Information Services Corporation (Q3 2021 Earnings)

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Corporate Speakers:

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

Participants:

- Paul Treiber; RBC Capital Markets; Research Division, Director of Canadian Technology & Analyst
- Stephanie Price; CIBC Capital Markets; Research Division, Director of Institutional Equity Research and Software & Business Services Research Analyst
- Stephen Boland; Raymond James Ltd.; Research Division, MD & Equity Research Analyst
- Jesse Pytlak; Cormark Securities Inc.; Research Division, Analyst of Institutional Equity Research
- Trevor Reynolds; Acumen Capital Finance Partners Limited; Research Division, VP of Research & Equity Research Analyst

PRESENTATION

Operator^ Good day and thank you for standing by. Welcome to the ISC Third Quarter 2021 Earnings Conference Call and Webcast. (Operator Instructions). I would now like to hand the conference over to your speaker today, Jonathan Hackshaw, Senior Director, Investor Relations and Capital Markets. Thank you. Please go ahead.

Jonathan Hackshaw^ Thank you, Gail, and good morning ladies and gentlemen. Welcome to ISC's conference call for the quarter ended September 30, 2021. On the call today are Jeff Stusek, President and CEO; and Shawn Peters, Executive Vice President and Chief Financial Officer.

Jeff will provide some opening remarks -- opening comments about the quarter. This will be followed by a review of operational and financial results for the quarter by Shawn. Jeff will then make some closing remarks before we open the call up for 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 September 30, 2021 have been filed on SEDAR and are also available in the Investor Relations 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 31-2020 and ISC's unaudited condensed consolidated interim financial statements and notes and management's discussion and analysis for the 3 and 9 months ended September 30, 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 Investor Relations section of our website. I will now hand the call over to Jeff.

Jeff Stusek^ Thank you, Jonathan, and good morning to everyone joining us for today's call. I see continued to deliver strong results for the 3rd quarter of 2021 fueled by robust economic activity in the markets in which we operate.

Our Registry Operations segment has been driven by a strong Saskatchewan real estate sector, resulting in increased transaction levels and additional high value transactions in the land registry. In services, we saw an increased volume and transactions in the 3rd quarter and year-to-date.

A combination of favorable economic conditions and continue to organic growth across our product lines and a full quarter of recovery solutions results. We remain focused on the acquisition and on boarding of new customers, particularly with our new cloud-based registry complete software.

Our Technology Solutions segment continues to be the most affected by COVID-19 which has impacted our progress on active projects and the commencement of potential new opportunities as governments around the world have been responding to the pandemic. However, in all of our segments.

Our customer oriented approach and strong reputation are key factors in our achievements both for the quarter as well as year-to-date. During the quarter, our Board of Directors announced an increase to our annual dividend from $0.80 to $0.92. As many of you know, our dividend was established at the time of our IPO in July of 2013.

Since then, we've been busy growing IFC to what it is today, the Board's decision to increase the dividend reflects the strength of the company's current business and reaffirms ISC's commitment to continue to reward shareholders as we grow.

In addition, we have also amended and extended our credit facility during the quarter to make sure we're well positioned to support the needs of our existing business as well as simplify the pricing structure. And with that, I'll 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.

As Jeff said, our 3rd quarter results were strong. We continue to deliver excellent top and bottom line results. On a consolidated basis, revenue was $41.4 million for the quarter, up 11 per cent compared to the 3rd quarter of 2020 primarily due to the strong activity in Saskatchewan's real estate sector, which drove increased revenue in the land registry coupled with continued organic growth in services $0.4 million of additional revenue from our new Recovery Solutions division due to a complete quarter in the current year.

Our consolidated expenses were $27.3 million, a decrease of $2.4 million compared to the same quarter last year. On reduced professional and consulting services, and share-based compensation expense, which combined with the revenue growth, drove strong EBITDA and net income.

Net income was $9.7 million or $0.55 per basic share and $0.53 per diluted share compared to $5.0 million or $0.29 per basic and diluted share in the 3rd quarter of 2020.

EBITDA was $17.5 million compared to $10.9 million in the same quarter last year with an EBITDA margin for the 3rd quarter of 42.3 per cent compared to 29.4 per cent in the same quarter last year. Adjusted EBITDA was $17.3 million for the quarter compared to $13.2 million in the same quarter last year.

The increase was due to the strong EBITDA with a small adjustment for a reduction in the quarter for our total share-based compensation expense, which caused adjusted EBITDA to be marginally lower than EBITDA.

Turning to our business segments: Overall, revenue and registry operations was $21.3 million for the quarter, up compared to $18.4 million in the same period of 2020. The increase was primarily due to growth in the land registry where volume was driven by the strong activity in the Saskatchewan real estate sector as well as an increase in high value transactions.

Revenue for the Land Registry was $16.2 million in the quarter, up 24 per cent from Q3 of 2020. The increase was primarily due to the positive results in the land titles registry, which continue to experience brisk activity from the real estate sector despite showing some early signs of slowing from recent record highs.

For additional context, for the first 3 quarters of 2021 land titles registry revenue was higher by 40 per cent at $45 million compared to $32.2 million in the same period in 2020.

This is primarily due to transaction volumes rising by 19 per cent, greater revenue from high value property registrations along with the rise in average land values for regular land transfers during the period. However, based on current projected economic sentiment we're unlikely to see the same volumes in 2022 as we have experienced in 2021 and revenues are expected to adjust more towards pre-pandemic levels.

High value property registration revenue was again robust at $1.7 million in the 3rd quarter, more than doubled to $0.8 million received during the 3rd quarter of 2020. Each high value registration generates revenue of $10,000 or more, and are typically seen in both commercial and larger agricultural transactions.

In the Personal Property Registry revenue was $2.7 million for the quarter, down 4 per cent compared to the same quarter in 2020.

Registration revenue was down 9 per cent compared to the same period in 2020. The decline was due to lower volume, which dropped nearly 14 per cent impacted by a reduction in Saskatchewan new motor vehicle sales volumes during the quarter.

Revenue declined at a lesser rate than volumes due to pricing changes and average term length for personal property security registration setups which impacts revenue was stable compared to the same quarter in 2020.

Search revenue increased by 7 per cent compared to the same quarter last year, again due to pricing changes. Transaction volume dropped a modest 1 per cent during the quarter compared to the same period in 2020 revenue for the corporate registry.

For the quarter was $0.5 million dollars flat compared to the same period in 2020 search revenue which is the smallest of the 3 revenue streams, was up 6 per cent.

Our registration and maintenance revenue was just slightly higher than the same quarter in 2020 expenses for Registry Operations decreased during the quarter primarily resulting from reductions in share-based compensation plans expense allocated during the quarter and that result of that EBITDA for the quarter was $13.7 million, up 36 per cent from the same period last year. Year-to-date, EBITDA was $35.5 million compared to $24 million last year.

In services revenue for the 3rd quarter was $18.3 million, an increase of 11 per cent compared to the same period in 2020. The increase was due to continued organic growth in regulatory and corporate solutions as well as the inclusion of new revenue from Recovery Solutions our organic growth comes from the addition of new legal customers increased KYC financial customers and the uptake of new services from existing customers.

Revenue and Regulatory Solutions for the quarter was $14.8 million, an improvement of 10 per cent compared to $13.4 million for the same period in 2020. Revenue grew in the quarter as a result of renewed level of transactions in automotive financing in KYC, as well as organic growth in equipment financing new legal customer acquisitions supported by our registry complete software and continued organic growth in new KYC customer verification transactions and other existing customer contracts.

For our Recovery Solutions division, I'd remind you that the 2020 financial data for recovery solutions only includes 2 months of the quarter, given that the assets a Paragon were acquired on July 31-2020 as such, revenue and recovery solutions in the 3rd quarter was $2.3 million, an increase from last year of $0.4 million.

We've seen a steady increase in assignments from our bank partners. However, levels of recovery assignments, continue to be impacted by last year's loan deferral programs and the ongoing stimulus provided by the federal government in response to COVID-19.

Revenue in Corporate Solutions, which is our smallest division and services was $1.2 million for the quarter, up 7 per cent compared to the 3rd quarter of 2020. The improvement was due to organic growth from new customers onboarded since last year, as well as increased corporate filing volumes as the overall economy was more robust in the 3rd quarter of 2021 compared to 2020.

Expenses in services for the quarter were $13.6 million compared to $12.8 million in the same period in 2020 the increase for the quarter and year-to-date was largely due to the addition of our recovery solutions divisions on July 31-2020 and higher cost of goods sold related to increased revenue, partially offset by savings due to continued cost management.

As a result, EBITDA for Services was $4.7 million dollars for the quarter compared to $3.6 million for the same period last year.

Finally technology solutions. Our revenue of $4.2 million for the quarter compared to $4.8 million for the 3rd quarter in 2020 revenue from external parties for the quarter was $1.8 million, a decrease of $0.6 million compared to the prior year period. The decrease was due to the timing of solution implementation projects, which impacts the timing of revenue recognition in the quarter as compared to the same period last year.

Our Technology Solutions segment continues to be the most affected by COVID -19 which has impacted the commencement of potential new opportunities, as well as progress on active projects as governments around the world have been responding to the pandemic, while we continue to see progress on our INSIGHT solution delivery projects certain milestones anticipated to be completed earlier this year have been delayed to the 4th quarter of this year and in some cases, into 2022.

Revenue on our solution implementation projects will continue to be recognized in the quarters in which deliverables and milestones are achieved. Revenue from internal parties in any quarter is dependent on resources used or consumed internally. Particularly in Registry Operations.

The revenue in the quarter and even year-to-date is largely consistent with the prior year. Expenses for technology solutions were down $0.3 million for the quarter compared to last year helping to offset the lower revenue as a result, EBITDA was $0.3 million for the quarter compared to $0.5 million in the 3rd quarter of 2020.

Turning to other items. Our capital expenditures were $0.6 million for the quarter compared to $0.1 million for Q3 of 2020 and were $2 million year-to-date versus $0.7 million last year to date. Capital expenditures in the current year were primarily related to system development work across our business segments.

With respect to our debt at September 30, 2021, the company had $56 million of total debt outstanding compared to $76.3 million at December 31, 2020. During the quarter, we made a $15 million voluntary prepayment against our revolving facility due to excess cash and the desire to minimize our interest expense.

As Jeff noted earlier, we entered into an amended and extended credit agreement in connection with our secured credit facility in September. As a reminder, the aggregate amount available under the credit facility remains at $150 million and the term of the credit facility has been extended from the previous expiry date of August 5, 2022 to September 17, 2026. In addition, the amended agreement simplifies the pricing structure.

Further details on our debt and our credit facilities can be found in our MD&A and financial statements from a liquidity perspective, at September 30, 2020, we held $42.9 million in cash, compared to $33.9 million at December 31-2020. September 30 working capital was $28.3 million compared to $28.1 million at the end of last year.

Consolidated free cash flow for the quarter was $13.3 million compared to $9.4 million for the same period in 2020. The increase primarily relates to higher cash flows provided by our operations partially offset by an increase to current taxes associated with these results and higher capital expenditures this year.

Finally, we also announced yesterday that our Board of Directors approved our quarterly cash dividend of $0.23 per share. The dividend will be payable on or before January 15, 2022 to shareholders of record as of December 31-2021.

As Jeff mentioned earlier, in September, our Board announced an increase to our annual dividend and the increase in the quarterly payment is a reflection of that. More information about the announcement, please refer to our news release dated September 21, 2021, which is available on our website. Now I'll turn the call back over to Jeff for some concluding remarks.

Jeff Stusek^ Thanks, Shawn. As we head into the final months of the year. I'm really pleased with our performance for the first 9 months of 2021. Our business has showcased the strength resiliency and efficiency of our 2 main segments, Registry Operations and Services.

Both have benefited from strong positive economic conditions in the sectors we operate and services has compounded that with a continued focus on organic growth. The results in the registry operations have been driven by remarkable activity in the Saskatchewan real estate sector and we expect volumes to increase to continue to show strength for the remainder of 2021 and a likely return to normal seasonality in the 4th quarter.

As Shawn mentioned, based on current projected economic sentiment we are unlikely to see the same volumes in 2022 as we've experienced in 2021 and revenues are expected to adjust more towards pre-pandemic levels.

Our focus on efficiency over the last 18 months, combined with an already strong already strong margins, means our Registry Operations segment will continue to be an extremely strong EBITDA and free cash flow generator for ISC even if volumes return to trend historic levels. We expect continued strength in the volumes in our Services segments regulatory and Corporate Solutions divisions for the balance of the year.

Our focus on our customers and our reputation in the markets in which we operate combined with our enhanced technology offerings continues to drive new customer acquisition and that we expect to continue in these divisions we recovery solutions division volumes are anticipated to remain fairly static in the 4th quarter.

However, and then the subsidy programs in the 4th quarter of 2021 combined with consumer uncertainty in 2022 could translate into increased activities in the recovery space in future quarters in Technology Solutions.

We continue to see progress on our solution delivery projects so COVID -19 and other related delays have resulted in certain milestones being delayed expectations for overall activity in this segment remain lower than for our other segments as new sales continue to be impacted by the worldwide focus on COVID-19 since March 2020. We remain optimistic in this segment, as we start hours. We are starting to see signs of the recommencement of early stage procurement act by some governments.

As you know, in October. My decision to step down from my role as President and CEO of IAC was announced, along with the Board's decision to appoint Shawn as my successor effective February 1, 2022. I'd like to take this opportunity to thank our Board of Directors, my executive team, all of our employees, partners for their support over the years.

There's no question that is the right person to succeed me and I wish him every success in IR working closely together to ensure a smooth transition and the continued success of ISC, so this being my finally. My final quarterly conference call. I wanted to remind you that my confidence and ISC's forward performance and potential with a strong as it has ever been.

While we recognize that the strong economic activity we've seen in 2021 particularly in Saskatchewan may not continue indefinitely. And then uncertainty remains related to the continued impact of COVID-19.

This is a short-term condition ISC has always been focused on the long term and we have therefore position the company well by continually optimizing its performance and most importantly, we remain focused on our customers and our growth these are all factors that will ensure our continued success.

I'll now hand the call back to Jonathan. Thanks, Jeff. Gail, we did now like to begin the question-and-answer session please.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions). Your first question comes from the line of Paul Treiber from RBC Capital Markets. Your line is open.

Paul Treiber^ Thanks very much and good morning. I just wanted to touch on operating expenses specifically, the decline in wages and salaries this quarter. What drove the decrease this quarter was anything unusual or temporary and then do you see it at a sustainable level going forward at these levels?

Shawn Peters^ Yeah Paul, thanks for the question. This is Shawn. This quarter is a little bit of an anomaly because we saw just the way the share price moved during the quarter we saw a reduction in share-based compensation expense, which actually acts as a negative against the wages and salaries, which maybe artificially looks like a pause them down the better number to look at really is year-to-date.

And the answer to the second part of the question is, we do expect that we're going to see our salaries and wages go up slightly. Probably as we go into 2022. We've talked in previous quarters that we're running pretty lean, we ran pretty lean during COVID and that was intentional until we saw how it played out, but we know that we're interested in continuing to grow the business and invest in the business and that will take a little bit of addition to the people side.

Paul Treiber^ That's helpful. Related to that, there is a disclosure that you closed. I think it's 3 customer service centers, can you just remind us again how many are still open? And then with the closures to date or over the last couple of years, what's the magnitude of cost reductions that you've seen as a result of that?

Jeff Stusek^ Paul, this is Jeff. Thanks for the question. Yeah. We closed. So when we came out at the IPO we had technically 8 service centers across the province we closed 3 a few years back and then closed 3 others, so we remain with 2 service centers, one in the

2 largest centers, one in Saskatchewan and one in Regina and likely will sort of have those for the foreseeable future.

It really -- we've talked about this in the past. This was just more it wasn't as much cost driven as much as it was consumer or customer behavior driven. Our customers weren't coming in to our bricks and mortar stores.

They are focused online and have shifted online in it, you just didn't make a lot of sense to have those have those facilities open now the staff that we're working the facilities we're able to use and re-purpose, if you will, and helping process the queue.

So it wasn't like they were idle, but it's just to have the -- just having a bricks and mortar leases and office space, just didn't make a lot of sense. I'll flip it, Shawn, you can talk a little bit about the sort of overall dollar value of that.

Shawn Peters^ Yeah. Just quickly, Paul, when we close the first 3 service centers that Jeff talked about, we took a $1.2 million charge for that and we expect it to make that up in cost savings in less than a year. So that's sort of the magnitude of the first one.

The second one is much smaller as just said it was more a decision about how our customers were interacting and in that case, all of the staff, are already working from home and we already have that set up. So there'll be some very minor lease costs as we close out those locations, but really all the staff, continue to be employed and just working from home.

Paul Treiber^ Thanks, that's helpful. Shifting to revenue on the services on a sequential basis services were down a little bit sequentially is that seasonality, or is there any sort of factors that we should be aware of. And then when you think about into 2022 the recovery or the sensitivity recovery services. How do we think about the where that that could rebound to like how do you sort of compare the current run rate versus what would sort of be a normal a normal run rate?

Shawn Peters^ Yeah, so, yeah, so on the first part of the question on services revenue. So part of what you're seeing. We're still seeing strong growth in our services revenue. What you saw, as you said in the trending in Q1 and Q2, we were building and adding customers all through COVID so since mid in early 2020 you weren't really seeing the impact of that because the existing customer transactions we had were down.

So adding the new customers was just staying fairly flat, what happened in Q1 and Q2 is all those new customers came online along with the pickup in the economies to the growth in those 2 quarters.

Much like in our Registry Operations was a bit unusual. You're seeing now those transactions are level in our growth is just the organic growth, as we're adding customers. I think this is probably more indicative of the ongoing trend as we continue to grow and outlook we're focused on growth, so we'll work hard on that.

On the second part of the question, which I think, I forgot now actually, sorry, Paul. What was the second part just on a recovery services?

Paul Treiber^ How do we think about the run rate where it is right now versus more of a normal level. In the absence of subsidies?

Shawn Peters^ Yeah. Sorry about that. Yeah, on the Recovery Solution. So we bought that during COVID it's performed pretty much the same since since the day we bought it, we knew with those levels would be. And so it's been pretty stable. It's hard to predict exactly how far, but we would expect that business to continue to run at a pretty significant growth rate when we bought it, the LTM prior to that it has seen significant growth, and that was in a fairly strong market. So as the market starts to pull back and we start to see recoveries increase.

We think that can easily grow substantially. I'm hesitant to give you a number because I don't want to sort of put a guidance out there, but I think you can expect that it would grow materially into 2022 if those subsidies start to come off and we start to see the defaults back -- return back to even normal levels.

Paul Treiber^ Okay, great. Thanks for taking my questions. I'll pass the line.

Operator^ Your next question comes from the line of Stephanie Price from CIBC. Your line is open.

Stephanie Price^ Good morning. First of all, I extend congratulations to Shawn and best of luck Jeff, on your next endeavor.

In terms of my questions. If you want to start off on the services side and you mentioned in the prepared remarks that's lower new vehicle sales in Saskatchewan. Just curious if you could kind of give us a few metrics around that, whether you think you most of an impact was in this quarter or if you expect it to move beyond this quarter as well.

Shawn Peters^ Yeah so, Stephanie. This is Shawn. The new vehicle sales in Saskatchewan were down that affects our personal property registry.

So not surprising, I think we're seeing that impact across all of our business, not just in Saskatchewan registry operations, although we do see some contradictory experience in some parts of services and collateral management where there was the new vehicles was really quite depressed during COVID saw a bit of a pickup in Q1 and Q2 and now we're seeing a little bit pulled back again just due to chip shortages and vehicle shortages and those types of problems.

So I think it will probably continue to some degree, although it's not as prevalent in Ontario and Quebec where it looks like, just to be honest, that most of the new vehicles supply is going first and the new vehicle supply out in Saskatchewan, just seems to be a little tighter and that's affecting our Registry part, but the services part where there are still cars available in Ontario and Quebec is doing a little better.

Stephanie Price^ Okay, that's great color. Thanks. And then in the MD&A, there was a comment and recovery solutions driving efficiency and extending partnerships within the supplier network, just curious if you could expand on that and just talk a little bit about the possibility to improve margins from here within that division?

Shawn Peters^ So we did take the opportunity as said in the previous answer the Recovery Solutions we bought it during COVID. It's a little bit slower. We had expected those subsidies to come off quite pickup up, given that it didn't. We took the opportunity to invest more in our technology, there's still a fair amount of people in that process.

As you can expect in the recovery of an asset in the project manager, of management of it. So we've taken the opportunity to invest in technology and we actually are continuing to do that right now. So that's not a completed project from a margin perspective, the margins in that business are already pretty strong, sort of north of 50% as you know, so we might be nipping around the edges, there to increase that.

But we think that's worth that because it also improves the scalability of the business. So we would see that as that business really ramps up. Even though there is some people intensive parts to it. We would see that to be much less because of the tax changes that we've made.

Stephanie Price^ Okay, great. And then just finally from me, can you remind us if that normal Q4 seasonality that you mentioned for the registry business and how we should think about that sequentially?

Shawn Peters^ Yeah, so our normal seasonality there as we see strong second and 3rd quarters really associated with when the higher activity is in the real estate market. We always joke that nobody likes to buy a house in Saskatchewan, it's minus 5, so it's usually slower in the 4th quarter in the first quarter during COVID that seasonality fell apart. We saw a slow first quarter, but then a slow second quarter because of the impact of COVID. And then strong 3rd and 4th.

This year, it actually has already in the first 3 quarters. Return to that normal more normal. So we've seen, we saw a good first quarter, but we saw a really strong second quarter. We've now seen a strong 3rd quarter, and just the way the transactions are trending, it looks like the 4th quarter will be lower, which is normal seasonality for us.

Stephanie Price^ Alright. Thanks so much.

Operator^ Next question comes from the line of Stephen Boland from Raymond James, your line is open.

Stephen Boland^ Thanks. I guess another question on your outlook in the Registry Operations. I guess, I'm just curious when you say that revenues are expected to adjust towards pre-term pre-pandemic levels. Are you suggesting then that revenue in the segment will actually declined over 2021 or that early return to kind of a pre-pandemic growth rate that you experienced in the Registry in the past?

Shawn Peters^ Yeah, thanks for the question a bit of both actually. When we started 2020, maybe just -- we got a context as the last few years, have been a little bit depressed in Saskatchewan, we saw volumes start to slow-starting in 2015 and that sort of gradually slow it all the way through into 2019.

In 2020, we were starting to see a return those transactions were starting to pick up back into a historic sort of levels pre COVID and then suddenly COVID hit 20 is in the books. One has been, as Jeff said a remarkable year in terms of record levels of transactions for several months in 2021.

So what we see is we do see that coming off a bit Saskatchewan's economy just or a real estate market just can't sustain those record level transactions, a lot of them were either pent up from a couple of months to things were shut down in COVID or there are COVID related where people were upgrading changing houses to adjust to the new remote work from home environment, and those are one-time transaction.

So we do expect to come off the record level that we're at right now, which means there could be a reduction in revenue and then back into the second part of your point which is return to more normal levels of growth for Saskatchewan.

Stephen Boland^ Okay and just remind me again how often you you adjust the pricing, you have your meeting with the government in terms of transaction fees and things like that, how does that, is that a partially could that partially offset some of this softness that you may expect?

Shawn Peters^ Yeah, we adjust them every year. So we have an annual adjustment-- adjust prices by Saskatchewan CPI. So that will, that will certainly play into that. Okay. Second question, Jeff. And again, good luck on your next endeavor. Getting some questions.

Whether this, this was a planned like this internally. This is no that you are going to move on and also whether the succession was planned as well that you didn't resign and the Board went out and did an external search in that, but you have an internal candidate. I'm just wondering if you could touch on that?

Jeff Stusek^ Sure happy to. Yeah, not necessarily planned like long term, I think my intent was never to stay in the company forever. It just -- it got to a point where I wanted to focus on some of the things that I'm a football coach I work in the community. And I wanted to spend some time there, not particularly old I guess relative to whom I guess.

But I think it was just time succession planning has always been a critical part of the way I approach leadership and business and from the moment Shawn started with us in 2012. Part of my plan was to make sure that he was -- he had the tools and the experience and the opportunity to lead and I think the company is in a perfect position because they have a leader just ready to hit the ground running.

And I don't expect any transition bumps. With that, Shawn and I have made all the decisions in this company for the last 9 years together, so, I don't expect any sort of transition, like I said, succession planning was has always been part of this and has been an ongoing thing for the last 9 years, as it relates to Sean.

So it wasn't with any particular date in mind just it felt like the right time and it wasn't for any other reason. The company is doing great. It has a very great future. It's an awesome spot and I'm happy to be able to go out on a high, not all CEOs get to leave on their own terms and when the company is doing so great. So I'm at peace with the decision and there is nothing to read into it other than it was just sort of time in my life that I needed to shift.

Stephen Boland^ Okay, appreciate that I did look into future. Thanks guys.

Jeff Stusek^ Thank you.

Operator^ Next question comes from the line of Jesse Jesse Pytlak from Cormark Securities. Your line is open.

Jesse Pytlak^ Hey, good morning. Just a quick follow-up regarding recovery solutions. It always sounds like the business is prime to see a good pickup in volumes in 2022. But can you just remind us if is through your fee structure. Do you have some exposure to vehicle pricing is a recover vehicles auctioned off just kind of wondering if you might see some benefit. Given the auto pricing environment.

Shawn Peters^ Yeah, very good question and observation. We do have exposure to it. Most of our contracts do have a provision that where we get a percentage of the recovery. So we're incented to get the highest recovery possible we have administration fees in there for the actual project management and the services we provide.

But sort of the end state is that we are incented to get a higher recovery. We've actually seen that already. Just we talked earlier about the vehicle shortage and chip shortage with the lower number of new cars coming into the market for used vehicles has gone up substantially. And so in the assignments that we've been getting.

We've been doing increasingly better on that that's what that is part of what's helped the recovery solutions to date because of that the recovery values have gone up fairly substantially for us and we expect that will continue.

Jesse Pytlak^ Okay thank you that's helpful and then just shifting to tech solutions. In the outlook you comment that you're seeing some signs of early stage procurement activity reopen. Just wondering if you could maybe elaborate a bit more specifically on what you are seeing?

Shawn Peters^ Well, yeah. Other than getting into specific opportunities which we don't do for obvious and competitive reasons we're just, we're starting to see governments take a look at sort of the technology deficits that they are in early procurement stages.

There has been a shift in the conversation, as you can imagine, most conversations with governments in the past 18 months have focused on either health or economy and so now the converse is starting to shift and we're starting to see some activity in that, which is great.

And I think is sort of a natural sort of gap or sort of lost time that everybody but it could be just water that's backing up in a in a river and. And so it's been deemed up then I think it will release and we'll see more and more opportunities to sort of showcase ISC's technology strength going forward. So, we're still confident in the business and the model. It's just, as we all did suffer through that particular side of the business suffered through some COVID exposure for sure.

Jesse Pytlak^ Okay, understood. That's all from me. I'll pass the line.

Shawn Peters^ Thank you.

Operator^ Your next question comes from the line of Trevor Reynolds from Acumen Capital. Your line is open.

Trevor Reynolds^ Good morning, guys. experienced within the Services segment, what that seasonality looks like pro forma here the registry complete software offering and also the recovery solutions. Obviously, we haven't seen 4 quarters of that without COVID. So just a little bit curious what that looks like moving forward?

Shawn Peters^ Yeah, Thanks Trevor. Seasonality in services is a little less pronounced than what we see in our Registry Operations where we tend to have fairly definite historical patterns. But we do still experience it, particularly with new vehicle sales, which affects our collateral management business, so that tends to follow. new vehicle promotions or financing manufacturers when they are looking to sell model years and those types of things.

So we do see some seasonality in the collateral management side, in a normal year just related to new model release and financing on the recovery that's less of a seasonality thing in more of an economic cycle thing.

So the only comment I would make in recovery is typically Q4 is it is a lower quarter because most of the recovery activities through financial institution stop in December. Just for obvious reasons they don't want to be recovering assets during the holiday period.

So there is a little bit of seasonality in Q4, but other than that recovery solutions is more cycle driven than anything. And then the balance of our business, which is in corporate registrations searches PSAs, and that's pretty consistent over the year, although we will see a little bit of an increase in the 4th quarter around corporate filings for year end type of type of documents, but it's pretty consistent over the year.

Trevor Reynolds^ Got it. And then I know you've touched on this a little bit, but just maybe what sort of costs, we can look for coming back into the system as the COVID lockdowns and restrictions come to an end here?

Shawn Peters^ I think we'll. We have talked about the people side of it, I think that's really the biggest part for us and again I don't, we're not talking that these are going to be material changes to the expense lines. We've just run a little bit lean through it. We've taken advantage of attrition certainly and not added where we might have normally added to facilitate investment in growth.

So we're going to see some in both registry operations and in services. We also have a lots of opportunities and plans in services and that needs to be time supported by some people. So we're going to see that there were already. We're continuing to pay our lease costs and rent costs and occupancy costs like everybody.

So there's really no change to that except to the extent that we continue to optimize those the closure that Jeff talked about there's a little bit there for some small service centers, we did close our Montreal office during COVID. So we've seen some reduction there. But right now we're carrying all the space.

So there is no addition and no reduction there and then we're going to see a pickup in travel, again not a material amount. But as Jeff talked about the opening of some governments to conversations. Those are most effective when done in person. So we want to see some of our business development and sales team sort of back on the road and traveling about.

Trevor Reynolds^ Great. And then last question is just on obviously can't get into specifics, but what you guys have seen in terms of the acquisition pipeline, if that's picked up at all as restrictions are starting to come through and then as well?

Shawn Peters^ Good question, Trevor. Yeah, obviously we don't talk about specific site. I think our approach to acquisitions remains the same, looking for companies and types of products and skills that we could add that sort of enhance our current offerings or get us into new markets that sort of our adjacent to what we do.

Our acquisitions to date have predominantly been in the services business and that likely is to continue, although we certainly have made acquisitions or an acquisition in the technology space too.

So yeah, I don't know if there's a pickup or continued focus we have never put pens down as far as acquisitions go, but we remain with the sort of mantra of just got to be the right company at the right time. And at the right price can be challenging through sort of uncertain times too.

So we're continuing to pound away and look for those right companies for us and I wouldn't say that intent is to slow down in any way, shape performance, it hasn't caused a slowdown. We have been a one acquisition a year type of company, but there is no hard and fast rule about that.

And so there have been years where we haven't done one in some years where we've done 2 and that's okay because it's, we're not serial acquirers, we're here to make sure the things we buy work and work well for our customers work well financially. And I think we're batting-one thousand so far. So, so far so good. And I expect that to continue. So other than that term, that's probably the best color I can provide.

Trevor Reynolds^ Perfect. Thanks guys.

Operator^ (Operator Instructions). There are no further questions at this time. Turning the call back to Jonathan Hackshaw.

Jonathan Hackshaw^ Thank you, Gail. With no further questions, I would like to thank everyone once again for joining us on the call today and wish you a good day. And we look forward to speaking with you again when we report our next quarter. Have a good day! Bye-bye!

Operator^ This concludes today's conference call. Thank you for participating. You may now disconnect.