

## Franklin Covey Co.(Q1 2023 Earnings)

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### Corporate Speakers:

- Derek Hatch; Franklin Covey Co.; Corporate Controller of Central Services, Finance
- Paul Walker; Franklin Covey Co.; President & CEO
- Stephen Young; Franklin Covey Co.; CFO & Corporate Secretary
- Jennifer Colosimo; Franklin Covey Co.; President of Enterprise Division

### Participants:

- Alexander Paris; Barrington Research Associates, Inc.; Research Division, Director of Research and Education & Business Services Analyst
- Nehal Chokshi; Northland Capital Markets; Research Division, MD & Senior Research Analyst
- David Storms; Stonegate Capital Markets, Inc.; Research Division, Research Analyst

## PRESENTATION

Operator^ Good day, and thank you for standing by, and welcome to the First Quarter 2023 Franklin Covey Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today, Derek Hatch, Corporate Controller. Please go ahead.

Derek Hatch^ Thank you. Hello, everyone. On behalf of Franklin Covey, I would like to wish everyone a happy new year, and welcome, everyone, to our first quarter earnings call for fiscal 2023.

Before we get to the good stuff, I'd like to remind everybody that this 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 and renewal rates for 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 management's 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 to Mr. Paul Walker, our Chief Executive Officer. Paul?

Paul Walker^ Thank you, Derek. Hello, everyone. Thanks so much for joining us today. And as Derek said, we want to wish you all a very happy new year. I'm joined by Steve Young, our CFO; by Jen Colosimo, the President of our Enterprise Division; Sean Covey, President of our Education Division; and several other members of our executive team. We're also happy to have Bob Whitman, our Executive Chairman with us today as well.

We're really pleased that our results for the first quarter of fiscal '23 were strong and even stronger than expected. As you know, the ongoing strength of Franklin Covey's performance is driven by 5 key factors. And I thought I would just briefly highlight these and then dive into our results.

First, we help organizations address mission-critical challenges and opportunities. These challenges and opportunities require collective action of large numbers of people. The second strength is we've organized our entire company around helping clients address these challenges and our solutions, which combine best-in-class content, technology, coaching and measurement work.

They really do work. And as a result, our lifetime customer value is significant and increasing and the duration of our subscription contracts continues to extend, increasing both the durability and predictability of our revenue.

The third strength is the strength of our subscription business, which is growing at more than 20% per year and is driving an overall increase in growth for the entire company. Overall, revenue growth has increased from the high single digits to the low double digits and now into the low teens, and we expect this growth to continue into the mid-teens and in high teens in the coming years.

Fourth, the strength of our subscription business model with its high growth margins and declining SG&A as a percent of sales is resulting in a significant flow-through of incremental growth in revenue to increases in adjusted EBITDA.

And finally, the fifth strength is that we have significant headroom for growth, and we're investing to take advantage of it. These investments include growing our sales force by more than net 30 last year and -- which will grow by more than net 40 this year. And in addition, we're making investments in content, technology and in marketing.

So thinking about those 5 strengths and how they're playing out, let's talk for a minute here -- I'd like to share with you how they did play out in the first quarter. And I'd like to start with headlines, beginning with those regarding our double-digit revenue growth in the quarter.

As you can see shown on Slide 5, revenue growth for the first quarter of fiscal '23 was strong, increasing 13.2% to \$69.4 million. In constant currency, our revenues grew an even more rapid 16.6%, even after absorbing the impact of ongoing COVID-related lockdowns in China in the quarter and a slow return to post-COVID normalcy in Japan.

Our revenue growth for the latest 12 months through this year's first quarter was also exceptionally strong, with revenue growing 14.3% and growing 16.2% in constant currency. As significant as was our overall growth for the quarter and for the latest 12 months, our subscription and subscription services revenue growth was even stronger.

As also shown on Slide 5, total subscription and subscription services revenue grew 21% in the first quarter and grew 26% in the latest 12-month period, with the All Access Pass subscription and subscription services revenue growing 20% in the first quarter and 26% for the latest 12 months, and the Leader in Me subscription and subscription services revenue growing 24% in the first quarter and 25% in the latest 12-month period.

The durability of our revenue also continues to increase, and our visibility into future revenue growth continues to extend and expand. As also shown on Slide 5, our balance of deferred subscription revenue, billed and unbilled, increased 25% or \$30.5 million in the first quarter compared to last year's first quarter to \$151.6 million.

And finally, as shown on Slide 5, for the latest 12 months in our North American enterprise operations, the percent of our total All Access Pass invoice revenue represented by multiyear contracts of at least 2 years, increased to 62% at the end of the first quarter, up from 55% at the end of fiscal '22's first quarter.

Now to some headline profitability metrics. As shown on Slide 6, our gross margin percent in the first quarter remained very strong at 76%, an increase of 100 basis points compared to the 75% in last year's first quarter and close to the 77.7% gross margin achieved in the first quarter of fiscal 2022.

This reflects strong growth in education revenues and 25% growth in subscription services, both of which carry a somewhat lower gross margin percentage. Our latest 12 months gross margins were also very strong at 76.4%, reflecting the same strong growth in education and subscription services revenue.

Operating SG&A as a percent of sales improved another 199 basis points to 59.5% in the first quarter compared to 61.5% in the first quarter of fiscal '22 and improved 296 basis points for the latest 12-month period to 60.3% compared to 63.2% in the same latest 12-month period last year.

The incremental flow-through of our growth in revenue to growth in adjusted EBITDA in the first quarter was 19%. Just as a point, it would have been -- it was 22% in constant currency, reflecting the combined 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% for the latest 12-month period and would have been 30% in constant currency.

As a result of this strong revenue growth, adjusted EBITDA grew 16% or \$1.5 million in the quarter to \$11.5 million and grew 28% or \$9.6 million to \$43.7 million in the latest 12-month period. In constant currency, adjusted EBITDA grew \$2.3 million or 23% to \$12.2 million in the first quarter and 34% or \$11.6 million to \$45.7 million for the latest 12 months.

Our net cash provided by operating activities was \$3 million in the first quarter compared to \$10.2 million in the first quarter of fiscal '22, reflecting changes in net working capital. We expect our cash flows from operating activities to be strong in fiscal '23.

We ended the first quarter with \$73.2 million of liquidity, comprised of \$58.2 million in cash and with our full \$15 million revolving credit line undrawn. Our strong and increasing liquidity -- this adds to Franklin Covey to our operational -- adds optionality to us as we continue to invest in our business, evaluate potential acquisition opportunities and continue to look for ways to further enhance shareholder value.

We're pleased by our accelerating revenue growth and our growth in adjusted EBITDA and by the businesses' continued momentum. We're pleased that with our first quarter revenue growth of 13.2% or 16.6% in constant currency and our latest 12-month revenue growth of 14.3% or 16.2% in constant currency gets us off to a very strong start for the year. And now with that, I'd like to turn some time over to Steve to dig a little bit deeper to these results.

Stephen Young^ Okay. Thank you, Paul, and it's a pleasure to be with everyone, happy new year. As Paul expressed, we are really pleased with the combined ongoing strength of growth of our revenue, adjusted EBITDA and cash flow. And as Paul also noted, we are pleased to have achieved these strong results even after absorbing ongoing COVID-related impacts on our results in China and Japan. And after absorbing a \$2 million revenue decrease related to unfavorable foreign currency fluctuations.

I'd now like to provide a little more detail on the factors underlying this strong performance focusing on the results in 3 key areas of our company, specifically, in our enterprise business in North America and our enterprise business internationally, in both

our direct offices and in our international licensee partner operations, and in our education business, almost all of which is in North America.

First, as shown in Slide 7, results in our enterprise business in North America were very strong in the first quarter and in the last 12 months. Revenue in North America, which accounts for 73% of total Enterprise Division revenue, grew 16% in the quarter and 17% in the latest 12-month period. Subscription and subscription services revenue grew even more rapidly, increasing 19% in the first quarter and 24% in the latest 12 months.

Our balance of deferred revenue, billed and unbilled, grew 25% compared to last year's first quarter balance. And the percentage of North America's All Access Pass invoiced revenue, represented by multiyear contracts, increased to 62% for the last 12 months ended this year's first quarter, up from 55% for the same latest 12-month period last year.

Second, as shown on Slide 8, revenue growth was very strong 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.

Revenue in these offices grew 12% in the first quarter and grew 20% in the last 12 months. All Access Pass subscription and subscription services sales, which make up approximately 83% of total sales in these countries, grew even more rapidly, increasing 13% in the quarter and 35% in the last 12 months.

In our offices in China and Japan, which account for approximately 52% of our total international sales, widespread COVID-related lockdowns in China over the past 15 months, which continued to persist throughout our first quarter, together with a very cautious and slow return to normalcy post-COVID in Japan, and the negative impact of FX, impacted results in these two countries as revenue declined by 8% and 20% in the last 12-month period. Our strong overall company results were after absorbing these impacts.

Also shown on Slide 8, our international licensee partner revenue increased 9% in the first quarter and 15% in the latest 12 months. Our licensee partners operations continue to strengthen despite the impact of FX and world economic conditions.

Finally, as shown in Slide 9, the results of our education business, which accounts for approximately 24% of total company revenue, were also very strong, with education revenue growing 23% in the first quarter and 21% in the last 12 months. Education subscription and subscription services revenue growing 24% in the first quarter and 25% in the latest 12 months.

Education's balance of deferred subscription revenue growing 20% in the first quarter, and our year-over-year retention and Leader in Me schools remaining very high at approximately 90% for the last 12-month period. So Paul, back to you.

Paul Walker^ Thank you, Steve. Thanks for reviewing those results. Driving these strong results is the ongoing strength of our subscription business. As shown on Slide 10, our subscription and subscription services revenue grew 26% in the latest 12-month period and now accounts for 77% of total overall company sales. This growth has been driven by both the growth in our All Access Pass subscription business in our Enterprise Division and by our Leader in Me subscription business in our Education Division. Maybe just a couple of bullet points on each of these.

First, as shown on Slide 11, in the Enterprise business, All Access Pass subscription and subscription services revenue grew from \$13.7 million in 2016 to \$144.5 million at the end of fiscal '22 and grew further to \$151.1 million for the latest 12-month period through the first quarter of fiscal '23.

Second, similarly, the Leader in Me subscription offering is driving strong growth in the Education Division, where Leader in Me subscription offerings growth has been so substantial that for the latest 12-month period, it accounted for \$60.2 million or 93% of Education's total revenue. And Leader in Me subscription revenues continued to grow rapidly, increasing 24% in the first quarter and 25% for the latest 12-month period. Our subscription model is also driving significant increases in both the durability and predictability of current and future revenue.

As shown on Slide 12, our balance of deferred subscription revenue, billed and unbilled, continues to grow significantly, increasing 25% or \$30.2 million to \$151.6 million at the end of the first quarter.

And additional durability and predictability of our revenue is being created by the increasing percent of our All Access Pass contracts, which are multiyear. At the end of the first quarter, fully 62% and of our total All Access Pass subscription invoiced amount was for multiple year periods, up from 55% for the same period last year.

Importantly, our subscription business model has also resulted in a significant percentage of our growth in revenue flowing through to growth and profitability. With our subscription offering strong gross margins, and declining operating SG&A as a percent of sales, a significant percentage of our accelerating growth in subscription revenue is flowing through to increases in adjusted EBITDA. As noted a few minutes ago, as a result, adjusted EBITDA grew 28% or \$9.6 million in the latest 12-month period.

Given the strength of our subscription business, as just described, its importance -- it now accounts for more than 77% of total company sales and more than 100% of our growth in sales.

And given that we expect subscription and subscription services to account for substantially all of our sales within the next few years, we thought it might be important and useful to first articulate what we view as 3 important and differentiated elements of our subscription business model; and second, discuss the key factors that are driving them. I'd like to just briefly discuss these 2 points.

As indicated in Slide 13, our business model includes 3 key and differentiated elements. These are as follows: First, when we enter into an All Access Pass subscription with a client, that contract becomes an asset worth hundreds of thousands of dollars. Second, that the duration and certainty of these contracts is increasing each year, further increasing their value. And third, that our cost of acquiring a new client contract is not only significantly less than the net present value of that contract's lifetime customer value, but it's even less than the contract's first year value.

I'd like to briefly touch on each of these factors and what's driving them. So first, when we enter into an All Access Pass subscription with a client, that contract ultimately becomes an asset worth hundreds of thousands of dollars.

The average new All Access Pass contract has an initial year subscription sales price of approximately \$27,000, which by the way, that amount has increased substantially from the approximately \$18,000 average sales price when we first offered All Access Pass. In addition to the value of their All Access Pass contract, in the first year pass holder -- as a pass holder, clients purchased approximately \$13,000 in additional subscription services for an approximate total first year client spend of about \$40,000, as you can see shown in the top node of Slide 14.

As shown in Node 2 of that slide, the combination of this relatively large first year spend, our high logo retention rate, the fact that upon renewal, the average client significantly expands its All Access Pass holder population and our clients' significant and ongoing purchase of value-adding services to help them achieve their objectives, together means that the average annual All Access Pass client becomes -- client spend becomes approximately \$77,000.

This significant average annual All Access Pass client spend not only more than offsets any revenue loss from contracts that don't renew, but is almost double the first year spend of \$40,000.

Finally, as shown in Node 3, with a blended gross margin of approximately 85% on the \$77,000 in annual revenue generated by the average All Access Pass contract, the average All Access Pass contract produces an annual contribution of more than \$65,000. And with the annual revenue of the average All Access Pass contract continuing to increase each year, the expected lifetime value of an average All Access Pass contract is hundreds of thousands of dollars, an amount many times the value of the initial subscription contract.

The second point underpinning our business -- our subscription business model is that the increasing duration of our subscription contracts increases visibility into future revenues from those contracts and thus their value. As valuable as each All Access Pass subscription contract already is, the duration of these contracts and the increasing visibility into future revenue is expected to come from them continues to increase their value.

As shown in Slide 15, the percent of total invoiced amounts of All Access Pass contracts, which are for multiyear periods continues to increase. As shown, in 2017, this percent was approximately 5. It increased to 37% in fiscal '19 to 53% in fiscal '21 and to 61% through the end of fiscal '22.

As a result, the extent of visibility into future revenues, which will come from these contracts, continues to increase. As this occurs, we begin each new year with more billed and unbilled deferred revenue in place as a percent of the prior year's total revenue. The extent of this increase can be seen on Slide 16.

As shown, in fiscal 2017, the sum of billed and unbilled deferred revenue from All Access Pass contracts as a percent of the Enterprise Division's prior year revenue was 30%. This increased to 40% in fiscal '19 to 59% in fiscal '21 and to 62% in fiscal '22.

And as a higher and higher percentage of total contracted revenue becomes multiyear and as those contracts represent a higher and higher percent of prior year's revenue, the certainty of our future revenue increases. This reduces the theoretical discount rate that should be applied to that future revenue, further increasing the total value of these contracts.

The third point underpinning the subscription business model is as shown on Slide 17, our cost of selling or acquiring a new All Access Pass subscription contract, the cost of customer acquisition, or the CAC, is not only well less than the net present value of an All Access Pass' -- All Access Pass contract's lifetime value, it's even less than a client's first year All Access Pass spend.

Our direct sales force of approximately 300 client partners is large and growing significantly. So are our teams of implementation, strategists and client success professionals. We also invest in thought leadership, marketing, PR, et cetera, to help acquire new clients.

However, we're grateful that as a result of the effectiveness of our marketing, sales and customer success efforts, our relatively large initial contract size, and our strong gross margin percent, our total customer acquisition cost, or CAC, is still less than the initial first year contribution generated by the average All Access Pass contract. This is important.

Many organizations' customer acquisition cost significantly exceeds the first year contribution generated by the average subscription contract. As a result, the more rapidly they grow, the greater is the aggregate negative contribution generated from this new revenue. Their business models are based on the expectation that if they can achieve good revenue retention, over time their cumulative contribution will eventually turn positive and they'll recover their first year deficit.

While a number of companies are able to cover their cost of customer acquisition within 2 or 3 years, we're fortunate to be in the position of generating a positive contribution in the new All Access Pass contract's first year and then having that contribution grow each year thereafter. This is really important. It provides us with the ability to simultaneously achieve growth in both revenue and profitability. Importantly, this profitability is not only relative to the All Access Pass contract's lifetime customer spend, but to its first year value.

The combination of these 3 factors that our subscription contracts have a high and increasing lifetime customer value that our average subscription contract also has an increasing duration, and that our cost of acquiring one of these extremely valuable contracts is a fraction of the contract's total lifetime value and even less than the contract's first year value provides us with a unique opportunity, the opportunity to generate accelerating revenue and while at the same time, achieving accelerated growth in adjusted EBITDA.

Three key factors underlying and are driving and enabling our strong -- the strong business model. As shown in Slide 18, they are: first, the mission-critical nature of the kinds of challenges our clients engage with us to address; second, the effectiveness of those solutions and helping clients address the challenge -- these challenges; and third, the strength and reach of our client-facing organization in acquiring, serving, retaining and expanding client relationships.

I'd like to just share a thought or two about each of these. First, as shown on Slide 19, is the importance of the mission-critical challenges we help our clients address. As we've reviewed in some detail in prior quarters, and therefore, I won't go into the same level of detail here today, the opportunities and challenges we help our clients address, challenges that, by definition, require the collective action of large numbers of people are must-win for organizations and are long-lasting.

These must-win challenges include things like executing on a major strategic objective, the accomplishment of which requires the collective focused efforts of large numbers of people. Or building leaders at all levels, leaders who can both achieve their big business objectives and do so while leading in a way that engages their people and build the organizational muscle necessary to achieve even bigger objectives in the future. Or establishing a culture that builds trust with all key stakeholders.

Because these kinds of challenges are always important, helping clients to successfully address them provides us with the opportunity to establish long-term partnerships with our clients and schools, partnerships that endure in both good times and in more challenging times.

The second point I would highlight is, as shown in Slide 20, the effectiveness of our solutions and helping our clients successfully address these challenges. As we've noted in the past and as shown on Slide 21, most organizations already have pockets or units in which their business results are exceptional.

Trust is high and their leaders lead in a way, which unleashes the potential of their people. Every organization also has variability, often significant variability in the performance across its units. And this variability provides our clients with both a tough challenge and a big opportunity.

As shown on Slide 22, our solutions combine best-in-class blockbuster content, technology, including our new impact platform, which allows us to deliver this content with impact and at scale, the guidance of extraordinarily talented and experienced people, including our world-class coaches and facilitators, and metrics that provide clients with the ability to measure the impact of our solutions in moving desired behaviors and results righter and tighter.

And third, as shown in Slide 23, is the strength and reach of our client-facing organization in acquiring, serving and retaining and expanding these client relationships. We've organized our entire company around helping clients address exactly these kinds of challenges.

And the combined efforts and capabilities of our thought leadership and marketing, our client partner or our salespeople, and implementation strategists and our coaches and consultants provides us with a unique capability to acquire, serve, retain and significantly expand client relationships.

And our reach includes direct operations in nearly all of the world's largest economies and an extraordinary licensee network, which is able to serve client needs in more than 150 countries and in almost every language. This creates a network effect that's really hard to replicate.

The combination of these factors is providing us with a unique set of capabilities with which to serve customers and a set of capabilities that translates into both strength in acquiring new clients and an extraordinary capability to serve, retain and expand those client relationships. And we're working and investing continuously to further strengthen our already significant strategic strengths.

As shown on Slide 24, by continuing to make significant annual investments in existing and new content areas, technology, which allows the delivery of that content with both high client impact and a significant scale and the size and capabilities of our sales force and the reach and impact of our thought leadership.

We're pleased that because of our strong business model, we're able to make these ongoing investments to accelerate our growth in revenue, while at the same time, accelerating our growth in adjusted EBITDA and cash flow. I want to express my huge appreciation to our amazing teams that are making this possible every day. I'd now like to turn some time over to Steve Young to review our guidance and our multiyear outlook.

Stephen Young^ Thank you again, Paul. So guidance and outlook. As shown in Slide 25, 2 months ago in our year-end report, we provided full year FY '23 adjusted EBITDA guidance in constant currency of between \$47 million and \$49 million, which reflected an upward revision from the \$47 million to \$48.5 million we guided to in July.

We are really pleased with the first quarter being ahead of our guidance and even in the context of the challenges in the broader world and economy, are pleased to be able to reaffirm our full year guidance of between \$47 million and \$49 million, and our outlook targets of \$57 million in FY '24 and \$67 million in FY '25.

Underpinning this guidance are the following expectations. First, the significant amount of deferred revenue currently on our balance sheet will be recognized. This deferred subscription revenue is secure, it's already been billed and the majority of it has already been collected.

In addition, a significant portion of our \$74.9 million of unbilled deferred revenue will be built in this year, and a portion of that will also be recognized during FY '23. This significant balance of deferred subscription revenue 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 sale will continue to achieve strong growth, driven by high revenue retention, sales to new logos and expanding lifetime customer value. These are assumptions in which we have a high degree of confidence.

Third, due to the strength of our subscription business model, the ongoing investments we are making this year in sales force growth and in content and technology 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 an opportunity to increase our share of market in this environment. We're expecting sales in China and Japan to be relatively flat in the year, reflecting post-COVID impacts.

Consistent with our overall guidance of adjusted EBITDA increasing from \$42.2 million in FY '22 to the \$47 million and \$49 million that we've talked about in FY '23, we expect adjusted EBITDA in the second quarter to be between \$8 million and \$9 million. The \$8 million in adjusted EBITDA we achieved last year was a good result, up 57% from the year before.

We feel very good about achieving this result, particularly given the second quarter is one of our smallest revenue -- is our smallest revenue quarter and that many of our growth investments such as client partner hiring and investments in content and technology are relatively evenly spaced throughout the year.

We expect reported revenue growth in the second quarter to be approximately 11%, even after absorbing the approximately 200 basis point impact on growth of current foreign exchange rates and the expectation of flat sales in China and Japan.

Excluding the impact of FX and of China and Japan, the rest of the business is expected to grow approximately 15% in the second quarter. While some quarters revenue will be higher than others, we expect revenue growth in the year to be approximately 12% to 13% in constant currency. While dramatic changes in the world geopolitical environment, the economy and other factors could impact our expectations, these are our current targets. So back to Paul.

Paul Walker^ Thank you, Steve. We feel great about our continued momentum and are looking forward to continued accelerating growth. And with that, maybe let's ask Victor to open the line up to questions, and we'd be happy to take those.

## QUESTIONS AND ANSWERS

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

Alexander Paris^ Congrats on the Q1 and the strong start to fiscal '23. Just kind of starting at the top down. My first question is going to be regarding economy inflation, the employment outlook in 2023, the risk of recession. And the reason I asked, and we've talked about this before, is the company is very different than it was during the last recession that we experienced.

I guess two parts. One, are you seeing any impact from the economy, a slowing economy on new logos, for example, which I would assume would be a leading indicator? And then comments with regard to inflation and your pricing strategy for fiscal '23.

Paul Walker^ Yes. Thanks, Alex. Great question. So see if I can hit all three of those inflation, employment, recession, et cetera. So first of all, just stepping back for a second. Our clients are -- unfortunately, because you're a client of Franklin Covey, you're any more immune to what's going on in the world right now.

And so our clients are dealing with the same thing. They're talking about where they're going to allocate their budgets, what the right size of their workforce should be going forward right now, all the things you would imagine that everybody is talking about and dealing with. So we certainly feel that. We're in the middle of that. We hear that. We are -- many times, we're partnering with them as they try to figure some of those very questions out.

And so yes, to the extent, are we feeling some of those headwinds? We are. And don't know what that necessarily looks like out into the future, but today, we're selling into that environment, and we're doing quite well in that environment. And so just a couple of points of evidence there to maybe give a little bit of color to you.

We just talked about the fact that we have 62% of our All Access Pass contract value is made up a multiyear contracts. So I think that underscores the idea that we're on these multiyear journeys with our clients, and there's a high level of commitment that they have to what they're trying to do and therefore, also to us as their partner. We didn't -- we were in the environment in the first quarter and didn't see a lot of those headwinds impact our first quarter results as we just reported there.

We're on topics, as you know, that are important to our clients. I think that gives us a leg up there and helps us as well. We just ran some numbers yesterday actually and looked through the first 4 months of the year, how has attendance at marketing events, which is a leading indicator for us has gone, and it's up about 20% this year in the first 4 months over what it was in the first 4 months of last year. That's a nice leading indicator. Our pipelines remain strong and full.

So I think my answer to your question would be, certainly, we're seeing it. We're hearing it. To some degree, we're feeling it. There are some sectors of the economy, some of our technology clients aren't expanding what they're doing with us at the moment. And then there are other sectors of the economy where we're in large expansion discussions with clients.

And so it's a bit of a mixed bag there, depending on the client and where they are, but we're navigating that. I think pretty darn well right now. And I don't know, based on what we see right now, we've tried to take all that into account as we've given the guidance that we've shared here today and reaffirming our guidance for the year. So that would be my answer.

As far as the inflation question, we're not susceptible really from a much -- from a cost standpoint to inflationary pressures. We don't have a big supply chain. For us, it would be in wage pressure. And we did see some of that last year during the Great Resignation as many did, but that seems to have abated quite a bit this year. So Steve, I don't know if you would add anything to that.

Stephen Young^ No, I agree.

Paul Walker^ Okay. Thanks.

Alexander Paris^ And then related to that, I think on the last conference call, you said that you do annual price increases after the end of the fiscal year. So on September 1, you implemented a price increase. And those typically range from 3% to 10%, with inflation running pretty hot right now, even though hopefully, it might have peak. What can you say about your price increase for fiscal '23?

Paul Walker^ So we did implement a price increase at September 1 at the beginning of our -- so we actually do it, Alex, for the fiscal year, not the calendar year. So we

implemented the price increase September 1. And yes, over the years, we've taken it up between 3% and 10%.

And this year, I would say our weighted -- we did take prices up 10%, but then we created an opportunity for our clients to experience less of a price increase than that if they were in exchange for a multiyear commitment, and we've done that every year as well. So we did do a price increase. And I would say, weighted average with the number of contracts we have that are multiyear now, weighted average, we probably pick up 3%-ish or so from price increases. And then there are some that will pay 10% more, especially new clients this year, we did take the prices up.

Alexander Paris^ Got you. And maybe a little update on the Impact Platform. I know you tested it throughout last year and you launched it in North America in October. How -- what are the early indications from clients on that transition?

Paul Walker^ Yes. Great question. Jen Colosimo, do you want to -- you're in the middle of that one every day? Do you want to talk about how our clients are feeling about the Impact Platform?

Jennifer Colosimo^ Of course. Thanks, Alex. Just as we saw during the limited launch and during our pilot phases, what clients are most impressed with is their ability to scale, the administration being taken all into the Impact Platform, they're able to really roll out, which is a big challenge for limited departments, learning and development departments that have maybe less staff for the way we can actually scale so much of this in a differential way, which has been a challenge they've been facing for decades.

And so we are having tremendous conversations of clients converting taking cohorts through it, doing the one-on-one coaching, we're seeing great success with the technology we've rolled out.

Alexander Paris^ Great. And what are the next steps then? I think you also said in the last conference call over the coming months, we'll roll it out to the other countries and other languages and things like that. Where are we in that process?

Jennifer Colosimo^ Our global rollout has begun with our English-speaking direct offices, meaning the U.K. and Ireland and Australia, have started the global rollout. And as we take the platform into a variety of other languages, we're anticipating an April rollout globally.

Alexander Paris^ Great. And then my last question, I'll give other people a chance, is capital allocation. A full cash flow statement is not provided in the press release. Wondering if you repurchased any shares in the first quarter. How many share -- what is remaining on the outstanding current authorization?

And what are your plans for capital allocation in general, share repurchases, dividend consideration, both regular dividend and perhaps special dividend, I think people have talked about?

Stephen Young^ Alex, we had about 800,000 buyback in the quarter, and that was related to the net exercise of long-term incentive plan shares. Our philosophy related to capital allocation is similar to what it's been. We're always looking at opportunistically buying back shares.

We periodically talk about dividend, even though we're not in a position right now of pursuing that avenue. We also look at things related to acquisitions that we have talked about. So basically, we're looking at all of those all the time. Again, acquisitions, opportunistically buying back shares. Maybe someday doing a dividend.

And then we don't mind having a little bit of cash on the balance sheet from time to time. So we have about \$20 million remaining on our authorization. And we talk about considering all of those capital allocation uses without making commitments because we're looking at those all time and opportunistically buying back shares. But I think I can say we will periodically be in the market buying back shares.

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

Nehal Chokshi^ All right. Congrats on a strong quarter here. Steve, how much of an incremental headwind or tailwind was FX to the top line during the quarter relative to what you had expected a quarter ago?

Stephen Young^ Well, it was a \$2 million impact compared to prior year. So it's 2 million top line, \$800,000 adjusted EBITDA impact. And we could see some of that coming, but that's what the impact was.

Nehal Chokshi^ What about relative to a quarter ago?

Stephen Young^ A quarter ago, let's say -- just 1 second. Our revenue impact -- hold on just a second, we'll give you an audit quality number. Two click away. I don't remember exactly what it was. \$1.4 million top line and the same \$800,000 adjusted EBITDA impact.

Nehal Chokshi^ Okay. Great. And Paul, so you mentioned that tech-related customers, and we see it in the headlines a lot of layoffs. Sound like it's impacting, but they're not canceling contracts. Are they still going through the motions of doing renewals, especially those that are laying off employees? And it's just simply you're not getting the level of expansion that you usually get. Can you just double-click there?

Paul Walker^ Yes, I'm glad you came back to that. Good question. So a couple of things. One, and that's not to say that there aren't tech companies still doing business for us. In

fact, the end of the first quarter, we closed a meaningful deal with a very, very large tech company who was very prominently in the news for laying off a lot of people.

And I think that highlights that even though you might let go 16,000 people, you still have 80,000 people left who need to be more effective, the culture needs to continue to make progress, et cetera, et cetera.

So my point there was, yes, so clients are still -- we're still experiencing very nice renewal and retention rates like we have even in this environment. We had a nice new logo quarter in the first quarter. People are still coming to our marketing events, as I said. I was just more trying to highlight that it's a bit spotty out there, and we do see some of those headwinds, and they show up a little bit more in some places in the economies than others, and there are other industries where we're talking about very large expansions right now.

There's even a couple of tech companies were talking about large expansions because, again, they're recognizing that business doesn't end because we're facing headwinds. We still have to figure out how to get these important things done even in this environment.

Something Alex said earlier, too, just to double-click back on that, this is different for us. We had the subscription business model now, and we're much more entrenched with our clients, generally speaking, than we were pre-subscription, and we continue to see that be the case today.

Nehal Chokshi^ Okay. Great. And then service rates continue to attach -- the service attach rates to All Access Pass continue to go up in this quarter as it has been for since the beginning of the pandemic. Can you just -- since we're basically 3 years into that trend, go over reasons why this continues to increase?

Paul Walker^ Yes. We had a really big subscription quarter in Q1, as you mentioned. I think a couple of factors that are driving this. One, we talk about the nature of the problems that are helping our clients solve. And by definition, these are the complex, thorny -- you could -- we'll use the word intractable problems. They've had them forever, and they're not easy to solve and therefore, the idea that they're going to be able to solve them without help that they recognize that they can get further faster with experts.

And we represent those experts, at least in the topics that we focus on. And so it's very attractive to bring our people and particularly when we're working with more senior leaders in an organization, handling topics like strategy execution, sales performance, working on the level of trust that exists among senior leaders and organizations. It's natural to have somebody come in from the outside and helps facilitate through those topics.

So one driver of those All Access Pass subscription services and our Leader in Me services is that just the nature of the problems we're on lend themselves to let's get somebody here to help us versus let's have everybody sit at their computer and just kind

of work on stuff on their own, right? You need to bring people together, and it's nice to have an expert come in the room and help.

The second thing that is driving services growth over the next few years, I think in this is that -- in some ways, we're the beneficiaries a little bit of what happened during the pandemic. Pre-pandemic, we have the ability to deliver all of -- almost all of our content live online like we do today. Back then, we pioneered the use of Adobe's product, Adobe Connect.

We put a new skin on it, and we adapted all of our content for that. This was going back. We've had this capability for like 10 years, and nobody wanted it. I'd say nobody wanted it, but 2% or 3% of our delivery was that way. And the other 97% or 98% was still people wanting to get together in a room with a facilitator.

The pandemic hit and that was not possible any longer to get together in a room. And so we had that capability to convene people on Zoom or Microsoft Teams or Webex or whatever technology you want. And there wasn't an immediate pickup. In fact, if you track our results or a couple of quarters there, where our revenues declined largely because it was during that transition period where clients were trying to get comfortable with that, live online as a viable delivery modality. Well, they did, and we were there ready with that capability.

And so today, we're dual threat. We're happy to come in and work with an intact team in person around the conference room table or in a conference room, and we're equally happy to get on Zoom and do this in 90-minute chunks.

It turns out the 90-minute chunk spread out over time, 3 or 4 of those cobbled together over a few weeks, provides a really nice segmented spaced approach for learning to happen, and it actually is better for behavior change. And so what's driven the services growth the last 3 years, I think, is the nature of the problems and the fact that live online is a great way for the stuff that we do to be delivered. The impact is still very high.

The Net Promoter Scores are very high. And it's -- because it's denoted in 90-minute chunks, it's easier for clients to slot them into the seams of the work week or the workday. You don't have to think about gearing up for, "Let's go have an off-site." Everybody is going to leave for 2 days, have to come back and get caught up on work instead, "Hey, you need to be on from 1:00 to 2:30 every Wednesday for a few weeks, and we're going to work on this together.

And so I think we're benefiting from some of the larger macro trends and changes, people becoming more comfortable with technology and the fact that we have had this great capability for a long time, and now we get to use it.

Nehal Chokshi^ Okay. Great. And then given the robust results for the November quarter, especially the 23% year-over-year increase in value of contracts signed for the November quarter, it seems to validate the thesis that Franklin Covey revenue will be

resilient through a recession. And then your anecdotal points about renewals despite layoffs, that all seems to line up really well. So why no go to guidance raise basically?

Paul Walker^ Why not address guidance range? Yes. It's -- we've had a policy for a long time that coming out of the first quarter, we just don't do that. Our fourth quarter tends to be -- well, it doesn't tend to be.

It's very large. It's when a lot happens in education, a lot of things come in there, a lot of our adjusted EBITDA for the year happens late in the year. And so our pattern has been to address guidance at the end of Q2 when we get a little bit closer to the back half of the year. And we intend to look at guidance again and address it in our Q2 call.

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

David Storms^ Congrats on a strong quarter. Just wondering if there's any catalyst for a turnaround that you all are keeping an eye out for in China, Japan, just looking to -- wonder when that might turn around.

Paul Walker^ We are, too. So sorry, not to be -- don't mean to be joke about that. But -- so I think there are two different situations going on in China and Japan. First, I'll start with Japan. Japan is -- COVID has -- like it has, largely in other places in the world, kind of run its course, come and gone. And what we're dealing with in Japan is just slower than maybe even we would have expected return to normalcy there and expect that it will get back to where it was, but it's going to be a slower climb back there than it has been in other parts of the world.

What is a positive thing that may not be -- it might not pick up immediately on in Japan, though is as -- so we -- when we launched the All Access Pass 7 years ago in our English-speaking operations, we did not launch right away in China or Japan. Part of that was for language reasons and there were some other reasons as well. And so they were later to the game.

As Japan's business have gone through COVID, coming back out the other side, the team there is now selling substantially all of their business is being converted to All Access Pass business. So that does actually mute a little bit their return because the stuff they're selling is being put out on the balance sheet, right? And so their business is rapidly becoming All Access Pass over the next couple of years.

We believe that their All Access Pass as a percentage of their overall revenues will mirror that of what we're seeing in the U.S. and our English-speaking operations around the world. And so that actually puts a little bit of an increased drag on the business as they come out of COVID.

But long term, it's a really good thing because they -- we would expect that they would enjoy the same type of growth rates and retention rates and things like that, that we have in other parts of the world. So that's the story on Japan. It will come back. It is coming

back and it's being muted a bit because as it comes back, it's being converted to subscription.

China is a different deal. China went into COVID first 3 years ago, we all know that. They got COVID -- because of their no COVID policy, they got COVID back under control pretty quickly. And our business, which was hit hard early on, came roaring back and was roughly back to pre-pandemic levels a couple of years ago. China went back into COVID 15 or 18 months ago or so, and we've been dealing with that bumpiness and choppiness.

It's doubly difficult there right now, as you've probably seen in the headlines, as they've gone away from the no COVID policy and they basically have chosen to just let COVID kind of do its thing, significant numbers of people are contracting COVID. At one point, our entire office in Beijing had COVID at the same time and without recovering from that. And so that's happening all over the country right now. The death rate is quite high.

And so that, I think, you asked about when -- I don't know how to predict what that will look like, but I think it seems logical that, that will run its course over the next some number of months here, and then China ought to get back to some normalcy.

And what we have to point to there is when they had a handle on COVID, the first time around, our business rebounded quite quickly and with back up to pre-pandemic levels within just a couple of quarters. So I don't know if that will be the pattern this time, but China and Japan are two different places. We do expect that they'll continue to return. I think China will be hard for a good part of this year, and we've tried to account for that in our expectations. But I think China will be slow this year.

David Storms^ That's very helpful. If I could sneak one more in. You mentioned, on Slide 14, kind of the transition that a subscription client has gone from roughly \$40,000 a year to \$77,000 a year. Can you go into a little more detail of what that transformation looks like and specifically what gross margins look like for our client as they go from their first year to second and third year in the contract?

Paul Walker^ Yes. So great question. So as we mentioned, the -- typically, a client -- that \$40,000 of first year spend is comprised of what they spend for the All Access Pass subscription itself and then what they spend on the subscription services, the training, the facilitation, the coaching that we do.

And so in rough terms, it's about \$27,000 of that first year spend is on the subscription itself for some defined population. They're buying a seat, a number of All Access Pass seats and the average amount totals to about \$27,000, and then roughly another \$13,000 in that first year of those subscription services we talk about.

And then what happens is, is they're now a client of ours and they get access to -- not only do they maintain access to their original client partner that sold the pass, but they

now have access to a role that we call implementation strategists. And that team together is now working to look for opportunities to expand that client relationship.

And what you're seeing between the \$40,000 first year spend and the average spend of \$77,000 is just simply that -- as those clients stay with us and mature, we're expanding to additional populations and then selling additional services as well. And all along the way, the blended gross margin on that business, the subscription and the services is roughly 85%.

So it's a function of these -- of our land and expand model. And the good thing about our model, I think it's a good thing is that even in landing, we're landing a fairly sizable chunk. Where others land, it's a credit card swipe for a couple of people, right, for a technology purchase and then you're hoping to expand usage of something from a couple of people to something larger. We're landing much more significant initial populations than expanding from there.

Operator^ And I'm not showing any further questions in the queue. I'd like to turn it back over to Paul for any closing remarks.

Paul Walker^ Thank you, Victor. Well, again, happy new year, everyone. Thanks for joining us today. We appreciate your continued interest in the company and for working to understand our story as well as you do, and we're grateful to have been able to spend some time with you today. We're pleased with the results in Q1 and look forward to talking to you again towards the end of March. Have a good rest of your day.

Operator^ That concludes today's conference call. Thank you for participating. You may now disconnect. Everyone, have a great day.