And it's my experience with CEOs, if you're a CEO of a public company, you like your empire, and you really don't like to sell a piece of your empire. But if we can go to some of these corporations, and we have several in mind and propose to them a carve-out of some of their assets but they retain ownership, maybe even majority control, then the CEO's empire is in place, but we've got an excellent investment opportunity. So that's really kind of our mindset now. And as I said, we still have two SPACs that we'd like to deploy.

But we're going to be very careful. The redemptions are high. We're not going to get in the position of (audio interference)—doing significant backstops of these transactions. We're not going to raise (audio interference) and if it happens that these SPAC transactions can't come to a good conclusion with a good investment that we're happy with and we believe our shareholder base will be happy with then, we'll give the money back to our investors. We're not afraid to do that. We'd rather not. But if that's the best outcome, that's what we'll do.

Ian Zaffino

Okay. Thanks. And then just one final question, maybe we'll get Bryan involved in the mix here because I think he's been quiet so far. Can you give us an update on the NAV? And I know you have it on December 31, but there's obviously been movement as it relates to Optimal Blue, and that might be it. But do you have maybe (audio interference)

Bryan Coy

Sure, Ian. There should be one (audio interference) as of today. If it's not out there right now, it should be out there shortly. But in summary, the fair value net of fees and taxes right now comes out to $41.27 a share, which is about a 45% upside to today's closing price.

Ian Zaffino

Okay. Great. Thank you very much. Take care guys. Thank you.

Bill Foley

Thank you.

Rick Massey

Thanks Ian.

Operator

We have reached the end of the question-and-answer session. I will now turn the call back over to Mr. Foley for closing remarks.

Bill Foley

Thank you, Operator. We're excited with the opportunities in our pipeline for the year ahead as we navigate this dynamic and difficult market. We will remain nimble and adapt our approach to the opportunities that we see in the market as we strive to create long-term shareholder value. We look forward to speaking with you again on our first quarter 2022 earnings call. Thanks again for your time today.

Operator

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation, and have a great day.