

**Information Services(Q2 2024 Earnings)  
August 13, 2024**

Corporate Speakers

- Jonathan Hackshaw; Information Services; Senior Director, Investor Relations and Capital Markets
- Shawn Peters; Information Services; President and Chief Executive Officer
- Robert Antochow; Information Services; Chief Financial Officer

Participants

- Scott Fletcher; CIBC; Analyst
- Stephen Boland; Raymond James; Analyst
- Paul Treiber; RBC Capital Markets; Analyst
- Jesse Pytlak; Coremark Securities; Analyst
- Trevor Reynolds; Acumen Capital; Analyst

**PRESENTATION**

Operator^ Good day. And thank you for standing by. Welcome to the ISC's Second Quarter 2024 Earnings Conference Call and Webcast.

(Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your first speaker today, Jonathan Hackshaw, Senior Director, Investor Relations and Capital Markets.

Please go ahead.

Jonathan Hackshaw^ Thank you, Andrea. And good morning to everyone joining us today.

Welcome to ISC's conference call for the quarter ended June 30, 2024.

On the call today are Shawn Peters, President and CEO; and Bob Antochow, our Chief Financial Officer.

This morning, Shawn will take you through some of the highlights of the quarter. Bob will then provide some financial and operating highlights for the quarter; before passing the call back over to Shawn for some closing remarks.

Before we begin, we would like to remind everyone that we will only be summarizing results today. The company's financial statements and MD&A have been filed on SEDAR+ and are available on our website.

We encourage you to review those reports in their entirety.

I would also like to remind you that any statements made today that are not historical facts are considered to be forward-looking statements with the meaning of applicable securities laws.

The statements may involve a number of risks and uncertainties that are described in detail in the company's SEDAR+ filings.

Those risks and uncertainties may cause actual results to differ materially from those stated.

Today's comments are made as of today's date and will not be updated except as required under applicable securities laws.

Today's conference call is being broadcast live on the internet and will be archived for replay shortly after the call on the Investors section of our website.

With that, I would now like to turn the call over to Shawn.

Shawn Peters^ Thank you, Jonathan. And good morning, everyone joining us for today's call.

Following a strong start to the year in the first quarter, the second quarter of 2024 saw record revenue and record adjusted EBITDA for the period, up 27% and 53%, respectively, compared to the second quarter of 2023. The robust year-over-year growth was, as usual, due to strong operating results from across the company.

In Registry Operations, strong performance from the Saskatchewan Registries combined with the full effect of fee adjustments implemented in 2023 produced revenue and adjusted EBITDA for the quarter that were up 39% and 68%, respectively.

We saw a strong performance across all sectors in the Land Registry, resulting in an increase in overall volumes compared to the second quarter of 2023, combined with the positive impact of the fee adjustments implemented in July 2023 in connection with our extension agreement and annual CPI adjustments.

Also in Registry Operations, during the quarter, we announced that through our wholly owned subsidiary, Reamined, we entered into an amended and restated license and information technology services agreement with the government of Ontario to continue to manage and operate the online property tax analysis system for the Government of Ontario until March 31, 2028, with traditional options for one-year renewals.

In Services, revenue and adjusted EBITDA were up 18% and 29%, respectively.

Increases in due diligence activities from existing customers as the compliance environment continues to be more stringent within the lending industry, drove up revenue within our Regulatory Solutions division.

Asset recovery also saw increases in assignments and more importantly, improved year-over-year vehicle sales, which contributed to the growth in our Recovery Solutions division.

Subsequent to the end of the quarter, we launched the online self-service customer portal for the Bank Act Security Registry under a five-year contract with the Bank of Canada.

This registry now offers 24/7, 365 service provision and a range of online submission and search capabilities for customers, allowing for seamless experiences for users to track, manage and utilize their submissions in real time. With that, I'll now turn the call over to Bob to discuss some financial highlights in more detail before providing some closing thoughts.

Robert Antochow^ Thank you, Shawn. And good morning, everyone.

As Shawn mentioned, 2024 is showing strong performance with the second quarter of 2024 continuing to deliver results in line with our expectations. The record performance for the quarter was driven by a number of factors, which I will now highlight for you.

Revenue was a record \$67.8 million for the quarter, an increase of 27% compared to the second quarter of 2023. This was driven by Registry Operations strong performance from Saskatchewan Registries division, combined with the full effect of fee adjustments made in 2023 and record high-value property registrations in the Land Titles Registry.

Further contributing to this growth was the Services segment with continued customer and transaction growth in the Regulatory Solutions division and increased assignments in sales in the Recovery Solutions division. Net income was \$10.3 million or \$0.57 per basic share and \$0.56 per diluted share compared to \$8.2 million or \$0.47 per basic and \$0.46 per diluted share in the second quarter of 2023.

Strong adjusted EBITDA growth in all operating segments drove the increase in the quarter.

Net cash flow provided by operating activities was \$24.1 million for the quarter, an increase of \$9.8 million from the \$14.3 million in the second quarter of 2023. The increase was driven by increased contributions from the Registry Operations and Services segments. Adjusted net income was \$14.1 million or \$0.78 per basic share, \$0.77 per diluted share compared to \$9.3 million or \$0.52 per basic share and \$0.51 per diluted share in the second quarter of 2023. The growth in adjusted net income is for similar reasons as net income, which was offset by increased interest expense associated with additional borrowings that were used to fund the upfront payment. Adjusted EBITDA was a record \$27.2 million for the quarter compared to \$17.8 million in the second quarter of 2023.

The increase was driven by Registry Operations, strong performance from the Saskatchewan Registries division combined with the full effect of fee adjustments made in 2023 and record high-value property registrations in the Land Titles registry.

Further contributing to the growth was the Services segment with continued customer and transaction growth in the Regulatory Solutions division as well as increased assignments and

sales in the Recovery Solutions division. Adjusted EBITDA margin was 40% compared to 33.4% in the second quarter of 2023 driven mainly by the pricing and volume increases in Registry Operations Saskatchewan Registries division previously mentioned. Adjusted free cash flow for the quarter was \$15.7 million, up 26% compared to \$12.5 million in the second quarter of 2023. This growth was driven by stronger adjusted EBITDA results across all our operating segments.

This was partially offset by increased interest expense on the borrowings that were used to fund the upfront payment. Voluntary prepayments of \$10 million were made towards ISC's credit facility during the quarter as part of the company's plan to deleverage towards a long-term net leverage target of two to 2.5x.

Further details on our debt and our credit facilities can be found in our MD&A and financial statements.

Additionally, capital expenditures have increased as expected, albeit remaining relatively insignificant overall.

Sustaining capital expenditures including registry enhancement capital rose to \$2.7 million for the second quarter of 2024 from \$0.8 million in the corresponding period in 2023.

After all this, as at June 30, 2024, we held \$22.1 million in cash compared to \$24.2 million as at December 31, 2023.

Subsequent to the end of the quarter, the first five annual cash payments of \$30 million was made pursuant to the extension agreement to extend ISC's exclusive right to manage and operate the Saskatchewan Registries division and Registry Operations using funds drawn from the credit facility.

We remain focused on continuing sustainable growth and deleveraging our balance sheet towards a long-term net leverage target of two to 2.5x. The prepayments described in management's discussion and analysis for the fourth quarter and year ended December 31, 2023, are a reflection of the deleveraging plans.

In February, we provided our outlook and guidance for 2024, and this is also included in our MD&A, which I encourage you to read.

As a reminder, we have maintained our annual guidance for 2024, which, as a reminder, is: Revenue is expected to be between \$240 million and \$250 million; and adjusted EBITDA is expected to be between \$83 million and \$91 million.

Before I turn the call back over to Shawn, I'd like to finish by highlighting that we also announced yesterday that our Board of Directors approved a quarterly cash dividend of \$0.23 per share. That dividend will be payable on or before October 15, 2024, to shareholders of record as of September 30, 2024.

We I will now turn the call back over to Shawn for some concluding remarks.

Shawn Peters^ Thanks, Bob.

It's been a tremendous quarter and first half of 2024. The Bank of Canada has now lowered its key interest rate twice in 2024. And with the forecast of further cuts as inflation nears the Bank of Canada's long-term target, strong activity in the Saskatchewan real estate market is expected to continue in the near term despite inventory challenges in lower value homes.

We continue to monitor interest rates and other economic conditions, which can impact real estate activity.

However, factors such as strong population growth and improved market confidence, create an environment for heightened real estate activity, most notably benefiting the Saskatchewan Land Registry.

In addition, the realization of a full year of fee adjustments including those amended in July 2023 because of the extension agreement and our regular annual CPI fee adjustments, will continue to support strong revenue in Registry Operations.

Services will continue to be a significant part of our organic growth with a forecasted increase in transactions and number of customers. The current trend of enhanced due diligence in an environment of increased regulatory oversight is expected to continue and positively impact the Regulatory Solutions division.

Further, the decline in used car values, which worsens the loan to value of the vehicle and reduces any equity that debtors may have in their existing vehicles, coupled with current mortgage rental and inflationary pressures is expected to negatively impact consumers' disposable income and lead to increased assignment levels in our Recovery Solutions division.

Overall, the record performance in the second quarter and first half of 2024 are in line with our expectations and our guidance and are reflective of the strength of the company's business. And in keeping with our commitment, we're executing against our 5-year goal to double revenue and adjusted EBITDA by 2028. With that, I'll now turn the call back over to Jonathan.

Jonathan Hackshaw^ Thanks, Shawn. Andrea, we'd now like to begin the question and answer session, please.

## QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question comes from Scott Fletcher with CIBC.

Scott Fletcher^ Nice quarter. Good to see some real growth in the registry.

On that, with the strong quarter, you guys maintained the guidance despite that.

Is it fair to assume that we should be looking at the upper end of the guidance range just given this was -- it makes that brand a lot easier to achieve given the numbers in the quarter?

Shawn Peters^ Yes. I can start on that. Scott, thanks for the question.

I'll let Bob chime in as well. Very strong quarter.

It is part of the seasonality that we see in the Land Registry. And so that's not unexpected.

I think we have probably -- we talked about this before that we started to see the seasonality return post the pandemic. And so I think what we would say is we've maintained the guidance and we don't comment specifically where in the guidance range, but we're still confident in that guidance.

So Bob, I don't know if you have anything to add to that.

Robert Antochow^ I'll just add. Q2 and Q3 are the strongest quarters for Land Registry specifically.

So we still have Q3 ahead of us here is for the next -- to the end of September.

So still a lot to play out. And then obviously in the residential area, we're still seeing shortages of inventory in that area.

So yes, there's still half the year to go.

Scott Fletcher^ Okay. That's helpful. And then on the high-value transactions, obviously a really nice, again, lift in the quarter on that.

Can you just help us sort of understand the dynamics behind that, like why -- as much as you know why there was such an elevation in Q2? And how much of that might be sustainable or if not sustainable, continue at least for a quarter or two?

Robert Antochow^ Yes. I can start, Scott.

So yes, it's really hard to predict the high-value transactions. This is just speculating, but obviously the declining interest rate environment may have some to do with it because obviously these are large dollar transactions. And that's what I would suspect.

But other than that, I don't really have any view on why the timing of those in this quarter versus other quarters.

I don't know Shawn, anything --

Shawn Peters^ The only thing I'd add to that, Scott, is that, as Bob said, they're hard to predict.

So we tend not to try to predict any sort of unusual activity in high-value transactions and tend to go in our guidance with a more normalized level. Having said that, the strong economy is really sort of pushing some of those and that's probably why we saw some of that in Q2.

We may see that again in Q3 or as Bob said, it could just be a timing thing and they may slow down.

But overall, we still think that's going to fall within our guidance even with the strong Q2 and the strong high-value transactions.

Scott Fletcher^ Yes. I understand, it's definitely hard to predict on that front, but the color is helpful.

Operator^ Our next question comes from Stephen Boland with Raymond James.

Stephen Boland^ Maybe just following up on that, I apologize, a lot of paper coming on the last day or two. The -- you mentioned I think somewhere in the MD&A that the ag sector also had doubled the -- 2x the high-value propositions.

I read that correctly. And I know you just kind of answered the question about timing of high value, but what are you hearing? Is this just a pent-up demand?

Is it, again, maybe a little bit of a rate cut? I'm just curious, especially on the ag part of the business.

Robert Antochow^ Yes. I can start.

So yes, Stephen, we saw more than twice the number of ag transactions in this quarter than we did the same quarter last year.

We saw -- we found a little strange because normally, it's seeding season in Saskatchewan and normally, you'd expect less activity.

But you're right, that's what we saw.

In terms of what's driving that?

I'm not sure what specific factors caused the increase this quarter versus the prior year quarter.

Stephen Boland^ Okay. And just the Ontario Property Tax Assessment Services, the renewal, which is positive.

I'm just wondering if there's any changes in the contract besides the extension. Are fees adjusted? Anything to do with that, that could make difference in revenue, I guess, in general?

Shawn Peters^ Yes. So Steve, I'll take that.

It is a renewal. So it's just standard normal price increases. The services that we're providing are the same, providing a bit more support to the ministry as the ministry is looking to interact with the municipalities and customers more so a slight change in sort of the customer service aspect that we're providing, but the fees are pretty -- I mean that's a very, very steady business because it's contracted fees and really seeing the same subject to normal inflationary increases.

Stephen Boland^ Okay. And the last one for me. When I look at your -- I am not sure it is right way to look at it, but I do look at your overall expenses.

I'm just wondering how variable going forward now that you've made a few acquisitions over the past few years. How much can you shave off on your expenses?

Or is that just not -- like they're pretty fixed with the number of people that you have, et cetera, et cetera.

I'm just wondering how -- is it expense management, something you, obviously keep an eye on, but is it possible to get those numbers down at all going forward?

Robert Antochow^ Stephen, yes, generally, about 80%, 85% of our costs are fixed. There are certain parts of the business like, let's say, the recovery -- the asset recovery part of the business, whereas volume increases, you need more hands to process transactions, as an example, but it's - - so it varies with revenue.

But we do keep an eye on expenses, obviously with our growth strategy we announced early this year.

We're building the people technology to support that.

But at this point, our guidance factors in our plans for expenses for the rest of the year at this point.

Shawn Peters^ Steve, I might just echo Bob's comment there on a couple of things that I think are important.

One is that we do watch expenses.

We actually watch them more closely than I think probably people think we are very prudent in that.

But we have been talking the last couple of years about investment in people and technology, which is what Bob hit. And that was really so that we could accelerate the growth, which is what we're on the path to do now.

So while we do watch expenses, we're cognizant that the registry enhancement and all of the growth come with some costs, and that's what really is creating the strong business for us.



So absolutely, we'll always watch the cost.

But I think in the short term, our focus is going to be on taking those resources and growing the business.

Operator^ Our next question comes from Paul Treiber with RBC Capital Markets.

Paul Treiber^ Just a question on Recovery Solutions, quite strong in this quarter. Just looking back, I think it's one of the highest quarters or if not the highest quarter I've seen. Was there -- it seems like it's primarily driven by customers facing financial pressures, but was there a catch-up of volumes or recovery from prior quarters? Or do you see this level as sustainable just given the economy here?

Robert Antochow^ Yes. Thanks for the question, Paul. Yes.

I think this business -- where we are in the cycle, obviously came off the COVID period where different financial institutions maybe weren't pursuing debtors plus you have the issue of used car values were higher.

So if people -- debtors had to sell their vehicle to pay their loan, they could get a good value for it.

Now what you're seeing is change in the market that people with the higher interest rates are feeling a squeeze either higher rents or higher mortgage payments.

But at the same time, you've got -- [your] feeling are not squeeze and you've got the new vehicles on the market, which has been driving the used values down. And so we're in this sort of period where then if they do have to sell their used vehicle, they can't get the value to cover their -- necessarily cover their loans.

So there is that factor in there. And of course, we make more margin when we actually take the vehicle to sale.

We make revenue two ways.

One is administering the file and the loan gets redeemed by the debtor just get a management fee, whereas if we actually end up having to sell it.

We do get a commission, which results in a substantially high margin. and that's what we're seeing in the results for this quarter.

Paul Treiber^ And a follow-up is, how do we think about the capacity in that segment? Is there room for the revenue to continue to rise as recoveries grow? Or is there limit in terms of having the people available to do those recoveries?

Robert Antochow^ Yes. We've got -- it is a variable business in terms of we can bring people on to assist us in managing that business. And so obviously it depends on the assignments from our customers to work the files, but then we do have the capacity to bring on people to assist us with the management of that as well as the systems. And we did discuss last year investment in our recovery complete software. Part of that investment was to help us to be more efficient in managing those files.

So we're now seeing the benefit of some of that investment as the business picks up.

Shawn Peters^ And I might add the growth component to that as well Paul, which is that we are heavily focused on improving customer experience, which Bob just talked about through our recovery complete software, but also in acquiring new business.

So whether that's more business from our existing customers or looking for new customers, that is part of the sort of really ambitious services growth plan.

So I think we're looking to continue to grow that business. The economy and the -- where we are right now as Bob outlined, is helpful to that in that part of the business, but we're actively looking to grow it as well.

Operator^ Our next question comes from Jesse Pytlak with Cormark Securities.

Jesse Pytlak^ Looking at the growth in Regulatory Solutions. Just wondering if you could maybe give some type of breakdown between how much of that is coming from your existing customers and how much of that might be from new customers?

Robert Antochow^ Jesse, yes, we don't provide that information. Generally, it's -- we've got -- part of that business is -- we've got different divisions of different large companies that use our services as well as newer customers as they go through their cycle of having to renew their due diligence, they've been [able to] update their files and so forth. And so it goes through a cycle.

But we don't have a specific breakdown of new from existing.

Jesse Pytlak^ Okay. I guess, maybe with that said, can you maybe give us a sense of how much here to take a typical customer in that business, what kind of transaction growth you've been seeing from those customers?

Shawn Peters^ Yes. I think that's sort of the same question, Jesse. I think the -- I know what you're trying to get at.

As Bob said, we don't really disclose that.

I would say that in the quarter, the majority -- I think we're safe to say that the majority of the transaction increase and the volume increase comes from existing customers and business and then we add our new customers on to that.

Sorry, that's a little vague, I know but we -- for competitive reasons, we don't disclose sort of the breakdown between new customers and existing customers.

Jesse Pytlak^ Okay. I can appreciate that. Maybe just moving over to pricing then.

I think every July, you do your price adjustments in registry.

But can you remind me, is there kind of an annual timeframe in services when you typically put through price increases?

Robert Antochow^ Yes. On Services, a majority of the business is under -- specifically in Regulatory Solutions, is under contract with customers. And typically, those contracts can range up to three years in length and so it's at the time of renewal of each contract that we look at the pricing at that time of renewal.

We do have casual customers that it's a smaller percentage of the business and we look at that annually and adjust prices.

But of course, most material is on the contracted customers.

Jonathan Hackshaw^ And maybe Bob, just want to update on the Saskatchewan Registry timing, it's not July.

Robert Antochow^ Yes. Yes. Thanks, Jonathan.

So Jesse, just as it relates to the Saskatchewan Registries and Registry Operations with the amended MSA extension. The fee changes now going to place in April versus in July.

So we did implement fee changes close to the end of April in Registry Operations.

But given the fact that there was only one more month of the quarter left in June for Q2 here, the impact wasn't significant for Q2 of this year.

Operator^ Our next question comes from Trevor Reynolds with Acumen Capital.

Trevor Reynolds^ You guys have highlighted that there's increased due diligence in the current market environment occurring in Regulatory Solutions.

Is that reduced, you think, when -- as rates fall? Maybe just some color on that.

Robert Antochow^ Yes. Like -- Trevor our understanding is FINTRAC is picking up their regulation and their oversight of ensuring companies are complying with FINTRAC regulations.

If you remember, last year, there was a number of reports of financial institutions having fines for not keeping up their records and so forth. And at that point, the regulator said they're going to keep up then monitoring because of the deficiencies they saw.

So we see that continuing to go forward into the future.

Trevor Reynolds^ Okay. So not so much rate dependent then. And then --

Robert Antochow^ Obviously, that's contributed to it now but just basis the announcement that they're going to continue with that, our expectation is that continues into the future.

Trevor Reynolds^ Okay. And maybe just on the -- continuing on the regulatory side of things. Are you guys still seeing healthy customer growth in terms of onboarding to the Regulatory Complete or -- sorry, name alludes me right now but...

Robert Antochow^ Registry Complete, Trevor.

Trevor Reynolds^ Yes. Yes, Registry Complete, sorry.

Robert Antochow^ Yes. We keep seeing the addition of new customers.

Obviously we're trying to continue to work to expand that business and we did -- as companies look for solutions to integrate their systems that track registries information, do register lean and so forth, we continue to win some business in that area, and we continue to work to develop that.

Shawn Peters^ And I think to answer the same as sort of the recovery from the growth side, one of the areas that we've invested in people is in our sales team and services. And so we're continuing to really go after new customer acquisition by increasing our sales and marketing and services.

Trevor Reynolds^ Okay. Great. And last one, just like there was a little bump in the EBITDA margins and services.

Is that primarily attributed to the recovery -- the increase in recovery revenue?

Robert Antochow^ Yes. Yes, yes. That's exactly. Trevor, like when we -- because we've increased the sales -- increased assignments and then increased sales where we get a commission income and that then result in higher margin just that product mix with the rest of the business has drove -- driven up the margin and adjusted EBITDA margin in Services.

Operator^ (Operator Instructions) I'm showing no further questions at this time.

I'd now like to turn it back to Jonathan Hackshaw for closing remarks.

Jonathan Hackshaw^ Thank you, Andrea. With no further questions, I would like to, once again, thank all of you for joining us on today's call.

We look forward to speaking with you again when we next report.

Have a great day.

Operator^ Thank you for your participation in today's conference. This concludes the program.

You may now disconnect.