

Information Services(Q4 2022 Earnings)

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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
- Unidentified Speaker; Information Services Corporation; Company Representative

Participants:

- Scott Fletcher; CIBC Capital Markets; Research Division, Research Analyst
- Stephen Boland; Raymond James Ltd.; Research Division, MD & Equity Research Analyst
- Paul Treiber; RBC Capital Markets; Research Division, Director of Canadian Technology & Analyst
- 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 Fourth Quarter and Year-End 2022 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to hand the conference over to Jonathan Hackshaw, Senior Director, Investor Relations and Capital Markets.

Jonathan Hackshaw^ Thank you, Liz, and good morning, everyone, for joining us today. Welcome to ISV's conference call for the year ended December 31, 2022. On the call today with me are Sean Peters, President and CEO; and Bob Antochow, our Chief Financial Officer. This morning, Sean will take you through some of the highlights of the year. Bob will then provide some financial highlights for the year as well as speak to our outlook and guidance for 2023 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 laws. 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 Sean.

Shawn Peters^ Thank you, Jonathan. And good morning to everyone joining us for today's call. Just a few comments before I turn it back over to Bob to -- for some financial remarks. Overall, 2022 was another successful year for ISC with increases in revenue, EBITDA and free cash flow, along with a stable net income.

Yet again, our two core segments, registry operations and Services delivered strong results. As we anticipated, the second half of 2022 saw registry operations return to more normal pre-pandemic behavior while continuing to be the excellent EBITDA and free cash flow generator that it's always been.

For services, 2022 marked a milestone for the business when it exceeded registry operations in revenue for the first time since we acquired ESC in October 2015. This is a culmination of the steps we've taken to diversify the broader business as well as grow organically through new customer acquisition. To drive that growth, we've invested purposefully in our technology, and we now have platforms like registry complete and recovery complete which provide all of our customers with easy access to our suite of solutions.

Last year, we noted the Technology Solutions segment was the most impacted by the COVID-19 pandemic, and that was evident this year as we saw weaker results in Technology Solutions in 2022 compared to prior years. However, with jurisdictions now able to refocus on moving various technology projects forward, we're energized about the potential of the business, and we've been driving new opportunities post COVID.

With our new ERS leadership now fully on board and focused on business performance and our continued commitment to customer excellence I'm confident we'll see a return to growth and new contract wins ahead. As part of our long-term strategy to diversify our portfolio, we completed and integrated two transactions in 2022 that allow us to maintain market leadership in our industries and expand our range of services and customer base.

In services, we acquired Up level in February 2022, expanding our leading role in the PPSA market credit life cycle product suite by adding early and late-stage collections to our portfolio.

As well, we expanded registry operations for the first time through the acquisition of Rio Mine Systems, Inc., a recognized leader in providing property tax assessment management infrastructure and services in the province of Ontario. While not a registry in the traditional sense, this business has a similar profile to our Saskatchewan registry

business, both through its financial profile as well as its long-standing relationship with the province of Ontario.

It highlights our expertise in delivering a range of services on behalf of governments and demonstrates our expanded thinking in growing this business. As a result, (inaudible) has been an excellent complementary business to our Saskatchewan registries. During the course of the year, I was fortunate to meet with many of our shareholders, prospective investors and other stakeholders.

I would like to thank all of them for their support during my first year as President and CEO of ISC and reiterate my commitment to ensuring ISC delivers value to shareholders through deliberate and thoughtful execution.

Our growth is calculated and consistent, and it builds on the strength and stability of our underlying business. That growth potential, combined with a healthy dividend yield makes it hard to find a more solid company than an ISC. I'll now turn the call over to Bob to discuss some of the financial highlights before providing some closing thoughts.

Robert Antochow^ Thank you, Shawn. And good morning, everyone. As Shawn said, our 2022 results were very strong, considering our exceptional 2021 and the economic tightening that occurred in 2022. This performance was driven by a number of factors, but more specifically. Revenue was \$189.9 million for the year ended December 31, 2022, and an increase of 12% compared to 2021.

The revenue increase was driven by continued transaction and customer growth in services, specifically within the regulatory and Corporate Solutions divisions. Combined with \$5.8 million contributed by up level since its acquisition in February 2022. Registry Operations Saskatchewan business experienced a strong first half of the year as expected, with transaction volumes beginning to trend towards pre-pandemic levels in the second half of the year. Registry operations revenue was also bolstered by \$8.9 million of additional revenue from Ontario property tax assessment services following the acquisition of (inaudible) in June 2022.

Net income was \$30.8 million or \$1.75 per basic share and \$1.71 per diluted share compared to \$32.1 million or \$1.83 per basic share and \$1.78 per diluted share in 2021. Current year results are relatively consistent when compared to the record high net income earned in 2021.

The decline relates to a reduction in revenue in the Saskatchewan land registry during the year, up \$3.8 million due to a return of transaction volumes to more normalized pre-pandemic levels and reduced revenue and earnings contributed by Technology Solutions during the year.

Partially offsetting this decline were earnings from acquisitions made during the year and a \$4.5 million decrease in year-over-year share-based compensation due to a reduction in the company's share price. EBITDA was \$60.9 million compared to \$60.5 million in

2021 due to increased revenue in services and registry operations, a reduction in share-based compensation, which compared to the prior year due to a reduction in the company's share price, offset by investments made in people and technology across the business.

EBITDA margin was 32.1% for the year compared to 35.7% in 2021. Adjusted EBITDA was \$64.4 million compared to \$67.8 million in 2021. The decrease relates to lower share-based compensation and an increase in acquisition and integration costs offset by consistent EBITDA.

Adjusted EBITDA margin was 33.9% compared to 40% in the prior year with the change coming from increased services revenue, specifically in Corporate Solutions, which is a lower margin division of the business and lower revenue overall in the Saskatchewan land registry for the year.

Free cash flow for the year ended December 31, 2022, was \$45.9 million, an increase of \$1.1 million compared to \$44.8 million in 2021. The increase was due to results contributed by both registry operations and services accompanied by additional EBITDA from acquisitions made during the year as well as less capital expenditures. Turning to our balance sheet.

With respect to our debt, as at December 31, 2022, the company had \$66 million of total debt outstanding compared to \$41 million as at December 31, 2021, and mainly due to acquisitions made during the year. After all this, as at December 31, 2022, we helped \$34.5 million in cash compared to \$40.1 million as at December 31, 2021. Further details on our GAAP and credit facilities can be found in our MD&A and financial statements.

In February, we provided our outlook and guidance for 2023, and this is also included in our MD&A, which I encourage you to read. As a reminder, we've guided that for 2023, revenue is expected to be between \$200 million and \$205 million. Net income is expected to be between \$27 million and \$32 million. Earnings before interest, taxes, depreciation and amortization is expected to be between \$58 million and \$63 million. And adjusted EBITDA is expected to be between \$65 million and \$70 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 April 15, 2023, to shareholders of record as of March 31, 2023. I will now turn the call back over to Shawn for some concluding remarks.

Shawn Peters^ Thanks, Bob. As the world begins to navigate post pandemic conditions, including a higher interest rate environment, we believe that ISC will continue to be successful given the proven robustness of our business.

We've invested in our business throughout 2022 and are in an enviable position to capitalize on organic growth opportunities in 2023 as well as executing on appropriate

acquisitions. The talent we've developed for acquiring and integrating our new businesses quickly will continue to prove valuable as we move forward.

Going forward, we'll continue to focus on maintaining operational excellence and sustained growth into 2023 and beyond. We're confident our commitment to financial excellence and customer satisfaction will continue to drive our success and further propel ISC and our subsidiaries as leaders in our communities and in our industries. With that, I'll now hand the call back over to Jonathan.

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

QUESTIONS AND ANSWERS

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

Scott Fletcher^ I'm just wondering if you could talk about some of the changes you've referenced in the MD&A and the outlook changes to the Ontario Business Registry that are coming in the first half of the year. Can you just walk us through the nature of those changes and what some of the potential impacts might be there?

Shawn Peters^ Sure. Yes. Scott, thanks for the question. The Ontario government has previously announced that it will be opening certain aspects of the Ontario Business Registry to more participants and that's something, of course, that we've been aware of for a number of years and certainly participated and helped the Ontario government in testing some of the new functionality that they'll be putting out.

So it's something we've diversified our business. The Ontario business is obviously important to us, but we've diversified over the last number of years. So something that we've been expecting for some time.

Scott Fletcher^ Okay. And then I wanted to ask a question on the margin profile, particularly in the services segment. There's obviously been a lot of noise with strong performance throughout 2021 and then the growth versus net changes so maybe could you give us maybe some context on where you think margins might settle in the services segment going forward?

Robert Antochow^ Scott, it's Bob here. Yes, I think the margins that we experienced in the past year are representative of what we'd see going forward. With the combination of our different revenue from our different divisions.

Scott Fletcher^ Okay. And then I'll just ask one last question on the acquisition of the Regulus I'm sure I'm not pinning correctly, but registry. Could you just maybe sort of give us -- is that -- moving into new registry is something that you're continuing to remain open to? And then maybe just some context on the size and opportunity of that. I

know I understand it's almost nothing at the moment, but maybe where you see it could potentially get to?

Robert Antochow^ Yes. Great question, Scott. So you're right. It is -- it's a brand-new registry. What's exciting about this? I mean, I guess, to answer your first question is our new registry is something we're going after. Absolutely, we are. That continues to be one of the pillars of our growth and in this case, is a brand new registry and its first international registry that ISC will be doing. So we've been focused, obviously, on Canada and Commonwealth jurisdictions, but this is now an international registry.

The size of it, it will, like any brand-new registry, will take some time to grow, but we're excited that we've got the support of enough jurisdictions to make the registry a go, and we're excited to get started on that in 2022. It will be a small one initially, but we think there's lots of potential here and with other international registries now that we're in that space.

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

Stephen Boland^ Can you hear me okay? Can you follow up on the Ontario Business Registry. I mean from what I understand that there is going to be a public portal that certain clients may not have to use intermediary like yourselves. Have you, I guess, pulled your clients in terms of is that a possibility or the functionality at the public portal, it's not sufficient for corporate needs or law needs things about sort.

Robert Antochow^ Yes. So thanks, Stephen, for the question. what we do anticipate. So you've characterized that right. They are opening up a public portal that other companies will be able to access there's two things with that.

One, those are some of the services we provide, but not all of them. We've talked over the last number of years that our registry complete is a software product that allows a number of offerings, including the ones that we would do through the -- so we do add value, and that's been our approach through the whole thing is retaining our clients through the value that we add.

And having said that, we know that there will be an impact as a result of certain clients shifting. And as I said in the answer to the opening question, we've expected that for some time and plan for that.

That's in our guidance already. it's not as material for us as it would have been, for instance, in 2015 when we originally bought ESC, and that's primarily what the business was. That's been the point of our diversification over time is that we knew that was coming and wouldn't be material. We still expect though that we'll have high customer retention on that and all the other services that we offer.

Stephen Boland^ Okay. That's helpful. Maybe the second question, I just want to talk about up level a little bit. I mean it's referenced about accounts receivable recovery, a lot in the MD&A but they do a lot of other services. I'm just wondering, is Air recovery the primary like service or revenue driver for that business?

Shawn Peters^ Yes. Well, maybe I'll start, and then I'll have Bob jump in on that. Just from a strategic perspective, the thing that was attractive to us about the up-level acquisition was the early and late-stage collections because in our credit life cycle business, the ABS acquisition we made really dealt with the front end of the credit life cycle, the Paragon acquisition we made dealt with recovery but there's a whole collection, either deficiency balance or early-stage collections in there that was attractive.

So they had some PPSA business that was good to consolidate with ours and the collections was attractive to us. So from a strategic perspective, that's why we're talking about that and because we think that's picking up here as we go into 2023 with a little bit tighter economy. So I'll leave at that from a strategic perspective and let Bob jump in on sort of financial side.

Robert Antochow^ Yes, Stephen. So just to add to what Sean said, there's the PPS business that you mentioned. That allows us to access some new customers that we didn't have and offer expanded services to those customers as well. And that business, you saw that your contributions were about \$5.8 million for the year in total. That's for 10.5 months. So we continue to expect to be able to maintain that business in next year and grow it like Shawn mentioned.

Stephen Boland^ Okay. Great. And last one for me. Just in terms of your guidance for the coming year, especially, I guess, on the revenue side. And you mentioned, I guess, a slight [Saskatchewan] recovery or some maybe gradual what factors go into your guidance, making that? Is it just a GDP or what other factors do you look at to build that guidance up?

Unidentified Speaker^ This is Steven. We look at a number of drivers. So yes, it's population, GDP, interest rates. We look at forecasts, both from the banks, the Saskatchewan Real Estate Association. And we factor all that in as well as -- as you recall, we also have a CPI increase on our flat fees in the registries. This year, this past year, with the increased inflation, that's expected to be, I believe, Saskatchewan CPI was up 6.58%. So then we also expect some increases in fees going into 2023 because of that as well.

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

Paul Treiber^ Just wanted to dig into a bit more on the outlook for profitability in '23. Just in the MD&A, there's a chart on the expected normalization in registry margins due to high-value transactions that is returning to pre-COVID levels. To what degree have

you reflected that in your outlook? And what headwind are you anticipating from that just to profitability?

Robert Antochow^ Yes. So I'll start, and maybe Shawn can add to it. So as we mentioned, we expect more of a return to pre-pandemic norms for -- so that's going back to 2019 in terms of high-value transactions. As well as transaction levels. And that's what we saw in the last part of 2022, which you'll see in those graphs. And so that's what we factored into our guidance going forward. And really, when you look at -- we've got an annual chart there, and you can see clearly on an annual basis, 2021 was an exceptional year, especially for high-value transactions.

'22 was just slightly below that, but that was really in the first 2 quarters. of 2022 that we saw that. So the last two quarters of 2022, that's where we expect the -- to return to more of those norms going into 2023. Yes.

Shawn Peters^ The only thing I might add to that, Paul, is on the profitability side, obviously, those high-value transactions are very profitable for us. And part of what had the -- what we would sort of call inflated margins over the last couple of years. And as Bob said, we are coming back down to the post pandemic. Well, we're actually above post or pre-pandemic conditions. So we're above 2019 levels on both registry transactions and what we expect to be high-value transactions.

But it does have an impact on profitability. It certainly skewed it very high in the COVID time and now we're coming back to normal, which is still a fantastic margin in this business.

Paul Treiber^ Okay. That's helpful. Also related to margins, just in the disclosures in the MD&A, there's an EBITDA number mentioned for (inaudible) and it looks like they're operating about, I guess, high teens EBITDA margins. Do you see margin expansion on those businesses from these levels?

Shawn Peters^ It is a lower margin business as it relates to the collection activity, but that is one as the business -- as we grow the business, obviously, this first year, we had integration activities that took place. So, just as we brought it into the fold with ISC and our Services segment, so we do expect some improvement in 2023 because the integration is done. But typically, those will be just slightly lower than the overall services margin. EBITDA margin that you see of around that 20% level.

Robert Antochow^ Yes. And I think that's important, Paul, particularly on the (inaudible) because that is a higher margin. That's more like our registry. As we said, that's more like our registry operations business and margins, but the integration costs for the first year, what make that look lower.

Paul Treiber^ Okay. And then just lastly for me, just in terms of uses of capital in '23, in just sort of interest rates going up, I mean, the interest costs are going up as well. How do you think about uses of capital here, just in light of a higher interest rate environment?

Shawn Peters^ Yes. It's -- I don't know that it changes our focus or -- but it does impact the scenarios for sure. We're still focused on growing, and we think we still have lots of flexibility and room to grow even in a slightly higher interest rate environment.

It means we'll be as diligent as we've been in the past and maybe a bit more as we look to ensure that the returns from those acquisitions or any of the growth investments that we make are worth it. We're not really -- the interest rate environment is something we have to pay attention to, and we do, but we're not really letting that all to our overall strategy and growth plan.

Operator^ (Operator Instructions) Our next question comes from the line of Trevor Reynolds with Acumen Capital.

Trevor Reynolds^ On the EBITDA guidance, I was wondering if you guys could provide a little bit of detail in terms of the breakdown by division contribution, I guess, expected by division?

Shawn Peters^ Yes. Trevor, yes. We just provide the guidance from an overall business standpoint. But you can look at -- from a margin perspective, you can look at the prior year for an idea of where we think each business line is going to be, obviously, with registry operations with the return to slightly above pre-pandemic norms. We see that margin profile being a little bit down. But yes, you could look at the prior year as a guide.

Trevor Reynolds^ Okay. Yes. No, that's fair. And then I guess just kind of the recovery in the technology side of things. What's the time frame to -- that you guys see that getting back to pre-pandemic levels and into new growth?

Robert Antochow^ Yes, Trevor. So we saw a bit of a return. I think we talked about this as early as Q3 last year. We started to see a return to procurement activities in the spaces that we play there. And so that's been pretty active for us throughout the fall. And so we've built that into the 2023 guidance. We do see 2023 being a much stronger year for our technology business than the last couple for sure.

Trevor Reynolds^ Okay. And then lastly, I guess, just on the recovery side of things. What -- I know you guys have mentioned that the used cars, for example, where the value of those, the inflated value of those was the hampering that recovery business margins a bit. Maybe just kind of what you're seeing today on that side of things.

Shawn Peters^ Yes, I'll start, and then Bob can jump in. I think we talked about the fact that, that business is a countercyclical business. And certainly, I think we're starting to see some of that play out.

We expected assignments to come sort of in the spring to start to increase in the spring, and I think we're starting to see that. So from a -- from that perspective, I think that's

playing out the way we were thinking that would on the used car side, I'll let Bob comment because there's certainly some changes that are happening there as well.

Robert Antochow^ Yes. Thanks, Shawn. Yes, we are starting to see assignments pick up Trevor, but the issue always is we make additional margin on the sale of the vehicles and what -- with used car prices higher in the last year, people were able to redeem their loans and pay them off. And for that, we only receive an administration fee, but we are starting to see some changes there. And we'd expect that, that comes around as more and more vehicles do come on the market the ship shortage gets -- is reduced.

Operator^ That concludes today's question-and-answer session. I'd like to turn the call back to Jonathan Hackshaw for closing remarks.

Jonathan Hackshaw^ Thanks, Liz, and thanks, everybody, for joining us on the call today. I appreciate all the questions and the interest, and we look forward to speaking with you again when we report our first quarter for 2023. Thanks, and have a good day. Bye-bye.

Operator^ This concludes today's conference call. Thank you for participating. You may now disconnect.