

## Franklin Covey Co.(Q1 2026 Earning)

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### Corporate Speakers:

- Boyd Roberts; Franklin Covey Co.; Head of Investor Relations
- Paul Walker; Franklin Covey Co.; Chief Executive Officer and President
- Jessica Betjemann; Franklin Covey Co.; Chief Financial Officer
- Holly Procter; Franklin Covey Co.; President, Enterprise Division

### Participants:

- Alexander Paris; Barrington Research; Analyst
- Nehal Chokshi; Northland Capital Markets; Analyst
- David Storms; Stonegate; Analyst
- Jeff Martin; Roth Capital Partners; Analyst

## PRESENTATION

Operator^ Hello. And thank you for standing by. Welcome to Franklin Covey First Quarter Fiscal Year 2026 Earnings Conference Call. (Operator Instructions) I'd now like to turn the conference over to Boyd Roberts, Head of Investor Relations. You may begin.

Boyd Roberts^ Thank you, Towanda. Hello everyone. And thank you for joining us today. We appreciate having the opportunity to connect with you.

Before we begin, please remember that today's remarks contain forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995 including without limitation statements that may predict, forecast, indicate or imply future results, performance or achievements and may contain words such as believe, anticipate, expect, estimate, project, or words or similar phrases of similar meetings.

These statements reflect management's current judgment and analysis and are subject to a variety of risks and uncertainties that could cause actual results to differ materially from current expectations including but not limited to risks related to macroeconomic conditions, tariffs and other risk factors described in our most recent Form 10-K and other filings made with the SEC.

We undertake no obligation to update or revise any forward-looking statements except as required by law. Now with that out of the way, I'd like to turn it over to Mr. Paul Walker, our CEO and President.

Paul Walker^ Thank you, Boyd. Good afternoon everyone. And thank you for joining us. It's great to be with you to have an opportunity to share our results for the first quarter and an update on the business and our outlook for the year.

As we noted in our November earnings call after a year of transition last year in fiscal '25, we expect this year, fiscal '26 to be a year of execution and a return to growth. After a transition year last year in which both invoice and reported sales declined, we expect strong growth in invoiced amounts in fiscal '26 led by Enterprise North America, but also for the company overall.

Importantly, because much of our growth in invoiced amounts goes on the books and is recognized over time a portion of this growth in invoiced amounts will be recognized in the back half of the year, resulting in modest growth in reported revenue for the year, but positioning the company for accelerated growth in both invoiced amounts and reported revenue, along with adjusted EBITDA and cash flow in fiscal '27.

As we'll address in more detail in a moment, consistent with these expectations, we're pleased with the strong growth in invoiced amounts we achieved in enterprise in the enterprise -- North America enterprise portion of the business in Q1, where invoiced amounts grew 7%.

And importantly, excluding our government business, where this year's first quarter is the last quarter where results are still being compared to pre-DOGE sales levels, invoiced amounts in the rest of Enterprise North America grew an even more significant 13%. This growth was driven by significant increases in new logo subscription sales, and also the sales of subscription services to our new logo and our existing All Access Pass clients.

We anticipate that the strong growth in North America invoiced amounts will continue in the second quarter.

We have a strong pipeline and have had a significant year-over-year increase in advanced bookings of services that will deliver in the second quarter and throughout the remainder of the year. This expected strong growth in invoice sales is important, both strategically and financially.

Strategically, it reflects the traction we're achieving in our go-to-market transformation. And financially, while much of this revenue will go on the books and be recognized over time the actual economics of these increases in invoiced amounts are being realized well ahead of when we actually report them because we received the proceeds from these invoiced amounts.

In addition to this strength in Enterprise North America, we expect operations in Education and international enterprise to be on track with expectations for the year and that invoiced amounts for the company overall will grow meaningfully for the full fiscal year. Just a comment or two about education.

As you know the Education Division has achieved significant growth and strong results over a number of years, and we're pleased that the Education Division achieved growth last year in fiscal '25, even in the context of the uncertainty faced by almost every school

district last spring about the potential impact on school funding from the proposed elimination of the Department of Ed. Absent this uncertainty this year, we expect Education to achieve strong growth in both invoiced and reported sales in fiscal '26.

While we have a lot of subscription revenue and education is recognized throughout the year, because schools and districts run on an education year which begins in September, our first fiscal quarter which is our first fiscal quarter, a lot of materials and services are purchased and recognized in our fourth fiscal quarter when schools train their teachers and staff in preparation for their school year.

As a result, we have a disproportionate amount of our revenue in the education business which is recognized in our third and especially our fourth quarter. This has been the normal seasonality for this division over time.

Over the past years, in addition to continuing to win a large number of individual schools, we focused on winning districts and now even entire state contracts. This has been important for the business, both strategically and financially.

However because the timing of winning these larger state contracts can occur at different times throughout the year, occasionally, a contract entered into in one quarter is then booked and recognized in other quarters or even into the next fiscal year. This occurred in last year's first quarter which we comped against in this year's first quarter.

In last year's first quarter, we won entered into and invoice for a large number of schools that began implementation as part of a significant multiyear contract with the state. This quarter, we had fewer school start implementation in comparison to last year which caused an approximate \$3.5 million gap in invoiced amounts.

However we've already received and have the cash in hand for the second year of this contract, and we expect the timing of the launch of the schools for this particular state to occur in Q3 and Q4 this year where they had occurred in Q1 last year.

Overall, we expect education to have a strong year in fiscal '26 with the pattern of invoiced amounts and recognized revenue being similar to prior years with the exception of the large contract that drove the onetime spike in growth in last year's invoiced amounts that I just outlined.

Regarding international, we expect international invoiced amounts and reported revenue as a whole to grow modestly this year. And for the first quarter, revenue was down slightly, mainly due to China which though now stable, is still comping against the period before the high tariffs -- or before tariffs were announced in early April last year. Overall, we expect to achieve our full year revenue and adjusted EBITDA guidance.

With our full year guidance intact, we anticipate that the meaningful growth in invoiced amounts we expect to generate this year will translate into even more substantial growth in reported revenue, adjusted EBITDA and free cash flow in fiscal '27.

Jessi will provide some more detail on Education and International in her segment remarks in just a minute. Before I turn the time to her, I'd like to focus my comments today primarily on Enterprise North America which makes up more than 50% of our total company sales.

It's the engine that we reorganized and invested heavily in last year in order to prepare it for accelerated growth. And it will be the key driver of invoiced growth in fiscal '26 as well as invoiced and reported growth in fiscal '27 and beyond. So a few comments about Enterprise North America.

As I mentioned earlier, we're pleased with the strong 7% growth in invoiced amounts that we achieved in the first quarter and the momentum we continue to see. And when looking at the overall strength of the North American engine, we're really pleased, also, as I mentioned, that we achieved 13% growth in North America overall, when excluding the government business which was impacted by DOGE last year.

We also expect to achieve significant growth in invoiced amounts in the second quarter and for the full year. Key results embedded in the first quarter's overall 7% increase in these invoiced amounts include that, first, our new logo subscription invoiced amounts grew a significant 25% year-over-year.

Our deferred subscription balance grew 8% year-over-year to \$49.1 million, and our services booking pace was up 29% in the quarter, an important leading indicator of future services revenue that will be recognized and an indication of the importance our clients place on the outcomes we're helping them achieve.

Our logo or client retention rate remained consistent with previous quarters and our percent of revenue contracted for multiyear periods increased to 61%.

The momentum in return to growth in Enterprise North America, first in invoiced amounts which will be reflected in growth in reported revenue later into the year and into next year is being driven by two important factors.

First is the strategic importance of what we're doing and the need our clients have for a partner to help them achieve breakthrough business results. And second, the traction and execution we began to see from our go-to-market investments in last year's fourth quarter, and the fact that it's really beginning to kick in.

I'd like to just for a couple of minutes briefly touch on each of these two growth drivers. First, related to the strategic importance of what we're doing and the need our clients have for a partner to help them achieve breakthrough results.

Strategically, we're playing for something very clear and important. That is to be the partner of choice for leaders seeking to achieve breakthrough results. Achieving and sustaining breakthrough results requires not only good strategy, it also depends on getting

large groups of people throughout an organization working together to achieve better and more consistent behaviors and actions to deliver it.

Our role is to help organizations achieve their most important goals by strengthening the people part of execution, raising the level and consistency of how people lead, collaborate and execute and to help organizations scale what already works well in pockets across the entire organization.

AI is, of course, transforming how work gets done. And at the same time it's making human capabilities such as judgment, trust, and collaboration more critical than ever. We're incorporating AI into our solutions and with some exciting results for clients.

In addition to building AI into our products, for example, the AI sales coach I referenced last quarter, as well as our AI coach for our four Disciplines of Execution Solution which we'll launch this year that is going to leverage our experience and our vast amounts of data to help leaders accelerate the execution of their most important goals and objectives. We're also helping our clients on the human side of AI adoption.

In the first quarter, we launched two new solutions, one called Leading AI Adoption and the other called Working with AI. These solutions are designed to help leaders and individuals develop the mindsets and skill sets to effectively incorporate AI into their daily work to make them and their teams more efficient.

However even with these enhanced AI capabilities, the ability of leaders to clearly determine, communicate, and gain broad scale commitment to their critical priorities and then to get their entire organization to become committed to and to stay aligned and focused and accountable while working together with high trust and execution remains the ultimate differentiator in achieving breakthrough organizational performance.

We're focused on further strengthening our already significant capabilities in being the partner of choice for organizations that are seeking to achieve breakthroughs in performance. This requires being a leader in combining world-class content, technology and services to deliver breakthrough impact for clients. And we have and continue to invest to expand our position of leadership here.

Emphasizing the importance of the critical people side of the execution equation even in a world of increasing AI, in the first quarter, we closed a growing number of large and transformational deals that were tied to a client seeking to achieve a major breakthrough in performance. And I'd like to highlight and share just two of many with you. The first was a large new client win where we unseated the incumbent provider to be the sole leadership performance partner to a leading global agriculture company.

We'll be working with this client to help them achieve their critical objective of ensuring that their 3,500 global leaders are equipped both with and able to exhibit world-class leadership capabilities as they seek to accelerate progress on their multiyear strategy and create an even higher performing culture.

This win resulted in a three-year \$6 million contract with a very strong mix of services and subscription revenue. A second one I'll just briefly highlight is with a large industrial packaging company.

We're partnering with the executive team of this organization to build and strengthen the capability of leaders throughout this organization to transform the culture of this company in connection with a new multiyear strategy to ignite accelerated growth. This is also a multiyear, multimillion dollar win that will draw on the solutions in the All Access Pass as well as our coaching and delivery capabilities.

The second key growth driver that I'll touch on is the traction and execution we began to see throughout the back half of last year from our go-to-market investments and the fact that it's really beginning to kick in.

In addition to ensuring that our solutions deliver seismically important impact on helping our clients achieve performance breakthroughs, our second priority has been to transform how we take these solutions to market so that we can win more strategic clients and further expand our impact with existing clients.

Over the past four quarters, we completed the organizational implementation of this transformation, reorganizing sales and client success teams around two clear goals: first, landing new strategic clients; and second, further expanding relationships with those we already serve.

I reported in November that the structure is fully in place, now with a full four quarters under our belt and with the organizational transformation fully behind us, the evidence that this new structure is enabling greater growth is clear.

As I mentioned earlier, our new logo hunting team increased invoiced new logo amounts by 25% in the first quarter.

Within these new logo wins, we're also seeing a higher attachment rate of services which is an illustration of both the importance of the challenges we're helping clients address and their desire to engage our experts to help them achieve their most critical objectives.

It's also an illustration of our strategic shift in our sales force to a dedicated hunting team with the surround sound resources that are allowing us to call even higher in organizations, focused on more strategic buyers and to solution larger deals with a strong mix of subscription and subscription services.

We saw this reflected in our 29% services booking rate increase in the first quarter over what we booked in the first quarter of last year.

Our services attach rate in the Enterprise Division on an apples-to-apples basis was a strong 55% in the first quarter when considering that 1.6 million of the services we

delivered were to a very large and strategic client who purchased intellectual property instead of All Access Pass.

That places their services spend in our traditional services reporting category instead of our subscription services category. As a result of our strong growth in invoice sales in North America, our balance of deferred revenue in North America increased 8% year-over-year to \$49.1 million.

Stepping back, I would just say that we're pleased with the momentum we're seeing in Enterprise North America. Driven by this momentum and the expectation of a strong year for education, we expect invoiced amounts for the company to grow meaningfully this year, establishing the foundation for significant growth in reported EBITDA adjusted -- reported revenue -- sorry, adjusted EBITDA and cash flow in fiscal '27 and beyond. I'd now like to turn the time over to Jessi to share some more detail on our first quarter results.

Jessica Betjemann^ Thanks, Paul. And good afternoon, everyone. Franklin Covey continued to see healthy demand for our solutions and services in the first quarter. And as Paul discussed, the strategic investments we've undertaken to transform our Enterprise North America go-to-market strategy are gaining traction.

We expect fiscal 2026 to be a year of execution where our adjusted EBITDA and free cash flow will return to growth this year and where our meaningful growth in invoiced amounts will set us up for accelerated growth in fiscal 2027.

In my remarks today, I'll start by providing some details on our first quarter financial performance. Then I'll turn to our balance sheet and capital allocation priorities, and finally, I will provide additional context around our reaffirmed fiscal year 2026 financial guidance.

Total first quarter reported revenue was \$64 million. Revenue which was essentially in line with our expectations for the quarter, was down 7% from the prior year, driven by an 8% decline in the Enterprise Division and a 2% decrease in the Education Division, reflecting the decline in invoiced amounts we generated last year due in large part to the impact of government actions and macro environmental factors which provided a smaller amount of deferred revenue to be recognized in this year's first quarter. A summary of our consolidated financial results is on Slide Three in the earnings presentation.

Consolidated subscription revenue recognized for the first quarter was even with last year at \$37 million. And as a result of the realization of lower invoiced amounts in fiscal 2025, however, we were pleased that overall subscription and committed services and invoiced amounts for the quarter began to grow again, growing 5% to \$26 million, led by the strong growth achieved in Enterprise North America.

Importantly, the foundation for increased future growth remains solid and as evidenced by the 5% year-over-year increase in our consolidated deferred revenue balance to \$100.2 million which will be recognized as reported revenue in the coming quarters.

Unbilled deferred revenue contracted for the first quarter was also strong increasing 9% to \$8.5 million, with a total balance slightly declining 1% to \$72.1 million, reflecting the lower balance through fiscal 2025.

Gross margin for the first quarter was 75.5% compared to 76.3% in the prior year due primarily to increased product amortization costs and slightly lower margins in our Education Division, reflecting, as Paul noted, last year's first quarter results in Education which benefited from high material sales for the large state contract we won in that quarter.

Operating, selling and general and administrative expenses for the first quarter of fiscal 2026 were \$44.7 million which was slightly lower than \$45 million in the prior year reflecting the increased amounts we have made in our go-to-market transformation, offset by our cost reduction efforts.

During the first quarter, we continued to restructure and refine our business model to reduce costs and streamline certain areas of our operations. We incurred \$3.4 million in expense for this restructuring activity which consisted primarily of severance and related costs.

Adjusted EBITDA was \$3.7 million compared to \$7.7 million in the previous year, reflecting the lower reported revenue, gross margin and higher SG&A expenses I previously mentioned. Cash flows from operating activities in the first quarter were \$0.1 million compared to \$14.1 million in the previous year.

The decrease was driven primarily by \$10.1 million in timing-related changes in working capital including less cash collected from a lower beginning receivables balance and a \$4.5 million decrease in net income, stemming from lower revenues, a \$1.5 million increase in restructuring and a \$0.7 million increase in headquarters moving costs.

We also had a \$0.7 million increase in CapEx for building construction costs, and \$0.7 million increase in capitalized development costs. All of these factors resulted in free cash flow for the quarter of negative \$3.7 million compared to \$11.4 million generated in the first quarter last year.

We expect, however, free cash flow to improve in the future quarters and become increasingly positive in the back half of the year as our adjusted EBITDA grows and we decrease net working capital. I'll turn now to a discussion of our business divisions.

For the first quarter, our Enterprise Division generated 74% of the company's overall revenue with Education Division generating 25% of the company's revenue. First quarter Enterprise Division invoiced amounts grew 4% to \$45.5 million.

First quarter Enterprise Division reported revenue was \$47.5 million compared to \$51.6 million in the prior year. The North America segment invoiced amounts grew 7% to \$34.9 million, and excluding government contracts, it grew 13%.

We are encouraged by the progress this quarter in invoiced amounts which reflects the positive momentum coming from our investment to transform our Enterprise North America go-to-market organization and will translate to increased reported revenue in future quarters.

I do want to highlight an important element tied to the growth in our invoiced amounts that is aligned to our strategic focus on solution selling, whereby we are bundling the content and predefined services to be able to deliver measurable outcomes for our clients. Approximately \$5.6 million was for contractually committed predefined services primarily associated with the global agriculture company deal that Paul referenced in his remarks.

This reflects that clients are increasingly willing to contractually commit upfront for services which will be delivered over time. And while we continue to recognize the revenue upon delivery, because these services have been contractually committed upfront, any unused days are guaranteed and will be recognized at the end of the contract term.

Historically, our contract terms didn't include a contractually committed clause for service days and therefore weren't an option and they were not fully known or locked in until scheduled and delivered.

On the appendix slide in our Slide 10 in our earnings presentation, our roll-forward analysis of deferred revenue will include both subscription and committed services amounts and the timing for revenue recognition for committed services will depend on the delivery schedule of our clients. Therefore some of this \$5.6 million could be pushed out to fiscal 2027 as reported revenue.

As shown on Slide Four in the earnings presentation, the North America segment reported revenue of \$36.3 million accounted for 76% of our Enterprise Division sales in the first quarter, and was 10% or \$3.9 million lower than prior year due to \$2.5 million of lower services revenue and \$1.3 million of lower subscription revenue recognized as a result of lower amounts invoiced amounts and deferred revenue last fiscal year driven by the various macroeconomic factors impacting the business which included cancelable government contracts that we have previously discussed.

Adjusted EBITDA for the North America segment decreased to \$5.3 million for the first quarter of fiscal 2026 compared to \$8.7 million last year, primarily due to lower revenue and resulting lower gross margin.

Our balance of billed deferred subscription revenue in North America was \$49.1 million at the end of the first quarter which is an increase of 8% from the prior year, and unbilled deferred revenue was \$66.6 million which is consistent with the prior year.

Importantly, the number of the North America's All Access Passes contracted for multiyear periods increased to 58% in the first quarter and the contracted amounts represented by multiyear contracts remained strong at 61%.

Now as shown on Slide Five, for the Enterprise International segment, Q1 fiscal year 2026 revenue which accounts for 24% of our total Enterprise Division revenue was \$11.2 million, and this was down slightly from \$11.4 million in the prior year, primarily as a result of our business in China decreasing due to challenging business conditions as a result of geopolitical and trade tensions.

Excluding China, our revenue from the International segment increased 4%, and our licensee revenue increased 8% compared with the first quarter of fiscal 2025.

Q1 fiscal year '26 adjusted EBITDA for the International Direct Operations segment was \$2.4 million compared to \$1.4 million in Q1 2025, driven by cost reduction initiatives enacted to offset the impact of decreased revenue and lower bad debt expense compared with the prior year.

Now turning to our Education Division, as shown on Slide Six, revenue in the first quarter was \$16.1 million which was 2% lower than the prior year, primarily due to decreased material sales due in part to the large statewide deal that's been referenced and a symposium event that was held in the first quarter of last year.

As Paul discussed, the Education Division invoiced amounts in last year's first quarter included a very large statewide deal that began in the first quarter of fiscal 2025, but will expand this year in the third and fourth quarters, largely due to this contract and also some other smaller multiyear prepaid deals that did not repeat this quarter, invoiced amounts in the first quarter of fiscal '26 of \$6.6 million declined \$5.6 million from the prior year.

Materials revenue declined \$0.7 million over the prior year which included \$0.4 million of classroom and training materials from the large statewide initiative in fiscal 2025.

These declines were partially offset by increased coaching and consulting revenue and increased membership subscription revenues resulting from schools which started the Leader in Me during fiscal 2025. Education subscription revenue increased 12% in the first quarter to \$11.8 million compared to \$10.5 million in the prior year.

The delivery of training and coaching days remained very strong during the first quarter of fiscal '26 as the Education Division delivered over 100 more training and coaching days than in the prior year.

Adjusted EBITDA for the Education Division in the first quarter was a loss of \$0.9 million compared to a gain of \$0.3 million in the prior year due to lower revenue and higher SG&A driven by increased associated expenses and increases to the allowance for doubtful accounts. Education's balance of billed deferred subscription revenue increased 2% to \$45.1 million, establishing a strong foundation for continued growth in fiscal '26.

We expect education to have a strong year in fiscal '26 with the pattern of large invoiced amounts and recognized revenue to come in the back half of the year. I would like to spend a few minutes now discussing our balance sheet and capital allocation priorities.

We continue to pursue a balanced capital allocation strategy based on three primary areas that are aligned with our strategic goals. First, maintaining adequate liquidity and flexibility.

Our liquidity remains strong at \$80 million at the end of the first quarter, with a \$17.5 million cash on hand and no drawdowns on the company's \$62.5 million credit facility. Second, investing for growth.

We will continue to invest in strategic opportunities to drive improved market positioning, accelerated profitable growth and financial value such as our continued investments in product innovation, business transformation initiatives and opportunistic acquisitions. And finally, returning capital to shareholders as appropriate.

In the first quarter, we purchased approximately 582,000 shares in the open market at a cost of \$10.4 million.

On August 14, we initiated a 10b5-1 plan to purchase \$10 million of our common stock. This 10b5-1 plan was completed in the first quarter of fiscal 2026 as we purchased \$6.7 million of our common stock against this plan.

On November 17, 2025, we initiated a new 10b5-1 plan to purchase up to \$20 million of our common stock, of which we spent \$3.7 million in the quarter. And we anticipate that this repurchase plan will be completed by the end of January.

The company also acquired 42,000 shares which were withheld for statutory taxes on stock-based compensation awards issued during the quarter. These shares had a value of \$0.7 million.

We remain committed to being disciplined stewards of capital while staying focused on driving long-term value creation. Now turning to our guidance for fiscal 2026. We are affirming the revenue and adjusted EBITDA guidance provided at year-end, as shown on Slide Seven.

Our projections reflect the positive momentum we are seeing and expecting in both the enterprise and education divisions, balanced with a disciplined view of the risks and opportunities ahead as we continue to execute in an uncertain macro environment.

We continue to expect to achieve solid growth in invoiced amounts this year as demonstrated by the progress specifically in Enterprise North America this quarter.

Our revenue guidance of \$265 million to \$275 million reflects the lower deferred revenue generated in fiscal '25 and the conversion lag of invoiced to reported revenue in the year as a portion of this invoice growth will go onto the balance sheet as deferred revenue.

We continue to expect fiscal 2026 adjusted EBITDA in the range of \$28 million to \$33 million, capturing the benefit of our cost reduction efforts including additional restructuring actions taken this quarter, while maintaining flexibility to manage through continued macro uncertainty.

We continue to anticipate approximately 45% to 50% of our fiscal year revenue will be recognized in the first half of this year, reflecting normal seasonality, especially in the Education Division and the timing of client delivery.

For adjusted EBITDA, we now expect approximately 25% to 30% to be generated in the first half due to the timing of large education contracts that have pushed out a bit more compared to our previous expectations, along with expected margin expansion as cost savings and operating leverage build through the back half of the year.

With our transformation investments behind us and the expected increase in operating leverage, we believe the company will deliver strong EBITDA and free cash flow growth with improved margins and free cash flow conversion in fiscal 2027 and thereafter.

We have strong conviction in our strategy and long-term plans, and we're confident in the company's ability to deliver sustainable growth.

Our optimism is grounded in strong client retention, expanding demand for leadership development and breakthrough organizational performance services across both enterprise and education divisions and the continued strength and resiliency of our business model.

As mentioned at the start of my remarks, we view fiscal 2026 as a year of execution and the return to growth and fiscal 2027 as a year of acceleration and compounding growth in revenue, adjusted EBITDA and cash flow.

We remain fully committed to and confident about creating long-term value for our shareholders and clients.

Before I pass it back to Paul now I would like to thank the entire Franklin Covey team for the ingenuity, hard work and dedication to our business, and providing unparalleled service to our clients. Paul I now turn it back to you.

Paul Walker^ Thanks, Jessi. We'll now ask Towanda if she'll open up the line for your questions. We will take those.

## QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question comes from the line of Alex Paris with Barrington Research.

Alexander Paris^ Paul, so I have a few follow-up questions, although your prepared comments are quite thorough as usual. Not in any order, just starting with guidance and this one is for Jessi. You reaffirming guidance for the full year. The only real change though was the -- a little bit more of the adjusted EBITDA will come in the back half than you had previously thought.

I was having trouble keeping up, but you said this was due to the timing of large education contracts? Or was that enterprise contracts?

Jessica Betjemann^ Education. So as we had mentioned, when we were looking at that for this year, the addition of some schools for that large state by contract that we have won last year. The anticipation of that is that, that is going to be in Q3 and Q4. So that just pushed a little bit more in terms of the adjusted EBITDA.

So previously we thought 30% to 35% of our adjusted EBITDA will be in the first half and now we're saying 25% to 30%, so just a little bit lower, but overall, we are affirming the overall EBITDA guidance for the year.

Alexander Paris^ Okay. So just so I understand it, this was a large education statewide contract won in the fourth quarter of the previous year that began to be implemented in the first quarter of fiscal 2025, with school openings and so on.

It's a multiyear contract. So the additional schools this year won't come in Q1 like it did last year, it's going to come in Q3 and Q4. And you didn't know that several months ago when

Jessica Betjemann^ There was an anticipation. We knew that it was going to be more back-end loaded and is kind of normal for the education business. But there was a thought that there would be some schools added in the first quarter. So that just got solidified.

Alexander Paris^ Okay. Got you. I appreciate that. And that you expect strong adjusted EBITDA growth and free cash flow growth in 2026 versus 2025 with more growth in both of those metrics as well as revenue in 2027.

Jessica Betjemann^ I mean revenue, adjusted EBITDA and free cash flow growth in 2027, I mean obviously -- when you look at our EBITDA range for this year, there's growth on the -- in the midpoint and the top end as well.

Alexander Paris^ Got you. Okay. And then regarding North American enterprise sales force, an update, again, pretty thorough in the prepared comments, more new logos, All Access Pass expansion within existing -- within existing clients, retention at comparable levels to last year. Do I have that right?

Paul Walker^ You do have that right. Yes.

Alexander Paris^ Okay. And then invoice growth is what we're really focused on and invoiced growth in Q1 was up 7% in North America enterprise, up 13%, excluding the DOGE contract. What was it in Q4 or Q3? I just want to see if we're accelerating as we expect to.

Paul Walker^ Yes. Yes. Great question. Let's just get that for you like here.

Alexander Paris^ Yes. It's probably in the slide deck, but I haven't gone through it yet.

Paul Walker^ We can find it.

Alexander Paris^ The North American enterprise invoiced amounts up 7% in Q1. What was it in Q4?

Jessica Betjemann^ It was down in Q1 -- Q4.

Paul Walker^ Q4, Q3. We're just getting this for you.

Alexander Paris^ I appreciate it. And then while you're looking for stuff. In the Enterprise Division, you've historically given direct offices and international licensees. Is that in the slide deck also, so it wasn't in the press release.

Jessica Betjemann^ Which one?

Paul Walker^ You want to talk about the international licensee.

Jessica Betjemann^ Yes. The revenue growth in the quarter. Yes. The revenue growth in the quarter was 8%. So if you noticed in our -- well when we published the 10-Q, so we have consolidated our segment to an enterprise international segment combined. But specifically, we did want to call out the growth in the revenue, and it was 8% for the licensee.

Alexander Paris^ So you're not going to be giving that separately going forward? Or will it be in the

Jessica Betjemann^ We're not. So we're consolidated. We really manage the business together between our direct offices and our licensees. So it's collapsed in our 10-Q, but

we did want to call out on the revenue side the difference between total international and then how much of the licensee fee.

Paul Walker^ And then Alex mentioned...

Alexander Paris^ I was just going to say -- so just to be clear, the segment reporting will be enterprise, and then within enterprise, there will be North America and international. No distinction on what's international licensee or international direct office and then education segments.

So two segments, but within Enterprise, we're getting in North America and international.

Paul Walker^ That's right.

Jessica Betjemann^ Okay. And then for -- just going back to your previous question, sorry, it took me a while to dig it out here. So the Enterprise North America invoiced amounts in Q4 was \$37.2 million. It was actually a decline from the prior year period.

Alexander Paris^ Do you know how much down or is it in the...

Jessica Betjemann^ It was down 26%.

Alexander Paris^ Okay. Yes. I kind of remember that. So a big inflection point here in Q1.

Jessica Betjemann^ And then Q3 was also down 11%. So when you go -- I mean this is a great quarter for us for Enterprise North America invoiced amounts. I think Q1 was -- last year, Q1 was down 8%. And it grew 2% in Q2 and then it declined 11% and 26%. So this is a great quarter for us.

Paul Walker^ And the best growth quarter we had in a while.

Jessica Betjemann^ Yes. I mean actually, when you go back -- I mean it wasn't -- we didn't have kind of growth like this. We had growth like this in Q4 2024. But even the previous quarters, like first quarter of 2024, it was a decline of 2%.

Alexander Paris^ Got you. So pretty easy in the back half of the year for invoiced amount, so it's reasonable to expect those invoiced amounts are going to continue to increase on a year-over-year basis.

Jessica Betjemann^ Yes. That's our expectation is for North America and voice domestic continue growth.

Alexander Paris^ Great. I'll just leave it at that. I'll get more questions on a one-on-one and I'll let other people ask questions.

Operator^ Our next question comes from the line of Nehal Chokshi with Northland Capital Markets.

Nehal Chokshi^ That's great to hear on the significant upward trajectory on North America enterprise invoice. To be clear, is this largely now being driven by a higher attach rate of services on the invoice amounts? Or are you also seeing also a positive inflection with the subscription portion.

Paul Walker^ It's a combination of both. The -- as I mentioned in my remarks, our attach rate for enterprise in the first quarter was roughly the same as it was in Q1 last year, mid-50s percent. And so it's not a crazy increase in services attach rate there.

We did -- we are pleased and encouraged and this is something that Holly and the team have been working on strategically is as we're selling to higher -- even higher level buyers inside organizations attaching to even bigger opportunities and challenges that they're facing, there's a powerful combination of our great content along with our expertise and the ability to come in and to facilitate that content to get cohorts of people together to work on behavior change, to work on performance to work on culture.

And so the coaching and delivery that goes along with that, we think, is a is a very compelling thing for our clients is needed by our clients. We did book a lot of additional services in the first quarter. I mentioned that services booking rate was up 29%, but the attach rate was pretty consistent year-over-year.

Jessica Betjemann^ Yes. And as I mentioned as well we had \$5.6 million of contractually committed services that was invoiced in the quarter as well. And just to highlight that point again, I mean this is a good thing for us for a while.

It's upfront and some of those services -- because it was tied to that large agriculture deal where -- and it's multiyear, so some of those services the recognition of that revenue from a reported standpoint may not -- may or may not happen until 2027. The good thing about that is that it really does derisk the services for us there because they're all guaranteed.

Nehal Chokshi^ Yes. Understood. And then I believe you -- Paul, you talked about 25% growth in new logo invoice amount. Is that correct?

Paul Walker^ That's right. Yes.

Nehal Chokshi^ And is that 25% in new logo and voice amount even across, again, subscription and then service attached subscription? Or is it more weighted towards service attach subscription?

Paul Walker^ That's a good question. In that case, that metric is subscription only. There's no services in that. So the team -- this was -- it was a great new logo quarter again.

So the 7%, we haven't seen that kind of overall invoice growth in a while and 25% growth in the subscription portion. And then those had services attached to them which will deliver that revenue throughout the year this year. But that's just a subscription-only metric.

Nehal Chokshi^ Got it. Well that's amazing. Is it Safe to say that you don't expect that momentum to that level of new logo subscription invoice amount to sustain into the future quarters? I mean that would be pretty amazing but the...

Jessica Betjemann^ I would say we expect to have the growth but not at that percentage.

Paul Walker^ I'd say we're certainly going to try. It may not always come in at 25%, but we're expecting growth.

Nehal Chokshi^ Got it. And so what was the driver of this unusual growth? Was it basically these two large sales that you called out?

Paul Walker^ With more than that, Holly Procter is here, who leads enterprise. Do you want to share or give a little color there?

Holly Procter^ Yes, for sure. A couple of comments. I mean we're pleased, of course, because of the results, but also because the effort we put into this go-to-market transformation is finally bearing fruit.

In our last earnings, we talked about examples of wins, and that came at the deal level. So we would see a deal that we likely wouldn't have won in our former model that we now won.

And now we're seeing not just in the deal level, but in the compounding result of lots of deals compounded to deliver what we delivered instead of Q1. The primary wins are showing up in several fashions. We're seeing one larger deals.

So when you look at the average sales price, the size of the deal that we're winning is larger. I'm talking about not just the number of feeds sold, but the total dollars that we're able to extract from that win.

We're seeing more strategic deals, meaning it's sold into a higher level, and we're attached to a really powerful use case, meaning an initiative that an executive can't quite figure out how to proceed with or without us. And then the services that Paul referenced that the services are so critical, they're strategic in a couple of ways. Yes, of course, we're grateful for the revenue, but also the services are the same that ensures we can drive the impact that we're looking for.

If you think about an example, let's say, an executive team is integrating a merger or an acquisition into their company, they're now looking to check a box. They're looking to successfully integrate and they're doing that in partnership with us and the expertise that we bring to that. So the services are critical for us being able to make the impact that we want to make.

We know that services contribute to a couple of things for us outside of this revenue. It improves our ability to renew that customer and likely results in us having increased at multiyear deals with that customer, too. So generally up across the --

Nehal Chokshi^ Okay. Great. Sorry, do you want to go back to the data points that you've -- that Alex was asking for. I got the Q4 number for North America enterprise invoice the Q3 number, I did not quite hear correctly the 1Q and 2Q numbers 1Q, 1Q '25 and Q2 '25 numbers. Could you repeat that?

Jessica Betjemann^ Yes, Q1 '25 declined 8%, and Q2 grew 2%, Q3 down 11% and Q4 down 26%. This was in the last two years, this was the second highest growth of invoiced amounts in North America, the highest one was in Q4 '24.

Nehal Chokshi^ Got it. Okay. Last question for me. So you mentioned your liquidity is quite strong with your -- I think it's a revolver that you have access to. Under what conditions would you be willing to draw on that revolver given the -- what I believe is a very attractive share price.

Jessica Betjemann^ Well we have the \$20 million plan in place. I mean if you think about it, we've spent -- we plan to be spending by the end of this month \$30 million just since July.

So we've been taking advantage of the opportunity that we have right now in the marketplace. And when you look -- in over the last 12 quarters, we've spent over 130% of our free cash flow to buy back shares. So I think we're taking advantage of the opportunity.

Operator^ Our next question comes from the line of Dave Storms with Stonegate.

David Storms^ I wanted to start maybe by going back to Holly's commentary around the strong growth in new logo sales and maybe just ask a little more about what you're seeing and once those -- the lenders hand off to the expanders and maybe what we may expect the life cycle of those new logos in terms of attach rate expansion, anything like that?

Jessica Betjemann^ I mostly in your question. Is it about the life cycle of what happens with the customer after the initial sale and it passes to the expansion. Is that right, Dave?

David Storms^ That's actually, yes.

Jessica Betjemann^ Okay. Great. Yes. So that was in -- that was a huge part of our experiment that we could successfully land a new logo and then transition that relationship over to a client partner to manage over time. So there's two bets that you're placing.

The first is that you can land a sizable new logo right and secure the net new customer the second that is that you can increase and improve your retention and grow your expansion revenue by having just one person that owns that whole part of the life cycle.

So we've seen really good success of transitioning the new logo to a client partner and having to manage it over time. It's created incredible focus for both sides of that.

So you have one team that's focused only on the hunt and the new customer, and then there's one team that's focused solely on customer success and expansion. And so we've seen great success.

We have not seen any difference in our retention numbers based on deals that we had our customers we had in the prior relationships those that we've inherited in our new structure. So we don't see any threat to churn or retention based on that transition.

David Storms^ That's great. I really appreciate that. Perfect. Okay. Paul, turning into maybe some of your more prepared remarks, you did spend a little bit of time talking about some of the AI initiatives that you're working on.

Just curious as to how you're thinking about the balancing act between bringing on AI talent and building some of that in-house compared to stuff that might be easier, more cost-effective to purchase and customized?

Paul Walker^ Yes. Great question. I think we'll do a bit of both. We launched an AI lab a while back and the whole focus of that AI lab is on creatively looking at how can we embed AI across our portfolio of solutions inside the Impact Platform.

I mentioned earlier on the call one of the things we're excited about that's coming next is we're releasing a new addition of the four disciplines of execution that solution a little bit later this year, and that's going to have a pretty strong AI coaching component in it.

That's something we think we can do ourselves internally. There are might be and are under consideration some other great tools that are out there that if we can license those or partner with somebody who's already built it, we're certainly not opposed to doing that. At the end of the day, we're maybe a little more agnostic on how we get there.

We just know that this is an important new component of our solutions that can really help when it comes to changing behavior and generating the collective action that organizations need to drive their most important strategies and objectives. So probably do a bit of both.

David Storms^ That's perfect. That's great color. And then I did have maybe one more for Jessi. Jessi, I know you mentioned in your prepared remarks that you're expecting some of the margin expansion to come from maybe some cost takeout over the back half of this year into 2027.

Is there any more you can give us there maybe expand on the magnitude of that? Any dollar amounts, any specific verticals that you're targeting that we should know about?

Jessica Betjemann^ So that commentary is really around the -- because we did take an additional Q1 restructuring. And with taking some of the costs out this quarter, you'll see then the compounding effect of that as we move greater throughout the rest of the year because it was a mid-quarter when that started to happen.

And then, of course, obviously from the restructuring that we had taken last year. So now you'll see the full annualized impact of that as we start moving later on throughout the year.

David Storms^ Understood. So we shouldn't expect any more restructuring of that magnitude.

Jessica Betjemann^ I mean we're always going to be looking at our cost structure. So I would -- I'm not going to say necessarily no to that, but I would say that right now it's stabilized at this point in time.

David Storms^ Very fair. I appreciate that. Maybe Paul, one more for you. We just got through kind of budgeting season or early in the year, maybe a high-level customer sentiment question here.

As you're having conversations with current and potential customers, are there any verticals that you're specifically targeting? Any high-level thoughts there around where you see opportunity in market?

Paul Walker^ Maybe I'll let Holly answer that one.

Holly Procter^ Yes. There are several. The benefit -- one of the many benefits of this business is our large total addressable market.

We have massive range across the verticals that we serve, but we see about 17% of our revenue today sitting within health care. And so we see a lot of consistent use cases and how hospitals in particular, leverage us, one of the large ones for example, on nurse retention.

And so we're actively in a motion right now on building out how we support with incremental resources, both our new logo acquisition for additional hospitals and how we support the 17% of our revenue that we have today instead of health care.

Operator^ Our next question comes from the line of Jeff Martin with Roth Capital Partners.

Jeff Martin^ Paul, could you characterize any changes in the macro environment with respect to enterprise making decisions over the course of the last three months or so since we last talked to you publicly?

Paul Walker^ Yes. Again, I think Holly focus a lot on Enterprise North America, do you want to talk about that?

Holly Procter^ Yes. Jeff, we certainly look at this a lot, hoping to see signals of improvement. We would still categorize the state of the macro environment is mostly natural. We see examples of both some positive uptick and still some downward pressure. Examples of positive uptick include things like discretionary spend.

So people that have dollars that they want to devote to Franklin Covey but are not yet sure how to spend it. A year ago that was unheard of. And so we're grateful to see that but still see plenty of examples of budgetary pressures from our customers. And so I'd categorize it as mostly still neutral.

Jeff Martin^ Okay. Great. And then Paul, could you characterize if clients are coming to you asking for help in terms of AI-related issues that they're concerned about, changes in behavior, et cetera? Or is this more -- we could utilize something like that to add on to a totally separate journey that they're working on.

Paul Walker^ If I understand your question correctly, I think a little bit of both. So we've got some examples, in fact, a handful of examples right now where clients are coming to us and saying, we've been battling the integration of AI into our business. And the bigger challenge turns out is not the technical side of that.

It's the human side of that. It's getting leaders throughout the organization to embrace and adopt and to be able to get over the fear their teams have.

And it comes back to some of the same challenges of getting people clear, leading with clarity, creating the levels of trust that need to exist for people to adopt a new way of working. And it's interesting.

We've been in the business where it's getting humans to work better with humans, but some of the same principles are actually coming to bear and are necessary for humans working with AI and becoming comfortable with that.

So we are seeing more and more clients coming and saying, hey, could you help with that? Because our clients see us as a credible partner to transform.

And whether that transformation is two companies coming together, whether it's some new strategy or in this case, whether it's transformation by bringing in a powerful new capability like AI, there are just our human barriers to get over.

So we see clients coming. And in that case, that would be net new. And then we have somewhere where we're engaged in a leadership journey already, and we can bolt on to that some of our new AI -- our two new AI solutions to augment that.

We like both those because in both cases, we're becoming strategically more important, more relevant and it gives us a platform from which to extend those relationships for more years and to more people.

Jeff Martin^ Great. And then last one for me is for Jessi. Was the restructuring that occurred in the first fiscal quarter contemplated in the original fiscal '26 guidance? Or was that subsequent to the establishment of that guidance?

Jessica Betjemann^ No. That was factored in. We did mention that in the Q4 call and it was a sub event that was listed in our 10-K. So this was factored in.

Operator^ Ladies and gentlemen, I'm showing no further questions in the queue. I would now like to turn the call back over to Paul for closing remarks.

Paul Walker^ Okay. Thank you so much. Again everybody, thank you for joining today, and we appreciate the questions and how thoughtfully you think about the business. And I hope you all have a wonderful rest of your day and a great rest of the week.

Operator^ Thanks ladies and gentlemen, that concludes today's conference call. Thank you for your participation. You may now disconnect.