ISC Reports 2023 Second Quarter Financial Results

August 2, 2023

REGINA, Saskatchewan, Aug. 02, 2023 (GLOBE NEWSWIRE) -- Information Services Corporation (TSX:ISV) ("ISC" or the "Company") today reported on the Company's financial results for the second quarter ended June 30, 2023.

2023 Second Quarter Highlights

- **Revenue** was $53.3 million for the quarter, an increase of 5 per cent compared to the second quarter of 2022. This was primarily driven by increased revenue in Services, spurred by continued transaction and customer growth in Regulatory Solutions, and additional third-party revenue in Technology Solutions as progress is made on both ongoing and new contracts. Registry Operations also contributed to the increased revenue as a result of a full three months of results from the Ontario Property Tax Assessment Services division compared to one month in the prior year following its acquisition on June 1, 2022. This was offset by a decrease in Saskatchewan Land Registry revenue due to reduced activity in the Saskatchewan real estate sector during the quarter.

- **Net income** was $8.2 million or $0.47 per basic and $0.46 per diluted share compared to $11.7 million or $0.66 per basic share and $0.65 per diluted share in the second quarter of 2022. The decrease in net income compared to the prior year is the result of a decrease in Saskatchewan Land Registry revenue, an increase in share-based compensation, increased investments in people offset by income from Ontario Property Tax Assessment Services for three months in the current year compared to one month in the prior year.

- **Net cash flow provided by operating activities** was $14.3 million for the quarter, an increase of $2.0 million driven by changes in non-cash working capital, primarily an increase in accounts payable increasing cash flows partially offset by lower net income.

- **Adjusted net income** was $9.3 million or $0.52 per basic share and $0.51 per diluted share compared to $10.8 million or $0.62 per basic share and $0.60 per diluted share in the second quarter of 2022. This decrease primarily relates to a decrease in Saskatchewan Land Registry revenue, higher amortization related to intangible assets arising from the acquisition of the Ontario Property Tax Assessment Services division in 2022, as well as higher net finance expense.

- **Adjusted EBITDA** was $17.8 million for the quarter compared to $19.2 million in 2022 primarily due to a reduction in Saskatchewan Land Registry revenue in the current year due to reduced activity in the Saskatchewan real estate sector and increased personnel costs in both Technology Solutions and Corporate segments. This was partially offset by a full three-month adjusted EBITDA contribution from Ontario Property Tax Assessment Services compared to one month in the prior year and additional revenue from customer and transaction growth in Regulatory Solutions. Adjusted EBITDA margin was 33.4 per cent compared to 37.8 per cent in the second quarter of 2022.

- **Adjusted free cash flow** for the quarter was $11.9 million, down 10 per cent compared to $13.2 million in the second quarter of 2022 primarily related to reduced revenue in the Saskatchewan Land Registry due to lower activity in the Saskatchewan real estate sector accompanied by increased interest expense resulting from higher interest rates and borrowings outstanding during the period when compared to the prior year.

Financial Position as at June 30, 2023

- Cash of $26.6 million compared to $34.5 million as of December 31, 2022.
- Total debt of $51.1 million compared to $66.0 million as of December 31, 2022.

Commenting on ISC's results, Shawn Peters, President and CEO stated, "Our financial performance for the second quarter and first half of 2023 is a reflection of the robust nature of ISC's business segments as well as the benefit of a diverse revenue stream. While successive increases to interest rates by the Bank of Canada have affected activity in the Saskatchewan Land Registry in particular, the upside to this is that the Regulatory Solutions division in Services had a strong quarter, driven by many of our financial institution customers implementing stronger due diligence because of a higher interest rate environment." Peters continued, "We will continue to monitor the impact interest rates could have on our business while remaining confident in the strength and long-term potential of ISC."

Management's Discussion of ISC's Summary of 2023 Second Quarter Financial Results

(thousands of CAD; except earnings per share and where noted)	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022
Revenue		
Registry Operations	**$24,796**	$24,479
Services	**26,072**	24,894
Technology Solutions	**2,420**	1,493
Corporate and other	**7**	4
Consolidated revenue	**$53,295**	$50,870
Consolidated expenses	**$40,965**	$33,919
Consolidated adjusted EBITDA[1]	**$17,824**	$19,246
Consolidated adjusted EBITDA margin[1]	**33.4%**	37.8%
Consolidated net income	**$8,233**	$11,657
Consolidated adjusted net income[1]	**$9,256**	$10,785
Earnings per share (basic)[1]	**$0.47**	$0.66
Earnings per share (diluted)[1]	**$0.46**	$0.65
Adjusted earnings per share (basic)[1]	**$0.52**	$0.62
Adjusted earnings per share (diluted)[1]	**$0.51**	$0.60
Adjusted free cash flow[1,2]	**$11,900**	$13,218

[1]Adjusted net income, , adjusted EBITDA and adjusted free cash flow are not recognized as measures under IFRS and do not have a standardized meaning prescribed by IFRS and, therefore, they may not be comparable to similar measures reported by other companies; refer to section 8.8 "Non-IFRS financial measures" in the MD&A. Refer to section 2 "Consolidated Financial Analysis" in the MD&A for a reconciliation of adjusted net income and adjusted EBITDA to net income. Refer to section 6.1 "Cash flow" in the MD&A for a reconciliation of adjusted free cash flow to net cash flow provided by operating activities.

[2]During the second quarter of 2023, ISC has made the decision to add adjusted net income and adjusted free cash flow as new non-IFRS financial metrics that exclude certain items outside the normal course of business and are believed to provide useful information related to ISC's performance.

2023 Second Quarter Results of Operations

- Total revenue was $53.3 million, up 5 per cent compared to Q2 2022.
- Registry Operations segment revenue was $24.8 million, up compared to $24.5 million in Q2 2022:
  - Land Registry revenue was $14.7 million, down compared to $17.1 million in Q2 2022.
  - Personal Property Registry revenue was $3.3 million, up compared to $3.0 million in Q2 2022.
  - Corporate Registry revenue was $2.7 million, flat compared to the same prior year period.
  - Property Tax Assessment Services revenue in Registry Operations was $3.9 million, up compared to $1.2 million in Q2 2022.
- Services segment revenue was $26.1 million, up compared to $24.9 million in Q2 2022:
  - Regulatory Solutions revenue was $20.1 million, up compared to $18.7 million in Q2 2022.
  - Recovery Solutions revenue was $2.4 million, flat compared to the same prior year period.
  - Corporate Solutions revenue was $3.6 million, down compared to $3.7 million in Q2 2022.
- Technology Solutions revenue from third parties was $2.4 million, up from $1.5 million in Q2 2022.
- Consolidated expenses (all segments) were $41.0 million, up $7.0 million compared to $33.9 million in Q2 2022.
- Net income was $8.2 million or $0.47 per basic share and $0.46 per diluted share, down $3.4 million compared to $11.7 million or $0.66 per basic and $0.65 per diluted share for Q2 2022.

Outlook

The following section includes forward-looking information, including statements related to our strategy, future results, including revenue and adjusted EBITDA, segment performance, the industries in which we operate, economic activity, growth opportunities, investments, and business development opportunities. Refer to "Caution Regarding Forward-Looking Information" in Management's Discussion & Analysis for the three and six months ended June 30, 2023.

Our long-term strategy remains centered on delivering value for shareholders through the consistent performance of our existing business and the execution of appropriate growth opportunities, including acquisition targets that are complementary to or add value to existing lines of business.

Registry Operations has performed well for the first half of 2023 despite successive increases to the interest rate by the Bank of Canada since 2022, which has impacted Saskatchewan real estate activity. The benefit of steady revenue from Ontario Property Tax Assessment Services continues to be positive, which is reflected in our year-to-date results. We expect the softness of real estate activity in Saskatchewan to persist during the last half of 2023, however, Registry Operations is expected to remain as a strong free cash flow contributor.

For Services, we expect to see customer and transaction growth remain strong in Regulatory Solutions, while volumes in Recovery Solutions will likely remain at current levels until the impact of interest rate increases begin to permeate into this part of our business. In the Corporate Solutions division, we expect to continue to mitigate any decline in revenue from the Ontario Business Registry contract through the addition of new customers across our Services divisions. Our ongoing investment in the technology supporting our Services segment, combined with our focus on our customers, is translating into robust organic growth through new customer acquisition.

In Technology Solutions, implementation work continues on existing contracts. The segment will also be supporting the registry enhancement work that has commenced for the Saskatchewan Registries. The new business pipeline also remains healthy and we are actively pursuing a number of opportunities.

Following the announcement of the extension to the MSA with the Province to 2053 on July 5, 2023, the Company conducted a review of the annual guidance metrics it publishes to ensure that it continues to provide the most appropriate metrics by which to guide for ISC's forward-looking performance. Going forward, the Company will only be using revenue and adjusted EBITDA and has ceased using net income and free cash flow.

As such, and as a result of the extension to the MSA, the Company now expects revenue to be between $207.0 million and $212.0 million and adjusted EBITDA[1] to be between $71.0 million and $76.0 million.

In summary, the Company remains confident in the strength and long-term potential of the business.

[1] Adjusted EBITDA is not recognized as a measure under IFRS and does not have a standardized meaning prescribed by IFRS and, therefore, may not be comparable to similar measures reported by other companies; refer to section 8.8 "Non-IFRS financial measures". Refer to section 2 "Consolidated Financial Analysis" for a reconciliation of historical adjusted EBITDA to net income.

Note to Readers

The Board of Directors ("Board") carries out its responsibility for review of this disclosure primarily through the Audit Committee, which is comprised exclusively of independent directors. The Audit Committee reviews and approves the fiscal year-end Management's Discussion and Analysis ("MD&A") and financial statements and recommends both to the Board for approval. The interim financial statements and MD&A are reviewed and approved by the Audit Committee.

This news release provides a general summary of ISC's results for the quarters ended June 30, 2023, and 2022. Readers are encouraged to download the Company's complete financial disclosures. Links to ISC's financial statements and related notes and MD&A for the period are available on our website in the Investor Relations section at company.isc.ca.

Copies can also be obtained SEDAR+ at www.sedarplus.ca by searching Information Services Corporation's profile or by contacting Information Services Corporation at investor.relations@isc.ca.

All figures are in Canadian dollars unless otherwise noted.

Conference Call and Webcast

We will hold an investor conference call on Thursday, August 3, 2023 at 11:00 a.m. ET to discuss the results. Those joining the call on a listen-only basis are encouraged to join the live audio webcast which will be available on our website at company.isc.ca/investor-relations/events. Participants who wish to ask a question on the live call may do so through the ISC website or by registering through the following live call URL: **https://register.vevent.com/register/BI69c1d6014af549099dfab3527c771c25**

Once registered, participants will receive the dial-in numbers and their unique PIN number. When dialing in, participants will input their PIN and be placed into the call. The audio file with a replay of the webcast will be available about 24 hours after the event on our website at the link above. We invite media to attend on a listen-only basis.

About ISC

Headquartered in Canada, ISC is a leading provider of registry and information management services for public data and records. Throughout our history, we have delivered value to our clients by providing solutions to manage, secure and administer information through our Registry Operations, Services and Technology Solutions segments. ISC is focused on sustaining its core business while pursuing new growth opportunities. The Class A Shares of ISC trade on the Toronto Stock Exchange under the symbol ISV.

Cautionary Note Regarding Forward-Looking Information

This news release contains forward-looking information within the meaning of applicable Canadian securities laws including, without limitation, those contained in the "Outlook" section hereof and statements related to the industries in which we operate, growth opportunities and our future financial position and results of operations. Forward-looking information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those expressed or implied by such forward-looking information. Important factors that could cause actual results to differ materially from the Company's plans or expectations include risks relating to changes in the condition of the economy, including those arising from public health concerns, reliance on key customers and licences, dependence on key projects and clients, securing new business and fixed-price contracts, identification of viable growth opportunities, implementation of our growth strategy, competition and other risks detailed from time to time in the filings made by the Company including those detailed in ISC's Annual Information Form for the year ended December 31, 2022 and ISC's unaudited Condensed Consolidated Interim Financial Statements and Notes and Management's Discussion and Analysis for the second quarter ended June 30, 2023, copies of which are filed on SEDAR+ at www.sedarplus.ca.

The forward-looking information in this release is made as of the date hereof and, except as required under applicable securities laws, ISC assumes no obligation to update or revise such information to reflect new events or circumstances.

Non-IFRS Performance Measures

Included within this news release is reference to the following non-IFRS performance measures. These measures, which are reconciled below are reviewed regularly by management and the Board of Directors in assessing our performance and making decisions regarding the ongoing operations of our business and its ability to generate returns. These measures may also be used by external parties in decision making related to ISC's performance. They are not recognized measures under IFRS and do not have a standardized meaning under IFRS, so may not be reliable ways to compare us to other companies.

Non-IFRS	Why we use it	How we calculate it	Most comparable

Performance Measure			**IFRS financial measure**
Adjusted net income Adjusted earnings per share, basic Adjusted earnings per share, diluted	• To evaluate performance and profitability while excluding non-operational and share-based volatility. • We believe that certain investors and analysts will use adjusted net income and adjusted earnings per share to evaluate performance while excluding items that management believes do not contribute to our ongoing operations.	Adjusted net income; Net income Add Share-based compensation expense, acquisitions, integration and other costs, effective interest component of interest expense, debt finance costs expensed to professional and consulting, amortization of the intangible asset related to extension of the MSA with the Province of Saskatchewan, amortization of registry enhancements, accretion on the liability to Government of Saskatchewan and the tax effect of these adjustments at ISC’s statutory tax rate. Adjusted earnings per share, basic; Adjusted net income divided by weighted average number of common shares outstanding Adjusted earnings per share, diluted; Adjusted net income divided by diluted weighted average number of common shares outstanding	Net income Earnings per share, basic Earnings per share, diluted
EBITDA EBITDA Margin	• To evaluate performance and profitability of segments and subsidiaries as well as the conversion of revenue. • We believe that certain investors and analysts use EBITDA to measure our ability to service debt and meet other performance obligations.	EBITDA: Net income add (remove) Depreciation and amortization, net finance expense, income tax expense EBITDA Margin: EBITDA divided by Total revenue	Net income
Adjusted EBITDA Adjusted EBITDA Margin	• To evaluate performance and profitability of segments and subsidiaries as well as the conversion of revenue while excluding non-operational and share-based volatility. • We believe that certain investors and analysts use Adjusted EBITDA to measure our ability to service debt and meet other performance obligations. • Adjusted EBITDA is also used as a component of determining short-term incentive compensation for employees.	Adjusted EBITDA: EBITDA add (remove) share-based compensation expense, acquisition, integration and other costs, gain/loss on disposal of assets if significant Adjusted EBITDA Margin: Adjusted EBITDA divided by Total revenue	Net income
Free Cash Flow	• To show cash available for debt repayment and reinvestment into the Company on a levered basis. • We believe that certain investors and analysts use this measure to value a business and its underlying assets. • Free cash flow is also used as a component of determining short-term incentive compensation for employees.	Net cash flow provided by operating activities deduct (add) Net change in non-cash working capital, cash additions to property, plant and equipment, cash additions to intangible assets, interest received and paid as well as interest paid on lease obligations and principal repayments on lease obligations	Net cash flow provided by operating activities
Adjusted Free Cash Flow	• To show cash available for debt repayment and reinvestment into the Company on a levered basis from continuing operations while excluding non-operational and share-based volatility. • We believe that certain investors and analysts use this measure to value a business and its underlying assets based on continuing operations while excluding short term non-operational items.	Free Cash Flow deduct (add) Share-based compensation expense, acquisition, integration and other costs and registry enhancement capital expenditures	Net cash flow provided by operating activities

The following presents a reconciliation of adjusted net income to net income, a reconciliation of adjusted EBITDA to EBITDA to net income and a reconciliation of adjusted free cash flow to free cash flow to net cash flow from operating activities:

Reconciliation of Adjusted Net Income to Net Income

(thousands of CAD)	Three Months Ended June 30, 2023	2022
Adjusted net income	**$ 9,256**	$ 10,785
Add (subtract):		
Share-based compensation expense	**347**	1,900
Acquisition, integration and other costs	**(1,730)**	(688)
Effective interest component of interest expense	**(18)**	(18)
Tax effect on above adjustments[1]	**378**	(322)
Net income	**$ 8,233**	$ 11,657

Reconciliation of Adjusted EBITDA to EBITDA to Net Income

(thousands of CAD)	Three Months Ended June 30, 2023	2022
Adjusted EBITDA	**$ 17,824**	$ 19,246
Add (subtract):		
Share-based compensation expense	**347**	1,900
Acquisition, integration and other costs	**(1,730)**	(688)
EBITDA	**$ 16,441**	$ 20,458
Add (subtract):		
Depreciation and amortization	**(4,111)**	(3,507)
Net finance expense	**(889)**	(666)
Income tax expense	**(3,208)**	(4,628)
Net income	**$ 8,233**	$ 11,657
EBITDA margin (% of revenue)	**30.8%**	40.2%
Adjusted EBITDA margin (% of revenue)	**33.4%**	37.8%

Reconciliation of Adjusted Free Cash Flow to Free Cash Flow to Net Cash Flow Provided by Operating Activities

(thousands of CAD)	Three Months Ended June 30, 2023	2022
Adjusted Free Cash Flow	**$ 11,900**	$ 13,218
Add (subtract):		
Share-based compensation expense	**347**	1,900
Acquisition, integration, and other costs	**(1,730)**	(688)
Registry enhancement capital expenditures	**(375)**	-
Free cash flow	**$ 10,142**	$ 14,430
Add (subtract):		
Cash additions to property, plant and equipment	**164**	138
Cash additions to intangible assets	**1,206**	181
Interest received	**(243)**	(42)
Interest paid	**1,043**	435
Interest paid on lease obligations	**94**	98
Principal repayment on lease obligations	**574**	536
Net change in non-cash working capital[1]	**1,327**	(3,439)
Net cash flow provided by operating activities	**$ 14,307**	$ 12,337

[1] Refer to Note 15 of ISC's Consolidated Financial Statements for the three and six months ended June 30, 2023 for reconciliation.

[2] Commencing on January 1, 2023, ISC revised the definition of free cash flow which is a non-IFRS measure to include interest received and paid as well as principal repayments on lease obligations. This is further defined in the MD&A section 8.8 "Non-IFRS financial measures", and has been reflected in the comparative period. The impact of the change to free cash flow to include interest received and paid, interest paid on lease obligations and principal repayments on lease obligations on the previously stated prior year results was a $1.0 million decrease for the three months ended June 30, 2022.

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