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PRESENTATION

Operator
Welcome to the ISC Third Quarter 2017 Results conference call.

(Operator Instructions)

As a reminder, this call may be recorded.

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

Jonathan Hackshaw - Information Services Corporation - Director of IR & Corporate Communications

Welcome to ISC's conference call for the third quarter, for the three and nine months ended September 30, 2017.

With me today are Jeff Stusek, President and CEO and Shawn Peters, Executive Vice President and Chief Financial Officer.

Jeff will provide opening comments followed by a review of operational and financial results by Shawn Peters. We will keep our prepared remarks brief and follow with a question-and-answer session afterwards.

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 quarter ended September 30, 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 are described in detail in the Company's SEDAR filings, in particular in ISC's annual information form dated March 14, 2017, and ISC's unaudited consolidated financial statements and notes and management's discussion analysis for the quarter ended September 30, 2017.

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 shortly after the call in the investor section of our website at www.company.isc.ca.
With that, I will now turn the call over to Jeff.

Jeff Stusek - Information Services Corporation - CEO, President

Welcome, everyone, and thank you for joining us today.

The first nine months of 2017 have been productive for ISC. Our consolidated performance has been good overall. We continue to execute on our strategy of focusing on our core business while examining opportunities for growth.

In January, we added ERS, a global leader in the development and implementation of registry technology. This acquisition enhances ISC’s core registry offering by adding leading registry technology solutions and consultancy services.

Then, in July, we completed the acquisition and amalgamation of Alliance Online Limited, a personal property corporate and land registry search and submission provider, through our services segment.

Although this was not a material transaction at a purchase of $1 million plus working capital adjustments, it provides us with additional capacity in personal property registry services and systems, a service offering in our services segment.

We expect that both of these acquisitions will expand our opportunities for growth in our Registries and Services segment.

Subsequent to the end of the third quarter, we made two announcements which, again, are in keeping with the pursuit of our strategy. On October 5, we announced the sale of our 30% stake in Dye & Durham Corporation for $25 million. As I said at the time, the sale allows us to focus on other growth objectives and core business, deploying our capital resources at the appropriate time.

We also enjoyed a very healthy return on investment, realizing an $18 million gain in two years, further strengthening what was already a solid balance sheet.

Shawn will provide more details on our current cash position in a few moments.

The second announcement regarding the expansion of our corporate leadership team was also related to supporting our objective of advancing our business. The addition of two new leaders in Loren Cisyk, Executive Vice President, Technology Solutions; and Dennis White, Vice President, Marketing and Business Development is a demonstration of my commitment to ensure that our business continues to evolve in the right direction with growing yet measured momentum.

I’m also very pleased that due to the strength and depth of our people I was able to assign existing leaders in our business to keep additions of leadership in human resources and business strategy.

This is a testament to the talent that resides right here in Saskatchewan, but also our ability to attract top class professionals from outside the province.

More than ever, we are on the right path, and I’m confident that our expanded leadership will make its mark, but with the same prudent and judicious approach that ISC has become known for.

With that, I’d like to ask Shawn to summarize our financial and operating performance for the three months ended September 30, 2017.

Shawn Peters - Information Services Corporation - EVP, CFO

Thank you, Jeff. And good morning, everyone.
As a reminder, ISC operates two reportable segments defined by their primary type of service offerings, namely Registries and Services.

We report the balance of our corporate activities and shared services functions, including the results of our subsidiary ERS in corporate.

I'll provide you with some highlights of Q3 on a consolidated basis, and then provide some further commentary about each of our reporting segments and their performance for the reporting period.

Revenue for the third quarter of 2017 totaled $23.9 million on a consolidated basis. Year-over-year, we saw an increase of $1 million, mainly due to revenue from ERS, which, as you know, was new for the year.

EBITDA for the third quarter was $7.6 million compared to $7.3 million last year, an increase of 4.1%, which resulted in an EBITDA margin of 31.8% compared to 32.1% in Q3 2016. Adjusted EBITDA for the quarter was $8.7 million, a margin of 36.4% compared to $9.5 million, a 41.5% margin in 2016.

Our net income for the third quarter was $1.9 million, or $0.11 per basic and per diluted share. Last year, our net income was $3.8 million, or $0.22 per basic and per diluted share. I'll talk more about what affected our net income and EPS shortly.

As we turn to our Registry segment, revenue was $19.1 million, down 2.3% compared to last year. Overall, results were lower year-over-year due to a decrease in revenue from the Land Registry, which was partially offset by an increase in revenue from the Corporate Registry.

In the Saskatchewan Land Registry, Q3 revenue decreased compared to last year by 4.5% to $14.3 million. Weaker volumes in the land titles registry, which make up the majority of our revenue, were offset by higher revenue from high value transactions.

As well, in comparison to the previous year, Land Registry revenue in Q3 2016 was abnormally high due to an influx of resource sector interest transactions following M&A activities, which required transfers of ownership.

Despite the lower transaction volumes, we did see an improvement in average land values for regular land transfers, which resulted in higher average revenue per transaction on those value based fees.

In addition, Q3 average land values were further impacted by higher than normal high value transactions, a record for us since we started recording high value transactions going back to 2004.

Revenue for the Saskatchewan Personal Property Registry for the third quarter of 2017 was $2.5 million, a drop of 5.2% compared to the same period in 2016. This was an interesting quarter for the registry. We saw third quarter PPSA set-up volumes drop by 4.6%, even though new motor vehicle sales were strong.

According to Statistics Canada, new motor vehicle sales between January and August this year are up 11% compared to the same period in 2016. However, there are other collateral types such as farm equipment, RVs, boats, etcetera, which are registered in our PPR and which can account for the overall decline.

The average price per PPSA setup, which is influenced by price and term length, was generally stable compared to Q3 of 2016, now that we have a comparable quarter after the fee rebalance in July 2016.

Turning to the Saskatchewan Corporate Registry, revenue for the quarter was $2.2 million, up $0.4 million or 20.2% compared to the same period in 2016. A large part of that increase is related to timing within the Corporate Registry.

As a reminder, the system transition that occurred in July 2016 resulted in some planned down time, as well as reduced transaction volume immediately post-launch of the new system, which resulted in lower revenue and volumes in the third quarter of 2016, making the 2017 increase look unusually high.
Also keep in mind when we launched the new system for the Saskatchewan Corporate Registry last year in July, we implemented a number of permanent changes to the fee structure. These changes, which also changed how we record volumes, included targeted fee increases and ultimately resulted in higher revenue for this registry.

Turning to our Services segment, revenue for the third quarter was $3.6 million, up 7.4% compared to the same period last year. The growth is attributed to our Know-Your-Customer, or KYC, services which, on its own was up 28.3% compared to last year. The increase was due to the addition of new business as well as organic growth of the existing customer base.

As we’ve said before, we believe there is a growing demand for regulatory services such as KYC as financial institutions are facing increased regulatory and compliance requirements.

The steady growth in this revenue line over the past eight quarters demonstrates this; and this will continue to be a key area of focus for our services business, both in the acquisition of new customers as well as growth of existing customers.

Search and registration services were $1.4 million for the third quarter, down 3.5% compared to Q3 2016. The decrease was due to slightly lower transaction volumes for the quarter, reflective of economic conditions in Ontario.

Corporate supply’s revenue for the quarter was $0.7 million, down 4.4% compared to last year. The Corporate supply business is traditionally static with little seasonality; however, the timing of customer orders can affect revenue changes quarter-to-quarter.

Finally, we saw an increase in our other revenue associated under our corporate activities, mainly due to our subsidiary ERS that contributed $1 million in revenue for the quarter. As we integrate this business further into our registry service offerings as we pursue new business, we expect this contribution to grow.

With respect to expenses, our consolidated expenses were $18.2 million, an increase of 7.8% compared to $16.9 million for Q3 2016. The increase was due to a number of factors. Wages and salaries were up $2 million compared to last year. This was mainly the result of additional wages and salaries from ERS and the timing of accruals related to the Company's performance incentive program.

We also experienced increased salaries in our services segment doing additional staffing as a result of the new business. Annual merit increases for out-of-scope employees, and increases to in-scope employee salaries as per the collective bargaining agreement.

Information technology services costs were $2.6 million, up $0.2 million for the quarter compared to Q3 of 2016. The increase reflects costs related to our decision to terminate the technology services contract with DXC effective September 15, 2017 rather than the original November 30, 2017 end date.

This is consistent with our view to consolidate IT support and development functions internally to realize future cost savings.

Cost of goods sold was $1 million for the third quarter, an increase of $0.2 million compared to 2016. The rise in the quarter was due to cost of goods increases for our corporate supplies business in our Services segment.

Capital expenditures for the third quarter of 2017 were $0.1 million compared to $0.5 million for the same period in 2016.

We’ve revised our guidance for capital expenditures for 2017 downward from a range of $3.5 to $5 million to a range of $1 to $2 million due to our focus on integration activities and the resultant changes to the timing and nature of certain planned projects, and our gradual shift to more hosted and cloud services providers.

Management expects capital expenditures for 2018 to return to historic levels as we resume our planned activities.

As a final note on the financial performance for the quarter, I’d like to turn to our corporate tax expense for the quarter.
Net income for the quarter was $1.9 million or $0.11 per basic and diluted share compared to $3.8 million or $0.22 per basic and diluted share for the same period in 2016. The decrease in the quarterly and, hence, the year-to-date net income in earnings per share was mainly due to the impact of a 1% reduction in substantively enacted future corporate tax rates by the Saskatchewan government during 2017.

This reduced the carrying value of deferred tax assets and liabilities, and resulted in a significant net charge to the current reporting period, impacting both net income and earnings per share.

Without this reduction, net income would have been $3.3 million or $0.19 per basic and diluted share for the quarter.

Subsequent to the end of the quarter, the Saskatchewan Government announced plans to reverse the 1% reduction in corporate tax rates. We expect the rate reversal, when applied to our deferred tax assets and liabilities, will increase the value of those assets and liabilities.

Once the proposed legislation is substantively enacted, we expect to record the impact of the rate reversal in a future period.

With respect to debt, as at September 30, 2017 the Company had total long-term debt of $32.3 million. Further details on our debt and our credit facilities can be found in our MD&A and our financial statements.

From a cash perspective, we had $38.6 million in cash on hand at the end of the reporting period compared to $33.5 million as at December 31, 2016, an increase of $4.9 million.

As Jeff mentioned earlier, subsequent to the end of the quarter, we sold our interest in Dye & Durham for $25 million in cash, which would add to this balance. This cash balance, along with the current availability of debt, has further strengthened our balance sheet, providing us with the capital resources to deploy at the appropriate time in support of our growth initiatives.

As at September 30, 2017 our working capital was $18.7 million compared to $25.4 million at December 31, 2016. The change in working capital resulted primarily from an increase in cash due to operations and the increase in short term debt used to fund part of the purchase price of ERS.

Free cash flow for the quarter was $8 million compared to $5.6 million for the same period last year. The increase in the quarter is due to lower spending on capital expenditures and a refund for previous years' taxes, which was received in the third quarter of 2017.

Finally, we also announced yesterday that our board of directors has approved our quarterly cash dividend of $0.20 per share. The dividend will be payable on or before January 15, 2018 to shareholders of record as of December 31, 2017.

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

Jeff Stusek - Information Services Corporation - CEO, President

Thanks, Shawn. Right now we are seeing mixed views from the banking community as to how the Saskatchewan economy will fare for the rest of the year. Given the lower volumes we've observed within some of our registries, particularly the land registry, we anticipate results for this segment overall to be similar to 2016.

In summary, we expect the Registries results to be flat in line with overall expectations for Saskatchewan.

For our Services segment, we anticipate the Ontario and Quebec economies to continue to deliver modest growth based on optimism in recent real GDP external forecasts.

Overall, we expect moderate growth year-over-year in the Services segment due to new business opportunities as well as organic growth, specifically for KYC services, which we anticipate through to the end of 2017.
In general, we've remained stable over the first nine months of 2017 as we continue to weather the challenging Saskatchewan real estate economy. We continue to advance the business and position ourselves for future growth.

To conclude, our focus remains on ensuring the stability of our core business while pursuing our strategies for growth to deliver a long-term value for our shareholders.

And, with that, I will turn the call back over to Jonathan.

Jonathan Hackshaw - Information Services Corporation - Director of IR & Corporate Communications

Thanks, Jeff.

We would like to begin the question-and-answer session now, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Steve Arthur with RBC Capital Markets.

Steven Arthur - RBC Capital Markets, LLC - Analyst

Great. Thank you very much. Just a quick follow-up question or two. First on the outlook for the year of 31% to 33% EBITDA. It's still consistent but fairly wide for this late in the year.

Just wondering if comfort level towards the upper or lower end of that range, or what the factors are that would move the business to be at the high end or the low end? More revenue led by macro factors, or costs and things that you can control there?

Shawn Peters - Information Services Corporation - EVP, CFO

Thanks, Steve. It's Shawn. Thanks for the question. Yes, I think confidence at this point would be that we'll trend closer to the lower end of that range.

The factors that will impact it, you've already hit all of them on the head. Revenue in the fourth quarter which could go up or we could continue to see it flat or decline slightly.

From a cost perspective we're pretty confident in the cost as we see them in the fourth quarter, so it's really what's going to happen with the Saskatchewan economy and the revenue.

But at this point, you know, our outlook on it is flat, and that would trend us to the lower end of that range.
Steven Arthur - RBC Capital Markets, LLC - Analyst

OK. And a different topic on CAPEX. You reduce down as you pursue in some programs. Any color on the nature of what's being deferred, the type of programs that you're deferring? And will that have any kind of revenue impact in 2018 or 2019?

Shawn Peters - Information Services Corporation - EVP, CFO

It won't have any revenue impact. Generally, as you know, Steve, our CAPEX is spent on a couple of things - either system improvements, hardware or software or on just normal - I was going to say renovations, but more enhancements to our services centers and those types of things. But the bulk of it is spent on system enhancements.

With the purchase of ERS in January and that register's platform, which is what our corporate registry runs on, obviously we're taking a look at how that makes sense to integrate with our land registry or our personal property registry.

And so it's those types of enhances that we're generally taking a look at and that we've deferred until we have the roadmap finished on that plan. But no impact to revenue over the next year.

Steven Arthur - RBC Capital Markets, LLC - Analyst

OK. And just a final one on the sale of the Dye & Durham stake. I guess the obvious question is just plans for that cash. I think it's maybe just a different way of asking for it. Does it change at all your way you look to your balance sheet and acquisition opportunities?

Any more aggressiveness on the size of what you might look at? The timing? Does it make some stuff more tempting now that you've got the bigger balance sheet?

Jeff Stusek - Information Services Corporation - CEO, President

Steve, Jeff here. You know, I appreciate the question.

I would say it doesn't make anything more tempting or aggressive from our standpoint. We're going to continue, as I've said multiple times, when the right opportunities emerge or we unearth the right opportunities, we're going to execute on them.

We've always had - or often had ample balance sheet space to deal with this. This adds some, for sure. I would say, you know, it doesn't change much other than it gives us more powder when we need it.

And so it was an exciting/positive experience, and we returned a healthy return back to the Company. But, you know, we'll continue on our growth path and our strategy. It's hasn't been significantly accelerated because of this because we're not going to make the wrong decisions just because we have cash.

Steven Arthur - RBC Capital Markets, LLC - Analyst

You should manage money if you can get more trades like that.

Thanks a lot. I'll leave it there for now.
Jeff Stusek - Information Services Corporation - CEO, President
Thanks, Steve.

Jonathan Hackshaw - Information Services Corporation - Director of IR & Corporate Communications
Thank you, Steve.

Operator
(Operator instructions) Stephanie Price with CIBC.

Stephanie Price - CIBC World Markets Inc., Research Division - Analyst
Wondering if you could give us some initial thoughts on the 2018 outlook here?

Shawn Peters - Information Services Corporation - EVP, CFO
Yes. I mean, we can't comment specifically on it. We haven't released any guidance on that. But I think it would be consistent with what we've talked about all through 2017.

Early in 2017, we saw 2017 being largely flat to maybe even down a bit. Many economic forecasts predicted a bit of a recovery in 2017. Clearly, that hasn't happened - for Saskatchewan anyway. And so most of them now are predicting them out into mid-2018.

And so I think our view continues to be flat (inaudible) Saskatchewan revenue through the last part of 2017, and that'll continue into 2018.

Stephanie Price - CIBC World Markets Inc., Research Division - Analyst
OK. Thanks. That's helpful.

Can you talk a bit about how you would allocate cash flow or uses of cash between organic growth, M&A and dividends here?

Jeff Stusek - Information Services Corporation - CEO, President
Stephanie, Jeff here. You know, I think our strategy, I would say - we don't have a specific strategy around how we allocate specifically. We obviously pay attention to and want stability in the dividend; and that remains important for us and our board.

Growth from a growth perspective, we're going to continue to invest in growth where it makes some sense. And with the acquisition of ERS it opens some of our opportunities around providing technology solutions to jurisdictions, not pure outsourcing plays that doesn't necessarily increase or decrease our allocation.

I think we're going to continue to allocate as appropriate. So strategically, we don't set cash flow, sort of, targets that way. We build plans and budgets accordingly; and we do think the dividend being stable is one of the assets of this Company.

Operator
Justin Keywood with GMP Securities.
Justin Keywood - GMP Securities L.P., Research Division - Analyst

For the expanded leadership team of Loren and Dennis, how should we interpret this? Is this a bit of a pivot in the out-of-province expansion plans? Will they work with the ERS team, or are they separate?

Jeff Stusek - Information Services Corporation - CEO, President

Hi, Justin. It's Jeff here. So Dennis and Loren both joined us from the IT industry; Dennis from HP/DXE - or HP specifically; and then Loren from IBM. They do bring a technology background and the expertise with them.

That's aligned with the acquisition of ERS for sure. And so we are going to, sort of, reinvigorate or be reinvigorated by some of our technology focus with jurisdictions and not just end-to-end registries, so we're not abandoning that strategy in any way. We're aligned to that strategy.

But this just gives us an opportunity to just talk pure technology with jurisdictions; and their expertise that they bring certainly is going to help us on the business development side as well as the operational side of the IT side of the business.

Justin Keywood - GMP Securities L.P., Research Division - Analyst

OK. Thanks. That's helpful. And when you describe technology, are you able just to elaborate on this a bit? Would this still be for other jurisdictions and just providing that service? Is this in regards to outsourcing still? Or maybe you can provide some additional color there?

Shawn Peters - Information Services Corporation - EVP, CFO

Sure. You know, obviously, our experience and our focus and our history really is around registries. And a lot of our attention around our growth was what I used to say doing what we do in Saskatchewan and other jurisdictions, i.e., running their registries, we still think there's a value proposition there for us. That's our expertise.

But with technology now, every registry at the core of it - every single one - technology is at the core. And some jurisdictions, quite frankly, aren't interested in outsourcing or having another partner provide that service of running their registries; but, still, they need technology.

And that was fundamental in the ERS transaction that we had a solid global leader in IT as it relates to technology; and specifically the RegSys platform, which we were a customer initially of, is a fantastic platform for us to build on; and it will be very useful to help other jurisdictions with their registry needs.

So it's not wide open technology as much as it's registry and registry related type technology that we'll spend our time and our focus on.

Justin Keywood - GMP Securities L.P., Research Division - Analyst

OK. That's pretty interesting. And would it be sold as maybe like a recurring fee type of situation? Or how would that be possibly distributed?

Shawn Peters - Information Services Corporation - EVP, CFO

I think there's all kinds of ways that technology is sold in the market place, whether it be software as a service or hosted or installed and implemented on the customer's site.

I think it depends on the customer; and we're certainly open to any or all of those options; and ERS has experience in all of them.
And so it’s not a pure one direction or another; it’s actually really dependent on the customer and what their interest and needs are; and we certainly can fit any of those models.

Operator

At this time, I’m showing no further questions.

I’d like to turn the call back over to Mr. Jonathan Hackshaw for closing remarks.

Jonathan Hackshaw - Information Services Corporation - Director of IR & Corporate Communications

With no further questions, we'd like to thank everybody for joining us on today's call. And we look forward to speaking with you again in our next reporting period.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the program. You may now disconnect. Everyone, have a great day.