**Information Services (Q1 2021 Earnings)**
**May 06, 2021**

**Corporate Speakers:**

- Jonathan Hackshaw; Information Services Corporation; Director of IR & Capital Markets
- Jeff Stusek; Information Services Corporation; President & CEO
- Shawn Peters; Information Services Corporation; EVP & CFO

**Participants:**

- Stephanie Price; CIBC World Markets, Inc.; Analyst
- Stephen Boland; Raymond James Financial; Analyst
- Paul Treiber; RBC Capital Markets; Analyst

**PRESENTATION**

Operator^ Good day, and thank you for standing by. Welcome to the ISC Quarter 1 2021 Earnings Conference Call and Webcast.

(Operator Instructions)

I would now like to turn the conference over to your speaker today, Mr. Jonathan Hackshaw. Please go ahead, sir.

Jonathan Hackshaw^ Thank you, Ruby, and good morning, ladies and gentlemen. Welcome to ISC's conference call for the quarter ended March 31, 2021. On the call today with me today -- with me are Jeff Stusek, President and CEO; and Shawn Peters, Executive Vice President and Chief Financial Officer. Jeff will provide some opening comments followed by a review of the operation and financial results for the quarter by Shawn. Jeff will then make some closing remarks before we open the call up to the 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 notes and management's discussion and analysis for the period ended March 31, 2021, have been filed on SEDAR and are also available in the Investors section on 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 for the year ended December 31, 2020, and in ISC's unaudited condensed consolidated interim financial statements and notes and management's discussion and analysis for the 3 months ended March 31, 2021.

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.

I will now turn the call over to Jeff.

Jeff Stusek^  Thank you, Jonathan, and good morning to everyone joining us for today's call. Our financial performance for the first quarter of 2021 was very strong, building on the strength we experienced in the third and fourth quarters of 2020. While the impact of the COVID-19 pandemic was evident in our second quarter last year, our business has performed remarkably well since that time. An unexpected dynamic from 2020 is that the seasonality that was generally consistent pre-pandemic is now much less so as seen in this first quarter of 2021.

The robust year-over-year performance of our 3 segments is due to a combination of strength and economic drivers in Registry Operations, focus on new customer acquisition and growth in Services and successful delivery and implementation of technology in our Technology Solutions team. This has been paired with continued cost management across all areas of our business.

In particular, Registry Operations volumes were stronger than expected during the first quarter of 2021, primarily driven by robust activity in the Saskatchewan real estate sector and increases in personal property security registrations, along with increases in new business entity registrations. Our focus on customer service and satisfaction, combined with our new cloud-based registry complete software helped drive continued organic growth in Services and the successful ongoing transition of customers to our new technology.

In doing so, we have successfully empowered our remote workforce, advanced our product road map and reduced our cost of delivery. The successful implementations in our Technology Solutions segment also showed our ability to deliver world-class software to our customers even during a pandemic.

I'll now ask Shawn to summarize our financial and operating performance for the quarter.

Shawn Peters^  Thank you, Jeff, and good morning, everyone. I'll provide you with some of the highlights of the quarter on a consolidated basis and then provide some further commentary about each of our reporting segments and their performance for the reporting period. On a consolidated basis, revenue was $39.1 million, an increase of $9.6 million or 32% compared to the first quarter of 2020 due to increased activity across the business. Our consolidated expenses were $31 million, an increase of $6.5 million compared to the same quarter last year. The increase was due to new wages and salaries in Recovery Solutions after the acquisition of Paragon in the third quarter of 2020, additional amounts under our share-based compensation plans as a result of the strong performance of the company's share price, normal merit-based increases in performance compensation across our business and an increase in cost of goods sold related to the higher revenue in Services.

EBITDA was $11.9 million, up 52% compared to $7.8 million last year, and our EBITDA margin for the first quarter was 30.3% compared to 26.5% last year.

Adjusted EBITDA was $14.8 million for the quarter compared to $7.9 million in the same quarter last year, with an adjusted EBITDA margin of 37.7% for the quarter compared to 26.8% in the first quarter of 2020. Net income was $5.5 million or $0.31 per basic and diluted share compared to the first quarter of 2020 when net income was $3.5 million or $0.20 per basic and diluted share.

Turning to our business segments. Revenue in Registry Operations was $19.2 million for the quarter, up 24% compared to the same period in 2020. Registry Operations volumes were stronger than expected during the first quarter of 2021, primarily driven by robust activity in the Saskatchewan real estate sector with strong demand coupled with declining supply in some markets.

As Jeff mentioned, we also saw increases in personal property security registrations, along with increases in new business entity registrations.

More specifically, revenue for the Land Registry increased to $13.3 million in the quarter, up 29% compared to the same period last year. As you know, most of the revenue generated from the Land Registry is from the Land Titles Registry and is derived from value-based or ad valorem fees. Land Titles Registry revenue for the quarter was $12.5 million, up $3 million or 31% compared to last year. The increase was due to higher revenue from regular land transfers, mortgage registrations and title searches during the quarter relative to the same period in 2020. The real estate sector saw strong increases in resale volumes during the quarter, while average land values for regular land transfers were fairly flat.

High-value property registration revenue, where each high-value registration generates revenue of $10,000 or more, was $1.1 million, relatively consistent to the $1 million in the first quarter of 2020.

Revenue for the Personal Property Registry was $2.7 million for the quarter, up 21% from 2020. Overall volume was up 7% compared to the same period in 2020 and the combination of volume increases and annual pricing changes resulted in strong revenue across the Personal Property Registry with registration revenue up 22%, search revenue up 19% and maintenance revenue up 16%. The average term length for personal property security registration setups, which also impacts revenue increased slightly compared to the same quarter in 2020.

Normally, the pattern of seasonality for the Personal Property Registry is higher revenues during the second and third quarter each year, as evidenced by this strong first quarter, COVID-19 and the related lockdowns and travel restrictions appear to have affected customer sentiment and behavior as it relates to the types of movable assets that are registered in our Personal Property Registry.

Revenue for the Corporate Registry for the quarter was $3.2 million, up 11% compared to the same period in 2020, with a 9% growth in overall transaction volumes. Registration, search and maintenance revenue grew by 33%, 10% and 5%, respectively, during the quarter. It was a record first quarter for the incorporation and registration of new business entities, which helped drive the registration revenue growth.

As a result of the strong revenues across all registries, EBITDA for Registry Operations for the quarter was $8.6 million, up 33% compared to last year.

In Services, revenue for the first quarter of 2021 was $16.2 million, an increase of $4.4 million or 37% compared to last year. Due to organic growth in Regulatory and Corporate Solutions as well as the inclusion of new revenue from Recovery Solutions.

Revenue for the quarter in Regulatory Solutions within Services, was $12.5 million, an increase of 18% compared to $10.6 million last year. The increase is a result of strong new customer acquisitions increased Know-Your-Customer, or KYC verification transactions, and organic growth from our existing customer contracts.

Revenue in Recovery Solutions in the first quarter was $2.1 million. While we've seen an increase in assignments from our bank partners, recovery revenue continues to be fairly stable as a result of last year's loan deferral programs and the ongoing stimulus provided by the federal government in response to COVID-19.

Corporate Solutions revenue for the quarter was $1.6 million, an increase of 28%. Revenue was up as a result of increased corporate filing volumes as the overall economy was stronger in the first quarter of 2021 compared to 2020, where the last month of the first quarter of 2020 was negatively impacted by COVID-19.

EBITDA for Services was $4 million for the quarter compared to $2.1 million for the same period last year. The increase was due to the increased revenue from the organic growth outlined previously and the additional new revenue from Recovery Solutions.

Technology Solutions saw revenue of $6 million for the quarter, an increase of $1.3 million compared to $4.7 million for the same period in 2020. The increase this quarter was due to the completion of certain milestones on current third-party contracts, while our internal related party revenue remained stable. EBITDA for Technology Solutions was $1.1 million for the quarter compared to $0.6 million last year, as a result of the above revenue milestone achievements, partially offset by the related implementation expenses.

To other items. Our capital expenditures were $0.4 million for the quarter compared to $0.3 million last year. During the first quarter of 2021, capital expenditures were primarily related to system development work in our Technology Solutions and Services segments as compared to 2020 and where they were primarily related to the purchase of systems supporting our corporate activities.

With respect to our debt, at March 31, 2021, the company had $71.3 million of total debt outstanding compared to $76.3 million at December 31, 2020.

During the quarter, the company made a $5 million voluntary prepayment against its revolving term facility due to excess cash and the desire to reduce our interest expense. The aggregate amount available under the credit facility at March 31, 2021, remains at $150 million. Further details on our debt and our credit facilities can be found in our financial statements.

From a liquidity perspective, at March 31, 2021, we held $30.4 million in cash compared to $33.9 million at December 31, 2020. As of March 31, working capital was $28.3 million, flat compared to the $28.1 million at the end of last year.

Consolidated free cash flow for the quarter was $8.9 million compared to $6.4 million for the same period in 2020. The increase was due to higher cash flows provided by our operations, partially offset by changes in noncash working capital.

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, 2021, to shareholders of record as of June 30, 2021.

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

Jeff Stusek^  Thanks, Shawn. Before we move to the Q&A session, I'd like to share a few thoughts with you about our outlook. We remain well positioned to manage through the pandemic in 2021, and that is evident in our results for the first quarter of 2021 as well as the last 3 quarters. Registry Operations has performed well over the past 3 quarters despite pandemic conditions. The typical seasonality has been impacted, resulting in a very strong first quarter, and indicators suggest that volumes should remain steady, perhaps with some return to normal seasonality.

Services, we expect to see volumes remain strong in Regulatory and Corporate Solutions, while volumes in Recovery Solutions will likely remain at current levels, so long as pandemic subsidy programs are in place, which are expected to continue into the fall of 2021.

Our ongoing investment in the technology supporting our Services segment combined with our focus on our customers is translating into robust organic growth through new customer acquisition.

In Technology Solutions, project implementation work continues, work that was delayed due to the pandemic has progressed. As we move through 2021, we anticipate advancing remaining in-progress implementation projects, while new sales may be delayed due to the government worldwide focus on COVID-19.

I am really pleased with the overall performance of the business. But at this point, given the continued uncertainty surrounding the duration and potential outcomes of the COVID-19 pandemic, we will not be providing financial guidance for the year.

As always, we remain focused on the years rather than the quarters ahead. Our long-term strategy remains centered on delivering value for shareholders through the consistent performance of our existing business and the execution of appropriate growth opportunities, including acquisition targets that are complementary to or add value to existing lines of business.

With that, I will hand the call back to Jonathan.

Jonathan Hackshaw^  Thanks, Jeff. Ruby, we'd now like to begin the question-and-answer session, please.

## QUESTIONS AND ANSWERS

Operator^  (Operator Instructions)

Your first question comes from the line of Stephanie Price from CIBC.

Stephanie Price^  Just wondering if you could talk a little bit more about your comments around seasonality in 2021, mainly around what areas impacting the most? And how -- what have you seen kind of so far in Q2?

Shawn Peters^  Stephanie, it's Shawn. Thanks for the question. Yes, the lockdowns are fairly impactful in some parts of the business as we saw in Q2 of 2020. We did see volumes in both Services and Registry Operations come off. It's hard to buy a house or a new car or register in businesses when you're in sort of a total lockdown. And it took people and companies some time to figure out how to work remotely. So starting in Q3, we started to see that pick up. And as we've talked about, a stronger Q4 than sort of normal and certainly a stronger Q1 here than normal.

Really what we think is happening is that, that delay in Q2 of 2020 last year sort of shifted some of the demand out a bit, and that's what's resulting in some of the seasonality. We're also seeing a little bit of different behavior from customers, being locked down means that they're buying arguably more sea-doos and ski-doos and 4-wheelers and those types of other things as opposed to going on vacations and traveling, and that's impacting our Personal Property Registry in times where it doesn't usually. So it's really just a little bit of a shift in that behavior.

Stephanie Price^ Okay. That's helpful. And then ISC filed the base shelf prospectus last week. Just curious if you could talk a bit about that decision and how we should be thinking about potential uses of proceeds?

Jeff Stusek^ Yes. Thanks, Stephanie, Jeff here. We did file the shelf. For us, this was just sort of a normal course of business. There's sort of no intended or imminent necessarily execution. We're very positive forward-looking about our business and the fact we have made acquisitions and there are opportunities, the ability to access that, if necessary, we wanted to sort of take care of that. It's not necessarily a signal that some things are right around the corner.

But like Shawn and I have talked several times is we do sort of do an acquisition. There's nothing prescribed about them, but 1 a year. And having the ability to access funds in different capacities was important. So it really just was sort of a normal course of business action for the time being.

Operator^ Your next question comes from the line of Stephen Boland from Raymond James.

Stephen Boland^ Just first question is I guess related to Paragon. And when I look through the bar report you filed, they were kind of doing in the $2.5 million of revenue even through parts of 2020 when COVID was there. And you reported $2.1 million. Has there been any change with customer base? Or like how would you explain the revenue kind of coming down post acquisition?

Shawn Peters^ Yes. So it's Shawn, Stephen. What -- the Recovery Solutions, the default business has been impacted mostly by is partly COVID-19, but more significantly the stimulus that's been provided. So the revenue has been pretty stable. The number of assignments per quarter varies a little bit. But it really depends the longer COVID has gone on and the more stimulus it's provided, the more we work with our bank clients on that default book of business, but sort of the less defaults that are happening in that period. And really, that's all that, that is, and it's just a specific number of assignments in each quarter, which can vary slightly.

Stephen Boland^ And do you expect then as the stimulus and the government support dissipates that, that business would be back into kind of more of a growth mode?

Shawn Peters^ Yes, absolutely.

Stephen Boland^ Okay. And then just the second question is on the Technology segment. I think last quarter, you mentioned the sales cycle is always very long for that business, COVID impacting it. Is there light at the end of the tunnel? Is there any movement in certain mandates or RPs that you've been looking at? Or is it still really -- different jurisdictions are still kind of not focusing on that right now?

Jeff Stusek^  Yes. Jeff here. I'd say sort of there's 2 aspects. Because we're dealing with governments, the sales cycles can sort of be long, when it's focused on the Technology Solutions segment specifically, they're not as long as the long sales cycles I've talked in the past about Registry Operations and looking for those types of opportunities.

Regardless, they're the same customer base, i.e., governments. And as you would well suspect, the governments that we're selling to are focused on the sort of local health issues as well as re sort of stimulating the economy. We have seen progress. Fortunately, we have a number of projects underway and hopefully, be able to sort of fill that Technology Solutions funnel fairly quickly.

So I think there is light at the end of the tunnel in some jurisdictions. But regardless of the jurisdiction, they're still focused on COVID and economic rebound rather than technology acquisition necessarily, but that hasn't resulted in a shortage of sort of work for us and what we've been working on because we have major projects that are certainly underway, and we continue to advance, including the IAA project, which continues to move along and we're deploying our Technology Solutions staff on that project fairly heavily, I guess, so.

Operator^  Your next question comes from the line of Paul from RBC Capital Markets.

Paul Treiber^  Just want to focus in on the Services business, the outside of Paragon. You've been gaining -- you mentioned organic growth in new customer wins or additions in that segment. Could you speak to what -- who you gaining that share from? Is it other providers? Or is it largely greenfield? And then can you give a profile on those customers that you're gaining? Are they typically smaller or larger? And what's the sort of the vertical that they're in.

Jeff Stusek^  Great question, Paul. Thanks. Jeff here. I think there's not a really quick and succinct, simple answer to that question. Because our Services business is really multifaceted. And so some of the place that we're gaining is we're gaining larger mandates from our financial institution and getting a little more volume out there. And it's sort of their organic growth translates into some of our organic growth. I think where we're seeing sort of the more visible customer transition is on the legal firm side, and that's in line with our sort of Registry Complete software launch as well as our approach to customers and pricing and the like. And so we're winning law firms in the legal sector.

We're also winning some unique customers that are using our KYC, our Know-Your-Customer service like in the crypto space, for example, we have crypto customers that are using our service as a Know-Your-Customer connection. And I think we're seeing that sort of organic growth from all sort of sectors in this space.

And so we're excited about it. We're seeing sort of growth across the piece. So it's not just one single thing. It's many things. But I think it's really fundamentally -- it's grounded in. We've built the business around the customer, and we care for the customer, and we make sure that their needs are being met, and we treat them properly and we -- pricing is fair.

So that's our approach to it. And I think that's what's paying off for us on the Services side.

Paul Treiber^ That's helpful. The -- also looking at Services, can you share any metrics or KPIs on the magnitude of growth that you're seeing from cross-selling or upselling additional services into that customer base? I'm sort of thinking like something like same -- equipment like same-store sales or in the software world like net revenue retention. Just to try to gauge how the magnitude of growth has been in terms of cross-selling and upselling?

Jeff Stusek^ That's a good question. Paul, like I wouldn't have -- the answer to that is don't have one specifically to talk about. I can only share anecdotal stories of where we're seeing customers that are engaged in some aspects of our business and then want to try others and we're sort of growing that way. It's something Shawn and I can circle back with you after a little bit of thought.

I don't have -- like I don't have an answer. It's not as simple as that as that goes. We are seeing conversations because we have a Recovery Solutions business now as part of our overall fit. We're having sort of those types of conversations with current and new customers that we never had before. I shared with you the crypto side on the Know-Your-Customer piece. And so hopefully, that sort of extends and expands a little bit too. So I don't have that per se. What I do have is we're seeing significant organic growth in that Services business.

Our growth in that business is not simply through acquisition, but our strategy, quite simply, is we're going to grow our business through customer acquisition, not necessarily, but we will supplement it with company acquisition. But we prefer the long-term strategy of having happy satisfied customers that continue to -- we look for ways to sort of grab more of their sort of market share.

Paul Treiber^ I totally understand it may be difficult to get some metrics. But to the extent that if you could provide any, I think, it will help investors understand that business and that growth a little bit better.

Jeff Stusek^ Yes, sure. I understand. Thanks, Paul.

Operator^ (Operator Instructions)

At this time, we don't have any more questions. Please go ahead.

Jonathan Hackshaw^ Thank you, Ruby. 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 when we report again in the summer. Have a good day.

Operator^ This concludes today's conference call. You may now disconnect.