

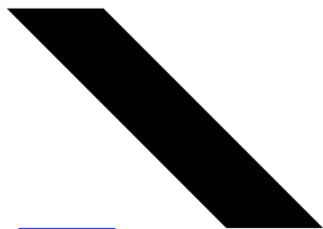


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Q3 2024 INFORMATION SERVICES CORP EARNINGS CALL

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CORPORATE PARTICIPANTS

- **Jonathan Hackshaw** *Information Services Corporation - Senior Director, Investor Relations & Capital Markets*
- **Shawn Peters** *Information Services Corp - President, Chief Executive Officer*
- **Robert Antochow** *Information Services Corp - Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

- **Operator**
- **Paul Treiber** *RBC Capital Markets - Analyst*
- **Harry Kilby** *Edison Group - Analyst*
- **Trevor Reynolds** *Acumen Capital Finance Partners Limited - Analyst*
- **Scott Fletcher** *CIBC Capital Markets - Analyst*
- **Jesse Pytlak** *Cormark Securities Inc. - Analyst*

PRESENTATION

Operator

Good day and thank you for standing by, welcome to the ISC Q3 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 of Investor Relations and Capital Markets. Please go ahead.

Jonathan Hackshaw *Information Services Corporation - Senior Director, Investor Relations & Capital Markets*

Thank you, Shannon and good morning to everyone joining us today. Welcome to ISC conference call for the quarter ended September 30, 2024. On the call with me today are Shawn Peters, President and CEO; and Bob Antochow, Chief Financial Officer.

This morning, Shawn will take you through some of the highlights of the quarter. Bob will then provide some comments on our financial and operating performance 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 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 relations section of our website. With that, I would now like to turn the call over to Shawn.

Shawn Peters Information Services Corp - President, Chief Executive Officer

Thank you, Jonathan and good morning to everyone joining us for today's call. The third quarter of 2024 delivered excellent results with revenue up 12% and adjusted EBITDA up 18% compared to the third quarter of 2023. In registry operations, strong performance from the Saskatchewan Registries division combined with the full effect of fee adjustments implemented in July 2023, produced revenue and adjusted EBITDA for the quarter, they were up 16% and 23% respectively.

We also saw continued strong performance in residential real estate in the land registry resulting in an increase in overall volumes compared to the third quarter of 2023. In services there is growth in know your customer and due diligence activities from existing customers in the regulatory solutions division as the compliance environment continues to be more stringent within the lending industry. As well, we saw growth in the recovery solutions division as we saw both increased assignments and sales.

However, revenue and adjusted EBITDA for the quarter were still marginally lower compared to the same quarter last year following the introduction of a ban by the Government of Ontario on notice of security interests or NOSI at the start of the quarter which impacted our collateral management offering.

Finally, I'm pleased to report that our technology solutions segment also saw an improvement in results with increases in revenue and adjusted but a \$3.4 million and \$1.5 million respectively compared to the same period last year.

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 Information Services Corp - Chief Financial Officer

Thank you, Shawn and good morning, everyone. As Shawn mentioned, 2024 is showing strong performance with the third quarter of 2024 continuing to deliver results in line with their expectations. The positive performance for the quarter was driven by a number of factors which I will now highlight for you revenue was \$60.9 million for the quarter, an increase of 12% compared to the third quarter of 2023.

This increase was driven by increased volumes across the Saskatchewan registries division in registry operations combined with the full quarter of fee adjustments compared to two months in the prior year quarter. New revenue related to the Bank Act Security Registry and the advancement of project work on existing and new solution definition and implementation contracts and technology solutions.

Net income was \$4.2 million or \$0.23 per basic and diluted share compared to \$4.2 million or \$0.24 per basic share and \$0.23 per diluted share in the third quarter of 2023. Strong operating results were offset by increased share-based compensation expense, increased investment in information technology services primarily related to project delivery work and technology solutions, as well as increased amortization associated with the extension.

Net cash flow provided by operating activities was \$14.2 million for the quarter. A decrease of \$0.4 million from \$14.6 million in the third quarter of 2023. The change was driven by changes in non-cash working capital, partially offset by strength in the operating segments. Adjusted net income was \$11 million or \$0.61 per basic share and \$0.60 per diluted share, compared to \$8.4 million or \$0.47 per basic share and \$0.46 per diluted share in the third quarter of 2023.

The growth in adjusted net income for the three and nine months ended September 30, 2024 reflects the strong results from all operating segments. Adjusted EBITDA was \$22.7 million for the quarter compared to \$19.2 million in the third quarter of 2023. The increase was driven by volume increases across the Saskatchewan registries division of registry operations and fee adjustments which resulted in higher revenues.

Additionally, progress continues to be made on existing and new solution definition and implementation contracts and technology solutions adjusted EBITDA margin was 37.3% compared to 35.2% in the third quarter of 2023. Driven mainly by the volume increases and fee adjustments in registry operations, Saskatchewan Registries Division discussed previously. Adjusted free cash flow for the quarter was \$15.9 million up 10% compared to \$14.4 million in the third quarter of 2023. This growth was driven by strong performance across the Saskatchewan registries division and progress on existing and new solutions definition and

implementation contracts and technology solutions.

Now turning to expenses. Expenses were up by \$6.4 million compared to the third quarter of 2024, largely due to regular business activity such as increases in wages and salaries and information technology services. In addition, there was an increase in expenses associated with the extension agreement including depreciation and amortization. Capital expenditures have also increased as we expected [EBIT] remaining relatively insignificant overall. Sustaining capital expenditures including registry enhancement. Capital rose to \$1.9 million for the third quarter of 2024 from \$0.5million in the corresponding period in 2023.

[During] (corrected by company after the call) the quarter, we also made the first of five annual cash payments of \$30 million in relation to the MSA extension agreement that we announced last July, using funds drawn from our credit facility. Concurrent with this payment, the balance of vendor concession liability was reduced by \$30 million on our balance sheet. As a result, debt was \$177.5 million as at September 30, 2024, compared to \$177.3 million at the same time last year.

After all this as at September 30, 2024, we held \$12 million in cash compared to \$24.2 million as at December 31, 2023, which is a reflection of our deleveraging plan following voluntary prepayments of \$16 million that were made towards the company's credit facility during the quarter. As you know, this is part of the company's plan to leverage towards the long term net leverage target of 2X to 2.5X.

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 15th, 2025 to shareholders of record as of December 31, 2024. I will now turn the call back over to Shawn for some concluding remarks.

Shawn Peters Information Services Corp - President, Chief Executive Officer

Thanks Bob. Our results for the quarter are reflective of the strength of the company's business overall, as we continue to chart the course towards achieving our five year goal to double revenue and adjusted EBITDA by 2028. Our performance for the first nine months of 2024 shows that we've made a strong start. The Bank of Canada has now lowered its key interest rate three times in 2024 with market expectations of further cuts in the next year.

Strong activity in the Saskatchewan real estate market is expected to continue in the near term despite inventory challenges in lower value homes. 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 will continue to support the strong revenue in the Saskatchewan registry's division of our registry operations segment.

Services will continue to be a significant part of our organic growth. 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.

Furthermore, 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 as well as lead to increased assignment levels in our recovery solutions division for the next two years.

In February, we provided our annual guidance that forecasted meaningful organic growth in 2024 for both revenue and adjusted EBITDA. In light of the strong performance to date in 2024 and the view that the market trends will continue to be in our favor. We're reiterating our annual guidance for 2024 with revenue expected to be within a range of \$240million to \$250 million and adjusted EBITDA to be within a range of \$83million to \$91 million.

With that, I'll hand the call back to Jonathan.

Jonathan Hackshaw Information Services Corporation - Senior Director, Investor Relations & Capital Markets

Thank you, Shawn. Shannon, we'd now like to begin the question and answer session, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Paul Treiber, RBC Capital Markets.

Paul Treiber RBC Capital Markets - Analyst

Oh, thanks very much and good morning. Just wanted to focus on regulatory solutions and just the collateral management business. What is the size of that business? And what do you see is the run rate going forward? Just with the Government of Ontario's changes there.

Robert Antochow Information Services Corp - Chief Financial Officer

Yeah, thanks Paul for the question. So, the regulatory solutions roughly from a quarterly perspective, you have seen that it was about \$18.9 million in revenue for the quarter and sort of hovers around about \$80 million roughly in total. I'm just sort of, if you look at our quarterlies, it's roughly around that \$20 million a quarter. And then in terms of the impact, sorry the last part of your question, Paul was just on. Yeah, the NOSI impact. So.

Paul Treiber RBC Capital Markets - Analyst

Yeah, exactly.

Robert Antochow Information Services Corp - Chief Financial Officer

Yeah, it is smaller part of the business, the KYC and due diligence activities have been the really the growing part of our business, but it does have -- we think that the NOSI do due diligence activities that the diversification there is going to offset the impact overall on that. I don't know, Shawn if anything to add on that at all.

Shawn Peters Information Services Corp - President, Chief Executive Officer

I think Paul about right, it is smaller. It, it had an impact in the quarter for sure. And we're just looking at how to sort of diversify and provide products and services that will accomplish the same thing that they were trying to do with the NOSI in Ontario. But for now, we're just we're staying the course on our diversification plans.

Paul Treiber RBC Capital Markets - Analyst

Okay. Shifting gears and looking at corporate solutions you mentioned that there's non-contract customers and then there's customers on contracts, how do you see the mix shift between those two? And I imagine that if more shift to contracts, you'd have better visibility, revenue visibility. Is that a fair way to think about it is you're trying to proactively shift from non-contract to contract customers.

Robert Antochow Information Services Corp - Chief Financial Officer

I think that's a fair way Paul to look at it. So, obviously we're providing more services to those contract customers. And so ideally, that's where we'd like to move people to because increases our share of the wallet in that area.

Shawn Peters Information Services Corp - President, Chief Executive Officer

For sure, and at the same time, Paul, we welcome casual users of the system and that's really what our non-contract users are. And so, we're happy to serve them as well, but your point is right that the more revenue stability with contract customers.

Paul Treiber *RBC Capital Markets - Analyst*

Okay, that's helpful, just lastly for me on Bank Act security registry it's nice to see some revenue this quarter. How do we think about the longer-term revenue potential that registry?

Robert Antochow *Information Services Corp - Chief Financial Officer*

Yeah, it's a smaller registry, we did introduce with one-third division in our registry operations segment called other registries. It'll be included in that section and just because of the materiality compared to the Saskatchewan registries division and the Ontario property tax analysis division.

Operator

Harry Kilby, Edison Group.

Harry Kilby *Edison Group - Analyst*

Hi, thanks for-- two questions from me. So, you spoke about having slightly increased CapEx spending even though it's immaterial at the moment, how do you see your CapEx profile running moving forward? Is this kind of increased spending in CapEx expected to continue to the point where it does become material?

And then you're starting to see some real growth in your technology solutions business being up 70% in the quarter year-on-year and 50% in the nine months. What sort of growth rate. Should we expect this to continue growing at? Like, should we expect it to slowly start coming down a little bit or in short, how should we really be thinking about this moving forward?

Robert Antochow *Information Services Corp - Chief Financial Officer*

Yeah, I'll start off with the CapEx question. So, the near term, we do expect your capital to be more the levels we're seeing currently as we embark on the registry enhancement associated with the Saskatchewan registries. So we did talk about investing in that previous quarters and as part of the MSA extension back in July of last year, so you will see that sort of in the near term.

And then in terms of growth and technology solutions, so again, that business is dependent on winning contracts, part of it is what we call support and maintenance, but the biggest part or the biggest revenue stream in that segment relates to the solutions definition and implementation contract.

So, we've seen a pick-up this year because of contracts. One in the previous year and at the start of the year, and we continue to have a pipeline where we're pursuing opportunities and we'd hope to continue at the same pace, but all it depends on what those opportunities are and our success rate and landing those.

Shawn Peters *Information Services Corp - President, Chief Executive Officer*

Tends to be more lumpy part of the business.

Operator

Trevor Reynolds, Acumen.

Trevor Reynolds Acumen Capital Finance Partners Limited - Analyst

Hey guys [saw] a nice morning. So, we saw a nice pick up again or continued growth on the recovery solutions side of things. Can you maybe touch on where that's at, in terms of the potential on that division, what, how much growth you still expect from that?

And maybe just the performance because since you guys have acquired it, obviously there was a period there where it was pretty stagnant, but we're starting to see that pick up. So maybe just kind of what you're seeing on that recovery solution side of things.

Robert Antochow Information Services Corp - Chief Financial Officer

I'll start off and then Shawn if you want to jump in. So, as we disclose, we are seeing as we did in the Q2 increased assignments and then obviously with increased assignments we're able to convert more to sales and that's where we earn a higher margin. During 2022 we saw with elevated used car values a lot of debtors were able to redeem their loans, and so we just earn a administration fee on that, which is significantly less than the commission we earn on the sales.

We have seen just with the increased interest rate environment a pick-up in assignments. So financial institutions are obviously there is pressure out there on debtors and that's resulting in the increased assignments and sales. And with the interest rate environment coming down there could be a impact in that, but it's probably a ways away on that. I don't know, Shawn, if you have any thoughts on that.

Shawn Peters Information Services Corp - President, Chief Executive Officer

You add just a couple of things, Trevor. So, first of all, you're right, I mean, after we first acquired the business, I think it performed differently than we expected, particularly as we acquired it during COVID and going into COVID, I think we have different expectations of how the market was going to react. And all this, we've talked on previous calls about subsidy and support payments that sort of help the consumers in those times.

Having said that, I wouldn't use the word stagnant on it. I would say that it was very stable and predictable. We've always said that it's very stable even in a strong economy. And I think that's what we've seen over the last a few years, but it's very counter cyclical, and so now that we're seeing things turn is where we expected it would perform and where it is starting to perform.

I think to answer the last part of your question about the continued growth in there we wouldn't put a percentage on where we think there's continued growth, but we do see over the next you know, sort of short term anyways that we expect that to continue to grow, we expect assignments to continue to increase for all the reasons that I outlined.

And so, I think in the short term, we'd expect to see it continue to grow. And then as the economy sort of strengthens again, it will probably go back into more of a stable holding pattern while the rest of our business and diversification we talked about sort of takes over.

Trevor Reynolds Acumen Capital Finance Partners Limited - Analyst

Got it. Thanks. And maybe just a second one just on the, you guys had quite a bit of time now to, to digest the the MSA extension. Just curious where you guys are at on in terms of M&A in the in the current environment and what the pipeline looks like.

Shawn Peters Information Services Corp - President, Chief Executive Officer

Yeah. So, you're right. We're well into the new contract in our MSA and I comment that's gone very smoothly for us and we're very happy with that relationship with the government that has allowed us some time to integrate as we talked about and prepare for the growth that we've now put out.

Our M&A pipeline is consistent. We've said for some time that it's it looks good. We are still very specific and prudent in what we choose from an M&A perspective, and we'll continue to do that. So, we're excited about the growth as we go forward and that's going to include M&A and I can't really speak to any specifics as you would know. But I would tell you that the pipeline is as good as we've seen at any in the last number of years.

Operator

Scott Fletcher, CIBC.

Scott Fletcher *CIBC Capital Markets - Analyst*

Hi, good morning, wanted to ask a question on the outlook and the guide with only one quarter left, you left the ranges on the guidance, which I sort of see it kind of wide. Is there anything keeping you from tightening any of those guidance ranges at the moment?

Shawn Peters *Information Services Corp - President, Chief Executive Officer*

Yes, Scott, thanks for the question. I think it's a great question. Obviously, given that, as we -- as you said, we are in the third quarter, I think we're comfortable in that guidance range. Obviously, given that we've reaffirmed it. I think the thing that maybe holding us back is we have seen the strength in the Saskatchewan economy and usually the fourth quarter would be the slowest quarter for us in Saskatchewan in that real estate market.

Yet, we saw quite a bit of strength ending in Q3, which will probably translate over into Q4, and so I think we just want to be prudent in not sort of specifying the range, we're comfortable that we'll hit the range. We're just, there's still some factors I think at play, particularly in the Saskatchewan economy, but maybe even a little bit in services as it kind of makes its way past those noses. That's just make, that's just stopping us from being a bit more specific if that makes any sense.

Scott Fletcher *CIBC Capital Markets - Analyst*

No, that's fair, and then just a follow up. I do want to go back to the NOSI. I just -- I'm just trying to understand obviously, there's a quarter over quarter and pretty notable decline in the growth rate there, like how much of that is attributable to that ban and if you could maybe help us put a number on how much of the \$80 million roughly is it was generated from NOSI and how you mentioned you sort of were going to diversify that impact away just a little more detail, that would be helpful. Thanks.

Shawn Peters *Information Services Corp - President, Chief Executive Officer*

Yeah, I can start and then I'll let Bob jump in on that too. So, I think as we've talked about it is the services business is pretty diversified and so this is one impact that we that or one product story that we have and you're sort of seeing the impact. I would say it's impacted the growth as you've noted, but not something that we don't think we can recover from as we continue to grow. So, well I'd hesitate to use the words not material because I do think there's obviously an impact that you're seeing.

It's not anything so significant that, we would put up a red flag on it. I think it's still well within our ability to continue to grow the company with just this one product line. So I know that's not super specific in terms of dollars. I think we're probably hesitant to disclose a dollar number specifically on the size of our NOSI business just for competitive reasons, but you'll continue to see the impact I I would say over the next quarter as well and that might give you some guidance.

Operator

Jesse Pytlak, Cormark Securities.

Jesse Pytlak *Cormark Securities Inc. - Analyst*

Thank you. Good morning, just coming back to the NOSI. Can you -- like is there a risk that other provinces could also follow Ontario's lead and implement a [band] and, if so, do you have any exposure to that?

Shawn Peters Information Services Corp - President, Chief Executive Officer

Yeah, I'll take the first part. I suppose there always is. I think that for us the bulk of our business and we'll talk about the exposure, but the bulk of our business is in Ontario. We don't speak to the reasons we understand some of the reasons why the Ontario government took that step was for a fairly significant amount of fraud that was happening in that.

I think there's other solutions to solve that as opposed to an outright ban, and so as I said we're working to try to find what some of those solutions are so that we could help other governments in that situation. So I think our exposure and I'll let Bob jump in.

I think our exposure in other provinces is fairly low, but it certainly could happen in other provinces as well. Although, I don't think the incidence of fraud is as large in some of the other provinces as it was in Ontario.

Robert Antochow Information Services Corp - Chief Financial Officer

Yeah, Shawn, you're correct, the Ontario NOSI are sort of the biggest portion of that NOSI stream and other provinces are sort of immaterial compared to that.

Jesse Pytlak Cormark Securities Inc. - Analyst

Okay, and then did you have a sense that this was coming or were you kind of caught by surprise?

Shawn Peters Information Services Corp - President, Chief Executive Officer

It was a fairly quick process with the Ontario government, we obviously in the industry, we are aware of fraud happening. Not certainly in our systems or anything, but we're aware of the concern. But I think the government acted very quickly on that. So, I think we had not much notice on it.

Operator

Trevor Reynolds, Acumen.

Shawn Peters Information Services Corp - President, Chief Executive Officer

Hey, Trevor.

Trevor Reynolds Acumen Capital Finance Partners Limited - Analyst

Hey guys, I just a follow up just on the can you remind us on the high value property transaction you guys ever like? Is there seasonality to that or, or and then also just on the corporate on the registry as well on the seasonality on that side of things?

Robert Antochow Information Services Corp - Chief Financial Officer

Yes, So, on the high value property registration revenue, that's hard to predict those are large transactions when they happen. So, it is really hard to predict those. And then the second part was on the corporate. We do have a table in our MD&A that sort of gives the seasonality by quarter for corporate registry and you can see that traditionally it's Q1 that is the bigger quarter. But you've got it, Q4 tends to be a little bit lower, but with Q1, Q2 being the higher quarters, right? So, yeah, you'll see that in the disclosures.

Operator

Thank you so much. This concludes the question-and-answer session. I would now like to turn it back to Jonathan for closing remarks.

Jonathan Hackshaw *Information Services Corporation - Senior Director, Investor Relations & Capital Markets*

Thank you, Shannon with no further questions. We would like to once again. Thank you all for joining us in today's call and 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 does conclude the program, and you may now disconnect.

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