

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of  
The Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported):  
**January 7, 2021**



**FRANKLIN COVEY CO.**

(Exact name of registrant as specified in its charter)

Commission File No. 1-11107

Utah  
(State or other jurisdiction of  
incorporation)

87-0401551  
(IRS Employer Identification Number)

**2200 West Parkway Boulevard**  
**Salt Lake City, Utah 84119-2099**  
(Address of principal executive offices)(Zip Code)

Registrant's telephone number, including area code: **(801) 817-1776**

Former name or former address, if changed since last report: **Not Applicable**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

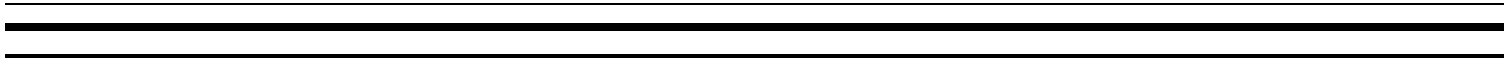
Securities registered pursuant to Section 12(b) of the Act:

| Title of each class           | Trading Symbol(s) | Name of each exchange on which registered |
|-------------------------------|-------------------|---|
| Common Stock, \$.05 Par Value | FC                | New York Stock Exchange                   |

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§ 230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§ 240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.



## **Item 2.02 Results of Operations and Financial Condition**

On January 7, 2021, Franklin Covey Co. (the Company) announced its financial results for the first quarter of fiscal 2021, which ended on November 30, 2020. A copy of the earnings release is being furnished as exhibit 99.1 to this current report on Form 8-K.

Certain information in this Report (including the exhibit) is furnished pursuant to Item 2.02 and shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing made by the Company under the Securities Act of 1933, as amended, or the Exchange Act, except as expressly set forth by specific reference in such a filing.

## **Item 7.01 Regulation FD Disclosure**

On December 22, 2020, the Company announced that it would host a discussion for shareholders and the financial community to review its financial results for the first quarter of fiscal 2021, which ended on November 30, 2020. The discussion is scheduled to be held on Thursday, January 7, 2021, at 5:00 p.m. Eastern Time (3:00 p.m. Mountain Time).

Interested persons can participate by dialing 800-708-4540 (International participants may dial 847-619-6397), access code: 50056701. Alternatively, a webcast will be accessible at the following Web site: <https://edge.media-server.com/mmc/p/8og3p3ef>. The webcast will remain accessible through January 21, 2021 on the Investor Relations area of the Company’s website at [www.franklincovey.com](http://www.franklincovey.com).

## **Item 9.01 Financial Statements and Exhibits**

(d) Exhibits

99.1 Earnings release dated January 7, 2021

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## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

FRANKLIN COVEY CO.

Date: January 7, 2021

By: /s/ Stephen D. Young  
Stephen D. Young  
Chief Financial Officer



2200 West Parkway Boulevard  
Salt Lake City, Utah 84119-2331  
www.franklincovey.com

## Press Release

### **FRANKLIN COVEY REPORTS FIRST QUARTER FISCAL 2021 RESULTS**

#### **Net Income and Adjusted EBITDA Exceed Expectations**

**Company's Powerful Subscription Business Growth Engine, the All Access Pass and *Leader in Me* Membership, Show Continued Strong Growth, High Revenue Retention, and Durability with Clients**

**Improved Gross Margin and Decreased Operating Expenses Allow Income from Operations to Remain Effectively Even with the Prior Year's Strong Performance Despite Pandemic**

**Cash Flows from Operating Activities Increases 59% to \$10.9 Million in the First Quarter—Liquidity and Financial Position Remain Strong at November 30, 2020**

**Salt Lake City, Utah** – Franklin Covey Co. (NYSE: FC), a global performance improvement company that creates, and on a subscription basis, distributes world-class content, training, processes, and tools that organizations and individuals use to achieve systemic changes in human behavior to transform their results, today announced financial results for its first quarter of fiscal 2021, which ended on November 30, 2020.

#### **Introduction**

While the Company's first quarter 2021 results were impacted by the ongoing COVID-19 pandemic, the Company was pleased that due to the continued strength of its subscription business and its quick pivot to delivering content live-online and through other digital modalities, its first quarter financial results were better-than-expected. The Company's revenues were favorably impacted by the continued strength of its subscription business, driven by the All Access Pass (AAP) in the Enterprise Division and the *Leader in Me* membership in the Education Division. Throughout the pandemic, the Company's AAP sales have been strong and resilient. During the first quarter of fiscal 2021, All Access Pass sales grew 16% compared with the prior year, and annual AAP revenue retention also remained strong at greater than 90%. Following the initial impact of the pandemic, the Company's U.S./Canada and governmental clients quickly transitioned to the Company's live-online and digital delivery options, and the first quarter's invoiced sales of services were nearly even with the strong prior year results.

The Company expects that sales and revenue retention for AAP subscription sales, and the booking pace for AAP related add-on services will continue to be strong in both the current and future periods. Sales at the Company's operations in China, Japan, Germany, and its licensee partners improved substantially compared with both the third and fourth quarters of fiscal 2020. The Company's China and Japan direct offices and its licensee partners continue to transition to selling AAP. Because most of these operations had just started to sell the All Access Pass, they did not have a strong base of subscription revenue at the onset of the pandemic. As a result, these operations were primarily dependent upon the in-person delivery of content and training. Stay-at-home restrictions made it necessary to reschedule nearly all of their training engagements and sales declined disproportionately at these operations. However, international operations continue to improve and licensee revenues increased 95% over the fourth quarter of fiscal 2020. The Company is optimistic that international momentum will continue to rebuild in fiscal 2021.

Through continued subscription business strength, recovering add-on services revenue, improved margins, and successful efforts to lower SG&A expenses, the Company was able to exceed expectations for net income and adjusted earnings before interest, income taxes, depreciation, and amortization (Adjusted EBITDA). In addition, the Company's cash flows from operating activities increased 59% over the first quarter of fiscal 2020 and its liquidity and financial position remained strong at November 30, 2020.

Bob Whitman, Chairman and Chief Executive Officer, commented, "We are really pleased that in the first quarter of fiscal 2021, Franklin Covey's operations continued to demonstrate their strength, agility, and ability to progress, even during the continuing pandemic. During the quarter, revenue was strong, driven particularly by the strength and growth of the All Access Pass and related services, which accounts for nearly 85% of revenues in North America. In addition, gross margins increased compared to even those achieved in last year's very strong first quarter, and operating expenses decreased significantly compared with the prior year. We were also pleased that sales in our international operations, which were just beginning to offer the All Access Pass and, therefore, did not have a substantial base of subscription revenue to cushion them, improved significantly during the first quarter. As a result of the combination of these trends, we achieved Adjusted EBITDA of \$3.7 million in the first quarter of fiscal 2021 versus an expectation of between \$2.0 million and \$2.5 million."

Whitman continued, "Cash flow for the quarter was strong and we ended the quarter with approximately \$50 million in liquidity, a level higher than the \$39 million of liquidity we had when the pandemic started, and up from \$42 million at the end of fiscal 2020 in August."

## **Financial Overview**

The following is a summary of key financial results for the quarter ended November 30, 2020:

- **Net Sales:** Consolidated sales for the first quarter of fiscal 2021 totaled \$48.3 million, compared with \$58.6 million in the first quarter of fiscal 2020. While consolidated sales were adversely impacted by the ongoing pandemic, the Company was pleased with the continued strength of the All Access Pass and *Leader in Me* subscription-based services. During the first quarter of fiscal 2021, AAP sales increased 16% compared with the first quarter of the prior year and annual revenue retention remained above 90%. The pivot to online delivery continued in the first quarter and invoiced AAP add-on services recovered to be nearly flat compared with the prior year. In the Education Division, *Leader in Me* membership revenues increased 14% over the first quarter of the prior year. These increases were insufficient to offset decreased foreign direct office sales and facilitator material sales, fewer coaching and consulting days delivered in the Education Division, and decreased licensee revenues. However, the Company is beginning to see recovery in many of these areas as previously postponed or canceled training or coaching days are being rescheduled, corporations and individuals are adapting, and the hope of vaccines is enabling certain economies to open and recover. For example, licensee revenues increased 95% on a sequential basis over the fourth quarter of fiscal 2020. The Company remains optimistic about the future and looks forward to continued recovery from the COVID-19 pandemic during 2021.
- **Deferred Subscription Revenue and Unbilled Deferred Revenue:** At November 30, 2020, the Company had \$97.4 million of billed and unbilled deferred subscription revenue, an increase of \$14.7 million, or 18%, compared with the prior year. This included \$56.9 million of deferred subscription revenue which was on its balance sheet, a 17%, or \$8.2 million, increase compared with deferred subscription revenue at November 30, 2019. At November 30, 2020, the Company also had \$40.5 million of unbilled deferred revenue, a 19%, or \$6.5 million, increase compared with \$34.0 million of unbilled deferred revenue at November 30, 2019. Unbilled deferred revenue represents business (typically multiyear contracts) that is contracted but unbilled, and excluded from the Company's balance sheet.
- **Gross profit:** First quarter 2021 gross profit totaled \$36.4 million compared with \$42.0 million in the first quarter of the prior year and declined primarily due to decreased sales as explained above. The Company's gross margin for the quarter ended November 30, 2020 improved 359 basis points to 75.3% of sales compared with 71.7% in the first quarter of the prior year, reflecting increased subscription revenues in the overall mix of sales.

- **Operating Expenses:** The Company's operating expenses for the first quarter of fiscal 2021 decreased \$5.6 million compared with the first quarter of the prior year, which was primarily due to decreased selling, general, and administrative (SG&A) expenses. Decreased SG&A expense was primarily related to decreased travel, entertainment, and marketing; a \$0.7 million decrease in non-cash stock-based compensation expense; decreased associate costs; and cost savings from the successful implementation of expense reduction initiatives in various areas of the Company's operations.
- **Operating Loss:** As a result of improved gross margins and efforts to decrease SG&A expense, the Company's loss from operations for the quarter ended November 30, 2020 was \$0.2 million, which was essentially even compared with the first quarter of the prior year.
- **Income Taxes:** The Company recorded \$0.2 million of income tax expense during the quarter ended November 30, 2020, resulting in an effective tax expense rate of 25% compared with an effective benefit rate of 28% in the prior year. The Company's effective tax rate during the first quarter of fiscal 2021 was adversely impacted by various non-deductible expenses.
- **Net Loss:** The Company reported a net loss of \$0.9 million, or \$(0.06) per share, for the first quarter of fiscal 2021, compared with a loss of \$0.5 million, or \$(0.04) per share, in the first quarter of the prior year, reflecting the above-noted factors.
- **Adjusted EBITDA:** Adjusted EBITDA for the first quarter was \$3.7 million compared with \$5.0 million in the first quarter of the prior year, reflecting the decrease in sales resulting from the COVID-19 pandemic.
- **Cash Flows, Liquidity, and Financial Position Remain Strong:** The Company's balance sheet and liquidity position remained strong with \$34.3 million of cash at November 30, 2020, and no borrowings on its \$15.0 million line of credit, compared with \$27.1 million of cash at August 31, 2020. Cash flows from operating activities for the first quarter of fiscal 2021 increased 59%, to \$10.9 million, despite the challenging economic environment in the first quarter of fiscal 2021.

## **Fiscal 2021 Outlook**

Based on current expectations, including the duration and anticipated economic recovery from the COVID-19 pandemic, the Company affirms its previously announced guidance and continues to expect Adjusted EBITDA to total between \$20 million to \$22 million in fiscal 2021. The Company remains confident that the strength of the All Access Pass and *Leader in Me* membership, which have driven Franklin Covey's growth trajectory across recent years, and which have remained strong during the pandemic, will drive accelerated growth in fiscal 2021 and in the future.

## **Earnings Conference Call**

On Thursday, January 7, 2021, at 5:00 p.m. Eastern (3:00 p.m. Mountain) Franklin Covey will host a conference call to review its financial results for the first quarter of fiscal 2021, which ended on November 30, 2020. Interested persons may participate by dialing 800-708-4540 (International participants may dial 847-619-6397), access code: 50056701. Alternatively, a webcast will be accessible at the following Web site: <https://edge.media-server.com/mmc/p/8og3p3ef>. The webcast will remain accessible through January 21, 2021 on the Investor Relations area of the Company's Web site.

## **Forward-Looking Statements**

This press release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 including those statements related to the Company's future results and profitability and other goals relating to the growth and operations of the Company. Forward-looking statements are based upon management's current expectations and are subject to various risks and uncertainties including, but not limited to: general economic conditions; the severity and duration of global business disruptions from the COVID-19 outbreak; the ability of the Company to operate effectively during and in the aftermath of the COVID-19 pandemic; renewals of subscription contracts; the impact of new sales personnel; the impact of deferred revenues on future financial results; market acceptance of new products or services, including new AAP portal upgrades; the ability to achieve sustainable growth in future periods; and other factors identified and discussed in the Company's most recent Annual Report on Form 10-K and other periodic reports filed with the Securities and Exchange Commission. Many of these conditions are beyond the Company's control or influence, any one of which may cause future results to differ materially from the Company's current expectations, and there can be no assurance that the Company's actual future performance will meet management's expectations. These forward-looking statements are based on management's current expectations and the Company undertakes no obligation to update or revise these forward-looking statements to reflect events or circumstances subsequent to this press release.

## **Non-GAAP Financial Information**

This earnings release includes the concept of adjusted earnings before interest, income taxes, depreciation, and amortization (Adjusted EBITDA) which is a non-GAAP measure. The Company defines Adjusted EBITDA as net income or loss excluding the impact of interest expense, income taxes, intangible asset amortization, depreciation, stock-based compensation expense, and certain other items such as adjustments to the fair value of expected contingent consideration liabilities arising from business acquisitions. The Company references this non-GAAP financial measure in its decision making because it provides supplemental information that facilitates consistent internal comparisons to the historical operating performance of prior periods and the Company believes it provides investors with greater transparency to evaluate operational activities and financial results. Refer to the attached table for the reconciliation of a non-GAAP financial measure, “Adjusted EBITDA,” to consolidated net loss, a related GAAP financial measure.

The Company is unable to provide a reconciliation of the above forward-looking estimate of non-GAAP Adjusted EBITDA to GAAP measures because certain information needed to make a reasonable forward-looking estimate is difficult to obtain and dependent on future events which may be uncertain, or out of the Company’s control, including the amount of AAP contracts invoiced, the number of AAP contracts that are renewed, necessary costs to deliver the Company’s offerings, such as unanticipated curriculum development costs, and other potential variables. Accordingly, a reconciliation is not available without unreasonable effort.

## **About Franklin Covey Co.**

Franklin Covey Co. (NYSE: FC) is a global public company, specializing in organizational performance improvement. We help organizations achieve results that require lasting changes in human behavior. Our world-class solutions enable greatness in individuals, teams, and organizations and are accessible through the FranklinCovey All Access Pass®. These solutions are available across multiple delivery modalities, including online presentations, in 21 languages. Clients have included organizations in the *Fortune 100*, *Fortune 500*, thousands of small and mid-sized businesses, numerous government entities, and educational institutions. FranklinCovey has directly owned and licensee partner offices providing professional services in more than 160 countries and territories.

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**FRANKLIN COVEY CO.**  
**Condensed Consolidated Statements of Operations**  
(in thousands, except per-share amounts, and unaudited)

|                                      | Quarter Ended        |                      |
|--------------------------------------|----------------------|----------------------|
|                                      | November 30,<br>2020 | November 30,<br>2019 |
| Net sales                            | \$ 48,324            | \$ 58,613            |
| Cost of sales                        | 11,938               | 16,584               |
| Gross profit                         | 36,386               | 42,029               |
| Selling, general, and administrative | 33,683               | 39,399               |
| Depreciation                         | 1,741                | 1,619                |
| Amortization                         | 1,131                | 1,170                |
| <b>Loss from operations</b>          | <b>(169)</b>         | <b>(159)</b>         |
| Interest expense, net                | (544)                | (601)                |
| <b>Loss before income taxes</b>      | <b>(713)</b>         | <b>(760)</b>         |
| Income tax benefit (provision)       | (179)                | 216                  |
| <b>Net loss</b>                      | <b>\$ (892)</b>      | <b>\$ (544)</b>      |
| Net loss per common share:           |                      |                      |
| Basic and diluted                    | \$ (0.06)            | \$ (0.04)            |
| Weighted average common shares:      |                      |                      |
| Basic and diluted                    | 13,977               | 13,982               |
| Other data:                          |                      |                      |
| Adjusted EBITDA <sup>(1)</sup>       | \$ 3,716             | \$ 4,961             |

(1) The term Adjusted EBITDA (earnings before interest, income taxes, depreciation, amortization, stock-based compensation, and certain other items) is a non-GAAP financial measure that the Company believes is useful to investors in evaluating its results. For a reconciliation of this non-GAAP measure to a comparable GAAP equivalent, refer to the Reconciliation of Net Loss to Adjusted EBITDA as shown below.

**FRANKLIN COVEY CO.**  
**Reconciliation of Net Loss to Adjusted EBITDA**  
(in thousands and unaudited)

|  | Quarter Ended        |                      |
|--|----------------------|----------------------|
|  | November 30,<br>2020 | November 30,<br>2019 |
| Reconciliation of net loss to Adjusted EBITDA:   |                      |                      |
| Net loss   | \$ (892)             | \$ (544)             |
| Adjustments:                                     |                      |                      |
| Interest expense, net                            | 544                  | 601                  |
| Income tax provision (benefit)                   | 179                  | (216)                |
| Amortization                                     | 1,131                | 1,170                |
| Depreciation                                     | 1,741                | 1,619                |
| Stock-based compensation                         | 1,158                | 1,851                |
| Increase in contingent consideration liabilities | 62                   | 91                   |
| Government COVID-19 assistance proceeds          | (207)                | -                    |
| Knowledge Capital wind-down costs                | -                    | 389                  |
|  | <u>          </u>    | <u>          </u>    |
| Adjusted EBITDA                                  | \$ 3,716             | \$ 4,961             |
|  | <u>          </u>    | <u>          </u>    |
| Adjusted EBITDA margin                           | 7.7%                 | 8.5%                 |

**FRANKLIN COVEY CO.**  
**Additional Financial Information**  
(in thousands and unaudited)

|   | Quarter Ended        |                      |
|---|----------------------|----------------------|
|   | November 30,<br>2020 | November 30,<br>2019 |
| <b>Sales by Division/Segment:</b>           |                      |                      |
| Enterprise Division:                        |                      |                      |
| Direct offices                              | \$ 36,743            | \$ 42,111            |
| International licensees                     | 2,596                | 3,721                |
|   | <u>39,339</u>        | <u>45,832</u>        |
| Education Division                          | 7,498                | 11,082               |
| Corporate and other                         | 1,487                | 1,699                |
|   | <u>1,487</u>         | <u>1,699</u>         |
| <b>Consolidated</b>                         | <u>\$ 48,324</u>     | <u>\$ 58,613</u>     |
| <b>Gross Profit by Division/Segment:</b>    |                      |                      |
| Enterprise Division:                        |                      |                      |
| Direct offices                              | \$ 29,439            | \$ 31,411            |
| International licensees                     | 2,285                | 3,120                |
|   | <u>31,724</u>        | <u>34,531</u>        |
| Education Division                          | 3,986                | 6,657                |
| Corporate and other                         | 676                  | 841                  |
|   | <u>676</u>           | <u>841</u>           |
| <b>Consolidated</b>                         | <u>\$ 36,386</u>     | <u>\$ 42,029</u>     |
| <b>Adjusted EBITDA by Division/Segment:</b> |                      |                      |
| Enterprise Division:                        |                      |                      |
| Direct offices                              | \$ 6,693             | \$ 5,710             |
| International licensees                     | 1,294                | 2,035                |
|   | <u>7,987</u>         | <u>7,745</u>         |
| Education Division                          | (2,285)              | (1,102)              |
| Corporate and other                         | (1,986)              | (1,682)              |
|   | <u>(1,986)</u>       | <u>(1,682)</u>       |
| <b>Consolidated</b>                         | <u>\$ 3,716</u>      | <u>\$ 4,961</u>      |

**FRANKLIN COVEY CO.**  
**Condensed Consolidated Balance Sheets**  
(in thousands and unaudited)

|   | <u>November 30,</u><br>2020 | <u>August 31,</u><br>2020 |
|---|-----------------------------|---------------------------|
| <u>Assets</u>   |                             |                           |
| Current assets:   |                             |                           |
| Cash and cash equivalents   | \$ 34,260                   | \$ 27,137                 |
| Accounts receivable, less allowance for<br>doubtful accounts of \$3,751 and \$4,159 | 43,066                      | 56,407                    |
| Inventories   | 2,675                       | 2,974                     |
| Prepaid expenses and other current assets   | 15,430                      | 15,146                    |
| Total current assets  | <u>95,431</u>               | <u>101,664</u>            |
| Property and equipment, net   | 14,169                      | 15,723                    |
| Intangible assets, net  | 45,996                      | 47,125                    |
| Goodwill  | 24,220                      | 24,220                    |
| Deferred income tax assets  | 1,028                       | 1,094                     |
| Other long-term assets  | 15,516                      | 15,611                    |
|   | <u>\$ 196,360</u>           | <u>\$ 205,437</u>         |
| <u>Liabilities and Shareholders' Equity</u>   |                             |                           |
| Current liabilities:  |                             |                           |
| Current portion of term notes payable   | \$ 5,000                    | \$ 5,000                  |
| Current portion of financing obligation   | 2,670                       | 2,600                     |
| Accounts payable  | 3,691                       | 5,622                     |
| Deferred subscription revenue   | 55,681                      | 59,289                    |
| Other deferred revenue  | 7,654                       | 7,389                     |
| Accrued liabilities   | 21,902                      | 22,628                    |
| Total current liabilities   | <u>96,598</u>               | <u>102,528</u>            |
| Term notes payable, less current portion  | 13,750                      | 15,000                    |
| Financing obligation, less current portion  | 13,350                      | 14,048                    |
| Other liabilities   | 8,820                       | 9,110                     |
| Deferred income tax liabilities   | 5,089                       | 5,298                     |
| Total liabilities   | <u>137,607</u>              | <u>145,984</u>            |
| Shareholders' equity:   |                             |                           |
| Common stock  | 1,353                       | 1,353                     |
| Additional paid-in capital  | 209,667                     | 211,920                   |
| Retained earnings   | 49,076                      | 49,968                    |
| Accumulated other comprehensive income  | 948                         | 641                       |
| Treasury stock at cost, 13,028 and 13,175 shares                                    | (202,291)                   | (204,429)                 |
| Total shareholders' equity  | <u>58,753</u>               | <u>59,453</u>             |
|   | <u>\$ 196,360</u>           | <u>\$ 205,437</u>         |