

EQUITY RESEARCH

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Rating Change - Upgrade

INFORMATION SERVICES CORP.

Saskatchewan Registry MSA Extended To 2053; Includes Additional Revenue Opportunities

↑Outperformer

ISV-TSX, Sector: Real Estate

Current Price (7/5/23): C\$21.85

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

Previous: C\$26.00

Our Conclusion

Information Services Corp announced that it has extended its agreement with the province of Saskatchewan and will be the exclusive provider of registry services for the province until 2053, adding an additional 20 years to the current agreement for a total cost of \$300 million. The extension gives ISV the right to charge additional fees that are expected to lead to \$16 million in pro forma adjusted EBITDA, a 24% increase on our prior 2024 estimates and a 500bps lift to consolidated EBITDA margins. The deal tilts ISV's revenue mix back above 50% registry, a positive development given the low-risk and high cash flow profile of the registry assets. While M&A will be limited while leverage remains elevated in the wake of the deal, we view the transaction as an effective use of capital given the margin and cash flow accretion. Given ISV's discounted valuation relative to historical levels and the improved operating profile that results from the deal, we are upgrading ISV from Neutral to Outperformer and increasing our price target from \$26 to \$31.

CIBC Estimates and Valuation

(Dec. 31)	2021	2022	2023	2024
EPS diluted	1.78A	1.71A	1.74E	2.16E
Prior			1.73E	1.95E
EBITDA(mln)	60.5A	60.9A	68.9E	83.6E
Prior			62.0E	66.3E
Adj. EBITDA(mln)	67.8A	64.4A	74.8E	89.2E
Prior			67.9E	71.9E

	Q1	Q2	Q3	Q4
EPS diluted	0.38A	0.47E	0.43E	0.47E
2023				
Prior		0.48E	0.45E	0.42E
2022	0.41A	0.65A	0.43A	0.22A

EBITDA(mln)	Q1	Q2	Q3	Q4
2023	14.7A	16.6E	18.4E	19.2E
Prior			15.8E	14.9E
2022	13.8A	20.5A	15.8A	10.8A

Adj. EBITDA(mln)	Q1	Q2	Q3	Q4
2023	14.5A	18.6E	20.4E	21.3E
Prior			17.8E	16.9E
2022	14.6A	19.2A	17.0A	13.5A

Valuation	2021	2022	2023	2024
P/E	12.3x	12.7x	12.5x	10.1x
EV/EBITDA	9.1x	9.0x	8.0x	6.6x

Key Points

Deal Terms: The extension extends the terms of ISV's current exclusive MSA with the province of Saskatchewan until 2053, a 20-year extension on the previous agreement that was set to expire in 2023. Consideration consists of three parts: an upfront cash payment of \$150MM payable on or before July 29, 2023, followed by five cash payments of \$30MM per year commencing in July 2024 through 2028, and annual contingent payments potentially payable after 2033 if certain cumulative annual volume growth threshold for certain land registry transactions are met.

Financial Impact: The new MSA allows ISV to introduce and add fees on certain land registry transactions and is expected to add \$17MM of pro forma annual revenue and \$16MM of pro forma annual EBITDA starting at the end of July. We expect that the high margin fee revenue will drive a 5% increase to 2024E EBITDA margins. For 2023, management expects revenue to increase \$7MM and adjusted EBITDA by \$6MM. After updates, we now model adjusted EBITDA margins of 35.3% for 2023, and 38.7%. Using the expected EBITDA contribution from the deal and ISV's historical ~60% FCF conversion, we calculate an unlevered IRR in the low double digits.

Funding: ISV has entered into an amended and restated credit facility, consisting of the existing \$150MM facility and a new \$100MM facility, plus a \$100MM accordion option. ISV intends to fund the upfront cash payment with cash on hand of ~\$4MM and a draw on the credit facility, after which pro forma leverage (inclusive of \$150MM in deferred payments) increases from 0.6x to 4.0x. Assuming no other M&A, management expects leverage return to the 2.0x-2.5x level over the next 2-3 years.

Stock Performance and Key Indicators

Enterprise Value:	C\$549M	Shares O/S:	17.7M
Market Cap.:	C\$386M	Float:	12.2M
52-wk Range:	C\$19.29 - C\$24.63	Div. / Yield:	C\$0.80/3.66%

TSX Composite Index vs. ISV-TSX



(Source: FactSet)

All figures in Canadian dollars unless otherwise stated.

Please see "Price Target Calculation and Key Risks to Price Target" information on page 4. For required regulatory disclosures please refer to "Important Disclosures" beginning on page 5.

Information Services Corp. (ISV-TSX) — Outperformer

Price (7/5/23) C\$21.85 12-18 mo. Price Target C\$31.00

Sector: Real Estate

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Peer Comparison	2021	2022	2023E	2024E
P/E - Registry/Information	14.3x	14.3x	14.8x	14.8x
P/E - ISC	10.6x	10.9x	10.6x	10.6x
EV/EBITDA - Registry/Information	14.1x	10.4x	10.4x	10.4x
EV/EBITDA - ISC	6.3x	6.6x	6.3x	6.3x
EV/Sales - Registry/Information	4.0x	3.0x	2.9x	2.9x
EV/Sales - ISC	2.5x	2.2x	2.1x	2.1x
Key Financial Metrics	2021	2022	2023E	2024E
Sales Growth	23.9%	12.1%	11.5%	8.9%
Per Share Data	2021	2022	2023E	2024E
FCFPS	3.37	2.34	2.61	3.24
Diluted EPS	1.78	1.71	1.74	2.16
Wgt Avg # of Shares	17.5	17.6	17.7	17.7
FD Number of Shares	18.0	17.9	18.0	18.0
Income Statement	2021	2022	2023E	2024E
Revenue	169	190	212	231
Tot Operating Exp	109	129	143	147
OpEx (% of Revenue)	64.26%	67.91%	67.46%	63.72%
EBITDA	61	61	69	84
EBITDA Margin	35.74%	32.09%	32.54%	36.28%
Adj. EBITDA	68	64	75	89
Adj EBITDA Margin	40.0%	33.9%	35.3%	38.7%
D&A	14	15	17	17
Interest Expense	(3)	(3)	(9)	(14)
Pretax profit	44	43	43	53
Net Income	32	31	31	39
Net Margin	18.9%	16.2%	14.8%	16.8%
Cash Flow Statement	2021	2022	2023E	2024E
Net CFO	61	44	48	60
Capex	(1)	(1)	(1)	(1)
Free Cash Flow	61	42	47	58
Balance Sheet	2021	2022	2023E	2024E
Cash & ST Investment	40	34	43	37
Intangible Assets	138	190	478	465
Total Assets	232	283	581	559
ST Int-Bearing Debt	0	0	0	0
LT Int-Bearing Debt	41	66	199	187
Total Liabilities	95	128	412	371
Shareholders' Equity	138	156	169	188

Source: FactSet, Company Reports & CIBC World Markets Inc.

Company Profile

Information Services Corp. is responsible for the development, management and administration of registries, geographic information, and access to government services for people and businesses in Saskatchewan.

Investment Thesis

We expect that ISV will generate solid free cash flow from its registry relationship with the Saskatchewan government while diversifying its business through growth in the Services and Technology segments. Following the extended MSA with Saskatchewan until 2053 and connected margin improvements we believe the stock should trade closer in line to its long-term margin profile.

Price Target (Base Case): C\$31.00

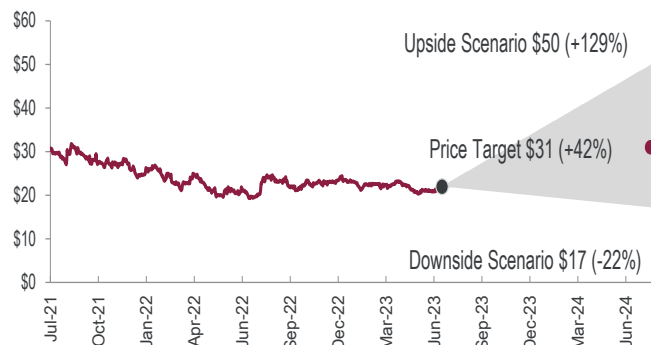
Our price target suggests 2024E registry revenue growth at 9% and service revenue growth of 5%. Our price target is calculated using Adj. EBITDA margins of 38.7% and an 8.5x EV/EBITDA multiple.

Upside Scenario: C\$50.00

Our upside scenario is derived using revenue growth of 2%, EBITDA margins of 40% and a 11x EV/EBITDA multiple.

Downside Scenario: C\$17.00

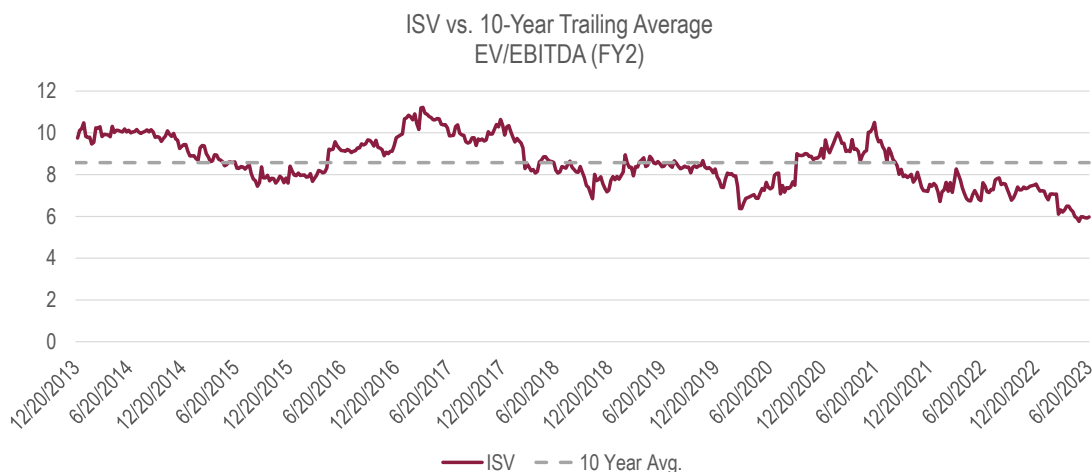
Our downside scenario is derived using revenue growth of 5%, EBITDA margins of 32% and a 6.5x EV/EBITDA multiple.



Valuation

Prior to the announcement of the deal, ISV was trading at ~6.3x our 2024E EBITDA estimate. Over the previous 10 years, ISV shares have traded at an average multiple of 8.5x, with the multiple reaching as high as 10.5x in 2021 as ISV benefitted from elevated levels of housing transactions. We see the 2021 period as more relevant, as ISV's Adjusted EBITDA margins during the year averaged 40% as high-margin transactions drove margin expansion. With our 2024E forecast now expecting margins of 38%+ we see potential for multiple expansion as the margin profile nears pandemic levels. While organic growth will likely not be as strong, the improved margins and cash flow argue for an above-historical multiple.

Exhibit 1: ISV – EV/EBITDA FY2 Vs. 10-year Trailing Average



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

Changes To Our Model

We have updated our model to reflect the impact of the increased Land Registry Fee revenue that is expected to result from the deal. Our 2023E Adjusted EBITDA forecast increases by 10%, while our 2024 forecast increases by 24%.

Exhibit 2: ISV – Changes To Our Model, 2022A-2024E

	Revenues (\$MM)	Adj. EBITDA (\$MM)	EPS	CFO (\$MM)
2022A	190	64	1.74	44
2023E				
CIBC est. – new	212	75	1.74	48
CIBC est. – prior	205	68	1.73	47
Consensus	204	66	1.81	46
2024E				
CIBC est. – new	231	89	2.16	60
CIBC est. – prior	216	72	1.95	55
Consensus	215	70	2.04	53

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 an 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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None	NA	Sector rating is not applicable.

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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