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Information Services Corporation 2016 Year Earnings Webcast
March 15, 2017

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+++ presentation

Operator^ Good day ladies and gentlemen, and welcome to the Information Services Corporation 2016 year end earnings webcast.

(Operator Instructions)

As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's conference, Mr. Jonathan Hackshaw.

Jonathan Hackshaw^ Good morning, ladies and gentlemen. Welcome to ISC's conference call for the fourth quarter and year ended December 31, 2016.

With me today are Jeff Stusek, President and CEO; and Shawn Peters, Vice President of Finance and Technology, and Chief Financial Officer. Also in attendance is Kathy Hillman-Weir, Vice President of Corporate Affairs and General Counsel. Jeff will begin the call with a review of some of the highlights of the year, 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, Shawn, and Kathy 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 audited consolidated financial statements and management's discussion and analysis for the fourth quarter in year ended December 31, 2016 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 and ISC's audited consolidated financial statements and notes and management's discussion analysis for the year ended December 31, 2016. 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 undated 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.

2016 was another year of economic challenge. This naturally had an impact on our consolidated results, particularly on our core registry business. Fewer housing starts and completions compared to 2015 resulted in lower land transfer volumes, as well as fewer mortgage registrations and title searches. However, the Saskatchewan Corporate Registry and Saskatchewan Personal Property Registry continue to perform well year-over-year.

Importantly, ESC Corporate Services Limited, our services business, demonstrated its value with a meaningful contribution to our consolidated results as well on a quarterly basis in 2016.

In 2016, ISC achieved healthy EBITDA and adjusted EBITDA margins in line with our expectations, although slightly lower than the previous year. That said, year-over-year our revenue on a consolidated basis was up 12.8%.

We also posted our fourteenth consecutive quarter of profitability as at December 31st, 2016. This is the result of our continued focus on our customers as well as our costs.

Other notable accomplishments for 2016 were an amendment to the MSA with the Government of Saskatchewan for ICS's continued management and operation of the Common Business Identifier Program and the Business Registration Saskatchewan Program until 2033.

This demonstrates that the Province continues to trust in our ability to manage and operate registries and programs effectively and efficiently on its behalf. Above all this service makes it easier to do business in Saskatchewan.

We also launched the new technology system for the Corporate Registry, providing a more convenient service to search, register, and maintain corporate entities in Saskatchewan. We announced that the membership of the Saskatchewan Government

and General Employees' Union, Local 2214 ratified a new collective agreement with respect to its in-scope employees.

The new, four-year agreement ends on September 30, 2019. We also successfully completed the integration of ESC Corporate Services Limited and finally we refreshed the ISC and ESC brands. With that I would now like to ask Shawn to summarize our financial and operating performance for the fourth quarter and year ended December 31, 2016.

Shawn Peters^ Thank you, Jeff, and good morning everyone. Turning to the numbers, revenue for the first quarter of 2016 totaled CAD21.2 million, a decrease of 6.1% compared to CAD22.6 million for the same period in 2015.

While fourth quarter revenue in our registry segment was down 8.8% year over year, the revenue contributed by our services segment increased by 8.2% compared to the fourth quarter of 2015. For the full year, revenue totaled CAD88.4 million, an increase of 12.8% compared to CAD78.3 million for 2015.

Our overall revenue growth year over year was driven by our services segment, which helped offset softness in the Saskatchewan Land Registry revenue. EBITDA for the fourth quarter was CAD6.8 million, compared to CAD8.2 million in the same quarter of last year, which resulted in an EBITDA margin of 32.2% compared to 36.3% for the same period in 2015, down largely in line with lower revenue in the fourth quarter of 2016.

EBITDA for the full year was CAD29.5 million, with a margin of 33.4%, compared to CAD28.4 million and 36.2% margin in 2015. The increase in EBITDA largely attributed to the addition of ESC, albeit at a slightly lower margin.

Adjusted EBITDA for the fourth quarter was CAD7.3 million, compared to CAD8.6 million in the same quarter of 2015, with ISC generating an adjusted EBITDA margin of 34.6% for the quarter, compared to 38.2% for the fourth quarter of 2015.

For the year ended December 31, 2016 adjusted EBITDA was CAD33.5 million, compared to CAD30.4 million in 2015, which resulted in an adjusted EBITDA margin of 37.9%, compared to 38.8% in 2015.

The increased adjusted EBITDA value was a result of additional spend on growth-related activities in 2016, which is added back to the calculation. However, the margin as a percentage of revenue declined based on the higher overall revenue for 2016 versus 2015.

Our net income and total comprehensive income for the fourth quarter was CAD2.9 million or \$0.17 per basic and per diluted share; whereas in the fourth quarter of 2015 net income was CAD4.6 million or \$0.26 per basic and per diluted share.

Net income and total comprehensive income for the full year was CAD15.5 million or \$0.89 per basic and \$0.87 per diluted share, compared to the net income and total comprehensive income in 2015 of CAD15.9 million or \$0.91 per basic and \$0.90 per diluted share.

Turning to our registries, revenue for all registries was CAD17.6 million for the quarter ended December 31, 2016, a decrease of CAD1.7 million or 8.8% compared to the same period in 2015. Revenue for the registry segment was CAD74 million for the year, a decrease of CAD1 million or 1.4% compared to the year ended December 31, 2015.

As Jeff discussed earlier, our results were lower, mainly due to decreased revenue from the Land Registry. Specifically, revenue from the Land Registry was CAD13 million for the fourth quarter of 2016, decreasing by 12% compared to the fourth quarter of 2015.

For the year ended December 31, 2016 Land Registry revenue was CAD54.9 million, decreasing CAD2 million or 3.4% compared to 2015. The majority of the revenue generated from the Land Registry is from the Land Titles Registry where the bulk of the fees are valued based and where we've seen a decrease in average land values.

We saw average land values for regular land were lower in 2016 compared to 2015, consistent with data from Statistics Canada, new housing price index for Saskatchewan, which shows year over year declines for each month of 2016 compared to 2015.

In 2016, Saskatchewan housing starts declined by 10.5% year over year, while the number of completions was down 9.4%; however, overall housing completion volumes were higher than housing starts, contributing to buyers' market conditions in parts of the Province.

The volume of regular land transfers, mortgage registrations, and title searches declined by 3.3%, 9.8%, and 5.9% respectively, compared to 2015. These volume declines were partly negated by an increase of Resource Sector Interest transactions in 2016.

The Land Title Registry continued to see a large number of high value property transactions, which generate a high fee per transaction, although volumes were lower than 2015. We received CAD3.6 million in revenue from these transactions in 2016, down from the CAD4.2 million in 2015.

Between 2010 and 2015, we typically saw an average of CAD3.2 million on an annual basis. Revenue for the Personal Property Registry for the fourth quarter of 2016, CAD2.3 million, which represents a modest decrease of CAD0.1 million for the same period in 2015.

Revenue for the Personal Property Registry in 2016 overall was generally stable at CAD9.9 million showing only a negligible decrease of 0.3% from 2015. Overall transaction volumes for the year improved by 1.8% in 2016 with search volumes growing

4.6%, while maintenance volumes increased 7.3%, more than offsetting the 4.6% decline in Registration volumes.

Revenue for the Corporate Registry for the quarter ended December 31, 2016 was CAD2.3 million an increase of CAD0.2 million or 10.6% compared to the same period in 2015. Corporate Registry revenue for the year was CAD9.1 million up 11.7% or CAD0.9 million. The increase in both the quarterly and annual revenue in the Corporate Registry is due to revenue received from the new common business identifier program. Which we announced on March 7, 2016.

As a reminder on July 11, 2016, we launched our new system for the Saskatchewan Corporate Registry in addition to the new technology; some permanent changes to the services and fee structure were implemented at the same time as the launch of the new system. The new fee schedule resulted in structural change as to how volumes are recorded and these have been reflected in our MDNA.

Turning to our services segment, revenue for the fourth quarter was CAD3.4 million, an increase CAD0.3 million or 8.2% compared to the fourth quarter of 2015. Revenue in our services segment for the year end of December 31, 2016, was CAD13.6 million. An increase of CAD10.5 million compared to the revenue reported in 2015 due ESC's revenue contribution of 12 months in 2016 compared to only three months in 2015.

2016 was a strong year for ESC with solid organic growth in all of its lines of business. this was largely due to the legal activity across the country, as well as strong compliance driven activities in the financial services industry, the triggered active due diligence on Companies throughout Canada.

On our expenses, consolidated expenses for the fourth quarter of 2016 were CAD18.2 million, an increase of 12.5% compared to CAD16.2 million for the same period of 2015. For the year ended December 31, 2016, consolidated expenses were CAD67.9 million, an increase of 21.9% compared to CAD55.7 million in 2015. The increase in expenses for the year was a result of additional salaries related to our services segment included for the full year in 2016 compared to only three months in 2015.

Higher depreciation in amortization costs, again, due to the additional depreciation from capital assets in our services segment and the accelerated depreciation of certain assets replaced by the new technology system for the Saskatchewan Corporate Registry. An increase in professional and consulting services from cost associated with the exploration and implementation of growth initiatives. Additional expenses related to cost of goods sold from the addition of our services segment, which offers a corporate supplies product line.

An increase in project initiatives due to focused effort on growth and technology maintenance activities and cost associated with our corporate rebranding, as well as full year of additional miscellaneous expenses from our corporate segment.

Capital expenditures for the three months ended December 31, 2016 were CAD1.1 million, compared to CAD1.5 million for the same period in 2015. For the year ended December 31, 2016, capital expenditures were CAD6.3 million compared to CAD4 million for the same period in 2015. Capital expenditures were focused on the renewal and enhancement of the technology supporting the Corporate Registry, the acquisition of a sub contract within our services segment and other smaller growth related activities.

With respect to our debt, as at December 31, 2016 the Company had total long term debt of CAD23.4 million. Further details on this debt in our credit facilities can be found in our MDNA. From a cash perspective, ISC had CAD33.7 million in cash, as of December 31, 2016 compared to CAD36.6 million as of December 31, 2015, a decrease of CAD2.9 million. Free cash flow for 2016 was CAD18.9 million compared to CAD21.5 million in 2015, again, partly impacted by lower revenues in our registry segment.

Finally, we also announced yesterday that our board of directors approved our quarterly cash dividends in the amount of 20 cents per share. The dividend will be payable on or before April 15, 2017 to shareholders of record as of March 31, 2017.

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

Jeff Stusek^ Thanks, Shawn. We've already had a constructive start to the year with the acquisition of Enterprise Registry Solutions ERS on January 23. As I commented at the time of announcing this transaction, this is a strategic acquisition and one which we believe puts us in a much stronger position to compete as governments and private sector organizations explore ways to improve the delivery of their registry services.

We expect that 2017 Saskatchewan economy, a key driver which drives our registry segment to be comparable to 2016. The stability or sun softening of growth anticipated for the Central Canadian Markets, the primary market for our service business ESC. The key drivers of expenses will continue to be wages, salaries and information technology costs.

We will continue to manage costs prudently while balancing reinvestment in the business in order to improve the customer experience or integrate services and realize synergies in our shared services where possible. We will also be focused on the integration of ERS into both our business and sales activities in 2017.

We expect half of all expenditure to be in the range of CAD5 to CAD6 million for 2017, funded from operating cash flow. This expenditure is expected to continue to focus on the maintenance enhancement and upgrade of our core technology components at Enterprise Systems in both our registries and services segments.

Based on these factors, we expect an EBITDA margin of between 31% and 33% in 2017. In general, you can continue to expect much the same from ISC for 2017. We intended to stay the course with our focus on our existing business while looking for opportunities that will position our Company for the future.

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

Jonathan Hackshaw^ Thanks, Jeff. Sandra, we would now like to begin the question and answer session please.

+++ q-and-a

Operator^ (Operator Instructions) Steve Arthur with RBC Capital Markets.

Steve Arthur^ I guess, to start with on your EBITDA look of 31 to 33%, I was wondering if you could talk a little bit about some of the factors that would put you at the high end or the low end of that. Is it primarily revenue by the macro factors or is it more cost dependant? And, I guess, with that how aggressive are you thinking in terms of cost control moves in this environment.

Shawn Peters^ So, a couple of questions there. What would place us at the top and bottom end of that is largely dependent on the macroeconomic factors.

I think we continue to see Saskatchewan being soft for the first couple of quarters as we outlined in our outlook. But there may be some turn around mid-year, and if that happened, that would probably place us -- that would certainly help us on an EBITDA margin basis. It's largely driven by the top line revenue.

On the cost side, though, we continue to look for opportunities to improve our cost.

And full marks to our operations group that continues to improve our registries here in Saskatchewan. Those continue to become more efficient, and we'll continue to do that.

But at the same time, in 2016, we did spend a little more on some of our project initiatives, which we referred to in the call, related to our technology. And we think that's going to continue into 2017, as well as some of the pursuit of our growth activities. So, I don't know that the margin will change a lot with cost because I think we're pretty established in that cost base.

Steve Arthur^ So, I guess the same would be true looking out further, I realize you don't give margin outlooks for '18, '19. But looking out two, three, or four years, it's primarily revenue driven. And I guess as well it would keep you at the higher end of that range or back towards the 32, 34 or higher ranges.

Shawn Peters^ Yes, that would be correct, Steve. The other factor I guess that we should mention is the addition of ESC.

So, ESC is a strong business as you know, but lower margin than our historical Saskatchewan Registry and that has brought the margin down.

So, performance is up, but revenue is -- sorry, but margin is down slightly as a result of that.

Steve Arthur^ That makes sense. Looking at the CAPEX outlook, CAD 5 million to CAD 6 million. Is most of that maintenance type CAPEX of enhancing systems? Or, how much of that is new revenue growth initiatives?

Shawn Peters^ The majority of it would be related to the maintenance activities. Probably about 20% of it would be related to growth activities.

Steve Arthur^ I guess, just a final one from me, just can't go without asking. But, just progress on the larger, bigger picture growth initiatives, in particular things outside of Saskatchewan. I know it's very long wick type things and things you're always looking at, but any color at all on the environment out there; what you're seeing or things progressing closer or further away than what you might have seen a quarter or two ago?

Jeff Stusek^ Steve, Jeff here. Thanks for the question. I would say it's what we expected it to be; long sale cycles and a lot of discussion and a lot of activity. There hasn't been word of these large contracts that we're accustomed to, but we continue to work on them; both within Canada and outside Canada.

Operator^ Justin Keywood with GMP Securities.

Justin Keywood^ I'm just wondering on ESC, what's driving the organic growth there?

Shawn Peters^ It's really the market that ESC is in Ontario and Quebec. It's, as I said, a strong legal market, legal services market, as well as strong compliance activities related to things like know your customer. So, that market is just continuing to grow and that's where ESC is doing really well.

Justin Keywood^ And then on the EBITDA margin guidance for next year. Is that taking into account, kind of, the lower contribution from ERS?

Shawn Peters^ Well, yes, Justin. We expect ERS to largely be, sort of, neutral to our results in 2017. So, yes, it would include that.

Justin Keywood^ OK, and how should we look at the revenue profile for ERS?

Shawn Peters^ That's something that we haven't yet disclosed, but something we'll be looking at and talking about a little bit more in Q1. So, we can maybe answer that question at Q1.

Operator^ Stephanie Price with CIBC.

Stephanie Price^ Just on the ERS acquisition. Can you talk a bit more about what it brings to the company and the synergies that you potentially see here?

Jeff Stusek^ So, ERS, as I indicated earlier, is an important strategic acquisition for us. And ERS is a registry technology company and that's what they do day in, day out.

And we see them as a strong compliment in our growth as we talked about the jurisdictions about running their registries. We haven't dug deep into the possible synergies. There's the obvious ones that you would come up with like business development activities and some IT spend.

But really, we want ERS to continue doing what it's doing very well. And just be a strong, sort of, ally partner with us as we go forward.

Stephanie Price^ And maybe more generally on the acquisition environment; what's it looking like in terms of valuation and potential other acquisitions; and how do acquisitions rank in terms of capital allocation today?

Jeff Stusek^ So, as we've sort of indicated in previous calls, we're not actively looking for the next acquisition unless it makes sense for us. So, we're focused on our business, we're focused on what we do well. We're looking to continue to grow the business. But that's not necessarily through acquisitions. It could be if the acquisition makes sense.

In our case in January, the ERS transaction made sense to us in 2015. ESC made sense to us as well. And I think we're seeing the benefits of that in today's announcement.

If the acquisition makes sense, we're going to get behind it. And if it's not there, we have a lot of growth opportunities to chase.

Operator^ And I'm showing no further questions, and I would like to turn the call back over to Mr. Jonathan Hackshaw for any further remarks.

Jonathan Hackshaw^ Thank you, Sandra. With no further questions, I would like to thank everybody once again for joining us on today's call. And we look forward to speaking with you again when we report our Q1 2017 earnings. Have a great day.

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