Information Services Corporation
Information Services Corporation 2017 First Quarter Results
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C: Shawn Peters, Information Services Corporation; Vice President/Finance & Technology and Chief Financial Officer
P: Steve Arthur, RBC Capital Markets, Analyst
P: Stephanie Price, CIBC World Markets, Analyst
P: Justin Keywood, GMP Securities, Analyst

+++ presentation
Operator^ Good day, ladies and gentlemen and welcome to the Information Services Corporation 2017 First Quarter Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time.

(Operator Instructions)

As a reminder, this conference call is being recorded. I would now like to turn the conference over to Mr. Jonathan Hackshaw. Sir, you may begin.

Jonathan Hackshaw^ Thank you, Brian, and good morning ladies and gentlemen. Welcome to ISC's Conference Call for the first quarter, ended March 31, 2017. With me today are Jeff Stusek, President and CEO, and Shawn Peters, Vice President/Finance & Technology and Chief Financial Officer. Jeff will begin the call with a review of some of the highlights of the quarter. Shawn will then provide a summary of our financial and operating performance before handing the call back over to Jeff.

After the formal remarks, we will conclude the call with a Q&A session where Jeff and Shawn will be available to answer any questions you may have. Before we begin, we would like to remind everyone that we will only be summarizing results today. ISC's unaudited consolidated financial statements and management's discussion and Analysis for the first quarter ended March 31, 2017 have been filed on SEDAR and are also available in the investor section of our website under financial reports. 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 have been described in detail in the company's filings, in particular, in ISC's annual information form dated March 14, 2017. ISC's unaudited consolidated financial statements and notes and management's discussion and analysis for the first quarter ended March 31, 2017.

Those risks and uncertainties may cause the 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 legislation. 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 at www.company.isc.ca. With that, I will now turn the call over to Jeff.

Jeff Stusek^ Thank you, Jonathan. Welcome, everyone, and thank you for joining us today. Considering recent economic conditions, we've had a good start to 2017 and the economy in Saskatchewan has shown some signs of recovery since the beginning of the year. Since our last conference call in March, Saskatchewan's 2017 real GDP has been re-forecasted upward by several external sources. Growth and the value of building permits, and a downward trend in the unemployment rate during the first quarter are also encouraging signs.

However, there are still other indicators such as the softening of housing re-sale volumes and average land values suggesting that economic recovery is not yet guaranteed. Therefore, we remain cautious about the impact of any positive economic activity until we see a more prolonged trend. With that said, we are very pleased with our first quarter results having achieved consolidated EBITDA of $5.8 million and an EBITDA margin of 26.8%.

Year-over-year, our first quarter revenue on a consolidated basis was up by 9.6% which was due to an increase in revenue across all segments. With the acquisition of ERS in January, we are excited about the opportunities for our leading registry software, RegSoft, in the emerging registry market. With that, I know like to ask Shawn to summarize our financial and operating performance for the first quarter ended March 31, 2017.

Shawn Peters^ Thanks, Jeff, and good morning, everyone. Just to remind you, ISC operates in two reportable segments defined by their primary type of service offerings, namely; registries and services. The balance of our corporate activities and shared services functions, including the services and functions provided by our subsidiary ERS are reported as corporate.

Turning to the numbers, revenue for the first quarter of 2017 totaled $21.5 million, an increase of $1.9 million compared to $19.6 million for the same period in 2016. The increase is due to an increase in revenue across all of our registries, which showed an increase of 3.7% and then our services segment with an increase of 14.6% compared to the first quarter of 2016. Other income is up due to new and ongoing contracts with the government of Saskatchewan for additional services as well as the revenue from ERS.

EBITDA for the first quarter was $5.8 million compared to $5.1 million last year, an increase of $0.7 million, which resulted in an EBITDA margin of 26.8% compared to 25.9% for the same period in 2016. Adjusted EBITDA for the first quarter was $6.2 million compared to $5.5 million in the same quarter of 2016 with ISC generating an adjusted EBITDA margin of 28.9% for the quarter compared to 27.9% last year. Our net income for the first quarter was $2.4 million or $0.14 per basic and per diluted share whereas in the first quarter of 2016 net income was $2.2 million or $0.13 per basic and $0.12 per diluted share.

Turning to our registries, revenue for all registries was $16.9 million for the three months ended March 31, 2017, an increase of $0.6 million or 3.7% compared to the same period last year. Specifically, revenue for the land registry was $11.8 million, up by 2.2% compared to the same period in 2016. The majority of the revenue generated from the land registry is from the land title registry where the bulk of fees are value based and where we have seen improvements, and observe land values, and increase title search volumes.

While most of 2016 saw declines of average land values for regular land transfers, average land values improved by 6.9% in the first quarter of 2017 compared to the same period in 2016. However, regular land transfers and the volume of mortgage registrations fell by 3.8% and 10.3% respectively in the first quarter of 2017 compared to the same period in 2016. In contrast, the volume of title searches was 5.5% higher, offsetting the decline.

High value property registration revenue for the three months ended March 31, 2017 was stable at $0.8 million compared to the same period in 2016. Revenue for the personal property registry and for the first quarter of 2017 was $2.3 million, an increase of 5.4% or $0.1 million compared to the same period in 2016 due to stronger than expected transaction volumes. Transaction volumes for the first quarter of 2017 increased by 8.8% compared to the same period last year. Specifically, registration volumes rose by 5.8%. Search transactions were up 10.1% and maintenance volume increased by 9.1%.

In addition to the increase in set ups and searches, registration renewals and amendments activity also had improvement in quarter-over-quarter volume. Revenue for the corporate registry for the first quarter was $2.8 million, an increase of $0.2 or 8.7% compared to the same period in 2016. With the launch of the new system for the Saskatchewan corporate registry in July 2016, a number of permanent changes to the services and fee structure were implemented.

With that in mind, revenue from the filing of annual returns and renewals improved by 6.5% compared to the first quarter of 2016. Revenue from incorporation and registration of new business entities also increased by 18.9% compared to the same period last year. Search revenue increased by 54.8% when compared to the first quarter of 2016 due to the registry fee changes made in July of 2016. This activity rebalance fees across several categories and resulted in a higher fee for profile reports, which is the primary transaction type for search.

Turning toward services segment, revenue in our services segment for the first quarter which consists of revenue earned by our wholly owned subsidiary ESC was $3.8 million. This is an increase of $0.5 million or 14.6% compared to the first quarter in 2016. ESC has experienced solid growth in all of its lines of business in the first quarter. Specifically, revenue from know-your customer services for the first quarter was $1.4 million or 36.1% of total revenue, and grew by $0.4 million or 41.7% compared to the first quarter of 2016. The increase was due to new customer onboarding and organic growth of the installed customer base.

On our expenses, consolidated expenses for the first quarter was $17.6 million, an increase of 7.5% compared to $16.4 million for the same period of 2016. The increase in expenses was the result of an increase in salary and wages from one time and ongoing additional wages and salaries from our new subsidiary, ERS. Annual merit increases for out-of-scope employees and increase to our in scope employees' salaries, as per collective bargaining which was ratified in July of 2016.

Higher depreciation and amortization cost also increased as a result of the amortization of a new asset in our services segment which commenced in the third quarter of 2016. Capital expenditures for the three months ended March 31, 2017 for $0.1 million compared to $1.3 million for the same period in 2016. Capital expenditures in 2016 were mainly focused on our corporate registry modernization, which was completed in 2016. The lower capital expenditure to date in 2017 was due to the expected timing of 2017 initiatives, which are planned for later in the year.

With respect to our long-term debt as of March 31, 2017, the company had long-term debt of $33.1 million. Further details on this debt and our credit facilities can be found in or MD&A. From a cash perspective, ISC had $28 million in cash as of March 31, 2017 compared to $33.5 million as of December 31, 2016, a decrease of $5.5 million.

Free cash flow for the quarter was $5.6 million, compared to $3.3 million for the same period last year. Again, partly impacted by higher revenues in all of our segments. Finally, we also announced yesterday that our Board of Directors approved our quarterly cash dividend in the amount of $0.20 per share. The dividend will be payable on or before July 15, 2017 to shareholders as a record as of June 30, 2017.

I'll now turn the call back over to Jeff for some concluding remarks.

Jeff Stusek^ Thanks, Shawn. At present, the company expects the 2017 Saskatchewan economy to be more comparable to 2016 was flat to modest economic growth which drives our registries segments' results. Our current view for our services business that we expect a slowing central Canadian economy in 2017 to deliver modest growth across that segment.

As mentioned in our previous conference call, the key drivers of our consolidated expenses will continue to be wages, salaries, and information technology costs as well as the pursuit of new business opportunities. Based on these factors, we reiterate our expected EBITDA margin for 2017 between 31% and 33%. Our capital expenditures for 2017 are expected to be in the range of $5 million to $6 million funded from operating cash flow.

These expenditures will continue to focus on the maintenance, enhancement, and upgrade of core technology components, and enterprise systems. We remain confident that the focus we have placed on our existing business will position us well to benefit from any future economic growth, domestically, as well as internationally. The global registry market is an emerging sector as is the know-your-customer sector, which is part of our services segment.

Continuing investment in both these areas will position us to further strengthen our competitive advantage in the long-term with this diversification which is important to the stability of our business. In general, you can continue to expect much the same from ISC for 2017. We intent to stay in the course, while looking for opportunities in Canada and internationally that will deliver long-term value for our shareholders.

That concludes my remarks and I will now turn the call back over to Jonathan.

Jonathan Hackshaw^ Thanks, Jeff.

Brian, we would now like to begin the question and answer session, please.

+++ q-and-a
Operator^ Of course.

(Operator Instructions)

Operator^ Our first question comes from the line of Steve Arthur from RBC Capital Markets. Sir, your line is now open.

Steve Arthur^ Great, thanks very much. Just a couple of very specific things first, Shawn, you discussed a little bit the other revenue. I think it's almost a million dollars in a quarter. Now, you did touch on what those points were. Should we count on those kinds of things being recurring at around that level?

Shawn Peters^ Yes, you should, Steve, because that's from, as I've said, both the ERS and some government of Saskatchewan ongoing contracts that we have.

Steve Arthur^ Okay, good stuff. Secondly, the share of earnings or the losses from the associated $177,000 loss for the quarter and the MD&A explained why that was. Could you talk about what that number might have been without the one-time cost or what level we might reasonably assume in the forward quarters?

Shawn Peters^ Yes. Actually, I don't have that number off of the top, Steve, and it wouldn't be something we disclose. But, I think, if we look at the trending that you saw in that share profit over the last couple of quarters, that would be a reasonable estimate for going forward.

Steve Arthur^ Okay, I think that was the plan. Okay, thank you. Wages and salaries has been jumping around or jumping higher I guess because of the ERS and other things now with little over $8 million a quarter, is that a reasonable level to assume looking ahead for some variability? Does that reflect the full load from ERS or anything else that might move it higher or lower?

Shawn Peters^ It generally reflects the full load. What you'll see as you'll notice in the purchase price for ERS, we've picked up some post combination renumeration, which we're now advertising over the 30 months, so that's a new cost that we'll see every quarter. I would think this represents pretty closely a fully loaded cost for us going forward.

Steve Arthur^ Okay. I guess the final one for me, just bigger picture in your comments, I guess, somewhat more optimistic on the macro environment but somewhat more cautious at the same time. So, when we look at that, does that translate into any meaningful different revenue outlook you would for this year versus what we're talking a few months ago? Or, looking at it in another way, EBITDA looks still 31% to 33%, so presumably from that, we would read into it that are a real revenue change from what we're thinking a quarter ago?

Shawn Peters^ No. I think that's right, Steve. I think the interesting thing about the situation right now is there are a couple of positive indicators. As we've talked about, we're still seeing declines in some of the significant area of the volumes that we have and so there's just enough offsetting factors to make us remain cautious for the rest of the year and really expect it to be flat as we talked about before.

Steve Arthur^ Okay, thanks very much. I'll leave it there. Thanks.

Shawn Peters^ Thank you, Steve.

Operator^ Our next question comes from the line of Stephanie Price from CBIC, ma'am.

Stephanie Price^ Good morning.

Shawn Peters^ Good morning, Stephanie.

Jeff Stusek^ Good morning, Stephanie.

Stephanie Price^ So, ESC obviously, a quarter of solid growth, can you talk a bit more about know-your customer and what's driving the growth at ESC and talk a bit more about the outlook for the full year, which I think you mentioned was moderate in your prepared results or prepared remarks.

Jeff Stusek^ Thanks for the question, Stephanie, Jeff here. ESC, the know-your customer sort of growth is really through some evolving legislation and regulation around companies that are lending money. For example, need to demonstrate that the company that they are lending to is legitimate. It's a growing industry and one where ESC business is well-positioned to sort of take on because they attach themselves, if you will, to all of the registries and draw information from the registries across Canada, so this growth in that segment is important.

I think bottom line, ESC is a really strong business and some of that growth is just through the acquisition of new customers and continual pursuit of new customers as well.

Stephanie Price^ Great, thanks. Then, in terms of the pipeline of other opportunities both in Canada and internationally, can you kind of maybe not quantify it, but talk a bit about how you see it versus last year and in the case of potential new business out there.

Jeff Stusek^ As I've said, probably, ad nauseam, as it relates to the registry business and our pursuit of alternative service delivery options, it's a long sail cycle. What I suspected to happen in the marketplace I think is beginning to happen as we see much more activity. I think you see that in the news and so we suspect the emerging trend of more jurisdictions looking at this as positive. That doesn't necessarily translate directly into new business for us. It's just that I think that trend is turning and so we still have a favorable outlook towards alternative service delivery, and registry provision, and other jurisdictions, and that's an international pursuit clearly.

Stephanie Price^ Okay, great, and then just one more maybe for Shawn. Can you walk through the seasonality with Q1 margins?

Shawn Peters^ Yes. Typically, we do see some seasonality in Q1 and particularly in our Saskatchewan registry business. It's usually a bit of a slower quarter for us. ESC on the other hand doesn't really have that same level of seasonality. There is some seasonality in their business sort of to the Q4, but Q1 through Q3 are relatively stable. Then, in our ERS business, it's largely project-based so there's no seasonality associated with that. It's just project based. But, in summary, we'll usually see a bit lower Q1 just because of the size of our registries business.

Stephanie Price^ Great, thank you.

Jeff Stusek^ Thanks, Stephanie.

(Operator Instructions)

Operator^ Our next question comes from the line of Justin Keywood from GMP Securities. Sir, your line is now open.

Justin Keywood^ Hi. Thanks for taking my call. On the ERS acquisition, I was wondering how we should look at the revenue growth for that business. I realize it's relatively small, but should we -- is this more of a strategic channel for new opportunities?

Shawn Peters^ Yes, I think you hit it pretty good there, Justin. First of all, it is definitely a strategic opportunity or for new opportunity for us. The one thing we do have to talk about is stable is sort of an interesting word, because it is via project based so it's based on the winning contracts and then providing those services, whether they are software implementation or development. So, it can have a bit of a boom and bust cycle associated with it as that happens.

Again, it is small, as you've noted but it might have a little bit of variability, but certainly a strategy opportunity for really growing in that area.

Justin Keywood^ Okay, that's helpful. Then, for the contingent consideration of $7 million on ERS, are you able to give any color on how that may be realized?

Shawn Peters^ Sure, so it's EUR5 million. Actually, EUR5 million, so I guess it's roughly converted as you said to $7 million Canadian. It's really dependent on sort of two things. One is the continued retention of the existing management of ERS. They are obviously important to us and to the continued growth of that business. But, also, contingent upon earning as certainly new opportunities and business that we see in front of us. So, that's about a specific as I can get.

Justin Keywood^ Okay, you would not be to quantify what percentage is based on the retention versus new opportunities.

Shawn Peters^ No, not really. I think it would be safe to say that the earning of the new opportunity is also sort of associated with the retention of that management, so in general we're looking to retain those folks for some time to be able to pay out the entire continuing consideration.

Justin Keywood^ Got it. Then, on the available debt capacity, I think I calculated it just around $2 million and then there is, of course, the cash balance. Is there a plan to expand that debt capacity or how do you look at that?

Shawn Peters^ It's a good question, Justin. I think that's absolutely something that we look at. Obviously, we do have the three facilities right now that we and whether that's the most efficient way to structure ourselves going forward. I think up to this point we have made good use of those facilities and certainly earning well on them. But, I think, as we continue to grow, we need to look at or we are looking at how to structure that better and continue to increase it to allow the business to grow.

Justin Keywood^ Okay, and then just one small question. On the accounts payable, I have noticed it was reduced quite a bit which affected cash flow. Is this typical seasonality or are there any one time items there?

Shawn Peters^ No. I think it would be generally fairly typical. We do have sometimes in GST, payments, either receivable payments that come in due and that can affect it a little bit, but generally, I would it's fairly normal.

Justin Keywood^ Okay, thank you.

Operator^ I am showing no further questions and now I would like to turn the call back to Mr. Jonathan Hackshaw for your further remarks.

Jonathan Hackshaw^ Thank you, Brian. With no further questions, I would like to once again thank everyone for joining us on today's call and we look forward to speaking with you again at our next conference call. Have a good day.

Operator^ Ladies and gentlemen, thank you for participating in today's conference. This concludes today's program and you may all disconnect. Everyone, have a great day.