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Q4 2022 Franklin Covey Co Earnings Call

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## PRESENTATION

### Operator

Welcome to the Q4 2022 Franklin Covey Earnings Conference Call. My name is Darryl, and I will be your operator for today's call.

(Operator Instructions) I will now turn the call over to Derek Hatch. Derek, you may begin.

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### **Derek Hatch** *Franklin Covey Co. - Corporate Controller of Central Services - Finance*

Thanks, Darryl. Hello, everyone. On behalf of Franklin Covey Company, it's my opportunity to welcome you to our earnings call for the fiscal year ended August 31, 2022, and our fourth quarter results as well. We're excited to report these results to you and we'll begin in just a moment.

However, we'd like to remind you that as we are going through this presentation that the presentation contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based upon management's current expectations and are subject to various risks and uncertainties, including, but not limited to, the ability of the company to stabilize and grow revenues, the acceptance of renewal rates of our subscription offerings, including the All Access Pass and Leader in Me memberships, the duration and recovery from the COVID-19 pandemic, the ability of the company to hire productive sales professionals, general economic conditions, competition in the company's targeted marketplace, market acceptance of new offerings or services and marketing strategies, changes in the company's market share, changes in the size of the overall market for the company's products, changes in the training and spending policies of the company's clients 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 our 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 our expectations. These forward-looking statements are based on management's current expectations, and we undertake no obligation to update or revise these forward-looking statements to reflect events or circumstances after the date of today's presentation, except as required by law.

With that out of the way, we'd like to turn the time over this afternoon to Mr. Paul Walker, our President and Chief Executive Officer. Paul?

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### **Paul S. Walker** *Franklin Covey Co. - President & CEO*

Thank you, Derek. Hello, everyone. Thanks so much for joining us today. I'm here with Steve Young, our CFO; with Jen Colosimo, President of our Enterprise Division; Sean Covey, who is the President of our Education Division and several members of the executive team also. We're also pleased to have Bob, our Executive Chairman, Bob Whitman, our Executive Chairman with us as well.

We're very pleased that our results for fiscal 2022 were strong and even stronger for the fiscal fourth quarter than expected. I'd like to start with a few headlines beginning with those about our revenue growth, as you can see shown in Slide 4. Our revenue growth for fiscal '22 was especially strong increasing 17% to \$262.8 million and the 17% growth benefited somewhat by comping against COVID-related quarters in the first and second quarters but also reflected the impact of COVID-related lockdowns and restrictions in China and Japan, both of which extended over the fiscal second and third quarters and even into a portion of the fourth quarter and also by the impact of

foreign exchange. Excluding China and Japan, revenue for the full fiscal year '22 grew 21% even after the impact of FX. Our fourth-quarter revenue growth was also exceptionally strong with revenue growing 14% and which would have grown 17% excluding China and Japan.

As significant as was overall growth for the year and the quarter, our subscription and subscription services revenue growth was even stronger. Also, as you can see shown in Slide 4, total subscription and subscription services revenue grew 29% in fiscal '22 and increased 23% in the fourth quarter, with All Access Pass subscription and subscription services revenue growing 28% for the year and 26% in the fourth quarter and Leader in Me subscription and subscription services revenue growing 29% for the full fiscal year and 18% in the fourth quarter.

The durability of our revenue also continues to increase and our visibility into future revenue growth also continues to expand. As you can see as shown in Slide 4, our year-end balance of deferred subscription revenue billed and unbilled increased 20% over last year's fourth quarter or \$26 million to \$153.4 million. And as shown in Slide 5, in our North America Enterprise operations, the percent of our All Access Pass contracts which are multiyear increased to 46% at year-end, up from 41% at the end of fiscal '21, and the percent of our All Access Pass subscription revenue represented by these multiyear contracts of at least 2 years increased to 61% of total contracted revenue at year-end, up from 57% at the end of fiscal '21.

The average lifetime value of our All Access Pass customers also continued to increase. Our average subscription revenue per client increased from \$42,000 to \$47,000 for the year. All Access Pass revenue retention also continued to be well above 90%. And our services attach rate, the subscription services that attach to the All Access Pass increased to 61% for the year compared to 52% for fiscal 2021, reflecting the importance our clients' place on the challenges they engage us to help them achieve. The combination of these factors resulted in our gross margin percent remaining at a very strong 85%.

I'd like to now discuss some profitability metrics, some of the headline metrics as you can see shown in Slide 6. For the fiscal year, our gross margin grew 17% or \$29 million to \$201.9 million and our gross margin percent for the fiscal year remained very strong 76.8%, a level almost equal to that achieved in fiscal '21 even after considering a significant growth in subscription services just noted. Gross margin percent for the fourth quarter was very strong at 75%. This was slightly lower than the fourth quarter of fiscal '21, reflecting both the accelerated 26% growth in Education sales during the quarter, which have a somewhat lower margin than to All Access Pass sales and the strong growth in subscription services.

Operating SG&A as a percent of sales improved another 389 basis points for the year ending up at 60.8% compared to 64.7% in fiscal '21 which itself is a 139 basis points better than fiscal 2020. Operating SG&A as a percent of sales also improved 394 basis points for the fourth quarter to 58%. The flow through of our growth in revenue to growth in adjusted EBITDA for fiscal '22 was 37%, reflecting the impact of strong gross margins and declining operating SG&A as a percent of sales and the flow through of growth in revenue to growth in adjusted EBITDA was 28% in the fourth quarter.

As a result of this strong revenue growth and high flow-through, adjusted EBITDA increased 51% or \$14.2 million for fiscal '22 to \$42.2 million and grew 26% or \$2.8 million to \$13.3 million in the fourth quarter. Net cash provided by operating activities increased 13% to \$52.3 million for the year compared to \$46.2 million for fiscal '21. During fiscal '22, we also returned a significant amount of capital to shareholders investing \$23.9 million to repurchase 585,000 shares. And even after investing this \$23.9 million for share repurchases, we ended the year with \$75.5 million of liquidity, comprised of \$60.5 million in cash and with our full \$15 million revolving credit line undrawn.

We'll discuss our guidance for fiscal '23 and our outlook for fiscal '24 and '25 in a moment. But as shown in Slide 7, as a result of our strong top and bottom line growth in fiscal '23 and the strength of factors driving it, we're pleased that the \$42.2 million of adjusted EBITDA achieved for fiscal '22 exceeds both our most recent adjusted EBITDA guidance range of between \$40 million to \$41.5 million and our original adjusted EBITDA guidance range of between \$34 and \$36 million.

As a result of the strength of these drivers underlying this performance, our revenue for fiscal '23 -- our revenue guidance for fiscal -- our guidance for fiscal '23 for adjusted EBITDA will increase from \$42.2 million in fiscal '22 between 47 and \$49 million in fiscal '23. As also

shown in Slide 7, while of course, some quarters revenue growth will be higher than others, we're increasing our revenue outlook for fiscal '23 and beyond from the expectation that our rolling 12 months revenue will grow in the low double-digits to our current expectation that our rolling 12 months revenue growth will now be in the low teens, call it 12% or 13-ish percent and we'll move toward the mid and then high teens in the years to come.

We expect this accelerating revenue growth to be driven by and reflect the ongoing growth in our high margin, high recurring subscription and subscription services revenue, and expect a significant percentage of this revenue growth to flow through the increases in adjusted EBITDA and cash flow. As a result, building on our adjusted EBITDA guidance range of between 47 and \$49 million for fiscal '23, we expect that adjusted EBITDA will then increase to approximately \$57 million in fiscal '24 and to approximately \$67 million in fiscal '25.

With this strong expected growth in revenue and adjusted EBITDA, we also expect to generate significant amounts of free cash flow, which as we'll discuss in more detail in a moment, we expect to reinvest in the business at high rates of return while potentially also returning substantial amounts to shareholders through ongoing share repurchases.

We're extremely pleased by our accelerating revenue and adjusted EBITDA growth and the business' momentum. Prior to the pandemic, we talked about our ability to predictably generate high single-digit revenue growth, while at the same time achieving even more rapid growth in adjusted EBITDA. We're really pleased to now be talking about our expectation of consistently achieving low teens revenue growth, with the expectation that this revenue growth will increase to the mid-teens and then high-teens growth and with an expected high flow-through of incremental revenue to increases in adjusted EBITDA and cash flow.

I'd now like to turn some time to Steve to dig a little bit deeper into some of these results.

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**Stephen D. Young *Franklin Covey Co. - CFO & Corporate Secretary***

Thank you, Paul. Good afternoon, everyone. It's nice to be with you today. As Paul said, we're really pleased with the ongoing combined strength and growth of our revenue, adjusted EBITDA and cash flow. And as Paul also noted, we're pleased to have achieved these extremely strong results even after absorbing COVID-related impacts in our results in China and Japan, and after absorbing a \$2.6 million decrease related in unfavorable foreign currency fluctuations.

To provide a deeper and more detailed understanding of the factors underlying this strong performance, I'd like to quickly report on the 3 key areas of our company, specifically on our Enterprise business in North America, our Enterprise business internationally and our Education business, almost all of which is also in North America.

First, as shown in Slide 8, results in our Enterprise business in North America were especially strong. Revenue in North America, which accounts for 23% of total Enterprise division revenue, grew 19% in FY '22 and 17% in the fourth quarter. Subscription and subscription services revenue grew even more rapidly, increasing 26% for the year and 22% in the fourth quarter. North America Enterprises balance of deferred revenue, billed and unbilled, grew 20% to \$110.6 million and the percentage of North America's All Access Pass contract revenue represented by multiyear contracts increased 61% as of fiscal year end, up from 52% last year.

Second, as shown in Slide 9, while overall results in our international direct offices were slower than originally expected as a result of COVID-related impacts on our operations in China and Japan during much of our second and third quarter's, revenue growth in our offices in U.K., Ireland, Germany, Austria, Switzerland and Australia countries which together make up approximately 48% of total international sales and where All Access Pass makes up a substantial portion of those sales was very strong. Revenue in these offices grew 40% in FY '22 and grew 23% in fourth quarter.

All Access Pass subscription and subscription services sales, which make up approximately 83% of total sales in these countries, grew even more rapidly increasing 51% for the year and 7% in the quarter. Our operations in China and Japan, which account for approximately 52% of international sales but less than 7% of total sales of the company, widespread COVID-related lockdowns in China, a very cautious and slow return to normalcy post-COVID as guided by the Japanese government and negative FX, impacted much of the year in these 2 countries as revenue declined 16% for both FY '22 and the fourth quarter.

Now as shown in Slide 9, our international licensee partner revenue increased 17% for the year. And taken as a group, our licensee partners' operations continue to strengthen coming out of COVID despite the impact of the war in the Ukraine and related economic interruptions in Eastern Europe.

Finally, as shown in Slide 10, the results in our Education business which account for approximately 24% of total company revenue were also very strong. Education revenue grew 26% in FY '22 and 17% in the fourth quarter. Education subscription and subscription services revenue grew 29% in the year and 18% in the fourth quarter. Education's year-end balance of deferred subscription revenue grew 17%, and we retained 89% of our existing schools in FY '22 while adding a record 739 new schools, an increase of 157 schools or 27% compared to the strong 582 new schools we added in FY '21. So good results from 3 main areas of the company.

So now back to Paul.

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**Paul S. Walker Franklin Covey Co. - President & CEO**

Thank you, Steve. Thanks for the great review of our results. I'd like to now briefly highlight 5 key drivers which are underlying these strong results. We focused on these last quarter, but I thought that importance of such that it would be good to report and reemphasize them again here today.

As shown in Slide 11, the first drivers at the markets we've chosen to serve are very large. They're growing significantly and they're highly fragmented. This provides us with enormous headroom for growth and the opportunity to earn a significant share in each of these markets.

The second driver we'll talk about is that we're focused on the most important lucrative and durable space in each of these markets. The opportunities and challenges we help our clients address, challenges that require the collective action of large numbers of people are must win for organizations that are very durable. This provides us with the opportunity to partner with our organizational clients and with schools in both good times and in more challenging.

The third driver is the ongoing strength of our subscription business model. It's a powerful engine that's driving accelerated and sustainable growth, a significant and increasing predictability and durability of our revenue and a high flow through of increases in revenue to growth in profitability and cash flow.

Driver number 4 is that we have a number of compelling opportunities to accelerate our growth. The combination of the large and growing markets we serve, the importance of the challenges we help our clients address, and the strength of our business model is creating exciting opportunities for further acceleration of growth.

And the fifth driver that I'll touch on here is that we expect to invest our strong cash flow to create significant additional value for shareholders. We generate significant amounts of cash, which we have and expect to continue to invest to create additional shareholder value.

I'd like to touch on each of these. First, however, I'd like to emphasize that while each of these drivers is important in any environment, we believe they are even more important in uncertain and turbulent times like at present. We are of course not hoping for an economic downturn, however, we believe that the strength of these drivers individually and collectively positions us to be able to perform well and even increase our strategic importance during times such as these.

As shown in Slide 12, driver 1 is the attractiveness of the markets we've chosen to serve which is large, growing and fragmented. As you can see in Slide 13, our focus is on 3 large and growing markets, the Enterprise learning market where our total addressable market is \$99 billion and growing by approximately \$3 billion a year, the Education market where our total addressable market is \$59 billion and growing approximately \$1 billion a year, and the market where business leaders invest dollars directly from their operating budgets in order to improve their organization's performance. Here the total addressable market is not defined but organizations, operating budgets are in the trillions of dollars and growing. Each of these markets is highly fragmented with the largest players accounting for

only approximately 1% to 2% of sales. It's the size of these markets and their fragmentation that provides us with tremendous headroom for growth and our strength puts us in a position to increase our share of these markets, we think, particularly in difficult times.

Driver number 2, as shown in Slide 14 is that we're focused on the most important, lucrative and durable spaces in each of these markets. As shown in Slide 15, and as we've explained in prior calls, many things can add value to an organization including things like providing people with useful information and helping them learn new skills. However as important as sharing information and helping people learn new skills can be, the single most impactful opportunity for breakthrough performance improvement within most organizations lies in mobilizing the collective action and best efforts of large numbers of people toward the achievement of their organization's highest priorities. In other words, as illustrated in Slide 16, we help organizations intentionally and systematically move the collective performance of their people and units righter and tighter toward what they already do well in disparate pockets.

This does not happen by accident. Helping organizations drive this kind of collective behavioral change, change that allows them to systematically and predictably move their performance curves righter and tighter is exactly where Franklin Covey stands out. In fact, our entire organization is focused on helping companies, schools and teams of all sizes and across just about every industry achieve just these kinds of results. Importantly, these righter and tighter challenges and opportunities are very durable. Every organization has them in both good times and during more challenging ones. For example, as shown in Slide 17, throughout the great financial crisis, we experienced exceptionally strong growth in helping clients address challenges related to significantly increasing sales performance, ensuring execution on major strategic initiatives and driving breakthroughs and customer loyalty.

More recently in the early days of the pandemic and coming out the other side, our clients have consistently asked for help with those same challenges together with new emerging challenges, including those related to remote and hybrid work, creating winning cultures and equipping leaders with the skills to engage, build and retain talent in a unique and challenging labor market.

Our ability to help our clients achieve measurable results in these areas has led thousands of organizations and schools to purchase, expand and renew their All Access Pass and Leader In Me subscriptions and purchase support services to help them achieve their righter and tighter objectives in the middle of turbulent times. This was not only true during the great financial crisis and throughout the pandemic, that continues to be true in the increasingly uncertain economic conditions we're facing today.

I'd like to share 3 very recent example of how we're partnering with organizations to address their critical challenges and opportunities in this very environment.

First, one of our largest All Access Pass contracts. A contract with a large multinational conglomerate is extending their contracts for an additional 5-year term. This client choosing to extend and expand their relationship with us because of the way in which the solutions in the All Access Pass directly address their most pressing challenges. This client sees an opportunity to increase their usage of our solutions and at the same time reduce the number of external providers with whom they work. The result will create a more scalable and powerful solution for the client and a larger multiyear All Access Pass holding client for Franklin Covey.

The second example is a recent new client with a significant global logistics company where we've also -- who is also chosen to engage in a multiyear 5-year All Access Pass contract. We'll be working closely with this client to increase their global sales and sales leadership capability as they prepare to compete in a more challenging environment. This client will not only have access to our world-class sales performance content but to all of our leadership and execution content as well, enabling them to create a powerful and comprehensive solution unmatched by other providers in the industry.

Finally, one of the largest technology companies in the United States has been an All Access Pass client for several years and recently renewed their All Access Pass for an additional 3 years. This client is engaging with us to help them build culture and develop leaders at all levels. They utilize the 7 habits to create the foundation for their culture and every new employee goes through the 7 habits as part of onboarding. Incidentally, the 7 habits is their most highly rated offering. This client also uses our 6 critical practices leading a team solution to equip managers with the right leadership mindsets, skill sets and behaviors to create winning culture, high levels of engagement and sustained results.

Because of the importance organizations place on addressing these kinds of challenges, even in this year's fourth quarter at a time when markets were in turmoil and organizations of all types were bracing for the prospect of even bigger challenges ahead, in our U.S., Canada Enterprise business more organization signed multiyear contracts than in any quarter ever. We sold more new logos than in any previous quarter in the last 4 years and All Access Pass holders purchased the greatest volume of services ever to help them address their most pressing righter and tighter challenges.

As shown in Slide 18, Franklin Covey's expertise in helping clients address these kinds of challenges and opportunities combines best-in-class content, best-in-industry coaches and facilitators who by the way earn an average net promoter score of a remarkable 68 and we combine technology into all of that. For those who may not be as familiar with NPS score of 50 is the standard to be viewed as an NPS All Star. Franklin Covey's deep capability to help organizations address their most important challenges is resulting in the lifetime value of our customers continuing to increase, as you can see shown in Slide 19.

The third driver I'd like to talk about, as shown on Slide 20, is the strength of our subscription business model. Because of the importance of the challenges we help organizations address and because organizations are typically leading to address several of these challenges simultaneously, we move to a subscription model, so that our clients could have access to the full strength and breadth of our range of powerful solutions. Our subscription model is a powerful engine that's driving strong growth, significantly increasing the predictability and durability of our revenue, and generating a high flow-through of increases in revenue to increases in profitability and cash flow.

As substantially all of our business become subscription and subscription services over the next few years, we expect our overall growth in revenue and profitability to accelerate. I'd like to briefly highlight each of these points.

First, our subscription and subscription services model is driving strong overall company growth. As shown in Slide 21, our subscription and subscription services revenue grew 29% in fiscal '22 and now accounts for 77% of our total business. This growth has been driven by our All Access Pass subscription in Enterprise and our Leader in Me subscription and our Education business.

We expect that All Access Pass to drive strong overall growth in the Enterprise business it has and it is. As shown in Slide 22, All Access Pass subscription and subscription services revenue has grown from \$13.7 million in fiscal 2016 to \$144.5 million in fiscal '22. This robust growth continued in fiscal '22 with All Access Pass subscription and subscription services revenue growing 28%. Similarly, the Leader in Me subscription offering is driving strong growth in the Education division. The Leader in Me subscription offering's growth has been so substantial that in fiscal '22, Leader in Me accounted for \$57.6 million or 93% of Education's total revenue and Leader in Me subscription revenues are continuing to grow rapidly. As shown in Slide 23, Leader in Me subscription and subscription services revenues grew 29% in fiscal '22.

Second, our subscription model is driving significant increases in both the durability and predictability of our current and future revenue. As you can see as shown in Slide 24, our balance of deferred subscription revenue billed and unbilled continues to grow significantly increasing 20% or \$26 million to \$153.4 million at the end of fiscal '22. Additional durability and predictability of our revenues being created by the increasing percent of our All Access Pass contracts which are multiyear. At year-end, the percent of contracts which were multiyear was 46% up from 42% a year ago and the percent of total All Access Pass subscription revenue represented by these multiyear contracts increased to 61% up from 52% a year ago.

Third, our subscription business model has also resulted in a high percentage of revenue growth flowing through the growth and profitability and cash flow. With our subscription offerings, strong gross margins and declining operating SG&A as a percent of sales, a high percentage of accelerating growth in subscription revenue flows through to increases in adjusted EBITDA and cash flow. As noted a few minutes ago, as a result, adjusted EBITDA grew 51% or \$14.2 million in fiscal '22.

Fourth, with substantially all of our business expected to become subscription and subscription services over the next few years, we expect Franklin Covey's overall growth in revenue and profitability to accelerate. When we began our conversion to subscription to the subscription model approximately 7 years ago, in one of our quarterly earnings calls, we shared the trajectory of Adobe's results as they made their conversion to subscription.

As shown in Slide 25, in the initial years of their conversion to subscription, Adobe's strong growth in subscription sales was substantially offset by declines in their Legacy box software business. However, as their subscription business continued to grow rapidly and the decline in their Legacy business flattened out as indicated by the green line, Adobe's overall revenue growth and market cap accelerated significantly. We said that we expect that our conversion to subscription to follow a similar pattern.

We began our conversion in our Enterprise business in North America and as shown in Slide 26, we're really pleased that our conversion to All Access Pass in North America has in fact followed a trajectory quite similar to that experienced by Adobe. As our conversion has progressed, subscription sales growth has continued to be very strong, while declines in Legacy sales have flattened out. As a result, North America Enterprises' overall revenue grew a significant 19% in fiscal '22 as indicated by the green line in the right-hand chart. This accelerating revenue growth in North America has driven an increase in the company's overall growth rate from high single digits to low double digits, and we believe now to at least low-teens growth, call it 12% or 13-ish percent.

We believe that with the continued growth of our subscription business, substantially all of our revenues will be subscription and subscription services in the next few years. As this occurs, we expect that the company's overall revenue growth will accelerate to the mid-teens and then high-teens growth in the coming years and as this occurs, we also expect our adjusted EBITDA and cash flow to accelerate.

As shown in Slide 27, the fourth driver, I want to touch on here is that we have compelling opportunities for growth and we're committed to taking advantage of these opportunities. To that end, we continue to make investments in technology, content, thought leadership and in growing our sales force.

I'd like to briefly highlight our efforts in 2 of these areas, the first being on the technology and content fronts. To enhance our existing technology, in 2021 we acquired Strive, a leadership development platform trusted by top companies around the world. Together, we designed the Franklin Covey Impact Platform and after significant testing with hundreds of our clients, we officially launched the platform on October 18th. We rolled it out to all of our clients in the U.S. and Canada. Our strategy is to seamlessly combine our unique and powerful content, our facilitators, our coaches and technology all into 1 system that will drive collective action in ways that lead to breakthrough results for our clients.

The Impact Platform provides users easy, seamless access to Franklin Covey's trusted powerful content across 4 key areas, leadership, individual effectiveness, building culture, and strategy and sales execution. And the platform meets users and learning and development professionals where they are, allowing them to develop capabilities and skills through any combination of live online, live in-person, on-demand, and microlearning modalities. Important metrics such as user engagement, enjoyment and impact are tracked automatically to provide clear data to those being developed and to their learning and development professionals about both ROI and possible areas for future investments.

Over the coming months, we will extend availability of the Impact Platform to all of our clients outside the U.S. and Canada and into each of our core languages. I'm incredibly grateful to our technology and content teams and to our marketing, sales and operations teams for getting us to this exciting point.

In addition to investing in the creation and launch of new technology like the Impact Platform, we're also making important investments in content because we're focused on not merely addressing but on actually helping our clients solve their most pressing people-related challenges and opportunities. Every solution in the All Access Pass and in the Leader in Me must be truly best in class and its ability to shift mindsets, skill sets and behavior.

In addition to refreshing and extending our historic content franchises like The 7 Habits of Highly Effective People, the Speed of Trust, The 4 Disciplines of Execution, The 6 Critical Practices to Leading a Team and our sales performance solutions, we're developing powerful new offerings that address needs that lives the intersection of what our clients are asking for and where we believe we have something truly unique to offer the world. Solutions on topics such as change management, well-being and communications and collaboration. Solutions in these areas have either recently launched or will launch over the course of fiscal '23 and into early fiscal '24.

Through our investments in technology and content, we're creating an industry-leading subscription offering and a powerful way for our clients to deploy our solutions at scale across their organization to drive measurable behavior change and collective action.

The second area of investment I'd like to highlight is our continued investment and focus on growing our sales force. Last year, we said that we expected to end fiscal '22 with just over 300 client partners or salespeople. As shown in Slide 28, we're pleased that we ended the year with 300 client partners and had an additional 2 client partners who accepted offers by the end of the year in August, but whose start dates were in September. Our new hiring generally takes place in the back half of our fiscal year and this did incur again in fiscal '22.

Over the past years, we've also made investments that have established the foundation and infrastructure for being able to further accelerate our sales force growth, and we expect to add at least 40 net new client partners in fiscal '23. This growth in our number of new client partners, not only provide -- not only drives accelerating growth as these new client partners ramp but at any given point in time, the embedded future growth expected to occur from those we have already hired who are in ramp and continuing to ramp, some of those cohorts totals more than \$50 million in revenue growth.

Finally, as shown in Slide 29, the fifth driver is that our strong cash flow has been and we believe can continue to be invested to create significant additional value for shareholders. We said that our objective is to be a relatively unique kind of company, a company that simultaneously generates revenue growth in at least the low teens accelerating to the mid and then high teens, generates annual growth in adjusted EBITDA in the range of 20% per year, and reinvest its excess free cash flow into the business and high rates of return, while also returning substantial amounts of capital to shareholders.

We believe that we're becoming exactly this kind of company. As noted, our revenue growth has increased to the low teens and we believe that it will increase into the mid and then high teens in the coming years. We've shared our expectation of generating adjusted EBITDA growth with a compound annual growth rate approaching 20% per year over the next 3 years, and we've been investing our excess cash at high rates of return, both in the business and in repurchasing shares to create additional shareholder value.

Having gone through those 5 drivers, I'd like to turn some time now to Steve to review our guidance and outlook.

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**Stephen D. Young *Franklin Covey Co. - CFO & Corporate Secretary***

Thank you again, Paul. So guidance and outlook. As shown in Slide 30, our initial guidance provided last fall was that in FY '22, adjusted EBITDA would increase to a midpoint of \$35 million, an increase of \$7 million or 25% compared to adjusted EBITDA of \$28 million in FY '21. As discussed, we are pleased to have exceeded both that initial guidance and our interim updated guidance ending the year with \$42.2 million of adjusted EBITDA, representing growth of 51% compared to the \$28 million of adjusted EBITDA achieved in FY '21.

Our guidance for FY '23 is that in constant currency, our adjusted EBITDA will increase from \$42.2 million in FY '22 to between 47 and \$49 million in FY '23 even after making accelerated investments in sales force growth and in content and technology and in the context of current macroeconomic environment and the continued COVID impact in China.

Underpinning this guidance are the following expectations. First, that a significant amount of the deferred revenue currently on our balance sheet will be recognized. This deferred subscription revenue is secure, it has already been billed and a majority of it has already been collected. In addition, a significant portion of our more than \$65 million of unbilled deferred revenue will be built this year and a portion of that will also be recognized. This provides tremendous visibility into our revenue for FY '23 and beyond.

Second, that in addition to the recognition of our deferred revenue, our All Access Pass and Leader in Me subscription and subscription services sales will continue to achieve strong growth, driven by high revenue retention, sales to new logos, and an expanding lifetime customer value. These are all assumptions in which we have high confidence.

Third, in addition to the strength of our subscription business model, the increased level of investments we are making in sales force growth and content and technology this year gives us confidence in our ability to accelerate our growth in years to come. We view this as an important time to make these investments because it gives us the opportunity to increase our share of market in this environment.

Fourth, we're expecting sales in China and Japan to be relatively flat in the year reflecting the impact of COVID-related restrictions implemented in FY '22 that are continuing in FY '23. Consistent with our overall guidance of adjusted EBITDA increasing from \$42.2 million in FY '22 to \$47 million to \$49 million in FY '23, we expect adjusted EBITDA in the first quarter to increase from \$9.9 million in last year's first quarter. And please remember, looking at this \$9.9 million last year, that was up from \$3.2 million in 2019, the pre-pandemic. So, to go from \$9.9 million to our guidance of \$10.5 million to \$11 million in constant currency in this year's first quarter even after absorbing the expenses associated with our hiring 30 new client partners during the back half of '22 and our rollout of our new Impact Platform, we believe is a good first quarter result.

This guidance reflects our expectation of achieving strong growth in the first quarter in North America, in our English-speaking direct offices in the U.K. and Australia, and in Education partially offset by a year-over-year decline in our operations in China and Japan where their rebound from COVID restrictions related declines in the back half of FY '22 will still leave them a bit behind in their performance in last year's first quarter prior to the implementation of their new COVID-related restrictions.

We expect revenue growth in the first quarter of approximately 12% to 13% and while some quarters' revenue growth will be higher than others, we expect revenue growth for the year also be approximately 12% to 13% as Paul said-ish.

So that's our guidance. Now our targets for FY '23 through FY '25. A little over a year ago, we set targets for adjusted EBITDA to increase to \$40 million in FY '23 and to \$50 million in FY '24. A year ago, we increased those targets to 45 and \$55 million respectively.

As shown in Slide 30, at the end of the third quarter FY '22, we increased those targets further to \$57 million in FY '24 and gave a new target of \$67 million of adjusted EBITDA for FY '25. Despite these current environments, we still expect to achieve those targets. Obviously, while dramatic changes in the world geopolitical environment, the economy and other factors could impact our expectations, we wanted to share that those are our current estimates.

So Paul, back to you.

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**Paul S. Walker Franklin Covey Co. - President & CEO**

Thank you, Steve. We feel great about our continued momentum and look forward to accelerating growth in the future.

With that, Darryl, why don't we turn it back to you to open the line for few questions?

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question comes from Jerry (sic) [Jeffrey] Martin from ROTH Capital Partners.

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**Jeffrey Michael Martin ROTH Capital Partners, LLC, Research Division - Director of Research & Senior Research Analyst**

I hopped on the call about halfway through so I apologize if you've already addressed this. Was just curious where you are with the Impact Platform in terms of its rollout and what kind of initial uptake you're seeing out of the client base?

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**Paul S. Walker Franklin Covey Co. - President & CEO**

Great. Yes, we did address that. We launched it. So, you'll recall we acquired Strive in 2021. We did some initial work to do some beta testing with clients. We didn't even beta test the platform, it was already a going concern, but we needed to put our content on it. And then earlier midway through fiscal '22, we did a limited launch, spring and summer with clients and 1 part of the country, that went very well. And then we are really excited, we launched on October 18 to all of our clients in the U.S. and Canada, and our English-speaking clients really everywhere, but U.S. and Canada focused primarily. So, it's been out there since 18th, going very well, receiving great feedback. And then we will be localizing the platform into our core languages and throughout this year as we approach the winter, into the winter months rolling it out into the other languages. So, feedback has been great at every stage, the initial kind of pilot phase, the limited launch phase in the last couple of weeks here. Since it's been out in the wild, we've got great feedback from clients.

**Jeffrey Michael Martin ROTH Capital Partners, LLC, Research Division - Director of Research & Senior Research Analyst**

Okay. Great. And then I assume with the rollout of that you have some pricing power within the All Access subscription. Curious what your plan is in terms of the pricing environment going forward?

**Paul S. Walker Franklin Covey Co. - President & CEO**

Yes. So we just -- we having just completed our fiscal year, we always do our -- we do price increases annually so those land to effect September 1st and it built into those price increases that we did. It was the presumption that they now have access to the -- our clients have access to the Impact Platform plus a whole pool of additional content and solutions still to come this year.

I think maybe just stepping back for a second, where do we see the Impact Platform driving increased revenue? One, it does support the case for our continued price increases but I think even more significant than that will be that the thesis for the Impact Platform is that it seamlessly combines these really important elements that are necessary to drive measurable sustain behavior change. Here to for those pieces have been -- they are a bit desperate, not just for us but anywhere in the industry and they are difficult for a client to pull together into an elegant seamless way that you can deploy and mass across entire the organization.

And so the Impact Platform providing a much more elegant and easy way for learning and development professional to deploy content and a much more elegant experience for the end user, we think that there ought to be 3 outcomes here. One, the attractiveness of the All Access Pass value proposition will which was already attractive, it will even be more attractive data to help us on the new logo front as we show that -- showcase that and talk about how this really get the job done for clients. So it will help on the new logo front.

It's built really to help us expand the larger populations, right. So it's this idea of being able to scale our content even deeper and further into and across organizations. So we got to be able to see more pass expansion. And then, because it was allowed to so easily -- it's not just a on-demand like self-study asynchronous learning platform, it brings together the ability for us to do cohort learning with Franklin Covey facilitators and for us to provide live human being based coaching all within the platform as well and so it all continue to drive the services growth, we've seen over the last many quarters. I think those are probably the most important drivers of where the growth will come from, but it also does to your point, support the case for continually taking a look at pricing.

**Jeffrey Michael Martin ROTH Capital Partners, LLC, Research Division - Director of Research & Senior Research Analyst**

Okay. And then, I was curious if you could give us an update on the Education division, I know there's substantial amount of stimulus dollars, first schools to help and get their kids caught up based on the growth that you're posting in the number of schools added. Was just curious if there's any additional commentary you can provide around specifically what you're seeing in terms of the flow-through of the stimulus funds?

**Paul S. Walker Franklin Covey Co. - President & CEO**

Yes, thank you. I'm going to turn it to Sean Covey to answer that. But as I do, I just wanted to applaud Sean and the team, they had a great year. Just fantastic number of new schools and great school retention in the current environment. So Sean, do you want to take on that question?

**Michael Sean Merrill Covey Franklin Covey Co. - President of Franklin Covey Education**

Sure. Yes. So the answer dollars are out there, \$200 billion over the 3 different packages that came out. It's interesting that less than 20% of that money has been spent so far, so that's definitely helping the market and helping us, and there's a lot more to come over the next couple of years. I think that's a factor for our success. I think more important, I think why we're having success probably the number one or -- number 1 and 2 reasons would be, number 1 would just be our solution is just perfectly designed to meet the needs and the challenges in the marketplace right now.

And what you have right now is a lot of turnover of teachers and principals, mental wellness issues, inequity, you've got a lot of underperforming minority groups, learning loss because of COVID, and the need suddenly for the market recognizing that social and emotional learning these life skills and people skills are so important to employers and to college and career. All that is just right down our lane. That's what we're best at. And so, when we started this 12 years ago, we were already in a good spot, the event for the last few years has made us even more needed, so that's helping us tremendously.

Then one other thing I'd point to is just that we've really turned our focus from selling to schools to selling to districts and districts are bigger, they're stickier. Our retention rate with districts is 95% while our retention rate overall is 89% for single schools and we've earned the right because of our performance and the kind of results we're giving to work with districts. And so I think the district focus, our solution being perfectly in line with the challenges of today combined with a good funding environment has helped us.

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**Operator**

(Operator Instructions) And our next question comes from Dave Storms from Stonegate Capital Partners. Go ahead, Dave.

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**Dave Storms**

Appreciate you all taking my call. Just 2 quick ones from me. When -- how is it going? Looking at your release, you mentioned that approximately 46% of your All Access subscriptions are now multiyear contracts. I was wondering if you just shed a little more light on the length of those contracts that you're happy with that number at 46% or you're looking to drive that higher, what are your thoughts around contract claims?

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**Paul S. Walker Franklin Covey Co. - President & CEO**

Yes. Thanks so much. That's a great question. So, we're very happy with that number. Just provide a little context. When we converted to a subscription model just about 7 years ago, we hadn't conceived of the idea that we try to sell multiyear contracts, that sounds a little silly and well, it sounds a little silly now. But we hadn't. And so -- and really throughout the first couple of years of All Access Pass, that was not a focus of ours. So, it became a focus, and over the past handful of years, that number has continued to steadily increase from nothing to now approaching half of the contracts and I think maybe even more importantly, significantly more than half of the revenue.

So, while it's 46% of contracts, it's 61% of the revenue of our subscription -- of our All Access Pass subscription revenue is in a multiyear contract. And for us multiyear, to answer the other part of your question, these are 2-year or longer contracts. So all of our All Access Pass contracts are a minimum 1 year and we bill upfront. So everybody signs at least a 1-year contract, we bill and collect all the cash upfront. Almost half of the contracts, though are 2 years or longer, and I would say, Steve, that probably is like 2 point something years...

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**Stephen D. Young Franklin Covey Co. - CFO & Corporate Secretary**

2 and 3 years.

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**Paul S. Walker Franklin Covey Co. - President & CEO**

Yes. Two and 3 years is kind of the most common. And there is 61% of revenue wrapped up in those contracts. So we're happy about that. I think maybe the other question that would be -- the other point here might be helpful, what's driving that is the nature of the challenges we're helping clients solve. We're not really in the thick of thin things, the things that a client is going to get solved because they come in and work with us for a quarter, right? The journey that they're on with us is a larger journey of transformation, it's across the entire organization equipping people with the skills and capabilities and that's just not something that happens overnight, and our clients recognize that. And so out of the gates there, they're thinking in terms of multiyear, we're thinking in terms of multiyear, we're on a journey together, we have a mantra we throw around internally, Clients For Life.

And we kind of ring our hands every time one of those clients that we have doesn't end up being a client for life. And so I think I believe this number will continue to grow. It's grown quarter over quarter. I don't know that we'll ever be at a 100% multiyear contracts. There always be a CFO or 2 like Steve out there to say no we're not going to sign a multiyear contract but -- just kidding, Steve finds it too. But I do think there's continued growth opportunity here and both on the number of contracts and on the amount of revenue.

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**Dave Storms**

That's perfect and makes a lot of sense. Long-term solutions require long-term contracts.

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**Paul S. Walker Franklin Covey Co. - President & CEO**

Yes.

**Dave Storms**

If I could ask 1 more. Just going back to your client partners, just any more color on the current hiring environment? Are you starting to see that swing back in the favor of you the employer or is it still challenging out there?

**Paul S. Walker Franklin Covey Co. - President & CEO**

Yes. The answer is yes, it has swung back a bit. It was challenging throughout the first part of last year, frankly even into the later part of our fiscal year. We have an amazing recruiting team and they did a great job. We set the goals at the beginning of the year, to say, we're going to add net 30, which for us was -- again, if you go back in time, this has been a -- hiring client partners has been a part of our growth strategy, an important part for many, many years. And early on, we built the infrastructure to step out and say okay, we're going to hire 5 a year new and then let's move that 10, and then we bumped that to 15 and then we said, hey, what if we can hire 20 new in a year and we did. And then this last year, no, we said we're going to go for 30 and we felt great about achieving that. It was a -- both a difficult environment, but also I think partly because of what's happening inside our company and how well things are going, we're attracting amazing people who want to come be a part of what's going on there, attracted to our mission and what we're doing. And so we were pleased to hire 30 and build the infrastructure at the same time to step across again and move that number to 40 in this current year.

**Dave Storms**

Congrats on the strong year.

**Operator**

(Operator Instructions) And our next question is from Alex Paris from Barrington Research. Go ahead, Alex.

**Alexander Peter Paris Barrington Research Associates, Inc., Research Division - Director of Research and Education & Business Services Analyst**

Thank you for taking my question. Congratulations on the strong finish to the fiscal year. I wanted to dive a little deeper into capital allocation. I think you talked about it a little bit earlier, I had a technological glitch here, but I think I got it. You did share repurchases of close to \$24 million this year. Didn't look like you repurchased any shares during the fourth quarter. I think that was the 9-month total as well. So how do you decide when to repurchase shares? Is it a market price versus your calculation of intrinsic value that sort of thing? And what sort of share repurchases should we be assuming going forward? I realize they're opportunistic to some extent, but cash is building.

**Paul S. Walker Franklin Covey Co. - President & CEO**

Steve, you want to comment on that?

**Stephen D. Young Franklin Covey Co. - CFO & Corporate Secretary**

Alex, yes, we like being in a position of opportunistically buying shares in the open market. And then we also for the next few years will have an accelerating -- significantly accelerating number of shares granted under our LTIP programs were extended 2 years due to COVID, so we have a lot of buybacks related to those grants also. But yes, Alex, when we're in a position to buy opportunistically means we're looking at a lot of things. We're looking at alternative uses of cash of course. We're looking at our net present value of cash flows calculations compared to the stock price, looking at the direction of the stock prices going. And then also we're considering things going on internally that might preclude us from buying shares at any point in time.

So I believe what we're doing is what you might expect. We're considering all of those factors, all of the time and deciding when it would be prudent for us to be in the market, and at what price and then we buy shares. And as you know, we don't make any commitments as to how much we're going to buy, but I think you can expect us to be buying shares in FY '23.

**Alexander Peter Paris Barrington Research Associates, Inc., Research Division - Director of Research and Education & Business Services Analyst**

Got you. That's helpful. And then other priorities, obviously are organic investments which you've given a lot of detail on hiring of the client partners, content, technology and so on. Repurchases, we just spoke about. What about M&A? You've been reasonably acquisitive

over the years. What's your expectations for M&A going forward? Are there any areas that you need to add and there's a build versus buy decision things like that?

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**Paul S. Walker *Franklin Covey Co. - President & CEO***

Yes. Alex, this is Paul. I would say that is another area where as we think about capital allocation, we're thinking about quite a bit right now. There's a lot going on in the industry which presents a lot of interesting opportunities. And I think for us, it comes down to -- one of the deciding factors is that build versus buy, right. So the last couple of deals that we've done were very much that. We were clear we needed the capabilities that each of those companies brought to us and we thought, gosh, it's -- this should be a buy versus build, we'll get there more quickly, et cetera. And so there we could envision adding additional capability to the All Access Pass and making a potential buy versus build decision.

There could also be expanded content areas where again we would ask the question, do we have the wherewithal to build or should we go buy? I think increasingly, there might be opportunities to add more customers more quickly that could be a buy versus build. Of course, we're going to build our own customers, I mean that's -- we have great -- a great return on hiring client partners as you know from over the years of hiring and growing our own sales force, but if there was an opportunity to accelerate growth even more quickly than that singular play provide, that would be another opportunity. So we're thinking about those maybe even at greater rates right now that we have in the past, and I expect would continue to do so as we go throughout fiscal '23.

And we have no more questions at this time. I will turn it back to Paul Walker for closing comments. Thank you, Darryl. Well, again, thanks everybody for joining today. And I just want to thank our entire team for their great work throughout fiscal '22. We're pleased that you are on this journey with us as well and thanks again for joining us. Have a great rest of your evening.

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**Operator**

And thank you, ladies and gentlemen, this concludes today's conference. Thank you for participating. You may now disconnect.

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