

## FINAL TRANSCRIPT

### Information Services Corporation

### Second Quarter Results Conference Call

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**PRESENTATION****Operator**

Good morning, ladies and gentlemen, and welcome to Information Services Corporation Second Quarter Results Conference Call. At this time, all lines are in listen-only mode.

Following the presentation, we will conduct a question-and-answer session. If at any time during this call you require immediate assistance, please press \*, 0 for the Operator.

This call is being recorded on Thursday, August 6, 2015.

I would now like to turn the conference over to Mr. Jonathan Hackshaw. Please go ahead.

**Jonathan Hackshaw** — Director, Investor Relations & Corporate Communications, Information Services Corporation

Thank you, Operator, and good morning, everyone. Welcome to Information Services Corporation's conference call for the second quarter and six months ended June 30, 2015. With me today are Jeff Stusek, President and CEO, and Shawn Peters, Vice-President, Finance and Technology and Chief Financial Officer.

Before we begin, we would like to remind everyone that we will only be summarizing results today. ISC's unaudited condensed consolidated interim financial statements and notes and management's discussion and analysis for the period ended June 30, 2015, have been filed on SEDAR and are also available in the Investors section of our website under Financial Information. We encourage you to review those reports in their entirety.

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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 17, 2015, and management's discussion and analysis for the period ended June 30, 2015. 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 legislation.

Today's conference call is being broadcast live over the Internet, and will be archived for replay approximately 48 hours after the call on our website at [www.isc.ca](http://www.isc.ca).

I will now turn the call over to Jeff.

**Jeff Stusek** — President and Chief Executive Officer, Information Services Corporation

Thank you, Jonathan. Welcome, everyone, and thank you for joining us on the web or on the phone this morning.

I will begin with a brief overview of the second quarter, and Shawn will then provide summary details of our financial and operating performance. We will then conclude the call with a Q&A session where Shawn and I would be happy to answer any questions you may have.

As you will have noted from our results, economic conditions continue to affect our revenue year over year. While average land values in the second quarter of 2015 were higher than

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those in the second quarter of 2014, the volume of regular land transfers declined by 16.4 percent. Mortgage registrations declined by 7.6 percent, and title searches declined by 7.7 percent. In short, the trend we saw in the first quarter continued into the second quarter.

Many of you often ask about the contribution made by high-value property transactions to our revenue. We saw more high-value property transactions in the second quarter of 2015 than we did in the same period last year.

The difference in 2015 is that the contribution of these high-value transactions to our revenue has been offset by the decline in transaction volume overall.

For the Personal Property Registry and Corporate Registry, both were consistent with the second quarter of 2014. This consistency in the Corporate Registry suggests there is some strength to the Saskatchewan economy, as there was only a slight decline of 0.4 percent in the incorporation of new businesses. PPR registrations also remained stable.

While our overall results for the three and six months ended June 30, 2015, are down compared to the same periods in 2014, they are in line with our 2007 to 2014 historical quarterly averages.

Turning to growth. Subsequent to the end of the quarter, we announced the investment in OneMove Technologies Incorporated and acquisition of ESC Corporate Services Limited. While we are first and foremost a registry services company, through these transactions we will expand ISC's geographic footprint. We will talk more about their financial impact after closing.

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With that, I will now pass the call over to Shawn to take you through a summary of the financial and operating highlights for the second quarter.

**Shawn Peters** — Vice-President, Finance & Technology and Chief Financial Officer, Information Services Corporation

Thank you, Jeff, and good morning, everyone. Starting with our top line, revenue for the three months ended June 30, 2015, totalled \$20.1 million, a decrease of 8.9 percent compared to 22 million for the same period in 2014.

For the six months ended June 30, 2015, revenue was 36.1 million compared to 39.4 million for the same period in 2014.

EBITDA for the second quarter was 8.2 million compared to 8.6 million for the same quarter last year, which resulted in ISC generating an EBITDA margin of 41.1 percent compared to 38.9 percent for the same period one year ago, driven largely from our cost management producing similar net results on lower revenue and the inclusion of an asset impairment charge in the 2014 results.

For the six months ended June 30, 2015, EBITDA was \$12 million compared to 13.5 million for the six months ended June 30, 2014. Adjusted EBITDA for the second quarter and first six months of 2015 was 8.4 million and 12.2 million, respectively, compared to 9.4 million and 14.7 million in the same periods last year.

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And just a quick note about adjusted EBITDA. We've changed the manner in which we calculate adjusted EBITDA. Previous adjustments related to the costs of the Company's IPO and normalization adjustments related to the transfer of the Government of Saskatchewan's Vital Statistics Registry are no longer applicable. EBITDA is now adjusted for stock-based compensation expense or income; equity settled employee benefit reserves; transactional gains or losses; asset impairment charges; and acquisition and integration costs.

I'd encourage you to refer to the MD&A for more details on these changes.

ISC's net income for the second quarter and first six months of 2015 was \$5 million, or \$0.28 per share, and \$6.7 million, or \$0.38 per share, respectively. By way of comparison, in the second quarter and first six months of 2014 net income was 5.3 million, or \$0.30 per share, and 8.1 million, or \$0.46 per share, respectively.

I'd now like to highlight some of the results of our registries, starting with the Land Registry, which includes the Land Titles Registry, the Land Surveys Directory and Geomatics. Revenue for the second quarter of 2015 was \$15.3 million, a decrease of 11.6 percent compared to the prior-year period.

Results were weaker in the second quarter of 2015 compared to the same period in 2014, as Jeff mentioned, because of the slowdown of the Saskatchewan economy, which impacted our transaction volumes.

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For the six months ended June 30, 2015, revenue for the Land Registry was \$27 million compared to \$30.3 million in the same period last year, a decrease of 11 percent.

For the Personal Property Registry, revenue was flat at 2.7 million when compared to the same period in 2014. Revenue for the Corporate Registry for the second quarter of 2015 was \$2.1 million, an increase of 1.1 percent when compared to the three months ended June 30, 2014. This increase was driven largely by the filing of annual returns as opposed to new incorporations.

And finally, for the six months ended June 30, 2015, revenue for the PPR and Corporate Registry was 4.8 million and 4.2 million, respectively. In both cases these results were comparable to the first six months of 2014.

Turning to expenses. We continued to manage costs in line with the decrease in revenue. For the second quarter of 2015, expenses were \$13.1 million, a decrease of 10.7 percent compared to 14.7 million in the same period last year. For the six months ended June 30, 2015, expenses were 26.7 million compared to 28.3 million in the same prior-year period.

As stated, these decreases were attributable to a continued effort to manage our costs, and we'll continue to look for opportunities to reduce our costs for the balance of the year and beyond.

Capital expenditures for the second quarter and first six months of 2015 were 0.3 million and 1.3 million, respectively, compared to 0.7 million and 1.4 million in the same periods of 2014.

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With respect to our liquidity and capital resources, ISC had 39.4 million in cash on hand as at June 30, 2015, compared to 33.6 million as at December 31, 2014.

Free cash flow for the second quarter and first six months of 2015 was 6.6 million and 8.7 million compared to 8.5 million and 10.3 million for the same periods last year. These decreases were due to lower results overall, combined with a modest increase in additions to intangible assets in 2015.

We continue to generate healthy free cash flow, and yesterday we also announced that our Board of Directors has approved our third quarterly cash dividend for 2015 in the amount of \$0.20 per share. The dividend will be payable on or before Thursday, October 15, 2015 to holders of record of Class A limited shares as at the close of business on Wednesday, September 30, 2015.

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

**Jeff Stusek**

Thanks, Shawn. The slowing of the economy has affected our business, and we continue to expect that revenue for the remainder of 2015 will be impacted.

However, we believe that through cost management our EBITDA margin for fiscal 2015 will come in between 34 and 36 percent. Our capital expenditures in 2015 are expected to be in the range of 4 million to 6 million funded from operating cash flow.

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As I've said before, ours is a long-term business, and performance cannot be viewed from a quarter-to-quarter perspective. The announcements regarding our investment in OneMove and our acquisition of ESC are an example of the exciting times ahead.

We have a fantastic foundation in our registry business, and we've now started to execute on one part of our growth strategy.

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

### **Jonathan Hackshaw**

Thanks, Jeff. And with that, Operator, we would now like to open up the call to the question-and-answer session.

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## **Q&A**

### **Operator**

Thank you. Ladies and gentlemen, should you have a question, please press \*, followed by 1 on your touch-tone phone. Should you wish to decline from the polling process, please press \*, followed by 2. If you're using a speakerphone, please lift your handset before pressing any keys. One moment please for your first question.

Your first question comes from Steve Arthur from RBC Capital Markets. Please go ahead.

### **Steve Arthur — RBC Capital Markets**

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Great. Thanks very much. Just a few questions following on from your comments; on organic growth, we saw relatively low levels of project R&D expenses and CapEx in the quarter. Is that just part of your program of generally managing costs down because of the macro outlook? And what kinds of projects are you investing in today, and do you see over the next few years?

**Shawn Peters**

Hi, Steve. Thanks for the question. It's Shawn. Yeah. I think you hit the nail on the head there. I'll answer the second question first. The projects that we're continuing to work on, our Corporate Registry modernization is clearly our largest project.

But beyond that we've been looking at the remainder of our projects and initiatives and really taking a bit of a wait-and-see, or a bit of a cautious approach to the spending. So it is part of the overall cost management.

None of the items that we're deferring have a long-term impact. There are changes we'd like to make to our system as part of continual improvements, and we will continue to do that. We're just doing it at a pace that's a little bit slower because of those macroeconomic factors.

So hopefully that answers your question.

**Steve Arthur**

Yeah. No, that makes good sense. I guess secondly just on seasonality. Typically we see Q3 quite strong and then Q4 somewhat lower; lots of changes going on in the macro picture. So anything you see that would lead you to believe that that pattern doesn't play out again this year?

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**Shawn Peters**

I don't think at this point. I think we continue to see the rest of the year being fairly flat from an overall economic perspective. We have continued to see roughly the same seasonality that we usually see, although as you noted there are some other factors at play that have impacted it.

But right now there's nothing that is indicating to us that we'll see a significant deviation from that seasonality.

**Steve Arthur**

Okay. Just shifting gears a little bit to M&A; it was great to see ESC a couple weeks ago, I guess it was. Is it safe to assume that you'll take a bit of a pause now and complete and integrate that? Or is there still other activity going on in the M&A pipeline now?

**Jeff Stusek**

Steve, Jeff here. Thanks for the question. I think part of the exercise we have to close those announcements, and I think that has our focus. I think we're a company that has a particular growth strategy, three-pronged growth strategy, to sort of attack the local markets, look for replication or other registry service provider opportunities, and then the third is operate in this registry ecosystem. And that will likely be through acquisition.

I wouldn't say we're going to take a pause necessarily. We're going to continue to look for good opportunities, and if we do uncover some of those we'll get active on that. But our focus really is on closing these two transactions.

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**Steve Arthur**

Makes sense. Just a final question. On the MSA I saw the price increases go through, so it was good to see. I guess any other comments on how that is working now that you're moving down the path? Is it covering the issues as planned? Or any disputes or questions coming up?

**Jeff Stusek**

I think, Steve, at this point it's—sorry.

**Shawn Peters**

Go ahead.

**Jeff Stusek**

I think at this point it's working the way we expected. The price increases are, as you know, spelled out in the MSA, and they've been implemented pretty much the way we expected them to be done.

So there's really no hiccups, nothing to speak of there.

**Steve Arthur**

Great. Thanks very much, and I'll pass the line for now.

**Jonathan Hackshaw**

Thanks, Steve.

**Operator**

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Thank you. Your next question comes from Michael Urlocker from GMP Securities. Please go ahead.

**Michael Urlocker** — GMP Securities

Good morning. Thanks for taking my question. I apologize, I dialled in late to the call. You may have touched on this, but I'm curious if, Jeff, you or Shawn also might just offer your interpretation. We've seen the revenue down much more than I expected—perhaps lower than you expected—and it seems to be out of sync with the economy, right? Like I don't think the Sask economy is down 9 percent, right? So I wonder if you could just observe how you interpret that or what you think's going on in terms of the transactions for your business and the general state of the economy.

**Jeff Stusek**

Thanks, Michael; Jeff here. Yeah. The Saskatchewan story is a bit puzzling in a positive way and in a negative way. The Saskatchewan economy is slowing down a little, certainly, and that's from my vantage point.

The place that it's slowing down probably most noticeably is in real estate, the volume of real estate transactions, which directly affects our business. Now it's slowing down relative to some very recent years, but if we take a look at the sort of trending and this—we just use 2007 as a bit of a watershed year for the Saskatchewan economy generally as being a new normal, if we look at 2007 and 2014 historical averages...

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**Michael Urlocker**

Mm-hmm.

**Jeff Stusek**

2015 is in line with some of that. So I'm not suggesting this is a new normal, but it's just there is relative to 2014 a decline in the volume of land transactions.

Now there's really strong positive indicators in the economy that it's still strong, and you know them certainly as well as I do. And so we're confident in the Saskatchewan economy generally, but that's also a prong. Part of our growth strategy is to diversify and expand that geographic footprint.

**Michael Urlocker**

Mm-hmm. Okay. And certainly the recent acquisition speaks to that, right?

**Jeff Stusek**

Yeah, definitely. And I think the recent acquisition of ESC spoke to a few things. One is our desire to expand our geographic footprint and work in this registry ecosystem, but also ESC was a good strong company that really aligned to the—their approach to business is very similar to ours around our approach to customers and theirs. And so we saw a real natural fit between the two organizations.

**Michael Urlocker**

Mm-hmm. Okay. Thanks. That was my only question, and I appreciate it.

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**Shawn Peters**

Thanks for the questions, Mike. Appreciate it.

**Michael Urlocker**

Mm-hmm.

**Operator**

Thank you. Your next question comes from Varun from CIBC. Please go ahead.

**Varun Choyah — CIBC**

Hi, gentlemen.

**Jeff Stusek**

Good morning.

**Varun Choyah**

Thanks for taking my question. Morning. Just a quick one for me with regards to your CapEx expectations for the rest of the year. Is that solely related to the Corporate Registry modernization project you spoke on earlier? Or is there other stuff that's driving that back-end loaded CapEx figure?

**Shawn Peters**

Hi, Varun; it's Shawn. Thanks for the question. A large part of it is towards our Corporate Registry modernization, but we also do have a couple of other projects just internal, whether they're software or those types of updates that we see happening in the third and fourth quarters.

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So there's a little bit of a back-end on it, but in the Corporate Registry modernization itself it's a little bit loaded to the back-end as well. So that's why that figure is a little higher than you would expect, given where we are midway through the year.

**Varun Choyah**

Okay. And I guess with the closing of the two transactions, I guess, in Q3—I mean this CapEx doesn't incorporate any projects that you may undertake related to those acquisitions in Q4?

**Shawn Peters**

No, it doesn't.

**Varun Choyah**

Okay. And just a final one for me, the price increases. Do you expect the benefit of the price increase to be offset by a decline in volumes? Is that sort of what we should expect for the rest of the year?

**Shawn Peters**

I would actually think at this point what you'll see is that the decrease in volumes will more than offset the price increase. We don't—we expect the rest of the year to continue the way this first quarter, sort of first half has gone in terms of being fairly flat. And so we don't expect to make up that ground.

I think you'll see that the volumes will more than offset the price increase.

**Varun Choyah**

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Okay. Okay. Thanks for answering my question. That's all I've got.

**Operator**

Thank you. Ladies and gentlemen, as a reminder should you have a question, please press \*, followed by 1.

There are no further questions at this time. Please proceed, Mr. Hackshaw.

**Jonathan Hackshaw**

Thank you, Leoni (phon). So with no further questions, I'd like to once again thank all of you for joining us on today's call, and we look forward to speaking with you again soon.

Have a good day.

**Operator**

Ladies and gentlemen, this concludes your conference call today. We thank you for participating, and ask that you please disconnect your lines.

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