Franklin Covey Co.(Q2 2026 Earnings)

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Corporate Speakers:

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

Participants:

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

PRESENTATION

Operator^ Good day, thank you for standing by. Welcome to the Second Quarter 2026 FranklinCovey Earnings Conference Call. (Operator Instructions) Please be advised that today's call is being recorded. I would now like to hand it over to our first speaker, Boyd Roberts, Head of Investor Relations. Please go ahead.

Boyd Roberts^ Good afternoon, everyone, and thank you for joining us today on FranklinCovey's Second Quarter 2026 Earnings Call. We appreciate having the opportunity to connect with you.

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

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

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

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

We're pleased with our results in Q2. Revenue and adjusted EBITDA grew year-over-year, met our expectations and were above consensus.

As we've shared previously, fiscal 2026 is a year of execution and a return to growth, and we're encouraged by the continued progress and momentum we saw in the second quarter and throughout the first half of the year.

Invoiced amounts in the quarter grew 5%, driven by 7% growth in Enterprise North America, or 10% when excluding our government business, which was impacted by the disruption caused by a reduction in federal spending. Invoiced growth overall was also driven by 7% growth in Enterprise international.

We expect invoice growth to remain strong through the balance of the year. Because a significant portion of invoice growth is recognized over time, this positions us for accelerating reported revenue, adjusted EBITDA and cash flow in fiscal 2027.

In Enterprise North America, growth was broad-based. We saw strong sales of subscription and services to new logos, continued strong retention and meaningful client expansion, resulting in one of our highest revenue retention levels in recent periods.

Services bookings also continue to be strong and are up 9% for the year as of this week, reinforcing the importance clients place on the business outcomes we help them achieve.

In addition, deferred subscription revenue grew 16% year-over-year, and the percentage of revenue under multi-year contracts increased to 62%, reflecting both client confidence and the long-term nature of our partnerships.

In an environment where leaders are working to accelerate results, while navigating uncertainty and disruption, FranklinCovey continues to be sought out as a key partner in addressing the human side of strategy, execution, change management, including related to clients' implementation of AI, and achieving measurable performance transformation. We expect the momentum we've experienced in the first half to continue to be strong through the second half of the fiscal year.

Turning to our business outside of North America, our International business delivered strong performance, partially benefiting from foreign exchange, with invoiced amounts growing 7%, and particularly strong performance in our direct offices where invoiced amounts grew a strong 14%.

And in our Education business, reported revenue grew 16% in the quarter, driven by strong demand for Leader in Me services and materials. We feel very good about the momentum in education, and the business is positioned well for strong second half and full year performance.

Overall, we remain confident in achieving our full year revenue and adjusted EBITDA guidance, and in the strength of the foundation we're building for accelerated growth in fiscal 2027. Jesse will provide more detail on our specific segments in her remarks in a few moments.

I'm going to focus the remainder of my remarks today first on Enterprise North America, which makes up more than 50% of total company sales, and the area in which we have invested for accelerated growth.

And second, I'll talk briefly about the strategic importance of what we do, and why a growing number of organizations are partnering with FranklinCovey to drive the human side of strategy and transformation, particularly as they simultaneously leverage AI to transform.

So first, as it relates to Enterprise North America. Enterprise North America, which represents more than half of our total revenue, is at an important inflection point. The growth we're seeing reflects both the increasing strategic importance of what we do for our clients and the traction from the go-to-market transformation we implemented last year.

We're now seeing clear evidence that these investments are driving stronger new client acquisition, deeper client relationships, and greater expansion within key accounts. Key results embedded in the second quarter's overall 7% increase in invoiced amounts in Enterprise North America include the following.

First, we had strong sales to new clients or to new logos, reflecting a combination of both subscription sales and services. Second, our balance of deferred subscription revenue grew a very strong 16% year-over-year to $59 million, building on the 8% growth in deferred subscription revenue last quarter.

Third, we again had a strong logo or client retention quarter. Fourth, we achieved strong existing client expansion, where expansion drove one of the highest overall revenue retention percentages we've achieved. Fifth, the percentage of our revenue, which is contracted for multi-year periods, increased to 62%.

With our sales engine accelerating as planned, I'd like to focus the remainder of my remarks on the strategic importance of what we do and the growing need organizations have for a partner who can help them unleash their organizations to achieve breakthrough results, and why we believe our position is strengthened in the current environment.

Artificial intelligence is creating extraordinary new possibilities for organizations. Before addressing that directly, it's helpful to step back and consider a broader pattern we've seen over time.

FranklinCovey has been a trusted partner to leaders and organizations through multiple periods of significant disruption, from the digitization of business processes to the global financial crisis, to rapid shifts in how and where we work and where work gets done, like during the pandemic, in each case, one principle has remained consistent. In times of disruption and transformation, the need for strong leadership, trust, and disciplined execution increases. It doesn't decrease.

We believe AI follows this same pattern, and as a result, there are three things that are important to understand about how AI interplays with our business.

The first of these, as I noted, is that AI is actually increasing the premium on human leadership and execution. AI is accelerating change inside organizations. It has the potential to raise productivity, expand spans of control, and increase the pace and complexity of decision-making.

As routine work is automated and access to information becomes more widely distributed, the differentiators for organizations increasingly become judgment, trust, collaboration, alignment, and disciplined execution.

At the same time, we're seeing how AI has the potential to reduce the amount of routine and analytical work organizations do. We also see how AI is increasing opportunities that can result from strong leadership, high trust, winning cultures, and great execution.

The second area and the second interplay is that our model is built around behavior change and collective action tied to real, measurable performance outcomes. Our model is not about just delivering content or software digitally.

Our role is to help organizations strengthen the people side of execution, helping leaders clarify priorities, align teams, build capability, and create accountability systems that translate strategy into measurable results. For many of our clients, FranklinCovey functions as a long-term performance partner to their leadership teams and their organizations overall.

While a significant portion of our revenue is subscription-based, our model is fundamentally different from SaaS. Our subscriptions are related and related services are tied to enterprise-wide performance outcomes and long-term partnerships, not simply software usage. This positions us as a performance and advisory partner rather than a software provider.

For example, this is reflected in our work with healthcare systems, where we partner directly with chief nursing officers to strengthen leadership capability, trust, and execution across care providing teams. This drives higher employee engagement, lower nurse turnover, and improved patient satisfaction and outcomes, which also directly impacts hospital reimbursement.

This reflects the core of our model, the integrated combination of content, technology, services, and advisory applied together to drive sustained behavior change and collective action across organizations. That capability and the measurable outcomes it produces is not something AI can replicate at scale.

We also saw this in the second quarter with a large technology company that selected FranklinCovey to support the CEO's strategy to transform the organization to an AI-enabled operating model.

While the strategy is technical in nature, successful execution of this transformation shift in their business will depend heavily on strong leadership, successful change management, and high trust, fast-moving culture, all areas where we're a key partner.

This work that we're involved in is about changing collective behavior across teams and organizations, something fundamentally different from simply providing access to ideas or content.

The significant impact our engagement and solutions have is exactly what is behind the fact that even in, and perhaps, especially in times of significant change, we continue to retain a high percentage of clients, and they continue to extend both the duration and size of their contracts with us.

The third interplay with AI is that we have significant room for growth within our existing client base. Today, our solutions typically reach only a small portion of the employee population within our client organizations, generally in the range of 5% to 10%, which provides substantial room for growth over time, even in a more efficient or AI-enabled workforce.

We saw this clearly in the second quarter, where we delivered one of our strongest expansion quarters in recent periods, driven by increasing demand for enterprise-wide transformation and leadership capability. Taken together, these dynamics position us well in an AI-driven environment.

At the same time, we're continuing to evolve our solutions to incorporate AI in ways that increase the value we provide to our clients. We're embedding AI-enabled coaching and execution tools into our platforms, and we're helping organizations lead the human side of AI adoption.

We're seeing this play out directly in our business through strong client expansion, increasing multi-year commitments, and growing demand for enterprise-wide transformation engagements. These trends reinforce our conviction that, as organizations navigate increasing technological change and complexity, the need for strong leadership, trust-based cultures, and disciplined execution will continue to grow.

Stepping back from all of that, as I conclude my remarks here today, I just would say that we're pleased with the momentum we're seeing in the Enterprise North America portion of our business, and across the business as a whole.

Driven by this momentum and the expected strength in education, we believe we're well-positioned to deliver meaningful invoice growth this year, and to establish the foundation for significant growth in reported revenue, adjusted EBITDA, and cash flow in fiscal '27 and beyond. I'd now like to turn time to Jesse to share more detail on our second quarter results.

Jessica Betjemann^ Thanks, Paul, and good afternoon, everyone.

FranklinCovey continued to see strong demand for our solutions in the second quarter. And as Paul discussed, the strategic investments we've undertaken to transform our Enterprise North America go-to-market strategy are continuing to gain traction.

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

In my remarks today, I'll start by providing some details of our second quarter financial performance, then I'll turn to our balance sheet and capital allocation priorities, and finally, I will provide additional context around our reaffirmed fiscal year '26 financial guidance.

Total second quarter reported revenue was \$59.6 million. Revenue, which was in line with our expectations for the quarter, was flat to the prior year, as a 4% decline in reported revenue in the Enterprise Division was offset by a 16% improvement in the Education Division.

Foreign exchange rates had a \$0.7 million favorable impact on our consolidated revenue in the quarter. Importantly, our consolidated invoiced amounts grew by 5%, resulting in a 7% increase in deferred revenue at the end of the second quarter, establishing the foundation for accelerated growth in reported revenue in fiscal 2027. A summary of our consolidated financial results is on slide 3 in the earnings presentation.

Consolidated subscription and subscription services revenue recognized for the second quarter increased 3% to \$50.9 million. We are especially pleased that consolidated subscription and committed services invoiced amounts for the quarter was up 16% to \$39.3 million, continuing the growth we saw in the first quarter for the Enterprise North America, and now, including growth in Enterprise International.

The total value of contracts signed in the second quarter grew 8% to \$53.7 million and was led by the Enterprise Division, which raised the value of contracts signed by 12%.

The foundation for increased future growth remains solid and is evidenced by the 7% year-over-year increase in our consolidated deferred revenue balance to $101.5 million, which we recognized as reported revenue in the coming quarters.

The total amount of unbilled deferred revenue contracted for the second quarter was also strong, increasing 9% to $10.6 million, with the total balance increasing 1% over the prior year to $64.9 million, which will convert to invoiced amounts and deferred revenue in the future.

Gross margin for the second quarter was 75.9% compared to 76.7% in the prior year due to increased amortization of capitalized curriculum expenses, and a shift in mix of services delivered and products sold during the quarter.

Operating, selling, general, and administrative expenses for the second quarter were $41.2 million, which was 6% lower than the $43.7 million in the prior year, reflecting reduced associate costs, and other cost reduction efforts taken in fiscal 2025 and in the first quarter of this year.

Adjusted EBITDA for the second quarter was $4.1 million, an increase of 99% or $2 million compared to last year's second quarter, reflecting the stable revenue, gross margin, and lower SG&A expenses I just mentioned.

Foreign exchange rates had a $0.2 million favorable impact on our adjusted EBITDA in the quarter. During the second quarter, we continued to streamline our business in certain areas of our operations. We incurred $1.5 million in expense for this restructuring activity, which consisted of severance and related costs.

We realized a net loss of $2 million compared to a net loss of $1.1 million in the prior year, reflecting the $1.5 million increase in restructuring costs, a $1.3 million increase in share-based compensation expense, and a $0.5 million increase in building exit costs, which primarily consists of legal expenses. These increases were partially offset by decreased SG&A expenses.

Cash flow from operating activities for the first two quarters of fiscal '26 increased 28% to $16.4 million, reflecting the strength of second quarter operating cash flows of $16.3 million versus a negative $1.4 million of cash used in the second quarter last year.

This was driven by improved receivables collections and higher invoiced amounts. These improvements offset lower operating income and increased capitalized development costs in the second quarter of fiscal 2026 compared with the prior year.

Free cash flow for the second quarter was $13.2 million compared to a negative $3.6 million of cash used last year.

I'll turn now to a discussion of our business divisions. For the second quarter of fiscal 2026, our Enterprise Division generated 70% of the company's overall revenue, with the Education Division generating 29% of the company's revenue.

Second quarter Enterprise Division invoiced amounts grew 7% to $52 million. Second quarter Enterprise Division reported revenue was $41.6 million or 4% lower when compared to $43.6 million in the prior year.

As shown on slide 4, the North America segment invoiced amounts grew a consecutive 7% this quarter to $42.7 million, and excluding government contracts, it grew 10%.

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

Last quarter, I highlighted an important change aligned with our strategic focus on solution selling, whereby clients now may contractually commit upfront for services which will be delivered over time as a bundled content and predefined services together.

In the second quarter, approximately $3.5 million in invoiced amounts was for such contractually committed predefined services.

And while we continue to recognize the revenue upon delivery, because these services have been contractually committed upfront, any unused days are guaranteed and will be recognized at the end of the contract term.

On slide 10 in the appendix to our earnings presentation, our roll-forward analysis of deferred revenue includes both subscription and committed services amounts, and the timing for revenue recognition for committed services will depend on the delivery schedule of our clients.

The North America segment's reported revenue of $32.5 million accounted for 78% of our Enterprise Division sales in the second quarter of fiscal '26, and was 6% or $2 million lower than prior year, primarily due to lower subscription revenue recognized as a result of a lower invoiced amounts and deferred revenues last fiscal year.

Adjusted EBITDA for the North America segment increased $1.1 million to $5.9 million for the second quarter of fiscal '26 compared to $4.8 million last year, primarily due to lower SG&A costs resulting from the restructuring activities in recent quarters.

Our balance of billed deferred revenue in North America was $59.3 million at the end of the second quarter, an increase of 16% from the prior year, and unbilled deferred revenue was $61.1 million, an increase of 3% from the prior year.

Importantly, the number of North America's All Access Passes contracted for multi-year periods increased to 59% in the second quarter compared to 55% last year, and the contracted amounts represented by multi-year contracts increased to 62% compared to 61% in the prior year.

As shown on slide 5, second quarter revenue from our Enterprise International segment, which is the combination of our international licensee revenue and our international direct office revenue, was $9.2 million. This accounts for 22% of our total Enterprise Division revenue and represented a 1% increase over the prior year of $9 million.

International direct office revenue, which accounts for approximately 70% of total international revenue, increased 7%, driven primarily by improved year-over-year revenues in France and China due to a foreign exchange currency benefit, while international licensee revenue, which accounts for approximately 30% of total international revenue, decreased 10% from the prior year.

Invoiced amounts for international direct offices grew 14% year-over-year, and while 6 points of this growth is due to foreign exchange, we are encouraged by the overall growth trend this quarter.

Adjusted EBITDA in the second quarter of fiscal 2026 for the International segment was $1 million compared with $0.5 million in the prior year, driven by increased revenue and lower operating costs, including lower bad debt expense compared with the prior year.

Now, turning to our Education Division. As shown on slide 6, revenue in the second quarter increased 16% to $17.5 million. This primarily reflects increased training and coaching revenue from the delivery of more than 300 additional training and coaching days compared to last year, as well as, additional -- as well as, an additional symposium event and increased purchases of classroom and training materials by schools.

Invoiced amounts in the second quarter of fiscal '26 of $8.5 million decreased slightly from the $8.6 million generated in the prior year, partially due to the timing of a large statewide deal whose revenue began in the first quarter of fiscal 2025, but which is expected to fall into this year's third and fourth quarters.

Education subscription-related revenue increased 19% in the second quarter to $12 million compared to $10.1 million in the prior year. Adjusted EBITDA for the Education Division in the second quarter was $0.4 million compared to a loss of $0.3 million in the prior year due to increased revenue.

Education's balance of billed deferred revenue decreased 4% to $36.1 million, as a result of the strong increase in the number of days associated with the Leader in Me subscriptions that were delivered in the quarter.

We currently expect Education to have a strong year in fiscal 2026, with a pattern of large invoiced amounts and recognized revenue to come in the back half of the year, and especially in the fourth quarter.

I would like to now spend a few minutes discussing our balance sheet and capital allocation priorities. We continue to pursue a balanced capital allocation strategy focused on three primary areas that are aligned with our strategic goals.

First, maintaining adequate liquidity and flexibility. Our total liquidity remains strong at over $76 million at the end of the second quarter, with $13.7 million cash on hand even after having repurchased $17 million of our stock, combined with the company's $62.5 million credit facility, which is fully available.

Second, investing for growth. We will continue to invest in strategic opportunities to drive improved market positioning, accelerated profitable growth and financial value, such as our continued investments in product innovation, business transformation initiatives, and opportunistic acquisitions when available.

And finally, continuing to return capital to shareholders as appropriate. In the second quarter, we purchased approximately 922,000 shares in the open market at a cost of $16.5 million, and in January '26 completed the $20 million 10b5-1 purchase plan we initiated in November of 2025.

The company also acquired approximately 25,000 shares to cover income taxes on stock-based compensation awards issued during the second quarter for a value of $0.4 million. Year-to-date, the company has purchased nearly 1.6 million shares of its stock for $28.1 million.

During the last 12 quarters, the company has used 130% of free cash flow to buy back shares. We have a $50 million share repurchase authorization from the board of directors, with $20 million remaining after the two 10b5-1 plans we had in place have now been completed.

We remain committed to being disciplined stewards of capital, while staying focused on driving long-term value creation.

Now, turning to our guidance for fiscal 2026. We continue to affirm the revenue and adjusted EBITDA guidance for the year, as shown on slide 7. Our projection reflect the positive momentum we are seeing and expecting in both the Enterprise and Education Division, balanced with a disciplined view of the risk and opportunities ahead as we continue to execute in an uncertain macro environment.

We continue to expect to achieve solid growth in invoiced amounts this year, as demonstrated by the progress in Enterprise North America and the International segments this quarter. Our revenue guidance of $265 million to $275 million is after reflecting the lower deferred revenue generated in fiscal 2025, and the conversion lag of invoiced to reported revenue in the year as a portion of the invoiced growth will go onto the balance sheet as deferred revenue.

We continue to expect fiscal '26 adjusted EBITDA in the range of $28 million to $33 million, capturing the benefit of our cost reduction efforts, including additional restructuring actions taken this quarter, while maintaining flexibility to manage through continued macro uncertainty.

We expect revenue to be slightly higher in Q4 compared to Q3, with approximately 50% to 55% of back half revenue in Q4, reflecting normal seasonality, especially in the Education Division, and the timing of delivery of client services.

For Adjusted EBITDA, we expect approximately 60% to 65% to be generated in the fourth quarter, driven by the strong contributions from the Education Division, along with expected overall margin expansion as cost savings and operating leverage billed through the back half of the year.

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

Grounded in strong client retention, expanding demand for our services, and the resilience of our business model, we remain fully committed in creating long-term value for our shareholders and clients.

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

Paul Walker^ Thank you, Jesse. That was great. And as we prepare to open the line for questions, I'll just reiterate what Jesse said in thanking our teams for their hard work. We're pleased with the momentum that we're seeing right now across the business and look forward to a great second half of our year. And with that, we'll ask the operator to open up the line for questions.

QUESTIONS AND ANSWERS

Operator^ Thank you. (Operator Instructions) Our first question will come from the line of Alex Paris from Barrington Research. Your line is open.

Paul Walker^ Hi, Alex.

Alex Paris^ Hi. Thank -- hey, thank you.

Jessica Betjemann^ Hi, Alex.

Alex Paris^ Hey, Paul. Hi, Jesse. Congrats on the better than expected results in the first quarter. Now, we have two consecutive quarters of growth in invoiced amounts in North America and Enterprise. So it's not simply a data point. We have two data points, so we can draw a line. And I think you said that you expect that to continue to be the case through the balance of the year. Is that correct?

Paul Walker^ Yes, we do.

Jessica Betjemann^ Right.

Alex Paris^ Yes. Good. And then, just one quick point of clarification, Jesse, you said that revenue slightly higher in the fourth quarter than the third quarter, 55% and 45%. Is that how we look at the second half of the year?

Jessica Betjemann^ That's right.

Alex Paris^ Yes. And adjusted EBITDA, it'll be 60 to 65 in the fourth quarter. So I guess -- what is that?

Jessica Betjemann^ Yes. A little -- a little bit more on EBITDA as we -- as we talk about our restructuring and some of the cost operating leverage will increase towards the back half of the year, but more heavily weighted towards Q4, but, then, also, because of the contributions of EBITDA from -- coming from education in Q4.

Alex Paris^ Yes, makes sense. And it's a typical seasonal pattern anyway, right?

Jessica Betjemann^ That's right. It's very similar to what we [ph] normally have.

Alex Paris^ Good. The -- next question is really a question about the macro environment, Paul. I think -- in response to a question last quarter, you sort of said it was neutral. There's some both positives and negatives. I wonder if you could just kind of freshen up that response for us.

Paul Walker^ Yes. I'd say it's largely unchanged from what we saw a quarter ago. And -- but -- and -- so neutral in the current environment, better than it was a year ago at this time. I remember we were reporting Q2 a year ago and there was quite a bit of uncertainty for lots of reasons.

And while there's still uncertainty out there, I think our clients are -- have adjusted to that, the current environment, and that feels a little more stable for us certainly now than it did a year ago, and largely unchanged from what we saw a quarter ago.

Alex Paris^ Great. And then, again, with this ramping up of invoiced amounts, we would expect growth in revenue, EBITDA, and free cash flow in fiscal 2027 and beyond. And then, to that point, I think the last time you gave longer term guidance was on the Q4 '24 conference call after making the announcement about the sales force transformation.

Obviously, with tariffs and government shutdowns and war, and that sort of thing, it kind of changed it a little bit. I'm wondering, number one, when will you update that longer term guidance? Is that potentially a fall 2026 event? And then, second, what -- answer that first, and then I have a follow-up.

Paul Walker^ Yes. Okay.

Jessica Betjemann^ Let me -- lLet me start with, in the fall -- in our Q4 calls when we're going to provide the guidance for our fiscal year 2027, we'll be going through our planning cycle in the summer. And as we work through that, we'll be updating our five-year plan at that time, and we'll make a call as to whether or not we provide some direction with the longer term.

Alex Paris^ So, obviously you'll do one for yourselves, the question is, will you share it with us this fall, right?

Jessica Betjemann^ We'll work through that, Alex.

Alex Paris^ Okay. No problem. And then -- but in the meantime, adjusted EBITDA margins in fiscal 2024 kind of peaked at 19.2%. In 2025, it is significantly lower, 10.8%. And I think based on your guidance, we're expecting a little margin expansion in 2026, and then more in 2027.

Is 20% adjusted EBITDA margin still a reasonable target that's only slightly above the fiscal 2024 level over the next several years? And will you get there by 100 or 200 basis points a year sort of thing?

Jessica Betjemann^ Yes. I mean -- so, we are planning to increase and improve our operating leverage. I think our goal is to have around a point improvement a year, and whether or not that can be accelerated or not, we'll determine that as we work through our long-term planning. But I think that is roughly what seems reasonable to me.

Paul Walker^ And we do --

Alex Paris^ Got you.

Paul Walker^ We do believe -- we do believe that that 20% that we nearly got to is still a good number out there. And all these investments were never meant to permanently reset the cost structure of the company. We were -- it was to accelerate growth and, certainly, get us back up to that level and who knows if we could ever get above that level. Maybe.

Alex Paris^ Great. All right. Well, thank you very much. And that's it for me for now. I'll get back in the queue. Thanks.

Paul Walker^ Thanks, Alex.

Operator^ Thank you. One moment for our next question. Our next question will come from the line of Jeff Martin from Roth Capital Partners. Your line is open.

Paul Walker^ Hi, Jeff.

Jeff Martin^ Hi. Good afternoon.

Jessica Betjemann^ Jeff.

Jeff Martin^ Good afternoon, Paul. Hi, Jesse. I was curious if you could go into a little bit more on the Education side of the business, had a very good quarter. What you're seeing states and districts and -- obviously, you're having some success there, so maybe an update there would be helpful.

Paul Walker^ Yes, great question. Sean is here next to me. I'll ask him to make a comment. But it was a good quarter and congratulations, Sean, on a great quarter. Go ahead and share a few thoughts.

Sean Covey^ How are you doing, Jeff? Yes. So a few things on Education. We're feeling really good about the year and where it's headed for a few reasons. We have a really good pipeline of new opportunities, probably the best we've ever had in terms of large opportunities. We have three state level opportunities. These are very large multi-million, multi-year deals. We've got large district opportunities, larger than we've had before. So that's really positive.

We've got a really strong -- really strong funding partners out there, and this is in the range of $20 million a year and help from partners that help schools get off the ground, and those partnerships remaining -- remain in place right now.

We feel good about -- we're aligned well with market needs. There's a lot of big issues right now after COVID. Getting test scores up is like the number one thing. The U.S. is still struggling with that, and we are aligned well, and we've got great data around how we can increase math and reading scores.

Teacher retention, there's a lot of teacher burnout. We're really good at that. And we've got great data that shows that we retained -- Leader in Me schools are 600% more likely to retain their teachers than non-Leader in Me schools.

And then, mental wellness continues to be a big factor, and we're well-aligned to address those issues. So, just given the pipeline we have, the large opportunities we have in place that we need to close, of course, in the third and fourth quarters, we're feeling really good about the year.

Some of the headwinds are still there. The Department of Education, there's still in some uncertainty with what the Trump administration is going to do. But, it's better than last year, much better. And so, that helps.

The ESSER funds, expired COVID relief funds are gone, so that's a factor too. And there's some declining enrollment in the public sector. They're moving to -- a lot of people -- a lot of kids are moving to charter schools, private schools, and home schools. And we're well-equipped to help with a lot of those -- I mean, to deliver on those other channels as well.

But I just feel like the tailwinds are stronger than the headwinds, especially the funding partners. The -- we've got a great reputation in the marketplace. This is how we get state deals, is we start with a single school, then a district. It goes really well, it leads to state confidence, and then they get behind us.

So, all things considered, we're feeling good about the second half of the year and where we're headed overall.

Jeff Martin^ That's great color. Thank you, Sean. Paul, could you go into detail with respect to -- I mean, invoice growth is 7%, so, obviously, a positive inflection. How does that compare with what you were thinking internally maybe? And then, what, if anything, do you see in the near future accelerating that growth from here?

Paul Walker^ Yes. Great. So -- yes, 7%. So 5% overall for the company invoice growth in Q2, which we felt -- we felt good about that, and then, as you mentioned, 7% kind of the engine pulling that as we alluded to last quarter and as we went through the transition of our sales force with Enterprise North America. So two quarters in a row at 7%. We feel good about that.

We feel that -- we'll continue to generate good invoice growth this year in the back half and for the full year at both the Enterprise Division level specifically, but also for the company. And as we mentioned, that invoice growth ahead of reported revenue growth will help us next year in generating more substantial reported revenue growth. So do feel good about the continued momentum there on the -- on the invoice growth side.

Jeff Martin^ Excellent. That's it for me. Thank you.

Paul Walker^ Okay. Thanks, Jeff.

Operator^ Thank you. One moment for our next question. Our next question will come from the line of Nehal Chokshi from Northland Capital Markets. Your line is open.

Paul Walker^ Hi, Nehal.

Andrej Jonovic^ Nehal.

Nehal Chokshi^ Hello. Congratulations on this really strong free cash flow. And just a comment here real quickly before I get into my question.

But, with more than free cash flow deployed in share buybacks, and given FranklinCovey shares are trading at basically 6x free cash flow for its fiscal year 2024 free cash flow, really happy to see the bold move to aggressively buy back shares at this incredibly attractive valuation. So, just to -- an applaud of that.

Now, I do have some questions. Excluding government, invoice value is up 10% year-over-year on Enterprise North America. It's a really nice core number that I like to focus on. Can you help break up that invoice value growth between, say, new customers and existing customers?

Jessica Betjemann^ We do. I mean, we have not been disclosing that level of detail, Nehal. But we did have -- I mean, overall, the new customers in North America, combined, we had very strong performance this quarter that that we continue -- that we had in Q1 as well. but we don't provide the details of the invoiced amounts.

Paul Walker^ I'd maybe point you, Nehal, just to -- I agree [ph] what Jesse said, point you to two things, and I mentioned this in my -- in my remarks.

But, to Jesse's point, yes, we continue to see another good quarter with new -- with new customers, and the overall invoice growth from new customers, we're pleased with that again in Q2 after a really good quarter in Q1.

And then, with our existing customer base, we actually had quite a -- quite a strong expansion quarter. As you know, when we -- when we initiated our go-to-market transformation, there were two core bets in that move.

One was that we could win more strategic, larger new customers, and that we could move our way into the expansion opportunity that existed within our existing customers, where, on average, we're kind of 5% to 10% of the way penetrated to what we think is the addressable population inside the vast majority of our existing clients.

And in Q2, we saw a really good expansion. And so, really both sides of the house had good quarters as we think about that 7% or 10% without government overall invoice growth.

Nehal Chokshi^ Okay. Great. And presumably, you're expecting both new customers and ongoing expansion of existing customers to continue to power the year-over-year growth. It's not one -- exclusive one?

Paul Walker^ Holly Procter is here by the way too. Holly, any thoughts on that?

Holly Procter^ Hi, Nahal. Yes, we expect both the new logos to continue to grow and for us to make continued improvements on both retention and expansion. I'll call just a couple areas that we're seeing some great growth that'll contribute on both sides of the house.

The first is a specialization in healthcare. We made a big investment in the current customer base that we have around healthcare. There's real organic use cases that we can make a real impact around patient stat [ph] and nurse retention, so we've seen real lift there.

The second is a new horizon for us, but we're also starting to gain great traction, is around helping companies through their AI transformation. Both of those we think will fuel growth on both the new logo side of the house and the customer side.

Nehal Chokshi^ Got it. And then, Paul, you mentioned that, on average, 5% to 10% penetrated of the addressable opportunity. That's on a user basis within an existing customer, is that correct?

Paul Walker^ That's right. That's right. And then, there's really -- yes. And then, significant upside for us in attaching services on top of that. But, yes, that -- that's specifically referencing kind of the user base.

Nehal Chokshi^ Okay. And then, that user base that you're referencing, is that just leaders, or is that also knowledge workers, or is that the whole labor force as a given organization?

Paul Walker^ Yes. Yes, great question. So, we have a -- we have kind of a little formula, if you will, that adjusts for certain portions of populations that we don't -- aren't really well-suited to address.

So, if you get into factories and things like that, that's not exactly where we play. So, depending on the industry, so it's leaders, it's knowledge workers, and in some organizations like tech, it's -- that's almost everybody in the company.

And for other organizations that might have a massive manufacturing footprint, we may not be working with everybody all the way down to the front line, although we do quite a bit of work in manufacturing with our 4 Disciplines of Execution solution. So, yes, it's a -- it's kind of a formulaic based approach that we have. It's not the entire population of a company.

Nehal Chokshi^ Great. Okay. A couple more questions from me. So, what was the driver of this strong free cash flow, $13 million, $9 million above your $4 million adjusted EBITDA? Can you help us understand that?

Jessica Betjemann^ Yes. We had a very strong positive swing in the networking capital. So a lot of it was with regards to the collections on AR. As -- you can see in the balance sheet, the AR balance went down. So, that was a huge contributor to the improvement in our free cash flow.

And we continue to expect that our free cash flow will be -- I know last quarter we had negative free cash flow, we expect, going forward, we'll continue to have positive free cash flow and especially, be strong in Q4 when we have the strong net income and EBITDA in Q4 coming through.

Nehal Chokshi^ Okay, great. So that kind of already answered my follow-on question, but just to be clear. I think, historically, you guys have talked about free cash flow roughly matching EBITDA on a trailing 12-month or forward 12-month basis. Is that the way that we should continue to think about this, or is there some deviation from that?

Jessica Betjemann^ Well, so I'm not particularly sure the exact comment. I mean, I think that we do have -- 2025, we had lower EBITDA to free cash flow conversion. We expect our free cash flow conversion to increase over time because we're not a heavy -- capital-intensive business.

And the amount that we spend on CapEx and capitalized development is relatively steady going forward. So as our operating leverage and our EBITDA increases, we expect that to -- we should have stronger conversion over time.

Nehal Chokshi^ Okay. But you're not expecting to get back to close to 100% conversion that you were reflecting in fiscal year '24?

Jessica Betjemann^ No. I mean -- I mean, I was -- I -- no. I mean, definitely an improvement from the 42% level that we had in 2025, but it wouldn't -- it wouldn't be 100%.

Nehal Chokshi^ Okay. All right.

Jessica Betjemann^ But it'll be strong.

Nehal Chokshi^ And then --

Jessica Betjemann^ It'll be so [ph] strong.

Nehal Chokshi^ Yes, understood. Understood. And then, you talked about your fiscal year '26 guidance unchanged and the way to think about parsing out that effective next two quarters of guidance in terms of typical seasonality. Can you just remind us what is actually typical seasonality for 2Q to 3Q and 3Q to 4Q?

Jessica Betjemann^ So, what we are projecting in terms of the revenue and EBITDA for Q3 and Q4, that's basically -- that has been the normal seasonality. When you look at last year, we were -- we were pretty much in that same range of what we're expecting now as well. So it's been similar (multiple speakers) --

Nehal Chokshi^ So --

Jessica Betjemann^ Yes.

Nehal Chokshi^ Righ. So like, last year, it was about a $7 million Q2 increase from the second quarter to third quarter, and then $4 million from third quarter to fourth quarter?

Jessica Betjemann^ Yes. Last year, if you were to look at Q3 revenue, for example, it was around 49% in Q3 and EBITDA was around 38%. So, roughly within the same range of what we're saying now.

Nehal Chokshi^ Okay. All right. Thank you for taking my questions and congratulations.

Paul Walker^ Thanks, Nehal.

Operator^ Thank you. One moment for our next question. Our next question will come from the line of Dave Storms from Stonegate. Your line is open.

Paul Walker^ Hi, Dave.

Dave Storms^ Hey. How's everyone doing? Just wanted to start with maybe some commentary around the new logo sales. I know in the past, right, new logos tend to come on as either a pilot phase first or maybe a specific project that the company is looking to accomplish.

Could you maybe spend a little time talking about what you're seeing in the current marketplace, and maybe tailored to the AI trends if you're having clients come on with a specific goal in mind, or if they are maybe a little more pilot-oriented to start?

Holly Procter^ Yes. And just to make sure I understood, Dave, the question is around, how much of our new logos are pilots, and then some examples on the use cases?

Dave Storms^ Exactly. Thank you.

Holly Procter^ Perfect. Very few of our new logos are pilots. It's really hard to pilot a solution like ours. You either want to drive behavior change and make a big impact in your org or you don't. And so, we really don't see any pilots.

On the AI solution, it's a great question, there's a ton of interest around this right now. There is not an org that we're partnering with or that we're interested in partnering with that isn't trying to figure this out.

And one of the unique things about an AI transformation is it's both tops down and bottoms up. So he question earlier around, who does it touch inside the org, it touches everyone, and nobody has figured out exactly how to get this right.

And there's so much around -- the way that you deploy your leaders to navigate this type of large scale transformation that's critical to get right. So we're excited to help a lot of companies with this transformation.

Dave Storms^ That's great commentary. I really appreciate that. I also wanted to maybe spend a little bit of time. Paul, you mentioned that you had a really strong expansion quarter. And just thinking about how -- you also mentioned you had maybe two quarters of a neutral macro environment.

Can we apply that same kind of mentality to maybe a logo recapture rate? Do you have any thoughts around maybe what you're seeing in the market about clients coming back, now that the dust has settled a little bit?

Paul Walker^ Yes. I'll just make a quick point, and then ask Holly to comment on that as well. That is actually a metric we do track.

We have a mantra around here, and it's client for life. When we lose a client, we agonize over that. And so, it is actually a metric that we track internally. We don't -- we don't disclose it. But we are intent on trying to get those clients back, regardless of the reason they needed to leave or -- and so, Holly, any commentary on or thoughts about what we're seeing there or what you and the team are driving?

Holly Procter^ Yes. We absolutely see a really healthy win back rate as Paul referenced. As needs inside their organization shift, they go from trying to drive a high trust workforce to trying to prepare a workforce for AI transformation, the needs evolve over time, and there might be gaps between one deployment and the next deployment. And so, if we do a good -- a good job on the first round, we're excited to welcome them back on the second round.

And then, I think just a point on the -- on environment, one of the things I don't think we talk about enough and a structural advantage that we have is the breadth of the market that we serve. Our addressable market is enormous, not just in the company type that we pursue, but it's across segments, across buyer types, across use cases. There's virtually no company that isn't trying to solve the issues that we attach to.

And so, in a world where there's a sector that's down, we can quickly pivot to go after a sector that's up with an enormous upside for us. And so, we move very fast when the market has highs and lows.

Dave Storms^ That's great. Thank you. If I could just sneak one more, and I would love to spend a little time on the international sector. I know it's not as big for you guys, but it does seem like it's having some strong growth, even after accounting for foreign exchange.

I guess, is there anything to highlight here as to what's working? Is this just general tailwinds and you're catching it right? Maybe any thoughts there would be great.

Paul Walker^ Yes. One thought is -- just a couple thoughts. So, we are porting over into international much of the learnings and the strategies that Holly and team have been deploying inside Enterprise North America. That was always the plan. And so, we -- now that we've got Enterprise North America, the structure up and running and through that change, we're -- international has been fast followers there.

And so I think we'll continue to benefit from that. Second, in the second quarter, China didn't continue to decline for us and was actually flattish, and so that helped from a -- from a year-over-year standpoint as well. And --

Holly Procter^ Also France.

Paul Walker^ And then we brought France on as a direct office a little over a year ago and we're seeing good growth in France. We continue to see good growth from our German operation that we brought over from a licensee to a direct office a few years ago.

And so, there's some -- there's some good performance across international directs in particular in the second quarter. and we look forward to seeing, as we -- as they embrace more and more of what we've been doing in Enterprise North America, I think there'll be -- there'll be good quarters out ahead of us as well.

Dave Storms^ That's great. Thank you for the commentary and good luck on the next quarter.

Paul Walker^ Yes. Thanks, Dave.

Operator^ Thank you. And I'm not showing any further questions at this time. I would now like to turn it back over to Paul Walker for any closing remarks.

Paul Walker^ Thank you very much. Thanks, everyone, for joining us today. Thanks for your great questions, and we appreciate you and all that you do to understand our story and our -- and where we're headed as a company. We feel great about our momentum. Big thanks to the overall FranklinCovey team as well for their hard work, and we wish you a great evening. Thanks.

Operator^ Thank you for your participation in today's conference. This does conclude the program. You may now disconnect. Everyone, have a great day.