



CANNAE
HOLDINGS, INC.

Second Quarter 2020 Earnings Call Transcript

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

William P. Foley, Chairman

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

Bryan Coy, *Chief Financial Officer*

David Ducommun, *Executive Vice President Corporate Finance*

Shannon Devine, *Investor Relations*

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

John Campbell, *Stephens*

David Eller, *Wells Fargo*

Carter Trent, *Stephens*

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

Operator

Good morning ladies and gentlemen, and welcome to the Cannae Holdings Second Quarter 2020 Earnings Conference Call. During today's presentation, all parties will be in a listen-only mode. Following the presentation, the conference will be opened for questions with instructions to follow at that time.

As a reminder, this conference call is being recorded. I would now like to turn the call over to Shannon Devine, Investor Relations for Cannae Holdings. Please go ahead.

Shannon Devine

Thank you operator and good morning everyone. We appreciate your participation in our Second Quarter 2020 Earnings Conference Call. Joining me today are Cannae's Chairman, Bill Foley, Chief Executive Officer, Rick Massey, Executive Vice President, Corporate Finance, David Ducommun, and Chief Financial Officer, Bryan Coy. As a reminder, a replay of this call will be available through 11:59 pm (Eastern Time) on August 14, 2020.

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 our 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.

We undertake 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 press release which was released this morning 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.

Let me now turn the call over to Bill.

Bill Foley

Thank you Shannon.

Through the second quarter, we continued to monetize investments, nurture our portfolio companies, make new investments, and prospect for future investment opportunities. Over my career, I have endured many challenging environments, all of which have helped shape my investment philosophy. Despite a more uncertain economic outlook, our strategy is unchanged. As a result, Cannae was built with a fortress like balance sheet to weather the storm and take advantage of market dislocation.

Over the last few months, we have seen our deal pipeline expand and are very pleased with the new investment opportunities that we have both been presented and sourced. Given this backdrop, we have made real progress deploying our capital into attractive investments that we believe will grow the franchise value of Cannae.

Our primary accomplishment in the second quarter was the initial public offering of Dun & Bradstreet, or D&B, where they listed their shares on the New York Stock Exchange on June 30th at a price of \$22.00 per share, having raised \$2.4 billion in net proceeds. Cannae invested \$200 million in a concurrent private placement at a share price of \$21.67 and currently owns approximately 18% of D&B. Cannae's ownership position is valued at \$1.95 billion given D&B's closing price of \$25.50 on July 31st, 2020. We look forward to continue supporting D&B's strategic transformation and growth.

To capitalize on the many larger investment opportunities that we see, Cannae entered into a forward purchase agreement with Foley Trasimene Acquisition Corp., or FTAC, in which Cannae has a 20% share of the promote. As an anchor investor and founding member of the Sponsor group, we look forward to working with our partners at THL to identify prospective target businesses within the industries of financial technology or business process outsourcing. We are actively evaluating targets for this capital pool and will update you once we have a definitive agreement with a target.

In addition to Cannae's investment in FTAC, Cannae entered into a forward purchase agreement with Trebia Acquisition Corp. or Trebia, in which Cannae is an anchor investor with 15% economic interest and a founding member of the Sponsor Group. Again, we look forward to working with Frank Martire and the team, lending our experience with this transaction.

Most recently, earlier this week, on August 3rd, Cannae entered into a forward purchase agreement with Foley Trasimene Acquisition Corp. 2, for \$150 million on similar terms to the Trebia.

Subsequent to quarter end, Black Knight announced its definitive equity purchase agreement to acquire Optimal Blue, a leading provider of secondary market solutions and actionable data services, for an enterprise value of \$1.8 billion. Black Knight will combine its Compass Analytics business with Optimal Blue, a newly formed entity, in which Cannae will own approximately 20%, for an equity contribution of \$290 million.

Lastly, Cannae disclosed an ownership interest in partnership with Senator Investment Group, LP of approximately 12 million shares and economic equivalents in CoreLogic during the second quarter. On June 26th, Cannae along with Senator Investment Group submitted an unsolicited proposal to acquire CoreLogic for \$65.00 per share, a 37% premium to the unaffected share price, after spending nearly a year performing extensive "outside in" due diligence. There are no material uncertainties in our proposal, including financial or regulatory. We are disappointed CoreLogic has declined our proposal. Subsequent to quarter end, on July 29th, we announced the initiative and process to call a special meeting of

shareholders in order to elect nine independent and highly accomplished directors to the CoreLogic Board of Directors. Unfortunately, given where we are in the process, I am unable to provide any further updates at this time or answer questions regarding this matter.

To finance these investments and further rebalance our portfolio, we sold 3.7 million Ceridian shares at a price of \$64.40 per share. This resulted in gross proceeds of \$238.3 million and we recorded a gain of \$53 million. As of July 31, 2020, Cannae owns 16.1 million shares of Ceridian stock worth \$1.3 billion.

We also completed a successful secondary offering of approximately 12.65 million primary shares of Cannae stock in which we raised net proceeds of \$455 million. This offering helped us broaden our institutional shareholder base, provide capital to fund future transactions and reintroduced the Cannae story to the investment community.

To conclude, we have made significant progress expanding our portfolio of investments which we believe positions Cannae for continued value creation and outperformance. We are well positioned to deploy our capital as potential deals arise and remain very optimistic for our future.

Before I turn the call over to Bryan Coy, our new Chief Financial Officer, I first want to thank Rick Cox for his service to Cannae. Rick resigned from the Company two weeks ago and we are excited to have Bryan join our team. I have gotten to know Bryan very well over the course of the last few years as he is the CFO for Black Knight Sports and Entertainment – the Vegas Golden Knights and I look forward to working with him in his role at Cannae. With that, I will now turn the call over to Bryan to provide a brief overview of our financial results.

Bryan Coy

Thanks Bill. I am looking forward to working with you and the team here at Cannae.

Turning to our results for the quarter, the major items of note were similar to the preceding quarter: mark-to-market gains on our investments and equity in the earnings or losses of our affiliates. Cannae recorded \$471 million of fair market value gains on Ceridian stock along with \$53 million of realized gains on the on shares sold during the quarter, complimenting \$42 million of unrealized gains on our investment in Core Logic stock.

From our unconsolidated affiliates, Cannae recorded a \$56 million loss from Dun and Bradstreet and a \$138 million gain on its investment in the Equity Fund, offset by smaller items for a net \$58 million in earnings.

On a liquidity front, we entered the second quarter with \$399 million in cash. As Bill noted above, Cannae created liquidity by selling \$238 million of Ceridian shares ahead of a \$455 million equity offering of its own, offset mainly by an additional \$100 million investment in the Equity fund.

That provided Cannae with nearly \$1 billion in corporate cash and short-term investments at quarter close, as well as \$100 million of undrawn capacity under the FNF Revolver. Of that amount, a total of \$225 million was committed during the quarter to FTAC and Trebia, and in early July, \$200 million was deployed via the DNB private placement. Bill discussed, subsequent to quarter end, our \$290 million forward purchase investment, partnering with Black Knight and THL partners to acquire Optimal Blue and a forward purchase agreement with FTAC 2 for \$150 million.

During the quarter we repurchased over 123,000 shares at an average price of \$29.37. On June 30, 2020, Cannae's book value was \$3.1 billion or \$34.00 per share as compared to \$1.5 billion or \$18.72 per share on December 31, 2019.

Now, let me turn the call over to Duke who will touch upon our pipeline and potential investment opportunities.

David Ducommun

Thank you Bryan.

As evident in our second quarter performance, the Cannae team has kept busy, in addition to the transactions we have announced publically we have been busy behind the scenes looking for our next deal. We have screened hundreds of potential transactions both public and private and met with CEO's, private equity owners and large public institutional shareholders. We believe this is a great time to deploy capital as current owners are, in general, marginally more willing to transact as their long term outlook is increasingly more uncertain and their strategy and, in some cases, leadership needs to change. We are buyers of long term value, we have no maximum holding period for an asset. Our outlook coupled with Bill's operational expertise and deal structuring creativity is a one of a kind asset for Cannae. I should also add we can act quickly when needed, we are not a bureaucratic organization and Bill has robust bench of managers and industry experts all of whom help us be decisive quickly on transactions. We believe this makes us a preferred counterparty for sellers and businesses in need of capital.

Our focus for new investments will be primarily in industries related to payments, data and analytics, and fintech, with enterprise values from \$1 to \$10 billion. Our equity checks have generally been in the \$100 million to \$500 million range, but as you've seen through the various other SPAC's and JV partnership's we've sponsored our economic firepower far outstrips our existing liquidity. It is important to us that our targets, have defensible market positions and the ability to benefit from leadership and the capital Bill brings to the table. We will be back to update you as soon as we have a definitive agreement with a target to announce.

I'll now turn the call back over to Grant, our operator, to begin our question-and-answer session.

Operator

Our first question will come from John Campbell with Stephens.

John Campbell:

Bryan, congrats on the new role, looking forward to working with you. You guys must have a pot of coffee brewing 24/7 at offices. It's been a really, really busy last couple of months for you guys, but I just wanted to get your latest thoughts on a couple of the moving parts. And if we could just maybe start with Optimal Blue, I'm sure we're going to hear a lot from Black Knight next week. But how do you see Optimal Blue just kind of transforming the Black Knight model and then the value proposition? And then any thoughts value proposition? And on the kind of ICE and Ellie Mae combo that was announced last night?

Bill Foley

Sure. Duke, why don't you take the Optimal Blue piece?

David Ducommun

Yes. So we think this is a transformative deal for Black Knight. Optimal Blue has the industry-leading set of what they call PPE tools, product pricing engine tools for mortgages. So as you know, Black Knight has a dominant position in mortgage processing. We think they have a very defensible-moat and this is a high-growth product that we think they can bolt-on to their existing offering and frankly, accelerate the growth of that business even faster than -- and it's been growing on its own. So we think it's a high-quality asset, and we're excited to see what A.J. and the team do with it. We honestly couldn't be more supportive. But I'll let them kind of defer to their specific operating plans for the business. We're the equity investor here. But we obviously love the asset, and we think it does a lot to accelerate growth for Black Knight.

Bill Foley

And on the ICE and Ellie Mae piece, both Ellie Mae and ICE were involved in the Optimal Blue mini auction. We basically preempted the stage and made a firm proposal of \$1.8 billion. So the seller gave Black Knight exclusivity. So I think you could say that the reaction by ICE and by Ellie were probably in part due to the fact they were not able to acquire Optimal Blue. And I'm sure that Ellie will be a very nice asset for ICE. I mean they're a major competitor. They're a well-run company, and they've now taken another player basically out of the marketplace and combine it with themselves. So congratulations to ICE.

John Campbell

Yes, that makes sense. I couldn't agree more. How should we be thinking about the various packs and kind of how they play into Optimum Blue and then maybe in CoreLogic? Or is there a pretty big pipeline beyond those two?

Bill Foley

There is a big pipeline. And we're kind of -- as you said, we're brewing coffee all the time because we're looking at so many different transactions kind of all at once. And what I'd like to think about is in terms of developing a vaccine. Phase I for us was the launch of Trasimene 1 in late May. Through the July 4th weekend, we were really screening and investigating various companies and trying to understand how a company might fit within our philosophy, management needed, what their growth prospects were. And then I'd say we culled down about 100 companies plus, down to about 10 companies. And we began Phase II, which was really dealing with the bankers of the various companies that were of interest. Then we always went to the bankers that have presented the company to us in terms of a deck of companies, which is what most of them do. And we went to the bankers. We tried to deal with the sponsor representative at the particular bank to learn more about the core meaning or the core values of the particular transaction that we were looking at. Then I would say we started Phase III -- our Phase III trials were really in late July. And that Phase III means we started talking to management at the various target companies and evaluating management, evaluating their core business principles, their core offerings. And again, culling the herd down and then expanding the herd because there'd be others oftentimes that something pops up, and we accelerate a Phase I review and get into Phase II and then Phase III. So at this point, just Phase II and then Phase III. We've just probably talked to 5 different management teams, all of which are very interesting to us. We've got a couple of different companies that we're extremely interested in and that we're trying to pursue to see if a transaction can be developed with those companies. And now we have the advantage of assuming the markets, and I never want to assume anything. If the market stays with us for another 1.5 weeks or so, then we'll have a second SPAC, which will be even larger, and it gives us the ability to really expand our search process again and look for large targets. And all of these that we have normally, if they find something that's interesting, it just won't be for the amount raised in the SPAC. It will include a PIPE so we can reward our SPAC investors with a non-promote piece of the business. And plus, we have a number of sponsors who are very interested in investing with us. So we really feel like we don't have a top limit on what we can look at and what we can seriously consider and I would expect us to make a couple of major acquisitions and closing them on or about year-end. So that's kind of the -- that's the SPAC opportunity. And additionally, we continue to have Cannae be a partner to both Black Knight and Dun & Bradstreet when they find different companies that they feel are interesting to them, that would be core to their expansion of their business. Then Cannae stands ready to make the kind of investment we did with Optimal Blue, sub-\$500 million. So that's kind of our philosophy. Cannae is like a sub-\$500 million investor, Trebia is probably \$1 billion investor and Trasimene 1 and 2 could be up to \$4 billion, \$5 billion, under our philosophy. So we have \$8 billion, \$10 billion of investment opportunities. So long answer, but I hope I covered everything.

John Campbell

No, that was very good. It's amazing, all this kind of started from a single small little title company. Last one for me. You guys closed the quarter at almost \$1 billion in cash. Obviously, there's kind of a flurry of events here post quarter. You're either, I guess, deploying or set to deploy about \$640 million, and then that leaves you, I guess, with about \$325 million in cash post August. Does that sound about right? Or am I missing anything in that math?

Bill Foley

I think that's right. Is that sound right to you, Bryan?

Bryan Coy

That sounds actually a little bit high with the last SPAC -- you might not be counting the last SPAC in there, the \$150 million for FTAC 2.

John Campbell

Okay. Got it. That's helpful.

Bill Foley

Of course, those forward purchase agreements are deployed when there's actually an acquisition. So there's not a pending disbursement.

Operator

Our next question will come from David Eller with Wells Fargo, please proceed with your question.

David Eller

I think you've kind of answered some of my questions in part, but I can -- I guess, I'll ask them maybe a little different way. But maybe can you start off, can you just talk about your plans for your Dun & Bradstreet stake? I think you mentioned the \$1.9 Bradstreet stake? What are your plans for that following the IPO?

Bill Foley

Well, we're locked up for 6 months. And the end game in Dunn & Bradstreet has not yet been told. Dun & Bradstreet is now in its own acquisition mode. And because of the size of the offering, we were able to accomplish, Dun & Bradstreet has \$0.5 billion or so in cash available and can make some very accretive transaction. So we feel the Dun & Bradstreet story is just unfolding. And we don't have any plans to dispose of any of the Dun & Bradstreet shares. We really feel like there's going to be a lot of value created and done in Brad Street over the next 18 months. And after that time over the next 18 months, we would probably then start looking at a slow disbursement of shares over a long period of time. Just as we've done with Ceridian, where we started with about 39 million shares that we owned. And over the last few years, that share count has dropped down to about 16.1 million. What I don't want to do is -- unless there's a serious need for a very large amount of capital, I don't want to leave the party too soon, and that's the way I feel about Ceridian. And I certainly feel that way about Dun & Bradstreet, it's probably in the first or second inning of its turnaround in my view.

David Eller

Got it. And you kind of touched on my second question. You think about Dun & Bradstreet after the IPO, they put a lot of cash on the balance sheet. But they still do have a good bit of debt. So you talked about, I think in the past, there've been a lot of interesting M&A opportunities, but the leverage was kind of a constraining factor there. So can you talk about just expectations there for how to allocate capital with that excess cash?

Bill Foley

Yes. We don't have plans to -- we're locked into our senior secured notes and unsecured notes until, I believe, February of 2022. So we were able to claw back 40% of that on the IPO -- of those 2 debt instruments. And of course, we prepaid the preferred. It's expensive, but we need to get this balance sheet in much better shape. So I don't see us paying down the unsecured or secured until February of 2022. So I see Dun & Bradstreet making tuck-in acquisitions and looking very seriously at the international market. As you may recall, Dun & Bradstreet was a significant international player across the world. And over time, they sold many of those businesses, frankly, to create a short-term gain, so they can meet numbers, but they really mortgaged their future. So we're very active in looking at international partners that may be ready to sell back to Dun & Bradstreet. So we're very active in looking at international Dun & Bradstreet. So that's going to be a major focus of our acquisition strategy plus tuck-ins. Because Dun & Bradstreet needs to have more products, needs to develop products. And if we can't develop products, small tuck-in acquisition of a product that fits within their core offerings, then that's the way done in Dun & Bradstreet, we'll really accelerate its growth and get some quarter-over-quarter serious revenue growth. So that's really the Dun & Bradstreet philosophy at this point. And a lot more will be revealed over the next two or three quarters as we move down that path.

David Eller

Got it. And then last question for me, Optimal Blue. Can you talk about the funding structure there, provide a little more detail? Will Black Knight raise debt themselves? Or will that be raised in a separate box? Or how do you expect that to be funded?

Bill Foley

There will be debt associated with Optimal Blue, about \$500 million. That debt will be raised by subsidiary of Black Knight and mirrored to Optimal Blue at a premium interest rate. So Black Knight will raise money at X, and we'll fund the transaction at X plus Y. And then THL and ourselves are 20% owners. We're minority owners funding the transaction at X plus Y. And then in a subsidiary of Black Knight and Black Knight will own 60%. So that's kind of the way we put together the structure. It -- largely, it would have been great to have done if Black Knight could have acquired the company itself, but we're trying to keep Black Knight at 3.9 debt-to-cap with a way to see it down to the high 2s pretty quickly. So that's really the reason for the structure.

Operator

Our next question will come from Carter Trent with Stephens.

Carter Trent

I just got one quick question. In the press release, I always look at the cost of invested capital section, And noticed the equity fund was booking out separately from CoreLogic. Just to confirm, is the equity fund separate from CoreLogic? Are they making their own investments in other companies?

Bill Foley

Bryan?

Bryan Coy

No. The equity fund is invested in CoreLogic.

Operator

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

Bill Foley

Thank you for your time today. To conclude, we are very pleased with our second quarter results. We remain optimistic that the current market environment will continue to offer attractive opportunities for our team. Cannae continues to vet potential investments that arise as we work to expand our portfolio and deliver long term value to our shareholders. Please continue to stay safe and healthy, and thank you for your time today.