

EQUITY RESEARCH

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Flash Research

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INFORMATION SERVICES CORP.

Q2/23 First Look: Updated Guidance In Line With Expectations

Our Conclusion

ISV reported a second quarter that was slightly below expectations, with revenue that was 2% below consensus and adjusted EBITDA 4% below consensus. ISV provided updated 2023 guidance to account for the [extended and amended MSA](#) with the Government of Saskatchewan and the updated figures were in line with our expectations. We do not expect the slight miss in the quarter to be viewed overly negatively, particularly with updated guidance in line with expectations. We will be looking for further commentary on the Saskatchewan MSA extension and a transaction activity update on the call at 11:00 a.m. ET tomorrow.

Key Highlights

Q2 Results: ISV reported Q2 revenue of \$53.3MM (consensus \$54.5MM/CIBCe \$54.0MM) and adjusted EBITDA of \$17.8MM (consensus \$18.6MM/CIBCe \$18.6MM). Adjusted EBITDA margin of 33.4% was 70 bps below consensus and 110 bps below CIBCe. Adjusted EBITDA margin compressed 440 bps Y/Y as the prior year benefitted from elevated registry transactions and related revenue.

Registry Division Results: The Registry division reported revenue of 24.8MM, below our expectation of \$25.1MM and flat Y/Y. Property tax revenue from the acquisition of Reamined contributed a full quarter at \$3.9MM relative to one month at \$1.2MM in the prior year. Excluding that contribution, Registry revenue was down organically Y/Y as transaction volumes declined. Registry EBITDA margins were 51.6%, down 15% Y/Y, but in line with our 52% estimate. Land Registry revenue was \$14.7MM, down 14% Y/Y; Personal Property Registry revenue of \$3.3MM was up 10% Y/Y; and Corporate Registry revenue of \$2.7MM was flat Y/Y.

Services Segment Results: Services revenue of \$26.1MM was up 5% Y/Y, and in line with our \$26.3MM estimate. EBITDA margins in the segment were 21.4% for the quarter, up from 20.5% in the year-ago quarter and above our expectations of 20%. Regulatory Solutions revenue was \$20.1MM, up 7% Y/Y. The increase was due to transaction and customer growth. Recovery Solutions revenue of \$2.4MM was flat Y/Y, and Corporate Solutions revenue of \$3.6MM was down from \$3.7MM in the year prior due to the opening of the Ontario Business Registry. That impact was partially offset by growth of corporate filings in other jurisdictions.

Updated 2023 Outlook: As expected, ISV provided an updated outlook with its Q2 results incorporating the impact of the Saskatchewan MSA extension. ISV now expects 2023 revenue between \$207MM - \$212MM and adjusted EBITDA between \$71MM-\$76MM, in line with consensus of \$211MM and \$72MM, respectively. Management noted it expects the softness in real estate activity in Saskatchewan to persist during H2/23; however, registry operations are expected to remain a strong FCF contributor.

Outperformer

ISV-TSX, Sector: Real Estate

Current Price (8/2/23): C\$25.00

Price Target (12-18 mos.): C\$31.00

All figures in Canadian dollars unless otherwise stated.

Please see "Price Target Calculation and Key Risks to Price Target" information on page 2.
For required regulatory disclosures please refer to "Important Disclosures" beginning on page 3.

Exhibit 1: ISV – Q2/23 First Look

	Q2/F23			Q2/F22	Y/Y%	Q1/F23	Q/Q%
	Actual	CIBCe	Consensus				
Consolidated							
Revenue (\$MM)	53.3	54.0	54.5	50.9	5%	49.1	9%
Registry Operations	24.8	25.1	-	24.5	1%	22.8	9%
Services	26.1	26.3	-	24.9	5%	24.7	5%
Technology Solutions	2.4	2.5	-	1.5	62%	1.6	50%
Adjusted EBITDA (\$MM)	17.8	18.6	18.6	19.2	-7%	14.5	23%
EBITDA Margin	33.4%	34.5%	34.1%	37.8%	-12%	29.6%	13%
EPS (Diluted)	0.46	0.47	0.54	0.65	-30%	0.38	20%

Source: Company reports, FactSet and CIBC World Markets Inc.

Price Target Calculation

We calculate Information Services' price target of \$31 by applying a multiple of 8.5x to our 2024E EBITDA under the current capital structure. This is supported by a discounted cash flow (DCF) valuation using a 9.0% weighted average cost of capital (WACC) and a terminal growth rate of -1%.

Key Risks To Price Target

The primary risks to our price target include the following: 1) Housing markets tighten; 2) Poor economic conditions lead to lower transaction volumes; 3) Lack of trading liquidity limits multiple expansion; 4) Services segment does not see organic growth as expected

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Note: Broader market averages refer to S&P 500 in the U.S. and S&P/TSX Composite in Canada.

CIBC World Markets Inc. Price Chart

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