Information Services Corporation 2018 First Quarter Results
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+++ presentation
Operator^ Ladies and gentlemen, good morning. My name is Luke and welcome to today's conference call. At this time, I'd like to welcome everyone to the Information Services Corporation 2018 First Quarter Results. (Operator instructions)

I would now like to turn the conference over to your host, Mr. Jonathan Hackshaw, Director, Investor Relations and Corporate Communications.

Jonathan Hackshaw^ Thank you, Luke, and good morning. Welcome to ISC's conference call for the first quarter ended March 31, 2018. 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 the first quarter operational and financial results by Shawn Peters. We will keep our prepared remarks brief and follow with a question-and-answer session.

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 management's discussion and analysis for the first quarter ended March 31, 2018 have been filed on SEDAR, and are also available in the Investors 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 information 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 13, 2018, and ISC's unaudited condensed consolidated interim financial statements and notes, and management's discussion and analysis for the first quarter ended March 31, 2018. 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 on the Investors 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. The start of the financial year is important. In a way it can set the tone for the balance of that given year. We ended last year with the acquisition of AVS Systems,, which added niche technology that allows us to establish a firmer foothold on the Canadian PPSA space.

With the first quarter of 2018 behind us, the positive effect of AVS to our Services segment has been clear. That, coupled with the performance of our other segments, Registry Operations, and our newest segment, Technology Solutions, has resulted in a solid first quarter that represents the right tone for the start of the year.

During the quarter, we announced the signing of two agreements to provide and implement our RegSys platform for jurisdictions in Canada and Ireland. These are the kind of opportunities we will continue to pursue while our Registry Operations segment, the foundation upon which ISC was built, provides a stable revenue stream despite the impact of lower transaction volumes as a result of higher interest rates and mortgage qualification rules. But it is becoming clear with ISC now has two additional complementary streams of business, which allows us to pursue organic growth. I believe this to be critical to the future success of our business given that our registry operation segment is largely dependent on economic activity in Saskatchewan. We will, of course, continue to evaluate potential accretive transactions but only execute on them if t will add value in the long-term and fit with our overall strategy for growth.

With that, I would like now to ask Shawn to summarize our financial operating performance for the three months ended March 31, 2018.

Shawn Peters^ Thank you, Jeff, and good morning, everyone. I'll provide you with some of the highlights of Q1 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 first quarter of 2018 totaled $26.9 million on a consolidated basis. Year-over-year, we saw an increase of $5.4 million mainly due to the addition of AVS Systems in our services segment, which as previously reported was acquired in December of 2017.

Consolidated EBITDA for the first quarter was $6.6 million compared to $5.8 million last year, an increase of 15.1%, which resulted in an EBITDA margin of 24.7% compared to 26.8% in Q1 of 2017. With respect to our EBITDA margin, as discussed in our yearend call, the acquisition of AVS with a high revenue, low margin profile changes ISC's consolidated revenue and EBITDA margin profile compared to previous years. Adjusted EBITDA for the quarter was $7 million, a margin of 25.9% compared to $6.2 million and a 28.9% margin in 2017.

Our net income for the first quarter was $2.6 million or $0.15 per basic and per diluted share. Last year, our net income was $2.4 million or $0.14 per basic and per diluted share.

Turning to our Registry Operation segment. Revenue was $16.9 million; flat compared to last year. In the Saskatchewan Land Registry, revenue was $11.8 million for the quarter; a modest increase of 0.7% compared to the same period in 2017. This was mainly due to strong high-value property registration revenue, which offset revenue declines from lower transaction volumes. Each high value registration generated revenue of $10,000 or more, and revenue from these types of registrations was a record $1.2 million for the quarter.

Overall, transaction volumes fell by 11.3% for the first quarter of 2018 compared to the same period last year, partly due to a decrease in resource sector interest transactions when compared to the first quarter of 2017. The volume of regular land transfers, mortgage registrations and title searches declined by 3.6%, 5.5%, and 8.7%, respectively, compared to the same period in 2017. We expect the combination of new mortgage qualification guidelines and the rising interest rates may have contributed to the declines in those areas.

Revenue for the Saskatchewan Personal Property Registry for the first quarter of 2018 was $2.4 million, a modest increase of 1% compared to the same period in 2017. This was due to additional revenue from a one-time contract for a system enhancement, which offset revenue declines due to lower volumes.

Overall, Personal Property Security Registration setups in Saskatchewan saw volumes declined by 7.4% compared to the same period in 2017. Revenue for the same transaction type decreased by 7% compared to the same period last year.

Turning to the Saskatchewan Corporate Registry. Revenue for the quarter was $2.7 million, down $0.1 million or 4% compared to the same period in 2017. This quarterly variance is largely explained by lower volumes across most transaction types.

In summary, on a total basis, revenue for registry operations remains steady year-over-year. However, with respect to the Saskatchewan land registry, high-value transactions have been offsetting weaker regular land transaction volumes. And with a number of major banks announcing an increase to their mortgage rates in the past week, it is possible that we'll continue to see further weakness in our regular land transaction volumes.

Turning to our Services segment. Revenue for the first quarter was $8.9 million, up $5.1 million or 136.3% compared to the same period last year. Its increase is primarily due to the inclusion of the first full quarter of AVS since the acquisition in December 2017.

Our Legal Support Services consists of revenue from nationwide search and registration services as well as corporate supplies provided to legal professionals, which declined slightly as corporate supply sales were lower this quarter compared to a strong first quarter in 2017. We also support financial and credit institutions due diligence activities for compliance purposes and credit service solutions through our financial support services which, as mentioned, increased this quarter due to additional revenue following our acquisition of AVS.

With that, we come to our newest segment, Technology Solutions, which we began reporting as of January 1 this year. Revenue for this segment was $4.9 million for the three months ended March 31, 2018 compared to $4.5 million for the same period in 2017. As a reminder, we generate revenue for this segment through the sale of software licenses and accompanying ongoing annual subscription fees related to the RegSys technology platform and the provision of technology solution definition and implementation services as well as monthly hosting support and maintenance services. Our Technology Solutions segment records revenue from both external third parties and internal related parties such as our Registry Operation segment.

Inter-segment services and revenue provided in the first quarter of 2018 remained largely consistent with the same period in 2017. The increase in total revenue was due to a new solution definition and implementation services provided externally as a result of the contracts announced in the quarter.

Moving on to expenses for the quarter. Our consolidated expenses were $22.6 million, an increase of 28.7% compared to $17.6 million for Q1 of 2017. The increase was due to a number of factors. First, our wages and salaries were up $1 million to $9.3 million compared to the same period in 2017. That increase was due to additional wages and salaries for new positions and the acquisition of AVS in our Services segment; in our Technology Solutions segment, the inclusion of our subsidiary, ERS, for a full three months in the first quarter this year as compared to just over two months for the same period in 2017; and the addition of salaries from employees assumed from the termination of our technology services contract with DXC Technology Company; and finally, annual merit increases for our employees across the segments.

Second, our depreciation and amortization costs and our cost of goods sold increased as a result of our acquisition of AVS. We did, however, achieve the anticipated efficiencies with our information technology service costs, which were down $0.5 million for the quarter compared to the first quarter of 2017. The decrease in the quarter reflects savings associated with the termination of our technology services contract with DXC mentioned earlier.

Our capital expenditures for the quarter were $0.4 million compared to $0.1 million for the same period in 2017. The increase year-over-year is mainly due to system development work to enhance our RegSys platform in our Technology Solutions segment. Net income for the quarter was $2.6 million or $0.15 per basic and diluted share compared to $2.4 million or $0.14 per basic and diluted share for the same period in 2017.

With respect to debt, as at March 31, 2018, our total long-term debt remained consistent with December 31, 2017 at $21.6 million. Further details on this debt and our credit facilities can be found in our MD&A and financial statements.

From a cash perspective, we had $27.2 million in cash on hand at the end of the reporting period compared to $31.3 million as at December 31, 2017. As at March 31, 2018, our working capital was $20.8 million compared to $18.3 million December 31, 2017. The change in working capital is mainly the result of continuing cash from operations offset by increased income taxes paid due to the taxes associated with the sale of our interest in Dye & Durham.

Free cash flow for the quarter was $5.8 million compared to $5.7 million for the same period last year. The increase is due to differences in income taxes and changes in working capital driven by the timing of sales contracts as well as increased additions to intangible assets.

Finally, we also announced yesterday that our Board of Directors approved our quarterly cash dividend of $0.20 per share. The dividend will be payable on or before July 15, 2018 to shareholders of record as of June 30, 2018.

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

Jeff Stusek^ Thanks, Shawn. The results for the first quarter speak for themselves. The addition of AVS to our Services segment clearly has had a positive impact to our revenue, EBITDA, and net income, supported by solid and stable results in our Registry Operations and Technology Solutions segments.

As I mentioned at the beginning of the call, our strategy to diversify our business is now starting to yield definitive results. Most importantly, our Services and Technology Solutions segments provide us with two avenues for organic growth, while our Registry Operation segment provides a stable foundation to our overall business. We remain focused on ensuring the stability of our Registry Operations business while pursuing their strategies for growth to deliver long-term value for our shareholders.

With that, I'll now turn the call back over to Jonathan.

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

+++ q-and-a
Operator^ (Operator Instructions) Your first question comes from the line of Stephanie Price with CIBC.

Stephanie Price^ In the MD&A, you talked about plans to integrate the Services technology platforms and AVS. Can you talk a bit about what the integrated service offering will look like and where you are in that process?

Jeff Stusek^ Stephanie, Jeff here. So, obviously, AVS and ESC each have their own technology. One of the reasons for purchasing AVS was around their technology and their integration with their customers. And so, that move along those lines is certainly a focus. We're focused on keeping AVS sort of focused on some of the customers that they were going after. So we're not sort of heavy into integration although there's some work being done there. But our focus is to sort of keep those two businesses rolling on the trajectory they are and bringing them together as appropriate.

Stephanie Price^ Great thanks. And then you announced that ISC had been selected by the Government of Yukon. Can you talk a bit about that award and if it was competitive in a little more detail, sir?

Jeff Stusek^ I would suggest most things that we get involved with are competitive. So, the Yukon was a nice addition announcement for us. It demonstrates our competency in both the registries and the technology. And so, although, the Yukon is not big as far as sort of numbers go, it's important. And it's important that we can continue to demonstrate that we're able to operate outside of our core business since Saskatchewan are running the registries. But now we have technology that's really transferable, scalable marketable in other jurisdictions. So we're really happy about that announcement.

Operator^ (Operator Instructions) Your next question comes from a line of Justin Keywood with GMP Securities.

Justin Keywood^ For the revenue guidance for the year was reiterated $124 million to $130 million. This could imply some seasonality in the AVS business. And I'm just wondering how we should forecast that for the remainder of the three quarters.

Shawn Peters^ Hi Justin, it's Shawn. Yes, there is some seasonality in the business largely associated with similar to our PPR with the automotive sector. And so, first quarter can be a little bit slower from a seasonality perspective with that picking up. But

I think if you looked at either automotive and equipment sales, that would give you the seasonality you're looking for.

Justin Keywood^ And maybe just to put some numbers on it, so the ESC Services did around $9 million, like it would be fair to assume that it trends up to $11 million in the next few quarters.

Shawn Peters^ Yes, I'd want to get back to you on that, Justin. We don't usually disclose the forecasting by each segment, but I think if you apply the logic it would probably make sense.

Justin Keywood^ Okay, fair enough. And what was the actual revenue contribution of AVS in the quarter?

Shawn Peters^ Again, we don't really break out the former entities because they were amalgamated on the acquisition. We can say that as we did in the MD&A in the conference call that most of the $5.1 million of increase was as a result of the revenue from AVS.

Justin Keywood^ Okay. And then there is some caution around the land registry business in the opening remarks with the higher mortgage rates. Any kind of idea of how this may impact the business for the remainder of the year?

Shawn Peters^ Yes, great question. So I think we've been cautious of for the last couple of quarters in terms of expecting flatness in that market. We tend to be, as you know, a lagging indicator in some of the economic factors in Saskatchewan. So we expect that given the way the first quarter is gone and we did expect some impact from the mortgage qualification rules and now the interest rates, we expect that as we go forward we're going to see levels probably at or consistent with 2017 levels; and so, really, not a lot of growth in that market for us for 2018.

Justin Keywood^ And on the resource transactions, you mentioned it was softer in Q1. Are you seeing that part of the business pickup at all just given the higher oil prices?

Shawn Peters^ No, we're not actually, not from our perspective. What we saw in 2017 was the number of resource sector transactions, and that was primarily driven by the fact that the prices were low, and we saw a consolidation of some resource sectors. And so we're not seeing any pickup in that from the oil prices. We'll probably actually see different activity as a result of a pickup in oil prices.

Justin Keywood^ Sorry, different activities? Can you expound on that?

Shawn Peters^ Sorry, that will generally start to drive the economy in Saskatchewan up a little bit. And if you look at some of the forecast for Saskatchewan, they are forecasting a slightly better 2018 based on improving commodity prices. And that's where we would see it as just in general economic activity in the province, which would contribute to all of our registries.

Justin Keywood^ Okay. And one last question, just on the working capital, there is a large tax payment related to the, I guess, the previous acquisition that was sold out. Are there any additional tax payments or was that the last one?

Shawn Peters^ No, that was it.

Justin Keywood^ Yes.

Shawn Peters^ The rest will be our normal quarterly tax.

Operator^ I am showing no further questions at this time. I would now like to turn the conference back to Jonathan Hackshaw.

Jonathan Hackshaw^ Thank you, Luke. With no further questions, I'd 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 quarterly conference call. Have a good day.

Operator^ Ladies and gentlemen, this concludes today's conference. Thank you for your participation and have a wonderful day. You may now disconnect.