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Corporate Speakers:

- Jonathan Hackshaw; Information Services Corporation; Senior Director of IR & Capital Markets
- Shawn Peters; Information Services Corporation; President & CEO
- Robert Antochow; Information Services Corporation; CFO

Participants:

- Paul Treiber; RBC Capital Markets; Research Division, Director of Canadian Technology & Analyst
- Scott Fletcher; CIBC Capital Markets; Research Division, Research Analyst
- Stephen Boland; Raymond James Ltd.; Research Division, MD & Equity Research Analyst
- Jesse Pytlak; Cormark Securities Inc.; Research Division, Analyst of Institutional Equity Research
- Trevor Reynolds; Acumen Capital Finance Partners Limited; Research Division, VP of Research & Equity Research Analyst

PRESENTATION

Operator^ Good day, and thank you for standing by. Welcome to the ISC Q3 2022 Earnings Conference Call and Webcast. At this time, all participants are in listen-only mode. After the speaker's presentation, there will be a question-and-answer session. (Operator Instructions). I would now like to hand the conference over to our host, Jonathan Hackshaw, Senior Director Investor Relations and Capital Markets. Please go ahead.

Jonathan Hackshaw^ Thank you, [Chris], and good morning, everyone, joining us today. Welcome to ISC's conference call for the quarter end in September 30, 2022. On the call today with me are Shawn Peters, President and CEO, and Rob Antochow, Chief Financial Officer.

This morning, Shawn will start us off by taking you through an overview of the quarter and the year-to-date. Rob will then provide some financial and operating highlights 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 within 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 law. Today's conference call is being broadcast live over 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 Peters.

Shawn Peters^ Thank you, Jonathan, and good morning to everyone joining us for today's call. Just a few comments before I turn the call over to Bob for some financial remarks.

The third quarter of 2022 was really as we expected. In our guidance early in the year, we said we expected strong first and second quarters coming off of 2021 with transaction levels in our registry operations trending back towards pre-pandemic levels in the second half of the year. And that's exactly what we've seen.

In our Registry Operations business, we saw that trend take shape as Saskatchewan real estate level stabilized as demand normalized and higher interest rates took effect. Volumes in the land registry now reflect normalized and seasonal levels, but still above pre-pandemic levels and noticeably with higher average land values.

We also saw high-value transactions return to a more seasonal average. And all the indicators suggest that this trend to more seasonal norms will continue in the fourth quarter. Registry operations also continues to see positive stable results for the quarter and year-to-date from the new property tax services business acquired in June.

Our services business continues to grow faster than expected, both through increased transactions and new customer gains. We continue to transition and onboard customers to our new registry complete platform, which provides customers with additional services and us with new revenue streams.

We implemented our regular annual price increases across regulatory and corporate solutions for noncontract based customers in the third quarter, which had a positive impact on revenue. Revenue also grew during the quarter as a result of product offerings within regulatory solutions and recovery solutions, both of which are new products from the acquisition of UPLlevel.

In Technology Solutions, results were down in the quarter compared to last year because of fewer external revenue-generating opportunities. We've noted before the technology solutions experienced a contraction during COVID as new procurements weren't as active.

However, this is rapidly changing, and we're seeing renewed activity in the market, which has translated into an active new business pipeline. So, we're actively completing

our current solution implementation projects and are focused on securing new clients from that pipeline of opportunities, which we expect to positively impact 2023.

Overall, we're very pleased with the third quarter, which was one of ongoing operational accomplishments and financial performance consistent with our expectations. And that continues to demonstrate the strength and stability of our business as well as the benefits of the diversification that we've achieved. I'll now turn the call over to Bob to discuss some financial highlights.

Robert Antochow^ Thank you, Shawn, and good morning, everyone. As Shawn said, our third quarter results were very strong, driven by a number of factors, but more specifically. Revenue was \$48.8 million for the quarter, an increase of 18% compared to the third quarter of 2021. This was due to continued transaction and customer growth and services, specifically in the Corporate Solutions division, along with \$1.6 million of revenue contributed from the UPLlevel business that was acquired in February of this year.

Registry Operations newest division, Property Tax Services acquired through the Reamined acquisition on June 1, 2022, also contributed to the increased revenue for the quarter in the amount of \$3.8 million. This was offset by a \$1 million decline in land registry revenue during the quarter as Saskatchewan real estate levels returned to more normalized seasonal levels.

Net income was \$7.8 million or \$0.44 per basic and \$0.43 per diluted share compared to \$9.7 million or \$0.56 per basic share and \$0.54 per diluted share in the third quarter of 2021. The decrease in net income is due to increases in people and technology costs, accompanied by \$1.4 million in increased share-based compensation from increases in the company's share price during the quarter compared to a quarter-over-quarter decrease in the prior year. These more than offset increased revenue in services and registry operations overall.

EBITDA, earnings before interest, tax and depreciation was \$15.8 million compared to \$17.5 million for the same quarter in 2021 due to increases in people and technology costs and increases in share-based compensation, partially offset by increased revenue overall, and in particular, EBITDA contributed from acquisitions made earlier in the year. EBITDA margin was 32.5% for the quarter compared to 42.3% in 2021.

The change in margin year-over-year was driven by increased services revenue, which has a lower margin profile and by the positive impact of the transition of services customers to the registry complete platform, which drives a change in revenue recognition to accounting on a gross, lower margin instead of a net higher margin basis. While the accounting change has no impact on EBITDA, it does impact the margin.

Adjusted EBITDA was \$17 million for the quarter compared to \$17.3 million in 2021. Adjustments consist primarily of merger and acquisition and share-based compensation expenses, which when removed, show a stable quarter year-over-year as the increases in

revenue were offset by increased investments in people and technology as we scale the business for further growth and to maintain our customer service standards.

As a result, adjusted EBITDA margin was 34.9% compared to 41.8% in 2021, with the change coming from increased services revenue at a lower margin and lower revenue overall in the land registry in the quarter.

Free cash flow for the quarter was \$11.6 million, a decrease of 13% compared to the third quarter of 2021. This was a result of lower results of operations after increased investments in people and technology and increase in share-based compensation expense.

Turning to our balance sheet. With respect to our debt, as of September 30, 2022, the company had \$76.5 million of total debt outstanding compared to \$41 million as at December 31, 2021. This increase was a result of additional borrowings related to the acquisition of Reamined in the prior quarter, but was offset by a \$5 million prepayment to our facility during the current period. Further details on our debt and credit facilities can be found in our MD&A and financial statements.

After all this, as of September 30, 2022, we held \$32.9 million in cash compared to \$40.1 million as at December 31, 2021. Compared to our cash position of \$27.2 million at the end of the second quarter, you can see that our cash position continues to grow and provides for debt repayment due to the strong free cash flow nature of our business.

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 January 15, 2023, to shareholders of record as of December 30, 2022. I will now turn the call back over to Shawn for some concluding remarks.

Shawn Peters^ Thanks, Bob. As I noted in my opening remarks, both our Registry Operations and Services segments have performed very well in the first 9 months of 2022. And overall, the third quarter and year-to-date have progressed in line with our expectations. As we look ahead, we're actively monitoring the impact of interest rates and inflation on our current business. So, we've begun to see these emerge in salaries and certain other costs.

And based on the performance of the Saskatchewan land registry to date and as we noted in our MD&A, Saskatchewan is not immune to the impacts of those interest rate increases and ongoing inflationary pressures.

However, our housing market continues to fare better than many other regions in the country. Therefore, we expect the land registry will continue to trend to pre-pandemic levels for the balance of 2022, but we'll still finish above 2019 levels. And revenue from property tax services is expected to remain consistent for the last quarter of 2022 and the balance of the contract.

For services, we expect new customer acquisition and customer transactions to continue to deliver growth for the remainder of 2022, supported by our initiatives to bring all of our customers and services onto our new leading platforms.

Our focus on adding complementary products and new software offerings like registry complete and now recovery complete, help ensure we're not only meeting but are exceeding our customers' needs. Our investments in people, technology and new opportunities, including potential acquisitions are what's facilitating the continued growth of our business.

In Technology Solutions, as noted earlier, we're excited about the current state of our opportunity pipeline as there's a revised and refreshed interest as jurisdictions and other authorities are returning to initiatives not previously advanced due to COVID-19. We expect this will start to translate into new business wins in 2023.

And with all of that in mind, we're reiterating our annual guidance for 2022 for revenue to be between \$188 million and \$193 million; net income to be between \$29 million and \$33 million and EBITDA to be between \$59 million and \$64 million, and we expect to finish the year around the middle of those ranges. Longer term, we're in a business that's focused on the years and not just the quarters ahead, the manner in which we've diversified our business means that we remain extremely well positioned in most economic environments.

Here in Saskatchewan, we've historically underperformed the broader Canadian economy, but all the signs, including the investment dollars for projects like BHP's Jansen Potash Mine and the unique opportunity for Saskatchewan products to fill certain supply gaps caused by current geopolitical events, point to a strong Saskatchewan economy over the next few years. Our services business touches Canada from coast to coast, and our competitive pricing, first-class customer service and new technology platforms really position us well for growth.

And finally, our Technology Solutions business is seeing signs of recovery following the COVID-19 pandemic, and I remain very excited about the potential for this business. There's no question in my mind that there's further success ahead for ISC and all of its stakeholders. So, with that, I'll now turn the call back over to Jonathan.

Jonathan Hackshaw^ Thank you, Shawn. Chris, we'd now like to begin the question-and-answer session.

QUESTIONS AND ANSWERS

Operator^ At this time, we will conduct our question-and-answer section. (Operator Instructions). Our first question comes from the line of Paul Treiber, RBC Capital Markets.

Paul Treiber^ Just trying to get a better understanding of your outlook for '22 or in other words, Q4. The -- you had -- Q3 was stronger than consensus, but the outlook for '22 is unchanged. Like do we -- should we take that as -- is it conservatism in the outlook or do you expect a step -- a little bit of a step down in growth for Q4?

Shawn Peters^ Paul, it's Shawn. Thanks for the question. Yes, we really do see Q4 trending down back to the pre-pandemic levels, particularly in the Saskatchewan registry operations part.

We still think services is going to continue to grow in Q4, but Q4 is historically a slower quarter anyways. And so, with that, plus the fact that we think it's going to trend back down or continue to trend a bit back down, we think that's what's going to put us in the middle of those ranges.

Paul Treiber^ Okay. That's helpful. And bigger picture, how do we think about the cyclical nature of regulatory in corporate solutions, what have you experienced in those businesses in prior downturns? And then is there any way that cyclical nature could be mitigated by a registry complete?

Shawn Peters^ Yes. So that part of the business has less cyclical nature, I would say, than our registry operations business has. We certainly have some cyclical nature related to the collateral management part, which tends to follow sort of auto financing and auto incentive plans. And then we have the corporate side, which tends to follow year-end filings and those types of things. But there's a little less in there.

Could that be mitigated by registry complete? Absolutely. I think that we'll still see the same cyclical nature, but the fact that we're offering new products on that platform will sort of help balance that out a bit. But overall, in services, we see much less cyclical nature than we do in registered operations.

Paul Treiber^ Okay. And then lastly, just in regards to Technology Solutions, and it sounds like you're gearing up for a stronger contribution from external parties and clients in '23. Is it the team there, it seems like they've been focused on internal projects over the last couple of years or so. How -- can you describe what they've been working on. And then when they sort of shift back to external projects, how will you address those projects internally that need to be addressed?

Shawn Peters^ Great question. So, a couple of things in there. Absolutely, that our technology team is also focused on internal projects. As you know, that's one of the reasons we bought ERS back in the day was to provide support internally, and that allowed us to exit external support contracts and say, so we use our team for internal projects as well.

During the last 2 years, we have been executing against current external contracts. So, we did have a number of contract wins in 2019 and leading into the pandemic. So those are typically 18 to 24 month projects anyways, and that gave us some work to do during the

pandemic. And we're now just sort of getting to the point where we're starting to wrap a number of those up and then looking for the new opportunities.

In the meantime, though, would they work on internally. So, in Saskatchewan, all of our registry operations are supported by that technology solutions team largely out of Dublin. And so any of our system improvements and we do continually make system improvements to our registry platforms in Saskatchewan, that would be their primary focus.

And I guess I'd make one last comment. We also sort of sized the team appropriately during COVID and ran fairly lean in that team during that time. And so, to address that going forward, we'll be looking to continue our investments in people, particularly in Technology Solutions.

Operator^ Our next question comes from Scott Fletcher of CIBC World Markets Inc.

Scott Fletcher^ I was wondering if I could just get a comment on competition in the services space and whether the transaction growth that you're seeing is from -- is predominantly from expansion with the existing customers and the transition to the complete platform or if you're actually taking some share and adding competitors' customers as well?

Shawn Peters^ Yes. It's really both, Scott. Part of it is just the increase in transactions across our current customer base. That's driven by a good strong activity in the markets that we participate, along with us offering new products to those current customers, but there's also new customer wins. So, we are also taking market share.

Scott Fletcher^ And next question is a standard one, I think, but I'd love to get an update on the M&A pipeline, some commentary on what valuations are looking at and whether internally, you're allocating any more resources towards the M&A opportunity?

Shawn Peters^ Yes. So as part of our restructuring in February, we put an executive in charge of M&A, that's [Laurel Garven]. And we continue to remain focused on that. We've done 2 acquisitions this year, as you know, and we're always looking for the right company with the right products and the right services at the right time. I would say that the pipeline continues to be very active. We're pleased with what we're seeing there. But we're applying our normal level of diligence to it to ensure it is the right company at the right time.

From a valuation perspective, I don't think we've seen much shift over the last year. We did see a little bit of shift during COVID where strong cash flow businesses were looking for a little higher multiples. And I haven't really seen that come off yet in the businesses that we're looking at, although I heard anecdotally that valuations are starting to come down a bit. We just haven't seen it necessarily in what we're looking at.

Scott Fletcher^ Okay. That's helpful. And one last one, I did want to ask, could you help -- could you just help us understand why specifically the Saskatchewan real estate market has sort of held in better than the rest of the country? Just so we can sort of understand if that will continue into '23?

Shawn Peters^ Yes. It's a good question. Saskatchewan has not historically had the same fluctuations in swings as a lot of the rest of the economy -- or the rest of the country. And as you know, most of the news reports are focused on Toronto or Vancouver markets are primarily on those. And that's where you see the wild swings. We've just never really seen that.

Saskatchewan is a very diversified economy. And so, the impact sometimes of recessions is not as dramatic here. And particularly, I think as we go into this one for the reasons I cited and you can sort of look at any economic report on the potential for Saskatchewan, I think we're really well positioned over the next couple of years based on our commodities and the investments in the province, and that drives activity in the real estate market.

Now that's offset a little bit by the increases in interest rates, and that's, I think, why we're seeing a bit of a return with a slightly more normalized transaction levels. But again, it really holds up well because I think the economy is fairly diversified. And so, we don't have the same wild swings in other parts of the country do. And we're also not in an overinflated housing market, so.

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

Stephen Boland^ Can you remind us about -- I know there's some sort of inflation adjustment in your pricing that gets negotiated, I believe, with the government. Can you just remind me of that process and when it takes place and how that occurs, just with what we've seen with inflation this year?

Robert Antochow^ Sure, Stephen. It's Bob here. Thanks for the question. Yes, we've got a CPI factor in our MSA agreement. It doesn't apply to all fees like [Adelaar], but any of the flat fees, it does get applied to, and it's based on the Saskatchewan CPI.

And so that exercise usually, it's in July where that price increase gets applied to the different transactions. It varies by registry in terms of what it's applied to. But typically, it's beginning to mid-July, where the price increase gets applied.

Stephen Boland^ Okay. So that would have helped, I presume this quarter for some of the registries as you mentioned. But -- and what's the -- is it like a June to June annual or is it calendar 2021 or calendar 2022. How does it -- what's the time period that the CPI (inaudible) like basically applied?

Robert Antochow^ Yes. More -- yes, June, so it gets applied in July and then continues on for the year. So, if that helps. So, it's based -- we haven't seen the expectations are

obviously with what's going on with inflation. That expectations that will be higher than what the typical average has been over the last number of years.

Stephen Boland^ Okay. So, we should -- if things kind of hold through here from July 1st to the end of June next year, there will be a good portion of your business that reprices upward, I presume. I guess that's -- you said parts of it, but the majority (inaudible) or can you give a little bit of impact?

Robert Antochow^ Yes, yes. The biggest part of our fees come into Adelaar charge, which is 0.3% on the land values, right? And so that part depends on the average selling price of land. So, there wouldn't be -- that is -- that percentage remains the same. So, the impact -- so you can apply it to the entire revenue, if that makes sense, so.

Shawn Peters^ Yes. I might add a couple of things there, Stephen, too so. As Bob said, it is June to June. So, what we would have seen in this quarter is the previous year's CPI impact, so that's not as large. If you're looking ahead to next year, we'd anticipate there'd be a larger CPI adjustment applied, but that wouldn't take effect until next June.

And as Bob said, across sort of flat fee products. So that's typically in the Personal Property Registry. Those are all flat fee products and the corporate registry is flat free products. And in the land registry, it's a mix of Ad Valorem and flat fee, what as Bob said, Ad Valorem being sort of the bulk of that, probably 60% to 70% of the land revenue with Ad Valorem.

Stephen Boland^ Okay. That's helpful. The second question I have is on the Recovery Solutions business. You mentioned that volumes are up, but it's being offset by higher redemption rates. Could you explain that, I'm not familiar with that terminology? Redemption rate.

Shawn Peters^ Sure. So basically, debtors when the -- we go to claim the asset, they have an option to redeem it pay out the loan. And what we're seeing -- before we take the market, most of the return for us comes on selling the asset where we get a commission.

And what happens under the redemption, there's a notice period the debtor has an opportunity to redeem it. And that -- and we just earn a flat fee in the case of the redemption versus a commission, which is much larger typically. And so, with -- there appears to be increased funds available that debtors are able to afford to redeem the vehicles versus resulting in a sale.

Robert Antochow^ Anecdotally, we're seeing that, Stephen, because of the strength in the used car market. So, people are choosing to redeem the vehicle, sell it themselves as opposed to letting it go to auction.

Stephen Boland^ And lastly, you've given guidance for the Q4 for the remainder of 2022. What -- as you start looking at building your guidance for 2023, what kind of leading indicators do you kind of factor in to get to that guidance? So, I mean I'm not

asking for 2023 guidance, but what's besides the Saskatchewan government, you're looking at unemployment, what are the main things that we should look at to build our forecast for next year?

Robert Antochow^ Yes, that's a great question. We do fairly extensive modeling on the Saskatchewan economy to try to predict the real estate market. There's a lot of things that affect both our land registry, our corporate registry and our personal property registries.

So, we'll look at things like auto forecasts for resales because that affects our PPR. We'll look at general economy, things like sort of overall expected performance of the province because that will drive new businesses in Saskatchewan, which affects our corporate registry. It also allows existing businesses to continue if there's a strong economy, which drives renewals in our corporate registry.

And in our land registry, when we're trying to figure out real estate transactions, we look at several factors. So, in migration to the province. So, what's the expected population change in the province. Again, do we see it or the forecast that it would be a strong economy, what's inflation look like?

All of the types of things that would attract people to Saskatchewan and/or put them in good financial -- good financial position to buy a new house or upgrade a house. So, it's really driven by what's the general economy expected to be in Saskatchewan, along with some people stats.

Stephen Boland^ Okay. And when would we expect 2023 guidance? (inaudible) do I can't remember when you issued it last for 2022.

Jonathan Hackshaw^ Steven, it's John. We typically issue guidance within the first quarter. I mean, in the past, when we started it, we started reissuing guidance this year. It's typically January, February around there, but we haven't set a date for that yet. But as you know, historically, we typically trend to what our history is. So hopefully, that helps you get an idea of where the -- where it may land.

Operator^ Next, we have Jesse Pytlak from Cormark Securities.

Jesse Pytlak^ Coming back to the guidance, it obviously implies a pretty big step down in Q4 margins. Just wondering if you could maybe walk us through more some of the assumptions that you've built into that. Is that really just more of a revenue mix situation or there's some costing we should be aware of?

Shawn Peters^ Yes. So maybe I'll start and then Bob can jump in. I'll start on the revenue side. Yes, I think that's part of it. Jesse, as we said, we do expect transaction levels to return to normal seasonal levels. Q4 is one of the slower quarters. So that's #1.

#2, we expect high-value transactions, which are very -- have a big margin impact to return back to normal levels as we saw here in Q3. And so that's sort of the revenue mix

part of it. That's certainly driving it. There are some additional investments in costs, which I'll let Bob talk about.

Robert Antochow^ Sure. Yes, Jesse, one of the factors that we talked is the gross versus net change, which increases revenue and cost of goods sold with no impact to EBITDA. So, as we bring on more customers to registry complete, that is going to -- eventually, we're going to get there but still anticipate some of that impact for Q4.

The other item, as we've mentioned, is we continue to invest in people and technology as we grow the business. So, we're starting -- that investment started earlier in the year, but now we're seeing it reflected in the numbers as we get more months of those increases in place.

Jesse Pytlak^ Okay. And then maybe just moving on to kind of pricing on the services business. I think you mentioned putting in price increases for the noncontract based customers. What proportion of your overall customer mix would be these noncontract based customers. And then how does the pricing work for our contract-based customers?

Robert Antochow^ Yes. So, most of our customers -- our larger customers that make up a majority of the revenue are on contracts. And so those contracts typically 1 to 4-year periods. And of course, the renegotiation of the price happens when those contracts (inaudible). The noncontract piece is a much smaller proportion. And roughly the price increases have been 5% to 15% depending on the service. But as I mentioned, it's a smaller percentage of the revenue compared to the contract-based customers.

Jesse Pytlak^ Okay. And then maybe just for the contracted customers, can you give us maybe just any sense on how renewals look? Is there kind of a big cohort that might be coming for renewal quite (inaudible) is it kind of spread evenly throughout the 4-year period?

Robert Antochow^ Yes. It's really spread evenly over the period. Yes.

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

Trevor Reynolds^ Just a couple of follow-ups here. On the recovery complete rollout, are you able to just kind of talk us through how that's gone?

Robert Antochow^ Yes. I think the -- as we talked about last quarter, rolling it out initially, I think the rollout to the customer that we selected as part of that has gone very, very well. We'll continue to advance that with our other customers. But right now, we're sort of focused on that one customer and making sure we've got everything in place, but it's gone remarkably well.

Trevor Reynolds^ Okay. And then just on the pace of activity in the recovery business. I know you guys talked about, obviously, the redemption rates being high, but just the pace

of delinquencies that you're seeing, has that -- did that pick up quite a bit through the quarter or where does that sit?

Shawn Peters^ Well, I think as we talked about before, this is sort of that countercyclical business. And so, during a recession or tough times, you expect that to go up. We have seen some slight increases in transaction levels. But for the reasons Bob talked about a lot of the activity has turned back to redemptions.

That strong used car market has meant people are redeeming the vehicles, then selling themselves to pay off the loan versus letting it go to default. We do expect that we'll probably continue to increase all the overall transactions, but it's probably more into 2023 where we'll start to see the real impact of that.

Trevor Reynolds^ Okay. And then just the last one here, just on escalators. What does that look like in the remind property taxes business there?

Shawn Peters^ Escalators in the contract pricing, you mean?

Trevor Reynolds^ Yes, just on that contract.

Shawn Peters^ Yes. Those are all contracted over the next. So that's just sort of a normal CPI increase over the life of the contract.

Operator^ Thank you. That concludes our Q&A segment. I'll now turn it over to Jonathan Hackshaw, Senior Director, Investor Relations and Capital Markets for closing comments.

Jonathan Hackshaw^ Thank you, Chris. With no further questions, we would like to once again thank everybody for joining us on today's call for all the questions. And we look forward to speaking with you again when we report our fourth quarter and year-end results later into 2023. Have a good day.