

## **Information Services(Q1 2022 Earnings)**

**May 05, 2022**

### **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:**

- Stephen Boland; Raymond James Ltd.; Analyst
- Scott Fletcher; CIBC Capital Markets; Analyst
- Jesse Pytlak; Cormark Securities Inc.; Analyst

## **PRESENTATION**

Operator^ Ladies and gentlemen, thank you for standing by, and welcome to the ISC Q1 2022 Earnings Conference Call. At this time all participants are in a listen-only mode. Later we will conduct a question and answer session. (Operator Instructions). I would now like to hand the conference over to your speaker today, Jonathan Hackshaw, senior director of investor relations and capital markets. Thank you, please go ahead.

Jonathan Hackshaw^ Thank you, [Sadie], and good morning, ladies and gentlemen. Welcome to ISC's conference call for the quarter ended March 31, 2022. On the call today with me are Shawn Peters, president and CEO, and Bob Antochow, chief financial officer.

This morning, Shawn will start us off by taking you through some of the highlights of the quarter. Bob will then provide some financial and operating highlights for the year, as well as provide a reminder about our outlook and guidance for 2022 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 investor 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 to everyone joining us for today's call. I'm pleased to report that we have continued to deliver very strong results in the first quarter of 2022 building on the strength we experienced in 2021, and fueled by organic growth as well as the continued robust economic activity in the markets in which we operate.

This quarter marked a milestone for us. For the first time since we created our services segment in 2015, quarterly revenues in services has exceeded Registry Operations as the biggest revenue contributor of ISC's three segments in a quarter.

This has been achieved through a continued focus on acquiring and onboarding new customers supported by our strategic M&A in the segment. Our customer-oriented approach is also a contributing factor in the strong organic growth this quarter, driven across all of our Regulatory, Corporate, and Recovery Solution product lines.

Revenue overall was up 40% in Services with Regulatory Solutions revenue up 23% year-over-year from organic growth, and our newest line, Recovery Solutions up 45% from last year as a result of increased recovery assignments with COVID support programs ending and increased values for recovered vehicles.

Registry operations performance continues to be driven by strong economic conditions in Saskatchewan, combined with record high-value transaction revenues in the Land Registry, and an increase in average land values transacted through the registry. Personal Property Registry and Corporate Registry also performed well, decreasing modestly compared to the same period last year.

Technology Solutions continues to be the most affected by COVID-19, which has impacted our progress on active projects and the commencement of potential new opportunities, as governments around the world have been responding to the pandemic.

Our recruitment for expanded leadership in our Irish-based subsidiary is expected to be completed by the end of the second quarter, and I'm looking forward to the positive impact that is expected to have on our Technology Solutions segment.

I'll now ask Bob to provide some further details on our financial and operating performance for the quarter, as well as remind everyone about our guidance and outlook for 2022.

Robert Antochow^ Thanks, Shawn. Good morning to all of you joining us on the call today. As Shawn noted, we've had an excellent quarter at ISC. Our overall results for the first quarter of 2022 are up over the previous year.

Revenue was \$44.2 million, an increase of \$5 million or 13% compared to the first quarter of 2021. The increase in revenue during the quarter was due to continued organic growth in Services, increased revenue from Recovery Solutions, as well as new revenue from the acquisition of UPLLevel mid-way through the first quarter.

Registry Operations also contributed to increased revenues due to strong activity in the real estate sector, including record high-value transaction revenues and higher average land values transacted through the Land Registry.

Our Technology Solutions segment continues to be the most affected by COVID-19, which has impacted the commencement of potential new opportunities as well as progress on active projects, as governments around the world have been responding to the pandemic.

Revenue in Technology Solutions was \$4.4 million for the quarter, a decrease of \$1.6 million compared to \$6 million for the same period in 2021. Revenue from external parties for the quarter was \$1.8 million compared to \$3.7 million in the same period in 2021.

The decrease was due to the timing of solution implementation projects, which impacts the timing of revenue. Net income was \$7.4 million or \$0.42 per basic and \$0.41 per diluted share, an increase of \$1.9 million compared to the first quarter of 2021 when net income was \$5.5 million or \$0.32 per basic and \$0.31 per diluted share.

The increase is due to the increased revenue in Registry Operations and Services, reductions in share-based compensation, and continued effective cost management. EBITDA, earnings before interest, taxes, depreciation, and amortization expense, was \$13.8 million compared to \$11.9 million in the same quarter last year, an increase of \$2 million or 17%.

The increase was again due to increased revenue, accompanied by reductions in share-based compensation expense, resulting in strong margins across all segments. The EBITDA margin for the first quarter of 2022 was 31.3% compared to 30.3% in the same quarter in 2021.

Adjusted EBITDA was \$14.6 million for the quarter compared to \$14.8 million in the same quarter last year, with an adjusted EBITDA margin of 33% for the quarter compared to 37.8% in the first quarter of 2021. Free cash flow was \$11 million compared to \$8.9 million in Q1 2021.

The increase was due to higher results of operations and as a reminder of the unique nature of our business, and its ability to consistently generate strong free cash flow. Turning to our balance sheet. With respect to our debt, as at March 31, 2022, the company had \$41 million of total debt outstanding, consistent with December 31, 2021.

Further details on our debt and credit facilities can be found in our MD&A and financial statements. After all this, as at March 31, 2022, we held \$23.4 million in cash compared to \$40.1 million as at December 31, 2021.

The change in our cash position during the quarter was due to the payment for the acquisition of UPLlevel, dividends paid, a higher tax payment due to strong 2021 net income, partly offset by operating results during the quarter. With respect to the year ahead, we reiterated our guidance and outlook for 2022 in our MD&A that we released yesterday.

In summary, Registry Operations will remain a healthy contributor to our results in 2022 due to the strong cash flow this business generates on a consistent basis. In Services, we expect that this line of business will continue to deliver organic growth in 2022, fueled by continuous technology advancements, driving operational efficiency and new product innovation.

We are deliberate in growing this business with existing customers and the acquisition and onboarding of new customers, particularly with our leading cloud-based Registry Complete software.

In Technology Solutions, we expect to see continued progress and completion of solution delivery projects where COVID-19 and other related delays have resulted in certain milestones being deferred to 2022.

As we move forward, we're confident about the potential of the business, and are investing to help drive new opportunities, including with jurisdictions that are able to refocus on moving their various technology-related projects forward post COVID.

As a result of these and other factors outlined in our MD&A, our guidance for 2022 remains as follows. Revenue will be between \$168 million and \$173 million. Net income will be between \$23 million and \$27 million and EBITDA will be between \$48 million and \$53 million.

The only additional comment I would like to make about our guidance for 2022 is around the EBITDA we are forecasting. As a reminder, it is expected to be lower than our EBITDA for 2021, which was \$60.5 million.

As you know, over the past 2 years, Registry Operations has delivered exceptionally strong EBITDA, above historical levels. This strong EBITDA has been propelled by a combination of a robust Saskatchewan real estate market, driving higher average transaction values, increased high-value transactions, and slightly higher volumes in the Land Registry.

While we expect continued strength in Registry Operations EBITDA margin, we anticipate it to trend closer to pre-pandemic levels over the course of 2022, and when

combined with the people and technology investments we are making in 2022, will result in a more normalized EBITDA.

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 July 15, 2022, to shareholders on record as of June 30, 2022. I will now turn the call back over to Shawn for some concluding remarks.

Shawn Peters^ Thanks, Bob. Looking ahead, ISC will remain focused on doing what we do well, delivering excellence within our existing businesses, providing outstanding customer service to our clients, and taking care of our people.

After an outstanding year in 2021, we're enthusiastic about the year ahead and committed to the execution of our strategy. It's our commitment to and our execution against our strategy that has expanded and diversified our business to the point where our Services segment has exceeded our Registry Operations segment for the first time ever on a revenue basis.

I'd like to congratulate our Services leader, Clare Colledge and her team, on achieving this outstanding result. As the year continues, we'll be making investments in people and technology to further strengthen our overall business and position it for even greater growth.

For example, during the course of the year, we expect to launch and deploy new technology to support our Recovery Solutions business aimed at providing improved customer performance reporting and operational efficiencies, as well as complementing our leading cloud-based solution, Registry Complete.

We'll also continue to actively explore appropriate acquisition targets that complement or add value to our existing lines of business, or provide new key service offerings that will also drive further growth and shareholder value. With that, I'll turn the call back over to Jonathan.

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

<b>QUESTIONS AND ANSWERS</b>
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Operator^ Yes, sir. (Operator Instructions) For our first question, we have Stephen Boland from Raymond James.

Stephen Boland^ Can we talk a little bit about the guidance? Because I think we're trying to reconcile -- I think the timing of your quarterly results -- I thought during our discussion that Q1, possibly Q2 would be weaker with some acceleration in revenue in Q3 and Q4.

So, when I even just annualize your Q1 numbers, it comes, I guess, higher than your annual guidance. So did March accelerate? Or should we -- has there been a seasonal shift? Or are you expecting something different in the quarterly fluctuations?

Shawn Peters^ It's actually the reverse of what you said. We had -- as you know, we had a very strong 2021, and our guidance and our outlook expected that, that strength would continue early on in 2022, so for the first quarter or 2, and then start to return to normalized levels.

So the first 2 quarters we expect it to be strong, and then more normalizing in the last 2 quarters. So that's why if you try to annualize this first quarter, you won't get the right result.

Stephen Boland^ And maybe just on the Service division. You mentioned new customers -- a number of reasons for the really solid growth in revenue there. Are you taking -- when you talk about new customers, are you thinking market share? Are these new entrants to the market? Could you maybe provide a little bit more color on how you're winning this business?

Robert Antochow^ Yes, it's a combination of offering additional services, additional value add to our customers through our new Registry Complete software as well as then acquiring new customers. So it's really a combination of the 2.

Stephen Boland^ So when you just say new customers, like does that mean they're switching from an older system or a system they don't have to you? Because it is a competitive business. So I mean, is this just sales calls or RFPs? Maybe just a little bit more detail on that.

Shawn Peters^ Yes. It's the acquisition of the new customers and searching them out. With our Registry Complete platform, we do offer a new range of services now. So it is more attractive to customers. And instead of using multiple providers, they can come down -- come with us and get a more -- full suite of services.

Stephen Boland^ And maybe just one on the technology. I understand pandemic related. Maybe just a little bit more detail in terms of, the government entity that you're dealing with and the milestones, is it just that these entities have basically pushed the contracts off for 6 months or 3 months? What's -- on their side, what's causing their delay in terms of moving projects forward?

Robert Antochow^ Yes, it's really that the governments have been affected by the COVID-19 pandemic just like the rest of a number of organizations. So their focus, adjusting to working from home, focus with delivering their services from using remote staff, has sort of directed people away from these new projects, and that's what's impacting the completion of the milestones.

Stephen Boland^ And just a quick follow-up. Is that also for RFP activity for your pipeline? Is that kind of muted as well?

Shawn Peters^ Yes, it is, and we have seen that over the course of COVID. So as Bob said, with governments focused on COVID measures, they haven't been procuring technology the same way they would have normally been.

We are seeing that start to pick up now and start to resume. I mean governments are slow. So procurement activities is slow starting and it will take some time to get going. But we are seeing activity now in that, which we haven't seen for a couple of years.

Operator^ (Operator Instructions) For our next question, we have Scott Fletcher from CIBC.

Scott Fletcher^ Congrats on the nice quarter. I wanted to ask a question on the Recovery business, and just to clarify something. Is it -- just to start, is the entire -- is UPLlevel entirely included in the Recovery business?

Shawn Peters^ No, it's not, Scott. UPLlevel is a very small business and a small acquisition for us, but it consists of different parts. Part of those were PPSA customers or -- then that goes into the PPSA, the Regulatory Solutions part of our Services business.

Only the collecting part of the business, the early and late-stage collections really goes into Recovery. So it's a bit kind of [splitted] up in the different areas into Services.

Scott Fletcher^ That actually helps because I mean I -- if it was all in there, I was getting an organic decline. So that clears that up. So I appreciate that. And then maybe on the Recovery, do you see the momentum you saw in terms of organic growth from maybe banks looking to collect a little bit more frequently? Do you see that continuing? Is that - - or was there sort of a flood that came through in the quarter?

Shawn Peters^ Scott, yes, it was due to a couple of items. One was that we're seeing higher average used car prices with the shortage of new vehicles due to supply constraints. So that's 1 factor. The other factor is we did see a higher allocation of cases from our clients.

And so it was really the combination of those 2 items. And it's still early stage. We predicted for some time that when COVID support programs would start to come off, that might pick up and combine now with increasing interest rates, which will put pressure on homeowners and car -- more on homeowners, and then that impacts their car payments. So there's sort of a stream there that might cause the recoveries to really start to increase.

Scott Fletcher^ A second question I have on M&A. And just curious what the pipeline is looking like through -- in your world I know, obviously, the public markets are seeing a pretty steep valuation decline. I'm not sure if that you're seeing that flow through into the

targets you're looking at, or if there's still a number of opportunities outside of -- even with -- even if valuations are remaining strong?

Robert Antochow^ Yes. We are actually -- the pipeline for us is quite strong. As we said, we're going to be a bit more focused on our acquisition and our acquisition strategy. Now we're still very particular about the opportunities that we go after. They have to be the right company for us.

They have to fit within our strategy, somewhere that we can also add some value. So we're still particular about that, and we'll continue that. But that's easier to do when you have a robust pipeline, and we do have a fairly robust pipeline of opportunities which we're quite pleased about in all areas of our business.

Scott Fletcher^ And maybe a follow-up on all areas comments. Is there a certain segment -- I mean it seems like the Services -- with the growth that you're seeing there might be a more logical fit. Is that sort of the top of the priority list?

Robert Antochow^ Yes. It's probably the top of the natural list. That's where we've invested and done the M&A for sure. We think there's lots of room there for other products and services to offer to our customers and new customers that we can acquire. But we're also focused on Technology Solutions.

As we said that we're part of that plan to rebuild that post COVID, is also looking at opportunities where there might be products or services or features that are helpful for us in responding to RFPs. So technology is also on our list.

And our Registry Operations, as you know, we're always looking for opportunities to help governments or other jurisdictions do some of the operations or the activities there. So it's really across all segments we're seeing some activity and some opportunity.

Operator^ For our next question, we have Jesse Pytlak from Cormark Securities.

Jesse Pytlak^ Just first on the Registry business. Obviously, a very strong quarter for high-value transactions once again. Can you just kind of comment on how that actually trended through the quarter and maybe if that momentum has been sustained here in Q2?

Shawn Peters^ Yes, we -- what we're seeing in Q2 in our original guidance, we're seeing that play out so far in what's been transacted. The -- it carried forward from 2021 into 2022. However, the 1 question is, how is that impacted by the rate increases. We can't predict that at this point. So we still believe in our guidance that we've put forward, and still feel that it's appropriate.

And maybe just a follow-up in answer to Stephen's original question on the call. The trend is, as Bob said, following what we expected. We did expect to see strength in the first quarter or 2 of 2021, and that's what we're seeing. And so we are confident in the guidance. It seems to be playing out the way we had expected.



Jesse Pytlak^ And then maybe just switching gears. Bob, I think in your prepared remarks, you commented on some plans for product innovations in the Services business. Can you just elaborate a bit more on this? And maybe talk about what kind of impact these innovations could have on the -- on the customer journey?

Robert Antochow^ Yes. In particular, we've been talking for a little bit on the Recovery Solutions that we've been working away on processes and technology. We've taken advantage of the fact that it's been a bit slower during COVID than we would have anticipated.

And what that's doing is, it's taking a business which is already a high-margin business and improving it. So we've looked at all of the processes and where we could put technology in, and how we can actually move and be more akin to our Registry Complete software, which is a full sort of cloud-based offering.

So we really expect that's going to improve the customer experience, particularly the performance reporting for our large customers in that recovery space. And then for us, that also translates into operational efficiencies.

Operator^ And there are no further questions at this time. I'll hand it back to you, Jonathan Hackshaw, for closing remarks.

Jonathan Hackshaw^ Thank you, [Sadie]. With no further questions, I would like to once again thank all of you for joining us on today's call, and we look forward to speaking with you again when we report our second quarter. Have a good day.

Operator^ Ladies and gentlemen, this concludes today's conference call. Thank you all for participating. You may now disconnect.