CANNAE
HOLDINGS, INC.

First Quarter 2023
Earnings Call Transcript

May 9, 2023

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

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Ryan Caswell, *President*

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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

Ian Zaffino, *Oppenheimer*

John Campbell, *Stephens, Inc.*

Chris Sakai, *Singular Research*

Kenneth Lee, *RBC Capital Markets*

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

Operator

Good afternoon, ladies and gentlemen, and welcome to the Cannae Holdings, Inc. First Quarter 2023 Financial Results Conference Call.

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

As a reminder, this conference call is being recorded as well as a replay is available through 11:59 PM Eastern Time on May 16, 2023.

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

Rory Rumore

Thank you, Operator, and all of you for joining us this afternoon. On the call today we have our Chief Executive Officer, Rick Massey; Cannae's President, Ryan Caswell, 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 Cannae's Chief Executive Officer, Rick Massey, who will open with a few brief remarks and then open the line for your questions.

Rick Massey

Thanks, Rory. It's Rick Massey. Thank you all for joining the call. I'll try to be brief but I'm going to stand on the soapbox here for a second.

Everybody on these calls have listened to a lot of earnings calls, and we've heard a lot of management prognostications on the market and the economy. We're not dumb enough to get out and start making guesses about where the economy is headed. I'll say, talking to the CEOs of the companies that we deal with, there's a lot of uncertainty out there.

What we are convinced of is that our portfolio is grossly undervalued, and I'm going to go through just a few examples. Of companies that have recently reported, our largest holding is Dun & Bradstreet. We've got 79 and change million shares. It's trading at a very low multiple of EV to EBITDA. They reported overall organic growth of 3%. That may or may not disappoint you, but if you look at their peers, you'll see that there are two U.S. peers in the consumer credit business. Of the closest peers to Dun & Bradstreet, one of them had revenue growth at 2% and one had revenue shrinkage of 4.5%. Yet those two companies trade at almost twice the EBITDA multiple of Dun & Bradstreet. We're a little clueless about that, as Dun & Bradstreet does not have that much more debt than some of its peers, it has a better margin, and it has better growth than its peers have shown. What you'll see, if you look under the cover on Dun & Bradstreet, is that Anthony and the team there have done an incredible job of turning around their marketing services divisions by using essentially a data management platform where customers can use their own data, third-party data and Dun & Bradstreet data to perfect their account-based marketing. It's growing like gangbusters.

Hoovers had a 60% churn rate. That is a 40% customer retention rate just a few years ago, when they set about to fix Hoover's. It has a retention right now in the 80s. So stunning turnaround for Dun & Bradstreet, and yet they're selling it off. It's really disappointing to us, and we wish that more attention was paid to Dun & Bradstreet because they've done a really nice job under the covers fixing a very broken company; they got it back to growth which is faster than peers. And yet they've not been rewarded for that, Peers trade at twice the multiple.

Alight reported today 15% revenue growth in the first quarter. Their BPaaS, which is sort of their enterprise multi-application offering, sales were up 50%. Their bookings were a little soft, but that's because they have had all these jumbo contracts that they've signed and are now in execution mode like Exxon and GE and others.

ADP, the closest comp to Alight, grew at 9%. Alight, one of my favorites in the whole universe of stocks, was at 15%, and yet Alight's trading at about half the multiple of ADP. We know that the market was disappointed that Stephan and the team at Alight didn't upgrade their forecast for 2023.

I would just ask all of you and those investors to listen to a number of calls that have been made in the first quarter and see how many companies who beat their guidance actually came out and raised guidance for 2023. In my own anecdotal experience, it's a very low percentage because of the uncertainty in the markets out there. And who can blame Stephan and Katie for not sticking their necks out and forecasting—increasing growth in a choppy sort of economy.

Turning to CDAY, they beat the market substantially in terms of its guidance, and the stocks down 15% since their earnings call. It's trading in the mid 50's now. In our last sale, we sold a million shares at $78, and that was a good trade. We probably would sell another million at $78 if it ever gets back there. But at $55 it's dumb, it's just a really dumb price.

Paysafe turned in high-single-digits revenue growth and flat EBITDA growth, which is pretty amazing given the mess that Bruce and the team inherited. The stock's up a little bit, but this is a business that did $420 million of EBITDA in 2022 and on track to do even better than that in 2023. So it's kind of been thrown out with the bathwater, too.

So, this quarter, we're looking at a lot of things. But we are not sure it's timely given all the noise in the capital markets, especially the debt capital markets and all the uncertainty in the economy on the back half of the year. So, don't be surprised if we don't strike at something in the second quarter and don't be surprised if we do. We did not buy back any shares in the first quarter and it's principally because we don't have a lot of extra capital to do so. And in order to raise that capital, we're going to have to sell one of those aforementioned holdings at a very disappointing price. It doesn't make sense to sell Dun & Bradstreet at $10 when it's worth $15; the math doesn't work. Some of our investors may be disappointed that we didn't buy back any shares, but we think it's just prudent portfolio management.

Ryan Caswell is our President. He's been busy with Black Knight. I know there may be some questions about that. Where we're sitting, how's Bournemouth doing and are they out of the dead zone? What's your view?

Ryan Caswell

I think we talked about last time we spent some money in the transfer window. And the team has performed much better. So it looks like we are very close if not out of the relegation zone, which is a great outcome. And we're doing a lot on the business side from a commercial perspective in terms of increasing sponsorships thinking about optimizing ticketing revenue. And so we're very pleased with the football performance to hopefully stay up in the Premier League which will allow all of the other stuff in the multi-club strategy to perform much better.

Rick Massey

We think we got a steal on Bournemouth. Bill and Ryan wormed their way into the process and got a deal. We paid 0.8x revenues. The comps are now at least double what they were at the time, maybe five times. You're seeing people pay five times for small EPL teams. So that's going to turn out to be a really good win for us. And we're excited about it.

Coy, our CFO is here with us. Unless you have anything to report, we'll just go to questions.

Bryan Coy

No. Let’s go to questions. Operator?

Operator

Thank you.

The first question comes with Ian Zaffino with Oppenheimer. Please go ahead.

Ian Zaffino

Thanks for all the commentary, this is helpful. And so just to throw that out there, I'm going to press you a little bit on this. You basically almost have 100% upside if you buy back your stock, right? And so I mean, my argument is bird in the hand, if you buy back your stock versus, one two in the bush. So help us understand this, right, because if I'm sitting here, I would rather buy back something that's worth half the price right now as opposed to sitting and waiting, kind of like what your prepared remarks indicate. So just square that and push you a little bit on your thinking there. Thanks.

Rick Massey

I think the underlying assumption is that we are buying back at a 50% discount to book value. It's not clear that buybacks have any effect on market value. And I'll say we ran a grand experiment in 2022. We bought back 12% or 15% of our Company, and the stock actually declined.

Yes if you buy our stock at $20, but the tangible book value per share is 40 bucks, it's a theoretical double. But it's a theoretical double the book value per share, and clearly, we don't trade on book value per share. We think that the market for our stock is depressed, not because we don't buy back enough shares but because our portfolio companies are poorly valued. And that's why our strategy is, that's just before we go sell something, let's wait for it to hit the target price, the price that thought about when we went into the deals in the first place.

When the assumption behind is that it's an instant double is only in the case of a liquidation. And we're not in liquidation. And, yes, we could buy it at 20. And if we liquidated tomorrow, we'd get $35. But that's only in the case of a liquidation. We're not in a liquidation. If our shareholders want us to liquidate, we'd be glad to listen to that. But even then, liquidating at these values would be, it seems to me to be pretty dumb. And we're not naturally sellers at deep discounts.

Ian Zaffino

Okay, understood. And then maybe a little bit in the same vein here. You kind of threw out the straw man of selling Dun & Bradstreet. And this kind of dovetails into the next question. You sold some CDAY. But, why not more CDAY? Why talk about selling Dun & Bradstreet and why not talk about selling CDAY or more CDAY or maybe just your thinking is different on CDAY?

Rick Massey

Ian, great question. And I appreciate you pushing us on these because our credibility is everything. We sold a million shares; we've got 5 million left. We're going to deal with that inventory, but it wouldn't surprise me for us to sell more.

I think we'd prefer to sell it back in the $78 range versus the $55 or $56 range. And you might forgive us if we hold out a little bit to see if it doesn't bounce back to that. If you look at the chart, it's really interesting, because they blew out their numbers and their stock's down 15% since May 3 when their numbers got out. Didn't make any sense at all.

Ian Zaffino

Okay, great. Thank you very much.

Operator

Thank you. The next question comes with John Campbell with Stephens Inc. Please go ahead.

John Campbell

Hey, guys, good afternoon.

Rick Massey

Hey, John.

John Campbell

You're on fire with the valuation rundowns on your soapbox. We agree with your stance there yet a lot of puzzling kind of disconnects across a handful of these public investments. So we hear you there. On Bournemouth, I mean, obviously great kind of run of things of late. Several points about that relegation line. It does seem like you guys are in a good spot. But you'd mentioned last call that I think you were kind of tongue in cheek but mentioned existential threat if you were to go in the relegated. So that's a good outcome so far.

Rick Massey

No, it wasn't an existential threat for Bryan and I, It was just for Ryan Caswell, who's sitting here with us.

John Campbell

I heard that. But, you know, In the past calls, you guys have talked to maybe three to four times your investment on Bournemouth and you're talking about maybe a five or seven-year type horizon. And then Massey I think you've repeated twice that the implied takeout or the implied value was about 0.8xrevenues, so a really good price.

We look at MANU stock, I'm not close enough to that to determine whether that's pure apples to apples. But that one's at about five times revenues. And, Rick, I think you mentioned your perceived peer group is about five times. So that seems to kind of check out. If you guys were to get that on Bournemouth, I mean, that's pretty substantial. I think it's about $8 per share of incremental value for you guys, about a 4% boost.

Rick Massey

I was just doing the math in my head. Yes, I think you're in the right range, John.

John Campbell

Yes. So that seems to be a pretty meaningful opportunity. I mean, obviously, as we assess the portfolio, the lion's share of the value is kind of tied to public assets. We can see the price day-to-day on private side, that's where there's maybe a little bit of extra torque, Bournemouth seems to be the clear opportunity here. So my question here after that rambling is, what do you think the steps you guys need to take to juice the revenue to get things going where you think you can eventually be awarded that five times valuation?

Ryan Caswell

Yes, I think when we took over Bournemouth, if you looked at the commercial side of the business, it wasn't run as well as we would have hoped or as well as we think that we can do it. So we believe that was a big opportunity. We've hired some people over there specifically focused on that. Clearly part of the thesis is you have to stay in the Premier League to get that valuation, which we think we're doing.

We also believe that building out the multi-club model, which started with our investment in Lorient, and we're looking at a few others. We think that further cements and helps the value because it helps create sort of additional sponsorship to build to make your brand look more like some of the clubs if you look further up the standings or the table.

So, I don't think we're looking to sell it tomorrow. I think there's some work that we need to do. But we think we're very much on the way in terms of one requalification for the Premier League. Secondly, building out all of the commercial side of the business, and then really taking the learnings from the Vegas Golden Knights and kind of enhancing what they were doing. But I don't think we could flip it today, John. But I think we are creating the value to get to those comparable transaction multiples that you mentioned earlier.

Rick Massey

John, we were kind of thinking of this as a five-to-seven-year hold and kind of three-four times our money as sort of a baseline IRR. I'm not promising that, but that's what we were thinking. It's going to take a while. But you've got the best. Bill brought Jim Frevola over there from the Knights. And according to Bill, he's already working magic. Frevola ran with the business side. I mean, you call it the tickets, sponsorships, concessions, food, beverage, all that stuff. And they were unmanaged over there So, there's a long way to go on the downside, but there's a lot of upside.

Ryan Caswell

Yes, agreed.

John Campbell

Yes, makes sense. That's seems like a very promising opportunity. We'll be keeping tabs on that. This is one just kind of minor housekeeping item. But I noticed in the shareholder letter last go round, I think you guys said a 50.1%. So a majority ownership position in BKFE. It looks like on the April update, and also in the shareholder letter I think it's 49%. Obviously, not a big difference but can you speak on this?

Rick Massey

What happened was the company established, as with all companies that we're associated with, a management incentive plan with equity for people like Frevola. And we were slightly diluted by that, and we wrote a check this week, to get us back. It was at $3.5 million to get us back to 50.1%. Good catch. You're reading our stuff. We appreciate it.

John Campbell

Yes, absolutely. And then the last one here, and this is another housekeeping item. The $133 million commitment you guys have called out for BKFE, that includes both Bournemouth and Lorient, right?

Rick Massey

Yes. And in there that we have to pay the seller of Bournemouth another check, another 20 for staying in the Premier League.

John Campbell

Okay, and that's incremental to the 40 that's already planned for 3Q?

Rick Massey

No, that's included.

John Campbell

Okay, included. All right. That's all I got. Thanks, guys.

Rick Massey

Thank you, John. Appreciate your interest.

Operator

The next question comes with Chris Sakai with Singular Research. Please go ahead.

Chris Sakai

Just wanted to ask about potential investments. Where are you seeing better valuations now, in public or private investments?

Rick Massey

I don't think the private markets adjusted its valuation expectations to where you see a lot of publicly traded companies trading right now. And all I have to do is refer to our portfolio discussion that I had at the outset. Those are public companies, and they've just been crushed. And we don't think the internal valuations that team have gotten anywhere near that. There are some privates out there that we're looking at. But you're likely to see us probably tilt toward the kind of go private model or investing in public companies at these depressed prices versus the kind of crazy prices that we're still seeing, but I want to emphasize, go privates depend on functioning debt capital markets, and that's not going on now. Nobody's doing deals now. It is totally dead.

Chris Sakai

Okay. Yes, thanks for that. Can you mention or provide some color on where you're looking for your next investment?

Rick Massey

Not without getting specific enough that—I'll just say, we're still—Ryan and Bill are definitely looking at building out the multi-club strategy. And I like the idea of building a multi-sports business under Bill and Ryan's leadership. So that's one area that I know that they're spending a lot of time on.

I'm kind of spending my time on the traditional Bill Foley companies, Chris, utilities, tech-heavy, either tech services or just pure software. And another thing is, we start our investment approaches at home. And it may be that some of the best investments we make over the next year could be in some of our existing portfolio companies.

Chris Sakai

Okay, great. Thanks for the answers.

Rick Massey

Thank you. Thanks for the questions.

Operator

All right. I see here that we do have another questioner. It comes from Kenneth Lee with RBC Capital Markets. Please go ahead.

Kenneth Lee

Hey, guys. Good afternoon, and thanks for taking my question. Just one on the AFC Bournemouth. As you look out further, and perhaps this also goes with the other clubs as well, how dependent is the profitability of club ownership going to be upon the enforcement of UEFA Fair Play regulations? Just want to get your thoughts around that. Do you need to have fair play strongly enforced or? Or are your projections pretty much able to handle it without strong enforcement there? Thanks.

Ryan Caswell

Yes. I mean, I think there's a few different components of the UEFA fair play. But in general, a lot of that stuff is aimed more at the big clubs and people who are spending a lot of money to try and get into European competitions. Obviously, are going to have the same regulation, but it's less focused on the smaller teams. And frankly, I think it probably helps the competitive balance for smaller teams on the margin. So we've definitely thought about it. It's definitely incorporated in our projections. And I think there are other teams that are going to have bigger issues with it than Bournemouth would.

Kenneth Lee

Got you. Very helpful there. One follow up, if I may. Is there any thoughts around the legacy restaurant business? What are your longer-term thoughts there? Can we potentially see either some actions or view around that business? Thanks.

Bryan Coy

Ken, this is Bryan. I mean, the one thing I'll say is that our Restaurant Group has just done a yeoman's job in the last 24 months. They've faced a pandemic, they've faced great labor crisis, they faced commodity inflation, inflation. They've done a great job. We've closed—just year-over-year they closed 17 restaurants that were underperforming and had a drag on the business, and its had great effects. Average guest checks are up 9%. I think they're doing a yeoman's job and in an industry that just had unprecedented obstacles in its past for a couple of years.

We like the business. I don't know that we're going to be in it long term. But with what's been going on in the last couple of years, it's definitely not been the right time to think about moving it. But we're very happy with the way that they have managed through that.

Kenneth Lee

Got you. Very helpful. And one last question. Just looking at a high level, just based on all the comments earlier on the call, would you say that further monetizations within the portfolio, is that going to be predicated upon improving valuations, or would a deeper discount in your own shares cause you to review it further. I just want to once again gauge what could be the potential catalyst down the line in terms of further portfolio monetizations? Thanks.

Rick Massey

That is a really good question. Bill may have a different point of view, but our job is to manage the portfolio of companies that we have. And it's really hard to work on a dual track where you're watching out for your own shares, and the discounts there. We think we get paid to maximize the value of the portfolio, not the shares.

I would say the answer to your question is yes, but I would say it's like 70 - 75% of that's dependent on portfolio valuation, and 25% stock valuation. So that's kind of the way we look at it. It doesn't make a lot of sense to sell shares of Dun & Bradstreet at $10 down here at half the multiple of its comp-set, so that we can buy our shares back or sit on cash or do whatever else there is with it. It doesn't make sense—or make another investments. It doesn't make a lot of sense.

We think that the market is going to eventually reward both Cannae and Dun & Bradstreet with Dun & Bradstreet. We think it's going to reward both Cannae and Alight with Alight. And hopefully they'll happen together and we won't have to choose.

Kenneth Lee

Got you. Very helpful there. Thanks again.

Rick Massey

Well, that was a helpful question. And you're helping us sharpen the way we think about this. And this is hard. These are hard questions that we have to answer. These are hard. Right now it just feels dumb to sell any of these things anywhere near the prices that we're talking about.

Operator

With that, we conclude our question-and-answer session. I would like to turn the conference back over to Mr. Rick Massey for any closing remarks. Please go ahead, sir.

Rick Massey

Thanks for your interest. And we look forward to speaking with you again next quarter. Obviously, any of you want to have some side chats with us, work through Rory and Bryan to set something up. We'd be happy to talk. So have a good rest of the day.

Operator

This concludes today's conference. Thank you for attending today's presentation. You may now disconnect. Have a good day.