



Information Services Group, Inc. (III)

We Forecast 3Q:21 EPS Of \$0.05; Strong Industry Demand Trends And Improving Margin Structure Support Our Projected 2021-2023 EPS CAGR Of 27.2%; Maintain \$11 Price Target

	2020		2021E		2022E		2023E	
		OLD	NEW	OLD	NEW	OLD	NEW	
Mar.	(\$0.01)	\$0.07A		\$0.05		\$0.06		
June	0.05	0.10A		0.07		0.09		
Sep.	0.07	0.05		0.09		0.10		
Dec.	<u>0.07</u>	<u>0.05</u>		<u>0.08</u>		<u>0.09</u>		
EPS	\$0.17	\$0.27		\$0.28		\$0.35		

P/E **29.1x** **23.3x**

Note: NR = Not Rated. Risk Ratings: H = Highly Risky; M = Moderately Risky. *FCF excludes the add back of stock-based compensation expense. 2020-2023E exclude \$0.11, \$0.05, \$0.00, and \$0.06 in respective one-time costs. 2020-2023E include a respective \$0.11, \$0.09, \$0.10, and \$0.10 in stock-based compensation expense. Sum of quarterly EPS may not equal full-year total due to rounding, change in tax rate and/or share count. The Russell 2000 Index includes III. NC= Not covered by Sidoti & Company, LLC.

Year	2014	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Rev.(Mil.)	\$209.6	\$209.2	\$216.5	\$269.6	\$275.8	\$265.8	\$249.1	\$258.9	\$280.7	\$303.1
GAAP EPS	\$0.16	\$0.13	(\$0.18)	(\$0.05)	\$0.12	\$0.07	\$0.06	\$0.22	\$0.28	\$0.39

Description: Information Services Group, Inc. (www.isg-one.com) is a global technology research and advisory firm. The company specializes in digital services, including automation, cloud and data analytics, sourcing advisory, managed governance and risk services, network carrier services, strategy, and operations design, change management, market intelligence, technology research and analysis. III employs approximately 1,300 professionals operating in over 20 countries primarily in the Americas and the EMEA region. Headquarters are in Stamford, CT.

Release Date	Conference Call	Time (Eastern)	Contact	Co. Guidance	Consensus
November 4 AMC	877-502-9276	November 5 - 9AM	Code:5609449	Rev: \$66-\$68 mil.	\$0.05

- **Our 3Q:21 EPS estimate of \$0.05 reflects a solid demand environment and is consistent with prior management commentary.**
- **As a reminder, III management provided 3Q:21 guidance for revenue of \$66-\$68 million and adjusted EBITDA of \$8-\$9 million.**
- **We think the post-pandemic demand environment for ISG has improved with global customers spending more aggressively on digital transformation, IT, and cybersecurity needs.**
- **As such, we maintain our 2021-2023 EPS CAGR of 27.2%.**
- **Our free cash flow per share (excluding the add back of stock-based compensation expense) estimates of \$0.29 in 2021, \$0.34 in 2022 and \$0.42 in 2023 imply respective FCF yields of 3.6%, 4.2% and 5.2%.**
- **Our \$11 price target is based on 30x our 2023 EPS estimate of \$0.35. We think strong free cash flow and solidly visible demand trends support the multiple.**
- **Our Moderately risky rating takes into consideration the history of profitability, an attractive global customer base and an improving balance sheet.**

Our 3Q:21 EPS forecast of \$0.05 reflects management commentary on an improving spending activity by the client base. As a reminder, III management provided 3Q:21 revenue guidance of \$66-\$68 million and adjusted EBITDA of \$8-\$9 million. We maintain our net revenue estimate of \$66.3 million and adjusted EBITDA of \$8.5 million. Our net revenue estimate represents 7.6% year over year growth over the pandemic impacted 3Q:20 results, which experienced a 9.6% revenue decline year over year. Our adjusted EBITDA margin forecast of 12.8% represents a modest 50 basis point contraction against the 13.3% reported in the year ago period when more defensive cost savings measures were in place. We note

NR

Price Target: \$11
Price: \$8.15
Risk Rating: M

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Key Statistics

Analysts Covering	3
Market Cap (Mil)	\$390
Enterprise Value	\$454
52-Week Range (NASDAQ)	8-2
5-Year EPS CAGR	20%
Avg. Daily Trading Volume	385,000
Shares Out (Mil)	48.463
Float Shares (Mil)	30.647
Insider Ownership	37%
Institutional Holdings	51%
Annualized Dividend	\$0.12
Dividend Yield	1.5%
FCF Per Share (2023E)	\$0.42
FCF Yield (2023E)	5.2%
Net Cash Per Share (2023E)	(\$0.01)
Price to Book Value	4.1x
Return on Equity (2023E)	16.9%
Total Debt to Capital	44%
Interest Coverage Ratio	11.5x
Short Interest %	1.9%
Short Interest Days To Cover	2.9
Russell 2000	2,297
Russell 2000 – Last 12 Months	47.1%
III – Last 12 Months	301.5%



that our estimated tax rate of 48% represents a \$0.02 per share headwind against the 9.9% rate reported in the year ago period.

We maintain our 2021-2023 projected EPS CAGR of 27.2%. Our EPS estimates of \$0.27 in 2021, \$0.28 in 2022 and \$0.35 in 2023 remain unchanged. Our estimates include annual stock-based compensation expense of \$0.09 in 2021 and \$0.10 each in 2022-2023. Our revenue estimates imply annual growth rates of 3.9%, 8.4% and 8.0%. We expect strong spending trends as clients emerge from the challenges of the pandemic. As a reminder, data from the ISG Index reported the annual contract value of the global market increased 40% year over year to \$21.8 billion, which represents the highest quarterly growth rate since tracking began in 2014. Simply put, we think the marketplace is now seeing the action being taken following pent up demand during the pandemic. We think the combination of strong demand and improving margins support potential upside to our current estimates. Our adjusted EBITDA margin estimates of 13.7% in 2021, 16.9% in 2022 and 18.6% in 2023 support the progress of the ISG NEXT business model and the benefits of operating leverage.

Acquisitions and share repurchases are the likely primary uses of cash, in our view. III ended 2Q:21 with \$43.8 million in cash and debt of \$76.6 million. We maintain our free cash flow per share (excluding the add back of stock-based compensation expense) estimates of \$0.29 in 2021, \$0.34 in 2022 and \$0.42 in 2023. Our estimates imply respective FCF yields of 3.6%, 4.2% and 5.2%. We view digital transformation, automation services and recurring revenue producing entities as the most likely acquisition targets in the near-term. III announced a \$25 million expansion of the share repurchase program, expanding the authorization to \$28.2 million at the end of 2Q:21. The Board announced the initiation of a quarterly dividend of \$0.03 in May 2021. We forecast the dividend will require \$4.7 million in 2021 and \$6.5 million annually in 2022-2023.

Exhibit 1: III 3Q:21 Earnings Preview (\$ thous., except per share data)				
	3Q:20 Actual	3Q:21 Estimate	\$ Change (Year Over Year)	% Change (Year Over Year)
Revenue	\$61,635	\$66,341	\$4,706	7.6%
Operating income	2,974	5,047	2,073	69.7%
Net income	2,055	2,287	232	11.3%
Adj. EPS	\$0.07	\$0.05	(\$0.02)	-28.6%

Sources: Company reports and Sidoti & Co., LLC estimates

Valuation	We maintain a Moderately Risky rating and \$11 price target on shares of Information Services Group. Improving order trends within the industry support our view that the global clients have shifted out of the defensive postures adopted during the height of the pandemic and into a more active growth driven mode. These investments prioritize digital transformation and automation growth initiatives. Our \$11 price target is based on 30x our 2023 EPS estimate of \$0.35. III reports EPS with stock-based compensation expense added back, which is the method adopted by the majority of sell side analysts covering the company. (We do not do this. For purposes of comparison, our 2023 EPS estimate under this scenario is \$0.45 and implies a 24.4x P/E multiple to derive the \$11 price target.) The Moderately risky rating takes into consideration the history of profitability, attractive global customer base, strong client retention, and an improving balance sheet.		
Key Risks	Service offering mix changes	Utilization management	Regulatory and litigation trends

INFORMATION SERVICES GROUP, INC.

Table 1: Information Services Group Income Statement (\$ in thousands)

	Mar.	Jun.	Sept.	Dec.	2020	Mar.A	Jun.A	Sept.E	Dec.E	2021E	Mar.E	Jun.E	Sept.E	Dec.E	2022E	2023E
Revenue	\$63,710	\$57,394	\$61,635	\$66,389	\$249,128	\$66,571	\$70,597	\$66,341	\$55,396	\$258,905	\$71,231	\$75,539	\$72,975	\$60,936	\$280,680	\$303,135
Y-O-Y% Change	-1.7%	-14.8%	-9.6%	1.4%	-6.3%	4.5%	23.0%	7.6%	-16.6%	3.9%	7.0%	7.0%	10.0%	10.0%	8.4%	8.0%
Operating expenses	41,017	33,759	36,762	38,340	149,878	41,156	43,007	37,615	30,468	152,246	44,163	42,302	40,136	32,905	159,506	168,105
% of revenue	64.4%	58.8%	59.6%	57.8%	60.2%	61.8%	60.9%	56.7%	55.0%	58.8%	62.0%	56.0%	55.0%	54.0%	56.8%	55.5%
Gross income	22,693	23,635	24,873	28,049	99,250	25,415	27,590	28,726	24,928	106,659	27,068	33,237	32,839	28,030	121,174	135,030
% of revenue	35.6%	41.2%	40.4%	42.2%	39.8%	38.2%	39.1%	43.3%	45.0%	41.2%	38.0%	44.0%	45.0%	46.0%	43.2%	44.5%
SG&A expenses	21,881	18,593	20,318	22,993	83,785	19,040	20,492	22,423	19,389	81,344	22,082	24,172	21,893	18,281	86,427	91,467
% of revenue	34.3%	32.4%	33.0%	34.6%	33.6%	28.6%	29.0%	33.8%	35.0%	31.4%	31.0%	32.0%	30.0%	30.0%	30.8%	30.2%
Depreciation and amortization	1,532	1,529	1,581	1,555	6,196	1,360	1,255	1,255	1,255	5,125	1,200	1,200	1,200	1,200	4,800	3,900
Operating Income	(720)	3,513	2,974	3,501	9,269	5,015	5,843	5,047	4,285	20,190	3,786	7,865	9,746	8,550	29,947	39,663
Operating margin	-1.1%	6.1%	4.8%	5.3%	3.7%	7.5%	8.3%	7.6%	7.7%	7.8%	5.3%	10.4%	13.4%	14.0%	10.7%	13.1%
Interest expense	(1,384)	(819)	(687)	(673)	(3,563)	(643)	(613)	(650)	(650)	(2,556)	(600)	(600)	(550)	(500)	(2,250)	(1,800)
Foreign currency & Other	162	54	(66)	(112)	(98)	(11)	8	-	-	(3)	-	-	-	-	-	-
Interest income	73	(82)	61	72	260	71	60	-	-	131	-	-	-	-	-	-
Pretax income	(1,869)	2,666	2,282	2,788	5,868	4,432	5,298	4,397	3,635	17,762	3,186	7,265	9,196	8,050	27,697	37,863
Income tax (Benefit)	(509)	2,054	227	1,341	3,113	1,008	1,192	2,111	1,745	6,055	1,434	3,269	4,138	3,622	12,464	17,038
Tax rate	27.2%	77.0%	9.9%	48.1%	53.1%	22.7%	22.5%	48.0%	48.0%	34.1%	45.0%	45.0%	45.0%	45.0%	45.0%	45.0%
Net income	(1,360)	612	2,055	1,447	2,755	3,424	4,106	2,287	1,890	11,707	1,752	3,996	5,058	4,427	15,233	20,825
Net margin	-2.1%	1.1%	3.3%	2.2%	1.1%	5.1%	5.8%	3.4%	3.4%	4.5%	2.5%	5.3%	6.9%	7.3%	5.4%	6.9%
GAAP EPS	(\$0.03)	\$0.01	\$0.04	\$0.03	\$0.06	\$0.07	\$0.08	\$0.04	\$0.04	\$0.22	\$0.03	\$0.07	\$0.09	\$0.08	\$0.28	\$0.39
Y-O-Y% Change	NM	0.0%	NM	-25.0%	-14.3%	NM	NM	0.0%	33.0%	NM	NM	-12.5%	NM	NM	27.3%	39.3%
Pro Forma EPS	\$0.02	\$0.06	\$0.10	\$0.10	\$0.28	\$0.10	\$0.12	\$0.07	\$0.07	\$0.36	\$0.07	\$0.10	\$0.11	\$0.10	\$0.38	\$0.45
Y-O-Y% Change	20.0%	12.5%	-35.7%	60.0%	9.7%	20.0%	NM	-30.0%	-30.0%	28.6%	-30.0%	-16.7%	57.1%	42.9%	5.6%	18.4%
Adjusted EPS	-\$0.01	\$0.05	\$0.07	\$0.07	\$0.17	\$0.07	\$0.10	\$0.05	\$0.05	\$0.27	\$0.05	\$0.07	\$0.09	\$0.08	\$0.28	\$0.35
Y-O-Y% Change	NM	0.0%	0.0%	0.0%	-15.0%	NM	NM	-28.6%	-28.6%	58.8%	-28.6%	-30.0%	80.0%	60.0%	3.7%	25.0%
Diluted shares	47,315	48,962	49,908	51,250	49,972	52,313	51,315	53,500	53,500	52,657	54,000	54,250	54,500	54,750	54,375	54,000
EBITDA	1,047	5,014	4,550	9,371	19,982	6,435	7,166	6,302	10,195	30,098	4,986	9,065	10,946	14,460	39,457	48,523
EBITDA Margin	1.6%	8.7%	7.4%	14.1%	8.0%	9.7%	10.2%	9.5%	18.4%	11.6%	7.0%	12.0%	15.0%	23.7%	14.1%	16.0%
Adjusted EBITDA	3,543	7,405	8,224	9,167	28,340	8,645	9,738	8,502	8,490	35,375	8,186	12,265	14,146	12,950	47,547	56,363
Adjusted EBITDA Margin	5.6%	12.9%	13.3%	13.8%	11.4%	13.0%	13.8%	12.8%	15.3%	13.7%	11.5%	16.2%	19.4%	21.3%	16.9%	18.6%

Sources: Company reports and Sidoti & Company LLC estimates

INFORMATION SERVICES GROUP, INC.

Table 2: Information Services Group Statement of Cash Flows (\$ in thousands)

	Mar.	Jun.	Sept.	2020	Mar.A	Jun.A	2021E	2022E	2023E
Operating									
Net Income	(\$1,360)	\$613	\$2,054	\$2,755	\$3,424	\$4,106	\$11,707	\$15,233	\$20,825
Depreciation	687	668	668	2,664	646	611	2,161	1,728	1,404
Amortization Of Intangible Assets	845	860	913	3,532	714	644	2,964	3,072	2,496
Deferred Tax Expense From Stock Issuances	274	610	88	969	(526)	(832)	-	-	-
Amortization Of Deferred Financing Costs	126	92	95	403	90	89	600	600	600
Write-of Of Deferred Financing Costs	167	-	-	167	-	-	-	-	-
Stock-Based Compensation	2,419	1,966	2,159	8,891	2,148	1,428	7,576	10,000	10,000
Change In Fair Value Of Contingent Consideration	-	-	-	419	32	34	-	-	-
Changes In Accounts Receivable Allowance	29	647	(77)	817	(62)	(87)	-	-	-
Deferred Tax Benefit	523	(208)	(1,299)	(139)	578	1,207	-	-	-
Changes In Operating Assets And Liabilities									
Accounts Receivable	4,561	4,147	2,056	10,065	1,555	(3,855)	(135)	(1,352)	(1,379)
Prepaid Expense And Other Assets	(454)	2,153	435	(1,689)	1,382	(92)	(68)	(70)	(71)
Accounts Payable	1,094	339	(1,110)	2,070	6,484	(1,635)	439	977	1,007
Deferred Revenue	(2,000)	253	1,078	(93)	822	1,543	(121)	-	-
Accrued Expenses	(2,304)	10,224	3,276	13,140	(5,234)	5,716	(64)	-	-
Net Cash Provided By Operating Activities	4,607	22,364	10,336	43,971	12,053	8,877	25,058	30,188	34,882
Investing									
Acquisitions	-	-	(2,282)	(2,317)	-	-	-	-	-
Purchase Of Furniture, Fixtures And Equipment	(173)	(254)	(368)	(1,181)	(441)	(524)	(2,000)	(2,000)	(2,000)
Net Cash Provided By Investing Activities	(173)	(254)	(2,650)	(3,498)	(441)	(524)	(2,000)	(2,000)	(2,000)
Financing									
Principal Payments On Borrowings	-	(5,938)	(1,075)	(8,088)	(1,075)	(1,075)	(4,000)	(4,000)	(5,000)
Proceeds From Issuance Of ESPP Shares	123	156	120	516	129	158	-	-	-
Dividend Paid	-	-	-	-	-	(1,451)	(4,739)	(6,525)	(6,480)
Tax Withholding From Stock-Based Compensation	(618)	(1,013)	(278)	(2,023)	(1,939)	(2,656)	(2,730)	(4,500)	(1,125)
Debt Financing Costs	(934)	-	-	(934)	-	-	-	-	-
Equity Securities Repurchased	(3,367)	(1,408)	(277)	(5,166)	(2,950)	(8,266)	(11,216)	-	-
Net Cash Provided By Financing Activities	(4,796)	(8,203)	(1,510)	(15,695)	(5,835)	(13,290)	(22,685)	(15,025)	(12,605)
Effect Of Exchange Rate Changes On Cash And Other	(397)	249	504	809	(936)	159	-	-	-
Net Increase In Cash And Cash Equivalents	(759)	14,156	6,680	25,577	4,841	(4,778)	373	13,163	20,277
Cash And Cash Equivalents, Beginning Of Period	18,153	17,396	31,552	18,153	43,730	48,573	43,730	44,103	44,103
Cash And Cash Equivalents, End Of Period	17,396	31,552	38,232	43,730	48,573	43,795	44,103	57,266	64,380

Sources: Company reports and Sidoti & Company LLC estimates

INFORMATION SERVICES GROUP, INC.

Table 3: Information Services Group Balance Sheet (\$ in thousands)

	Mar.	Jun.	Sept.	2020	Mar.A	Jun.A	2021E	2022E	2023E
Assets									
Cash And Cash Equivalents	\$17,396	\$31,552	\$38,141	\$43,730	\$48,573	\$43,795	\$44,103	\$57,266	\$64,380
Accounts And Unbilled Receivables	71,741	67,352	66,239	67,473	65,976	69,944	67,608	68,960	70,339
Prepaid Expense And Other	5,212	3,911	4,556	3,412	3,133	4,210	3,480	3,550	3,621
Total Current Assets	94,349	102,815	108,936	114,615	117,682	117,949	115,191	129,776	138,340
Restricted Cash	86	88	91	95	91	92	87	87	87
Furniture, Fixtures And Equipment	5,664	5,359	5,003	5,001	4,862	4,907	5,000	5,000	5,000
Operating lease right-of-use assets	6,044	5,528	4,983	5,909	5,514	5,074	6,000	6,000	6,000
Goodwill	85,138	85,323	90,789	91,008	90,915	90,914	90,200	89,750	89,000
Intangible Assets	15,723	14,894	15,962	15,064	14,346	13,701	15,500	15,150	14,875
Deferred Tax Asset	3,297	2,721	3,349	2,255	2,429	2,506	2,000	2,000	2,000
Other Assets	1,172	1,117	957	5,573	4,558	3,553	5,000	5,000	5,000
Total Assets	211,473	217,845	230,070	239,520	240,397	238,696	238,978	252,763	260,302
Liabilities And Shareholders' Equity									
Accounts Payable	10,181	10,571	9,410	11,176	17,744	16,259	11,615	12,591	13,599
Current Maturities Of Long-Term Debt	4,300	4,300	4,300	4,300	4,300	4,300	4,300	4,300	4,300
Contract Liabilities	2,934	3,188	4,546	5,121	5,943	7,486	5,000	5,000	5,000
Accrued Expenses and Other Current Liabilities	13,741	23,017	25,622	30,064	26,140	29,689	30,000	30,000	30,000
Total Current Liabilities	31,156	41,076	43,878	50,661	54,127	57,734	50,915	51,891	52,899
Long-Term Debt	81,447	75,573	74,564	73,551	72,537	71,522	69,551	65,551	60,551
Deferred Tax Liability	3,504	3,641	3,460	3,811	3,761	3,779	3,500	3,400	3,400
Operating lease liabilities	4,449	4,100	3,784	4,332	3,960	3,560	4,300	4,150	4,150
Other	4,878	5,160	10,772	8,028	5,185	5,220	10,000	10,000	10,000
Total Liabilities	125,434	129,550	136,458	140,383	139,570	141,815	138,266	134,992	131,000
Stockholders' Equity									
Total Stockholders' Equity	86,039	88,295	93,612	99,137	100,827	96,881	100,712	117,771	129,302
Total Liabilities and Stockholders' Equity	211,473	217,845	230,070	239,520	240,397	238,696	238,978	252,763	260,302
SELECTED FINANCIAL DATA									
Free Cash Flow	4,434	22,110	9,968	42,790	11,612	8,353	23,058	28,188	32,882
Free Cash Flow Per Share	\$0.09	\$0.45	\$0.20	\$0.86	\$0.22	\$0.16	\$0.44	\$0.52	\$0.61
Free Cash Flow (Excluding Stock Compensation Add Back)	2,015	20,144	7,809	33,899	9,464	6,925	15,482	18,188	22,882
Free Cash Flow Per Share (Excluding Stock Compensation Add Back)	\$0.04	\$0.42	\$0.16	\$0.68	\$0.18	\$0.13	\$0.29	\$0.34	\$0.42
Return On Equity (ROE) (TTM)	3.5%	3.6%	3.8%	2.9%	7.5%	22.8%	11.7%	13.9%	16.9%
Return On Assets (ROA) (TTM)	1.3%	1.4%	1.5%	1.2%	3.1%	9.2%	4.9%	6.2%	8.1%
DSO	98.9	96.5	97.4	98.9	95.6	96.3	95.3	89.7	84.7
Book Value Per Share	\$1.82	\$1.80	\$1.88	\$1.98	\$1.93	\$1.89	\$1.91	\$2.17	\$2.39
Total Debt To Total Capital	49.9%	47.5%	45.7%	44.0%	43.2%	43.9%	42.3%	37.2%	33.4%
Total Debt To Equity	40.5%	36.7%	34.3%	32.5%	32.0%	31.8%	30.9%	27.6%	24.9%
Net cash (debt) per share	(\$1.44)	(\$0.99)	(\$0.82)	(\$0.68)	(\$0.54)	(\$0.62)	(\$0.56)	(\$0.23)	(\$0.01)

Sources: Company reports and Sidoti & Company LLC estimates

Sidoti & Company, LLC

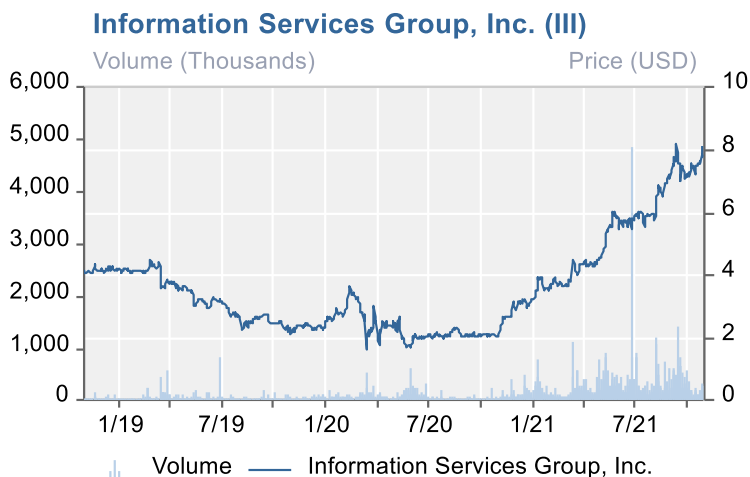
Appendix Required Disclosures

Required Disclosures

Information Services Group, Inc. (III-\$8.15) NR Price Target: \$11 Risk Rating: M

Rating and Price Target History Table

Action	Date	Px	Rating	PT	Risk Rating
Initiation	3/27/19	3.8	NR	6	M
PT	5/18/20	2		5	
PT	11/27/20	2.9		6	
PT	2/22/21	3.8		6	
PT	3/12/21	3.9		6	
PT	3/23/21	4.1		7	
PT	5/7/21	4.8		7	
PT	5/11/21	5		7	
PT	8/6/21	5.8		8	
PT	8/10/21	6.5		8	
PT	9/14/21	7.7		11	



Valuation	We maintain a Moderately Risky rating and \$11 price target on shares of Information Services Group. Improving order trends within the industry support our view that the global clients have shifted out of the defensive postures adopted during the height of the pandemic and into a more active growth driven mode. These investments prioritize digital transformation and automation growth initiatives. Our \$11 price target is based on 30x our 2023 EPS estimate of \$0.35. III reports EPS with stock-based compensation expense added back, which is the method adopted by the majority of sell side analysts covering the company. (We do not do this. For purposes of comparison, our 2023 EPS estimate under this scenario is \$0.45 and implies a 24.4x P/E multiple to derive the \$11 price target.) The Moderately risky rating takes into consideration the history of profitability, attractive global customer base, strong client retention, and an improving balance sheet.		
Key Risks	Service offering mix changes	Utilization management	Regulatory and litigation trends

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