

# Investor Update

## Third Quarter Fiscal 2020



# Forward-looking Statements / Non-GAAP

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 the All Access Pass; The ability of the Company to hire productive sales professionals; General economic conditions; Competition in the Company's targeted marketplace; Market acceptance of new products 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 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.

The Securities and Exchange Commission's Regulation G applies to any public disclosure or release of material information that includes a non-GAAP financial measure. In the event of such a disclosure or release, Regulation G requires: (i) the presentation of the most directly comparable financial measure calculated and presented in accordance with GAAP and (ii) a reconciliation of the differences between the non-GAAP financial measure presented and the most directly comparable financial measure calculated and presented in accordance with GAAP. The required presentations and reconciliations are contained herein and can be found at our website at [www.franklincovey.com](http://www.franklincovey.com).

FranklinCovey uses the non-GAAP financial measure "earnings before interest, taxes, depreciation and amortization" ("EBITDA") to assess the operating results and effectiveness of the Company's ongoing training and consulting business. In addition, the Company also uses the non-GAAP financial measure "Adjusted EBITDA" as a representation of the Company's operating performance. Adjusted EBITDA is defined as pre-tax net income (loss), plus depreciation and amortization, net interest income (expense), and special charges, such as the gain on the sale of the Japan Products division in Fiscal 2010, restructuring costs, and asset impairment changes. The Company finds these non-GAAP financial measures to be useful when evaluating its operating and financial performance. These non-GAAP financial measures may not be comparable to similar measures used by other companies and should not be used as a substitute for revenue, net income (loss) or other GAAP operating measures.

# Momentum – Review of Last Quarter’s Results

## Powerful Subscription Model *Second Quarter FY2020*

Total  
Subscription and  
Related  
Revenue Grew

**22%**

All Access Pass  
and Related  
Grew

**25%**

Adjusted  
EBITDA Grew

**\$4.9M**  
YTDQ2

Cash Flow from  
Operating Activities  
Grew

**\$4.0M**  
YTDQ22

# FranklinCovey – Financial Summary

(in millions and unaudited)

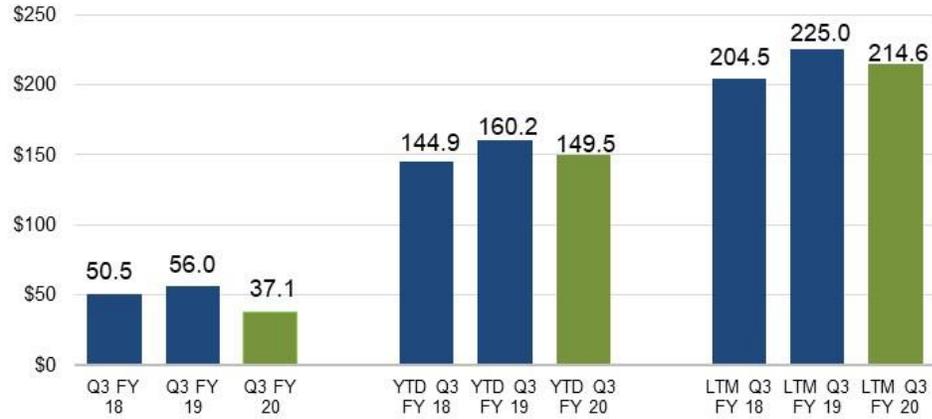
	Q3FY20	Q3FY19	Chg	%	YTDQ3 FY20	YTDQ3 FY19	Chg	%	LTM Q3FY20	LTM Q3FY19	Chg	%
<b>Sales</b>	<b>\$ 37.1</b>	<b>\$ 56.0</b>	<b>(\$18.9)</b>	<b>-33.7%</b>	<b>\$ 149.5</b>	<b>\$ 160.2</b>	<b>(\$10.7)</b>	<b>-6.7%</b>	<b>\$ 214.6</b>	<b>\$ 225.0</b>	<b>(\$10.4)</b>	<b>-4.6%</b>
Cost of Sales	10.3	16.3	(6.1)	-37.1%	41.9	48.4	(6.4)	-13.3%	59.6	65.4	(5.8)	-8.9%
<b>Gross Profit</b>	<b>26.8</b>	<b>39.7</b>	<b>(12.8)</b>	<b>-32.4%</b>	<b>107.5</b>	<b>111.8</b>	<b>(4.3)</b>	<b>-3.8%</b>	<b>155.0</b>	<b>159.6</b>	<b>(4.6)</b>	<b>-2.9%</b>
Gross Profit %	72.3%	70.8%	146	bps	71.9%	69.8%	214	bps	72.2%	70.9%	131	bps
Operating SG&A	30.5	36.6	(6.1)	-16.7%	102.1	104.6	(2.5)	-2.4%	136.2	141.0	(4.8)	-3.4%
Operating SG&A %	82.1%	65.3%	(1,677)	bps	68.3%	65.3%	(304)	bps	63.5%	62.7%	(81)	bps
<b>Adjusted EBITDA</b>	<b>(\$3.6)</b>	<b>\$ 3.1</b>	<b>(\$6.7)</b>	<b>-218.6%</b>	<b>\$ 5.4</b>	<b>\$ 7.2</b>	<b>(\$1.8)</b>	<b>-25.4%</b>	<b>\$ 18.8</b>	<b>\$ 18.6</b>	<b>\$ 0.2</b>	<b>1.2%</b>

Note: Adjusted EBITDA and Operating SG&A are non-GAAP financial measures; please see Appendix for additional information. Amounts may not total due to rounding.

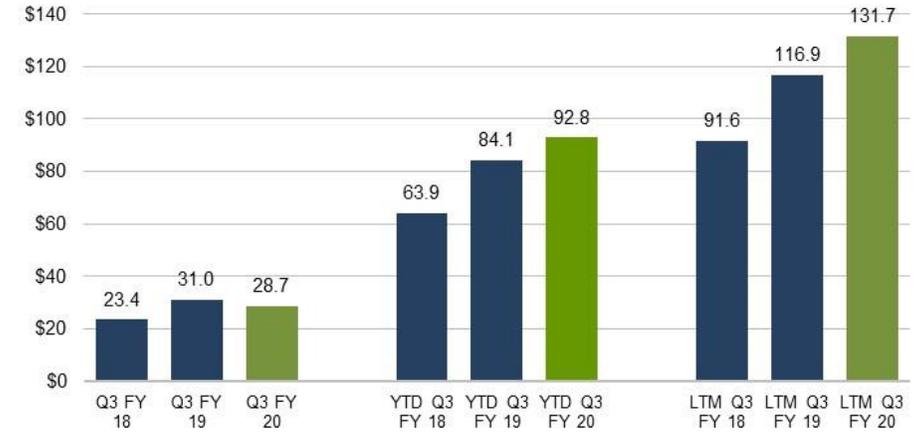
# FranklinCovey: Strong Revenue Momentum

(in millions and unaudited)

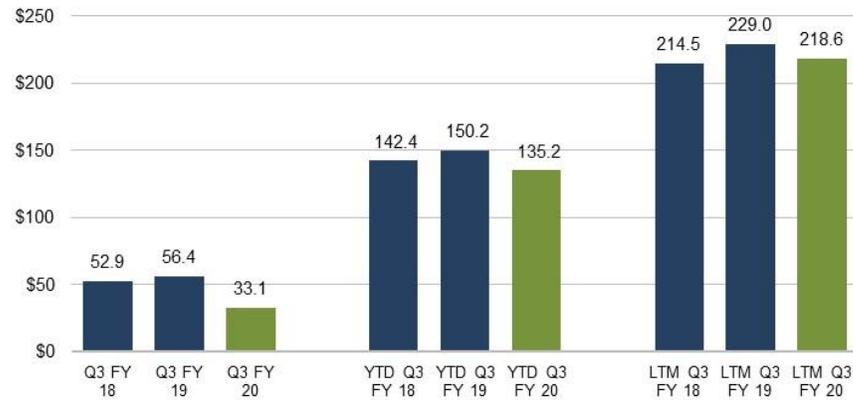
## SALES



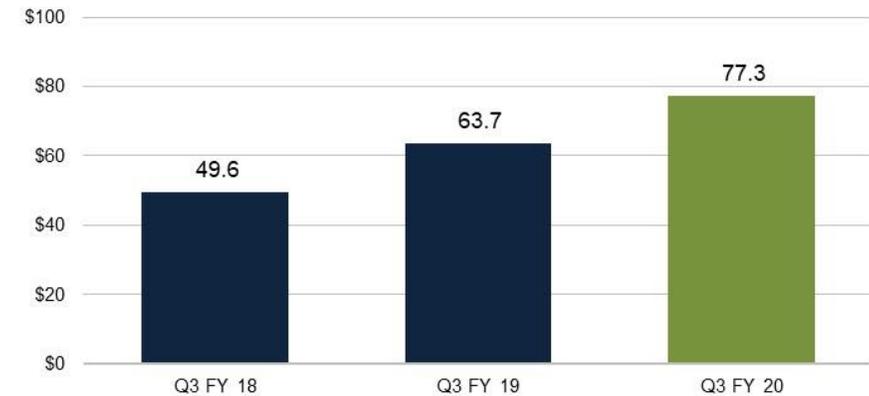
## SUBSCRIPTION AND RELATED SALES



## INVOICED



## DEFERRED & UNBILLED DEFERRED REVENUE



# Four Takeaways

1

DECLINE IN REVENUE & ADJUSTED EBITDA IN 3<sup>RD</sup> QUARTER RESULTED FROM THE NEED TO RESCHEDULE REVENUE DUE TO WORLDWIDE RESTRICTIONS

2

SUBSCRIPTION BUSINESS IS STRONG & DURABLE EVEN DURING PANDEMIC

3

STRENGTH & DURABILITY OF SUBSCRIPTION BUSINESS HAS DEEP STRATEGIC & OPERATIONAL ROOTS

4

EXPECT TO EMERGE FROM THIS PERIOD AND RESUME AGGRESSIVE MARCH UP THE MOUNTAIN

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# Performance by Geography

(in millions and unaudited)

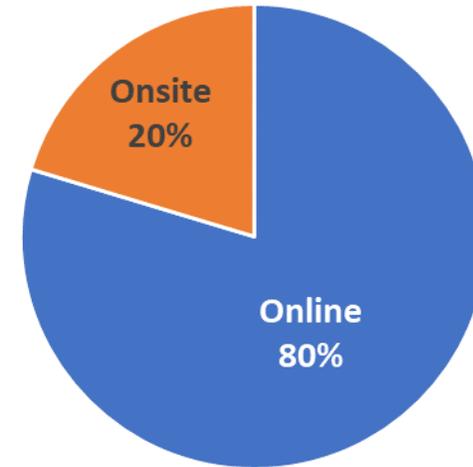
<b>Geographic Location</b>	<b>Change in Sales</b>	<b>% of Q3FY19 Enterprise Sales</b>	<b>Change in Contribution</b>
<b>U.S./Canada</b>	(5.1)	56%	(1.4)
<b>China</b>	(2.5)	7%	(1.7)
<b>Japan</b>	(2.3)	7%	(1.3)
<b>Other International Direct Offices</b>	(1.5)	0.1	(0.3)
<b>Total International Direct Offices</b>	(6.3)	22%	(3.3)
<b>International Licensees</b>	(2.3)	7%	(2.0)
<b>Other</b>	(2.2)	15%	
<b>Total</b>	(15.9)		
	<b>Change in Sales</b>		<b>Change in EBITDA</b>
<b>Total Enterprise</b>	(15.9)		(6.2)

# 1 Enterprise Booking Pace

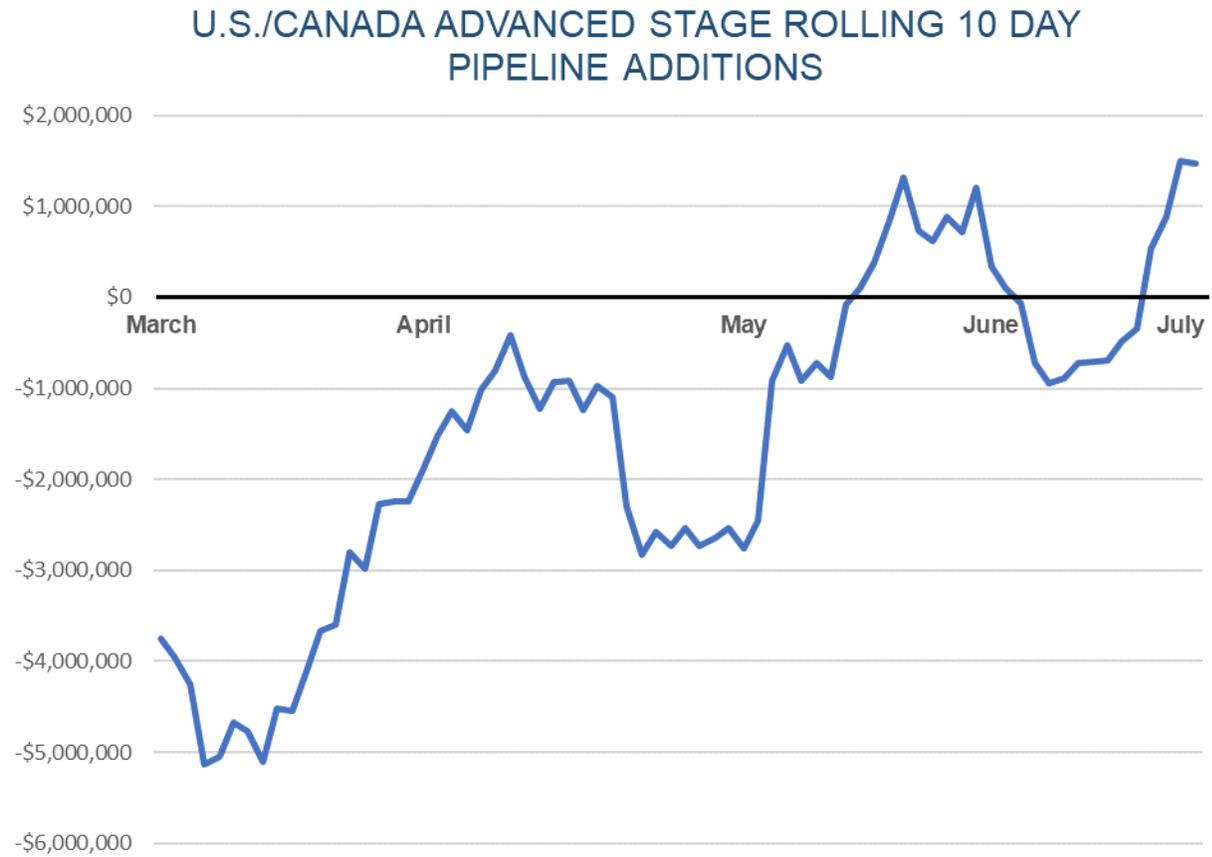
US/CANADA LAST 10 DAYS BOOKING PACE



DELIVERY METHOD OF NEW TRAINING DAYS (US/CANADA)



# 1 Enterprise Pipeline Pace



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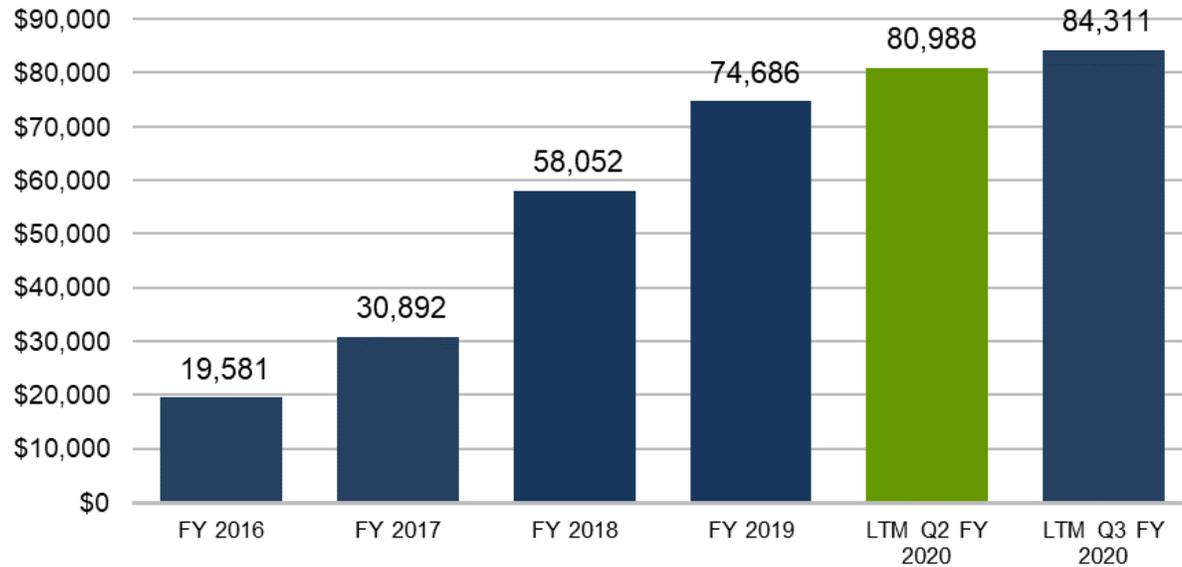
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EXPECT TO EMERGE FROM THIS PERIOD AND RESUME AGGRESSIVE MARCH UP THE MOUNTAIN

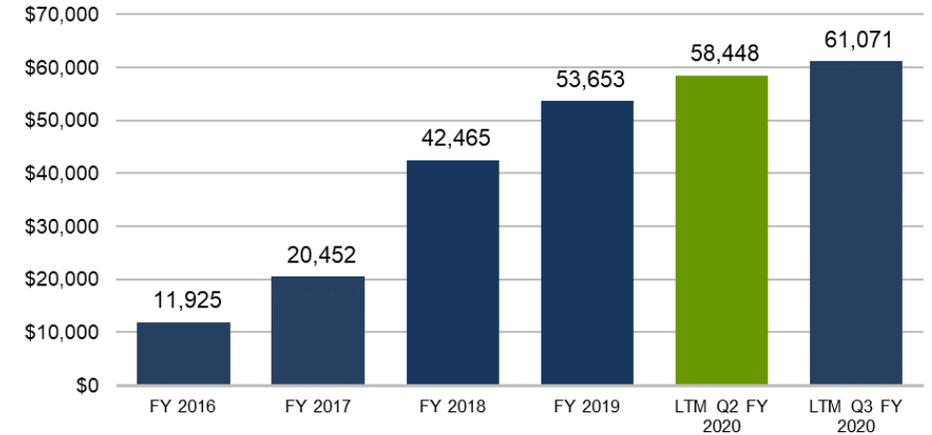
# Subscription Business Strong & Durable

(in thousands and unaudited)

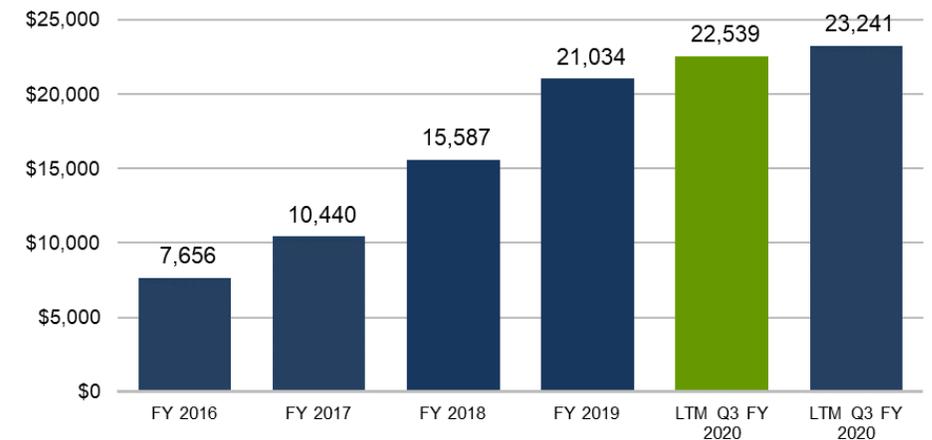
## SUBSCRIPTION REVENUE



## AAP SUBSCRIPTION REVENUE

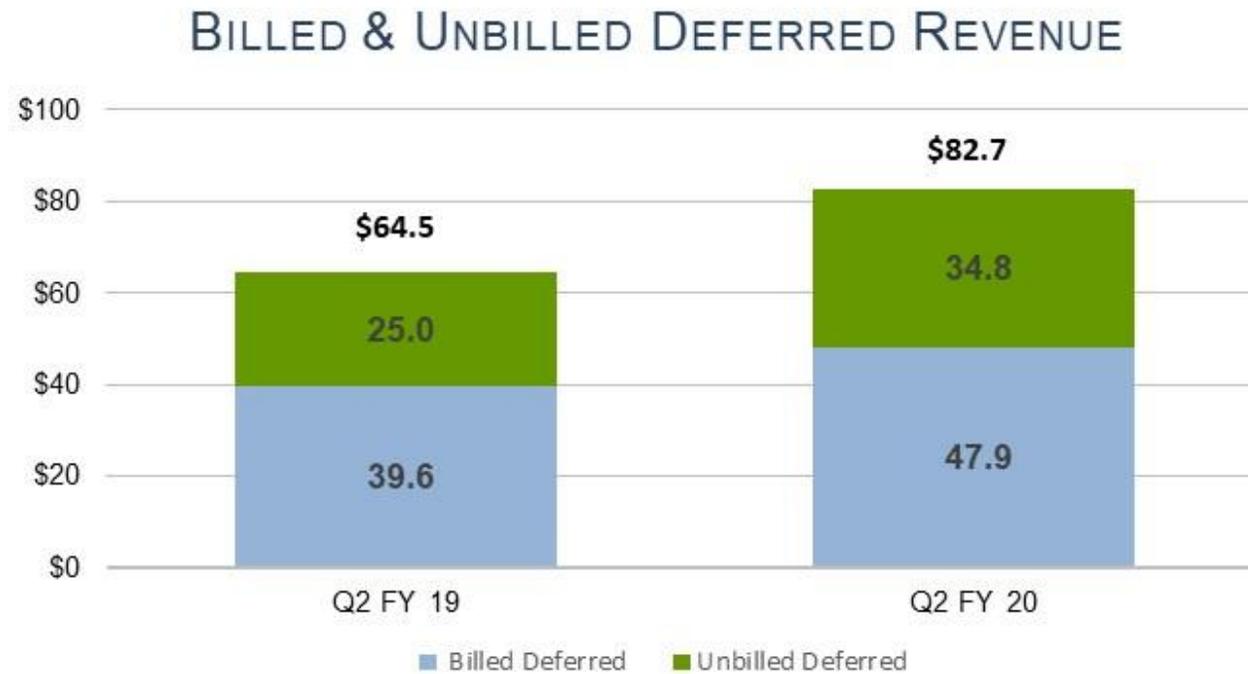


## LEADER IN ME SUBSCRIPTION REVENUE



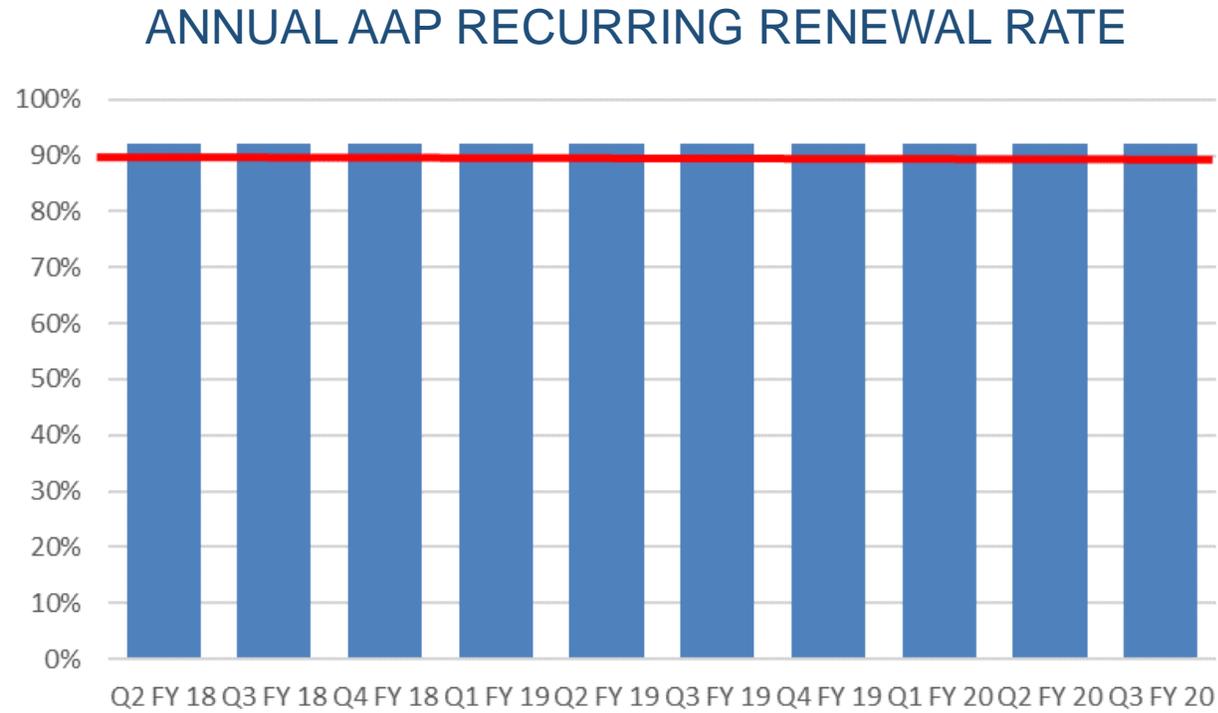
# Subscription Business Strong & Durable

(in millions and unaudited)



## 2

# Subscription Business Strong & Durable - Enterprise



## Subscription Business Strong & Durable - Enterprise

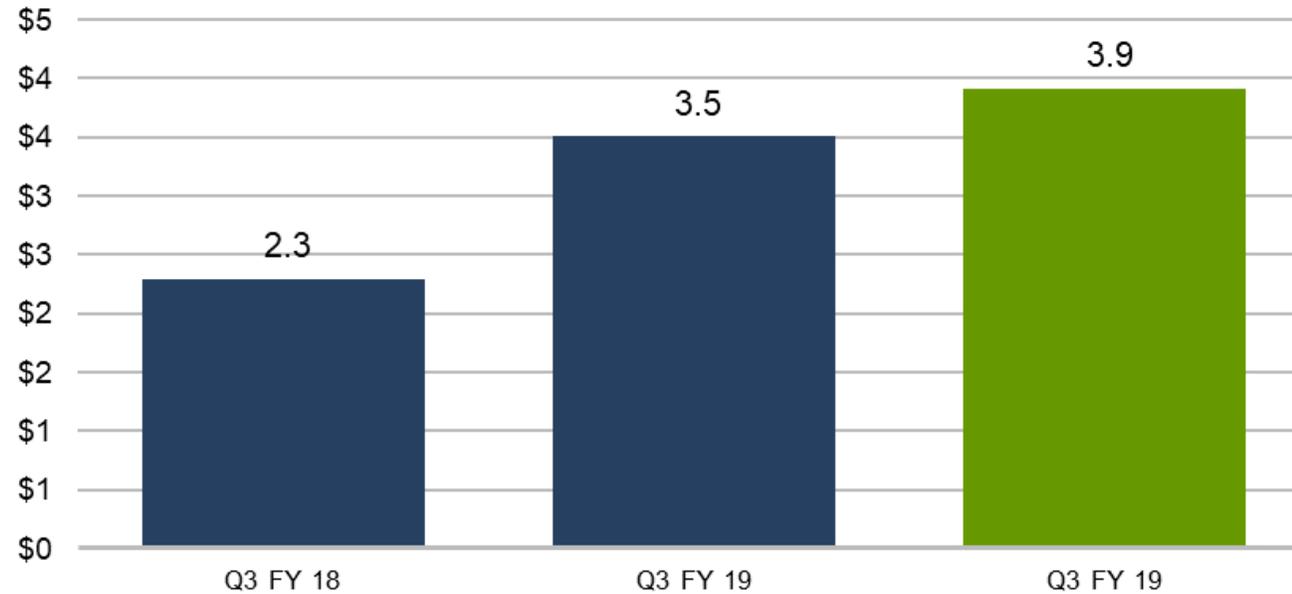
(in millions and unaudited)



# Subscription Business Strong & Durable - Enterprise

(in millions and unaudited)

## AMOUNT OF NEW AAP UNBILLED DEFERRED CONTRACTED



## Subscription Business Strong & Durable - Education

### SCHOOLS THAT RENEWED OR COMMITTED TO RENEW

	FY20	FY19	Change
4/1/2020	967	1,401	(434)
7/8/2020	1,994	2,142	(148)

2

## Subscription Business Strong & Durable - Education

### NEW SCHOOLS

	FY20	FY19	Change
4/1/2020	146	195	(49)
7/8/2020	280	433	(153)

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### 3 Strengths - Examples



Major Airline



Consulting Firm



Healthcare Company



School District

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# Appendix

# Other Information

## OTHER INCOME STATEMENT INFORMATION:

- Depreciation: \$6.4M in FY2019, expected to total approximately \$6.7M in FY2020.
- Amortization: \$5.0M in FY2019, expected to total approximately \$4.6M in FY2020.
- Net Interest and Discount: \$2.1M in FY2019, expected to total approximately \$2.7M in FY2020.
- Share-based Compensation, Impaired Assets, Restructuring, Accrued Earnout and Other: totaling \$6.6M in FY2019; Share-Based Compensation, Impaired Assets, ERP Implementation, Accrued Earnout, Acquisition Costs and Other, expected to total approximately \$4.0M in FY2020.
- Effective Tax Rate: Our normalized effective tax rate is expected to eventually be 26% to 30%, before unusual permanent book/tax differences and benefit of re-measuring deferred taxes. The actual tax rate could be a significantly different percentage, and we are not projecting an FY20 effective rate.

## OTHER INFORMATION:

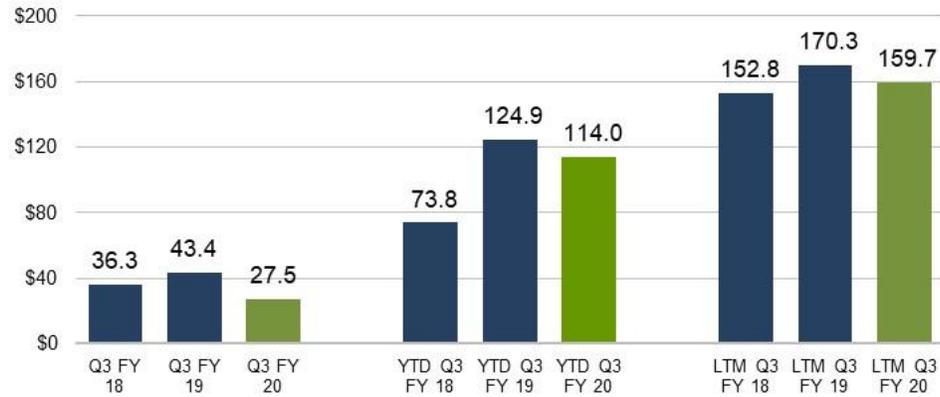
- Capital Expenditures: \$4.2M in FY2019, expected to total approximately \$4.0M to \$5.0M in FY2020.
- Capitalized Curriculum excluding acquired content: \$2.7M in FY2019, expected to total approximately \$4.5M to \$5.5M in FY2020, including localization of AAP content, AAP content development, and Education content development.
- Share Count: 13,878K shares outstanding as of June 30, 2020. The Company's share count may increase due to the vesting and exercise of share-based awards and purchases by Employees under our Employee Stock Purchase Plan, and decrease due to the company buying back shares.
- Number of salespersons: 252 on May 31, 2020.
- Impact of FX in Q3FY20: decrease to Sales \$.2M in Q3 and \$.5M TYD; decrease to Adjusted EBITDA \$.2M in Q3 and \$.4M YTD.

*All the above-mentioned estimates are subject to change, perhaps material change, based on actual events and circumstances in the year.*

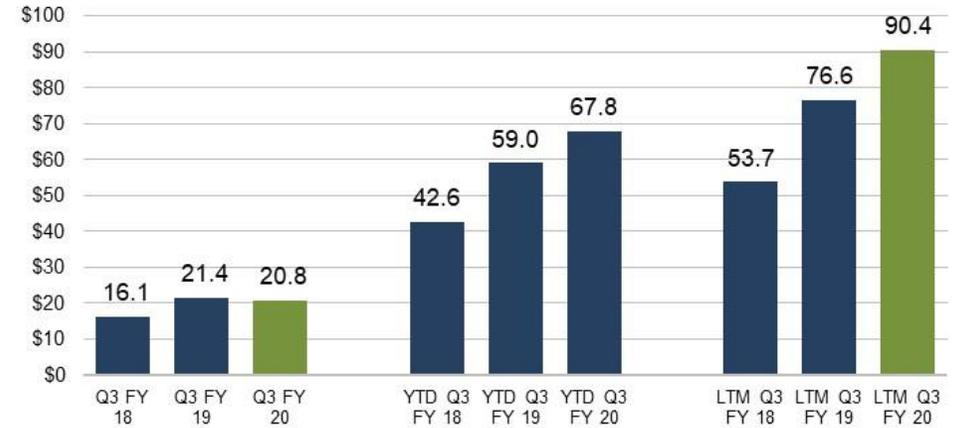
# Enterprise Division - Strong Revenue Momentum

(in millions and unaudited)

## SALES



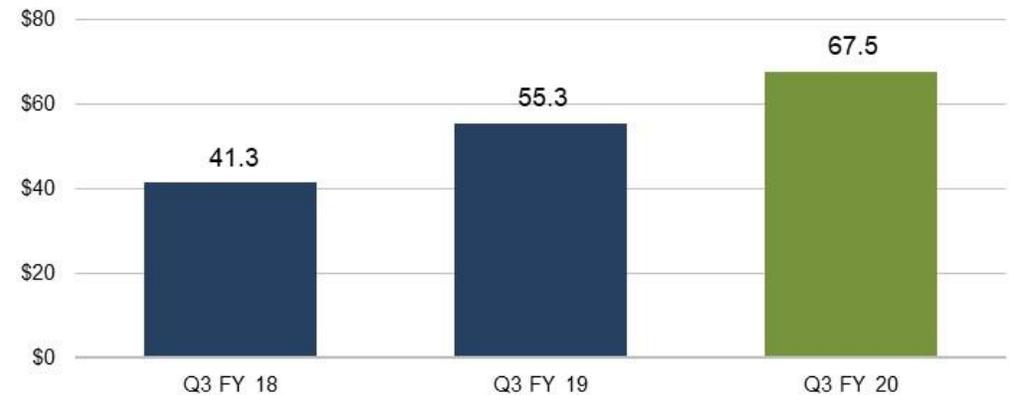
## AAP PLUS ADD-ON SALES



## INVOICED



## DEFERRED & UNBILLED DEFERRED REVENUE



# Enterprise Division - Financial Summary

(in millions and unaudited)

	Q3FY20	Q3FY19	Chg	%	YTDQ3 FY20	YTDQ3 FY19	Chg	%	LTM Q3FY20	LTM Q3FY19	Chg	%
<b>Sales</b>	<b>\$ 27.5</b>	<b>43.4</b>	<b>(\$15.9)</b>	<b>-36.7%</b>	<b>\$ 114.0</b>	<b>\$ 124.9</b>	<b>(\$10.9)</b>	<b>-8.7%</b>	<b>\$ 159.7</b>	<b>\$ 170.3</b>	<b>(\$10.5)</b>	<b>-6.2%</b>
Cost of Sales	6.0	11.1	(5.1)	-45.9%	27.0	33.2	(6.1)	-18.4%	37.6	43.9	(6.3)	-14.4%
<b>Gross Profit</b>	<b>21.4</b>	<b>32.3</b>	<b>(10.8)</b>	<b>-33.5%</b>	<b>86.9</b>	<b>91.7</b>	<b>(4.8)</b>	<b>-5.2%</b>	<b>122.2</b>	<b>126.4</b>	<b>(4.2)</b>	<b>-3.3%</b>
Gross Profit %	78.1%	74.3%	373	bps	76.3%	73.4%	282	bps	76.5%	74.2%	226	bps
Operating SG&A	21.8	26.5	(4.6)	-17.6%	73.4	76.9	(3.5)	-4.5%	98.0	103.4	(5.4)	-5.2%
Operating SG&A %	79.4%	61.0%	(1,845)	bps	64.4%	61.6%	(286)	bps	61.3%	60.7%	(64)	bps
<b>Adjusted EBITDA</b>	<b>(\$0.4)</b>	<b>\$ 5.8</b>	<b>(\$6.2)</b>	<b>-106.4%</b>	<b>\$ 13.5</b>	<b>\$ 14.8</b>	<b>(\$1.3)</b>	<b>-9.0%</b>	<b>\$ 24.2</b>	<b>\$ 23.0</b>	<b>\$ 1.2</b>	<b>5.0%</b>

Note: Adjusted EBITDA and Operating SG&A are non-GAAP financial measures; please see Appendix for additional information. Amounts may not total due to rounding.

# Enterprise Division - AAP & Related Revenue Growing Rapidly

(in millions and unaudited)

	<i>LTM Q3 FY20</i>	<i>LTM Q3 FY 19</i>	<i>LTM Q3 FY 18</i>
AAP Sales	61.1	51.4	37.4
AAP Add on Sales*	29.3	25.2	16.3
<b>Total AAP and Related</b>	<b>90.4</b>	<b>76.6</b>	<b>53.7</b>
<b>Percent of AAP and Related Sales to Total Enterprise Sales</b>	<b>57%</b>	<b>45%</b>	<b>35%</b>
Legacy Sales	40.4	56.1	64.1
International licensees	10.4	12.9	13.3
Other Sales	18.6	24.6	21.7
<b>Total Enterprise Sales</b>	<b>159.7</b>	<b>170.3</b>	<b>152.8</b>

	<i>Q3 FY20</i>	<i>Q2 FY20</i>	<i>Q1 FY20</i>	<i>Q4 FY 19</i>	<i>Q3 FY 19</i>
	16.4	15.5	14.7	14.4	13.8
	4.4	7.9	8.9	8.1	7.6
	<b>20.8</b>	<b>23.4</b>	<b>23.6</b>	<b>22.6</b>	<b>21.4</b>
	<b>76%</b>	<b>58%</b>	<b>51%</b>	<b>49%</b>	<b>49%</b>
	3.4	10.4	12.8	13.7	13.1
	0.7	2.7	3.7	3.3	3.0
	2.5	4.1	5.7	6.2	5.9
	<b>27.5</b>	<b>40.7</b>	<b>45.8</b>	<b>45.8</b>	<b>43.4</b>

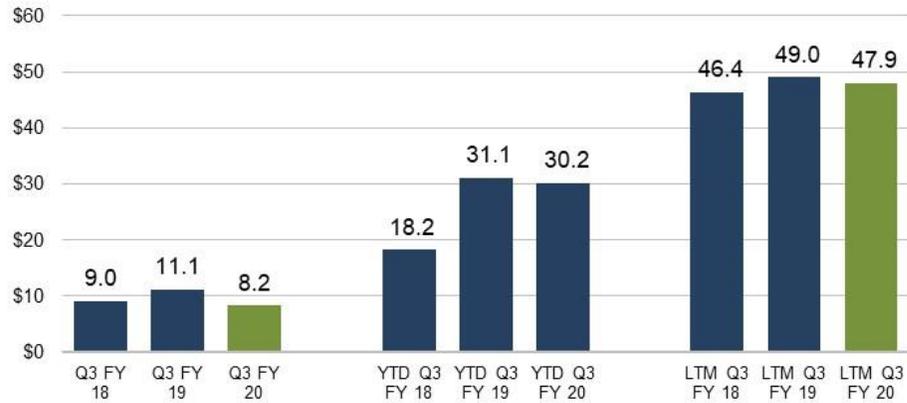
Other Sales includes China (where AAP is not being offered), book royalties and other miscellaneous revenue items.

Legacy Sales are the sales in areas where AAP is being offered that are not associated with an AAP sale. If a historical Legacy client purchases an AAP, all future facilitator materials or consulting sales from that client are considered to be AAP related.

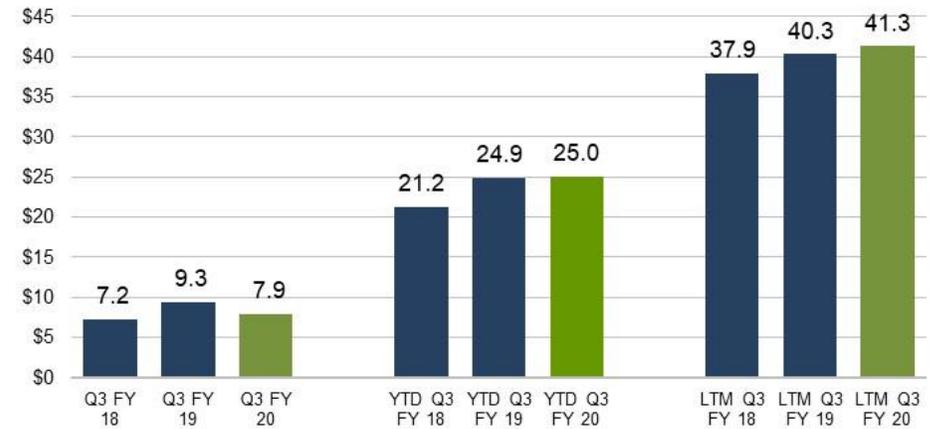
# Education Division - Strong Revenue Momentum

(in millions and unaudited)

## SALES



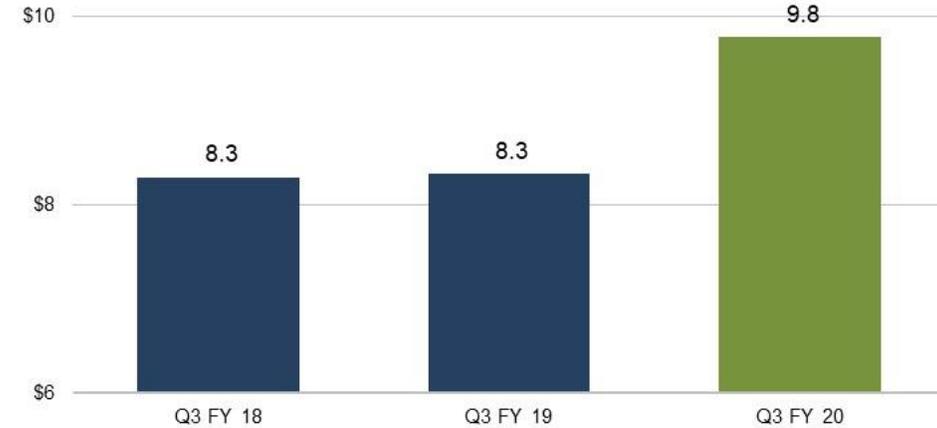
## EDUCATION (LIM) SUBSCRIPTION PLUS ADD-ON SALES



## INVOICED



## DEFERRED & UNBILLED DEFERRED REVENUE



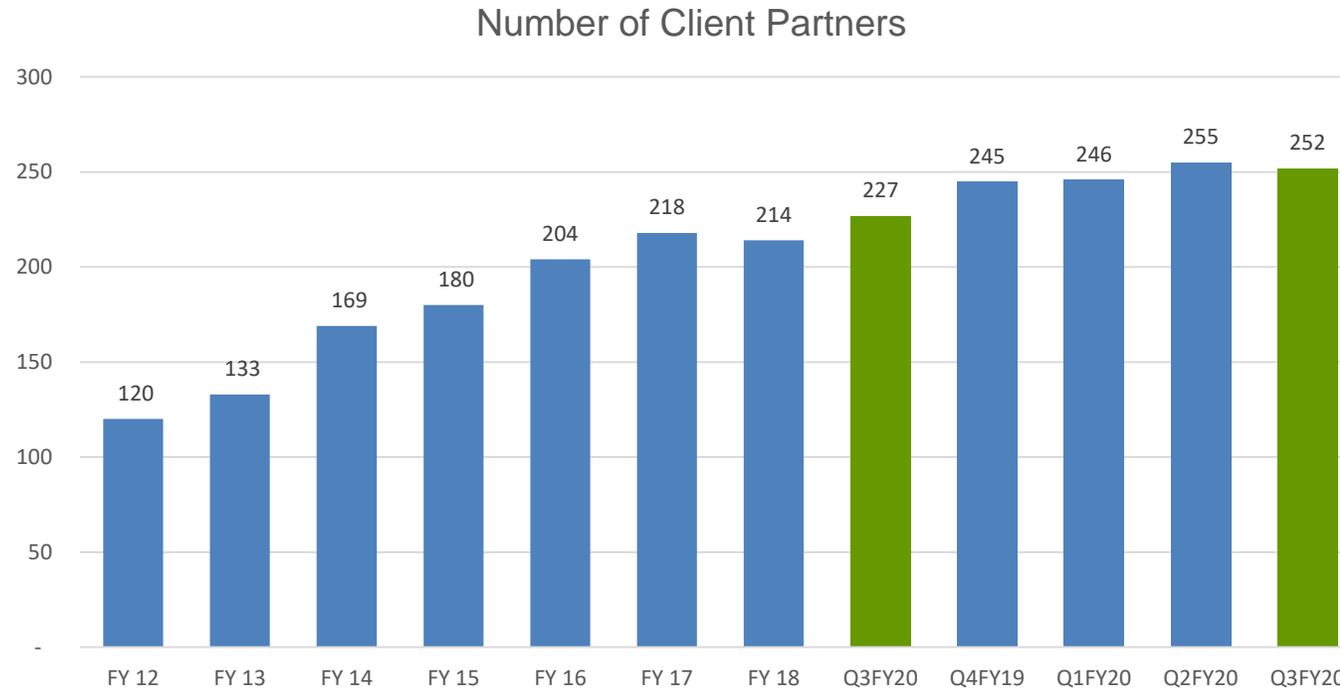
# Education Division - Financial Summary

(in millions and unaudited)

	Q3FY20	Q3FY19	Chg	%	YTDQ3 FY20	YTDQ3 FY19	Chg	%	LTM Q3FY20	LTM Q3FY19	Chg	%
<b>Sales</b>	<b>\$ 8.2</b>	<b>\$ 11.1</b>	<b>(\$2.9)</b>	<b>-25.9%</b>	<b>\$ 30.2</b>	<b>\$ 31.1</b>	<b>(\$0.9)</b>	<b>-3.0%</b>	<b>\$ 47.9</b>	<b>\$ 49.0</b>	<b>(\$1.0)</b>	<b>-2.1%</b>
Cost of Sales	3.5	4.2	(0.7)	-17.4%	12.4	12.5	(0.1)	-0.8%	18.4	17.8	0.6	3.6%
<b>Gross Profit</b>	<b>4.7</b>	<b>6.8</b>	<b>(2.1)</b>	<b>-31.2%</b>	<b>17.8</b>	<b>18.7</b>	<b>(0.8)</b>	<b>-4.5%</b>	<b>29.5</b>	<b>31.2</b>	<b>(1.7)</b>	<b>-5.4%</b>
Gross Profit %	57.3%	61.7%	(441) bps		59.1%	60.0%	(91) bps		61.6%	63.8%	(214) bps	
Operating SG&A	6.2	7.0	(0.8)	-11.1%	21.5	20.0	1.5	7.5%	28.3	27.0	1.4	5.0%
Operating SG&A %	76.0%	63.4%	(1,266) bps		71.3%	64.3%	(701) bps		59.1%	55.1%	(402) bps	
<b>Adjusted EBITDA</b>	<b>(\$1.5)</b>	<b>(\$0.2)</b>	<b>(\$1.4)</b>	<b>746.9%</b>	<b>(\$3.7)</b>	<b>(\$1.4)</b>	<b>(\$2.4)</b>	<b>173.5%</b>	<b>\$ 1.2</b>	<b>\$ 4.2</b>	<b>(\$3.0)</b>	<b>-71.7%</b>

Note: Adjusted EBITDA and Operating SG&A are non-GAAP financial measures; please see Appendix for additional information. Amounts may not total due to rounding.

# Client Partners



# FranklinCovey – Contracts Signed

(in thousands and unaudited)

Third Quarter	Enterprise Division				Education Division				Corporate			Total Company			
	FY20	FY19	Change	%	FY20	FY19	Change	%	FY20	FY19	Change	FY20	FY19	Change	%
Sales	27.5	43.4	(15.9)	-36.7%	8.2	11.1	(2.9)	-25.9%	1.4	1.5	(0.1)	37.1	56.0	(18.9)	-33.7%
Change in Deferred Subscription Revenue	(4.4)	0.3	(4.7)	-1837.9%	0.4	0.1	0.3	291.4%	(0.0)	0.0	(0.0)	(4.1)	0.3	(4.4)	-1261.2%
Invoiced Amounts	23.0	43.7	(20.6)	-47.2%	8.6	11.2	(2.6)	-23.2%	1.4	1.5	(0.1)	33.1	56.4	(23.3)	-41.3%
Change in Unbilled Deferred Revenue	(2.2)	(0.4)	(1.8)		0.8	(0.8)	1.7		(0.0)	0.0	(0.0)	(1.4)	(1.2)	(0.1)	
Total Contracts Signed	20.9	43.3	(22.4)	-51.8%	9.4	10.3	(0.9)	-9.1%	1.4	1.5	(0.1)	31.7	55.1	(23.4)	-42.5%

Year to Date Third Quarter	Enterprise Division				Education Division				Corporate			Total Company			
	FY20	FY19	Change	%	FY20	FY19	Change	%	FY20	FY19	Change	FY20	FY19	Change	%
Sales	114.0	124.9	(10.9)	-8.7%	30.2	31.1	(0.9)	-3.0%	5.3	4.2	1.1	149.5	160.2	(10.7)	-6.7%
Change in Deferred Subscription Revenue	(4.0)	(0.0)	(3.9)	10771.7%	(10.3)	(9.9)	(0.4)	4.0%	(0.0)	0.0	(0.0)	(14.3)	(10.0)	(4.3)	43.4%
Invoiced Amounts	110.0	124.8	(14.8)	-11.9%	19.9	21.2	(1.3)	-6.3%	5.3	4.2	1.1	135.2	150.2	(15.1)	-10.0%
Change in Unbilled Deferred Revenue	3.3	0.3	3.0		0.2	(1.1)	1.3		(0.0)	0.0	(0.0)	3.5	(0.8)	4.3	
Total Contracts Signed	113.3	125.2	(11.8)	-9.5%	20.1	20.1	(0.1)	-0.3%	5.3	4.2	1.1	138.7	149.5	(10.8)	-7.2%

Notes:

- Please compare this information to the Segment Information footnote in Form 10-Q.
- Please refer to Definitions in the Appendix for the definition of Deferred Revenue and Unbilled Deferred Revenue.
- May not total due to rounding.

# Sales Information

(in millions and unaudited)

	FY2018					FY2019					FY2020			
	Q1	Q2	Q3	Q4	FY2018	Q1	Q2	Q3	Q4	FY2019	Q1	Q2	Q3	YTD FY 2020
<b>Sales</b>														
<b>Reported Net Sales</b>	47.9	46.5	50.5	64.8	209.8	53.8	50.4	56.0	65.2	225.4	58.6	53.7	37.1	149.5
Change in Deferred Revenue	(5.2)	0.2	2.5	13.9	11.4	(8.5)	(1.8)	0.3	18.3	8.3	(9.5)	(0.7)	(4.1)	(14.3)
<b>Invoiced Amount</b>	42.7	46.8	52.9	78.7	221.2	45.3	48.6	56.4	83.4	233.7	49.1	53.0	33.1	135.2
<b>Balance Sheet</b>														
<b>Roll-Forward of Deferred Subscription Revenue</b>														
Beginning Balance (deferred revenue)	36.4	31.4	32.1	34.5	36.4	48.4	41.4	39.6	39.9	48.4	58.2	48.7	48.0	58.2
Subscription Invoiced	7.9	13.9	17.3	30.6	69.7	9.8	15.9	19.3	37.8	82.8	11.6	20.6	18.2	50.4
Amounts Recorded to Revenue	(13.1)	(13.7)	(14.9)	(16.6)	(58.3)	(18.3)	(17.7)	(18.9)	(19.6)	(74.5)	(21.1)	(21.3)	(22.3)	(64.7)
Change in Deferred Revenue	(5.2)	0.2	2.5	13.9	11.4	(8.5)	(1.8)	0.3	18.3	8.3	(9.5)	(0.7)	(4.1)	43.9
FX, 606, and Other Changes	0.2	0.4	(0.0)	(0.0)	0.6	1.5	-	-	-	1.5	-	-	-	-
Ending Balance (Def Subscription Revenue)	31.4	32.1	34.5	48.4	48.4	41.4	39.6	39.9	58.2	58.2	48.7	48.0	43.9	43.9
<b>Unbilled Deferred Contracts</b>														
Beginning Balance (off balance sheet)	17.2	16.3	15.5	15.1	17.2	24.5	24.4	25.0	23.7	24.5	29.9	34.0	34.8	29.9
New Unbilled Contracts	1.9	2.1	2.8	13.4	20.2	1.4	4.6	3.5	12.8	22.3	7.0	8.5	4.7	20.3
Amounts Invoiced	(2.8)	(2.9)	(3.2)	(4.0)	(12.9)	(1.5)	(4.0)	(4.7)	(6.6)	(16.9)	(3.0)	(7.7)	(6.1)	(16.8)
Ending Balance (off balance sheet)	16.3	15.5	15.1	24.5	24.5	24.4	25.0	23.7	29.9	29.9	34.0	34.8	33.4	33.4
<b>Breakout of Deferred Sales (above)</b>														
<b>Subscription Sales (Invoiced Amounts)</b>														
All Access Pass Subscriptions	6.8	13.4	11.7	16.9	48.8	8.3	15.1	13.7	21.2	58.3	10.3	19.4	11.8	41.4
Education Subscription Contracts	0.9	0.2	5.0	13.1	19.2	0.8	0.4	5.2	15.4	21.9	1.2	0.7	6.1	8.0
Other	0.2	0.4	0.7	0.5	1.7	0.7	0.5	0.3	1.2	2.7	0.2	0.5	0.3	1.0
Total Additions to balance sheet	7.9	13.9	17.3	30.6	69.7	9.8	15.9	19.3	37.8	82.8	11.6	20.6	18.2	50.4

**Notes:**

- Invoiced Amounts represent the amount billed (invoiced) in the period. The Invoiced Amount is equal to Reported Net Sales, plus the associated change in Deferred Subscription Sales on the balance sheet (adjusted for FX). AAP Subscriptions, Education Memberships, and Other Invoiced Subscriptions are all Invoiced Amounts. Unbilled portions of multi-year agreements are not included.
- The Difference between Change in Deferred Sales, which is added to Reported Net Sales to equal the Invoiced Amount, and the Change in Deferred Sales on the balance sheet is adjustments for FX, acquisitions and other. Q1 of FY2019 also includes the adjustment attributed to the adoption of Topic 606.

- Certain historical amounts have been adjusted to conform with the current presentation.
- Deferred Revenue is primarily a current liability. However, a small portion is long-term and recorded as a part of Other Liabilities. See Notes in the 10-Q.
- Education Subscription Contracts consists of membership subscriptions which is recognized as sales over the course of the contract and Consulting which is recognized as sales upon delivery. These combined performance obligations are contracted, invoiced and paid together.

# Net Cash Generated

as defined below  
(in thousands and unaudited)

	Current Quarter		Year to Date		Last 4 Quarters Ended	
	Q3 FY20	Q3 FY19	Q3 FY20	Q3 FY19	Q3 FY20	Q3 FY19
Reported Adjusted EBITDA	\$ (3,642)	\$ 3,071	\$ 5,375	\$ 7,203	\$ 18,777	\$ 18,560
Adjustments						
Change in Deferred Revenue (related to subscription sal	(4,052)	349	(14,283)	(9,960)	3,976	3,964
Costs deferred with Deferred Revenue	494	(163)	2,169	631	(881)	(943)
Amortization of capitalized development	1,013	1,095	3,042	3,951	4,045	5,308
Purchases of property and equipment	(820)	(801)	(3,336)	(2,996)	(4,493)	(4,543)
Capitalized curriculum development costs	(1,204)	(565)	(3,436)	(1,821)	(4,303)	(2,374)
Cash paid for interest	(607)	(579)	(1,751)	(1,855)	(2,282)	(2,563)
<b>Net Cash Generated</b>	<b>\$ (8,818)</b>	<b>\$ 2,407</b>	<b>\$ (12,220)</b>	<b>\$ (4,847)</b>	<b>\$ 14,839</b>	<b>\$ 17,409</b>

Notes:

- Net Cash Generated is a measure used by management to monitor the amount of available cash generated by the operations of the company. Net Cash Generated includes the items listed above and excludes other cash activities shown on the Consolidated Statements of Cash Flows, such as cash paid for taxes, acquisitions, changes in working capital, other SG&A, and payments on term notes and financing obligations.
- Please refer to the Appendix for the definition of Adjusted EBITDA and for the reconciliation of Adjusted EBITDA to Net Income.
- Please also refer to the Condensed Consolidated Statements of Cash Flows for the current quarter.

# Reconciliation of Net Loss to Adjusted EBITDA

(in thousands and unaudited)

	Quarter Ended		Three Quarters Ended	
	May 31, 2020	May 31, 2019	May 31, 2020	May 31, 2019
Reconciliation of net loss to Adjusted EBITDA:				
Net loss	\$ (10,968)	\$ (2,024)	\$ (10,415)	\$ (6,898)
Adjustments:				
Interest expense, net	603	554	1,747	1,529
Income tax provision (benefit)	10,220	(394)	7,985	(704)
Amortization	1,164	1,259	3,504	3,797
Depreciation	1,652	1,556	4,925	4,806
Stock-based compensation	(5,104)	1,051	(1,460)	3,040
Increase (decrease) in the fair value of contingent consideration liabilities	(276)	1,069	(367)	1,145
Gain from insurance settlement	(933)	-	(933)	-
Knowledge Capital wind-down costs	-	-	389	-
Licensee transition costs	-	-	-	488
Adjusted EBITDA	<u>\$ (3,642)</u>	<u>\$ 3,071</u>	<u>\$ 5,375</u>	<u>\$ 7,203</u>
Adjusted EBITDA margin	-9.8%	5.5%	3.6%	4.5%

Note: Adjusted EBITDA and Operating SG&A are non-GAAP financial measures. Please see the appendix for additional information.

# Additional Financial Information

(in thousands and unaudited)

	Quarter Ended		Three Quarters Ended	
	May 31, 2020	May 31, 2019	May 31, 2020	May 31, 2019
<b>Sales by Division/Segment:</b>				
Enterprise Division:				
Direct offices	\$ 26,760	\$ 40,387	\$ 106,844	\$ 115,271
International licensees	708	3,014	7,120	9,598
	<u>27,468</u>	<u>43,401</u>	<u>113,964</u>	<u>124,869</u>
Education Division	8,216	11,088	30,190	31,132
Corporate and other	1,421	1,517	5,309	4,190
	<u>1,421</u>	<u>1,517</u>	<u>5,309</u>	<u>4,190</u>
<b>Consolidated</b>	<b>\$ 37,105</b>	<b>\$ 56,006</b>	<b>\$ 149,463</b>	<b>\$ 160,191</b>
<b>Gross Profit by Division/Segment:</b>				
Enterprise Division:				
Direct offices	\$ 21,108	\$ 29,836	\$ 81,221	\$ 84,200
International licensees	339	2,432	5,696	7,515
	<u>21,447</u>	<u>32,268</u>	<u>86,917</u>	<u>91,715</u>
Education Division	4,711	6,846	17,828	18,668
Corporate and other	664	550	2,772	1,429
	<u>664</u>	<u>550</u>	<u>2,772</u>	<u>1,429</u>
<b>Consolidated</b>	<b>\$ 26,822</b>	<b>\$ 39,664</b>	<b>\$ 107,517</b>	<b>\$ 111,812</b>
<b>Adjusted EBITDA by Division/Segment:</b>				
Enterprise Division:				
Direct offices	\$ 352	\$ 4,520	\$ 10,796	\$ 10,703
International licensees	(724)	1,281	2,696	4,127
	<u>(372)</u>	<u>5,801</u>	<u>13,492</u>	<u>14,830</u>
Education Division	(1,536)	(181)	(3,707)	(1,355)
Corporate and other	(1,734)	(2,549)	(4,410)	(6,272)
	<u>(1,734)</u>	<u>(2,549)</u>	<u>(4,410)</u>	<u>(6,272)</u>
<b>Consolidated</b>	<b>\$ (3,642)</b>	<b>\$ 3,071</b>	<b>\$ 5,375</b>	<b>\$ 7,203</b>

# Condensed Consolidated Balance Sheets

(in thousands and unaudited)

	May 31, 2020	August 31, 2019		May 31, 2020	August 31, 2019
<u>Assets</u>			<u>Liabilities and Shareholders' Equity</u>		
Current assets:			Current liabilities:		
Cash and cash equivalents	\$ 37,006	\$ 27,699	Current portion of term notes payable	\$ 5,000	\$ 5,000
Accounts receivable, less allowance for doubtful accounts of \$3,873 and \$4,242	38,612	73,227	Current portion of financing obligation	2,532	2,335
Inventories	3,106	3,481	Accounts payable	3,922	9,668
Prepaid expenses and other current assets	13,295	14,933	Deferred subscription revenue	42,794	56,250
Total current assets	<u>92,019</u>	<u>119,340</u>	Other deferred revenue	7,915	5,972
Property and equipment, net	16,894	18,579	Accrued liabilities	<u>18,212</u>	<u>24,319</u>
Intangible assets, net	44,189	47,690	Total current liabilities	80,375	103,544
Goodwill	24,220	24,220	Line of credit	14,870	-
Deferred income tax assets	1,388	5,045	Term notes payable, less current portion	16,250	15,000
Other long-term assets	14,894	10,039	Financing obligation, less current portion	14,726	16,648
	<u>\$ 193,604</u>	<u>\$ 224,913</u>	Other liabilities	6,061	7,527
			Deferred income tax liabilities	<u>4,274</u>	<u>180</u>
			Total liabilities	136,556	142,899
			Shareholders' equity:		
			Common stock	1,353	1,353
			Additional paid-in capital	211,067	215,964
			Retained earnings	48,988	59,403
			Accumulated other comprehensive income	231	269
			Treasury stock at cost, 13,198 and 13,087 shares	<u>(204,591)</u>	<u>(194,975)</u>
			Total shareholders' equity	57,048	82,014
				<u>\$ 193,604</u>	<u>\$ 224,913</u>

# Condensed Consolidated Statements of Operations

(in thousands, except per-share amounts and unaudited)

	Quarter Ended		Three Quarters Ended	
	May 31, 2020	May 31, 2019	May 31, 2020	May 31, 2019
Net sales	\$ 37,105	\$ 56,006	\$ 149,463	\$ 160,191
Cost of sales	10,284	16,342	41,946	48,379
Gross profit	26,821	39,664	107,517	111,812
Selling, general, and administrative	29,254	37,662	101,231	106,242
Stock-based compensation	(5,104)	1,051	(1,460)	3,040
Depreciation	1,652	1,556	4,925	4,806
Amortization	1,164	1,259	3,504	3,797
<b>Loss from operations</b>	<b>(145)</b>	<b>(1,864)</b>	<b>(683)</b>	<b>(6,073)</b>
Interest expense, net	(603)	(554)	(1,747)	(1,529)
<b>Loss before income taxes</b>	<b>(748)</b>	<b>(2,418)</b>	<b>(2,430)</b>	<b>(7,602)</b>
Income tax benefit (provision)	(10,220)	394	(7,985)	704
<b>Net loss</b>	<b>\$ (10,968)</b>	<b>\$ (2,024)</b>	<b>\$ (10,415)</b>	<b>\$ (6,898)</b>
Net loss per common share:				
Basic and diluted	\$ (0.79)	\$ (0.14)	\$ (0.75)	\$ (0.49)
Weighted average common shares:				
Basic and diluted	13,869	13,963	13,897	13,939
Other data:				
Adjusted EBITDA <sup>(1)</sup>	\$ (3,642)	\$ 3,071	\$ 5,375	\$ 7,203

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

# Cash Flows from Operating Activities

(in thousands and unaudited)

	Three Quarters Ended	
	May 31, 2020	May 31, 2019
	(unaudited)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (10,415)	\$ (6,898)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	8,429	8,619
Amortization of capitalized curriculum costs	3,042	3,951
Stock-based compensation	(1,460)	3,040
Deferred income taxes	7,678	(2,207)
Change in fair value of contingent consideration liabilities	(367)	1,145
Loss on disposal of assets	39	-
Changes in assets and liabilities, net of effect of acquired business:		
Decrease in accounts receivable, net	34,692	19,461
Decrease in inventories	377	158
Decrease in prepaid expenses and other assets	1,784	2,585
Decrease in accounts payable and accrued liabilities	(11,057)	(2,792)
Decrease in deferred revenue	(12,612)	(8,384)
Increase (decrease) in income taxes payable/receivable	(1,415)	358
Decrease in other long-term liabilities	(6)	(412)
Net cash provided by operating activities	<u>\$ 18,709</u>	<u>\$ 18,624</u>

# Definitions

- “Deferred Subscription Revenue” primarily consists of billings or payments received in advance of revenue being recognized from subscription services. Deferred revenue is recognized as sales as the revenue recognition criteria are met. The Company generally invoices customers in annual installments upon execution of a contract. With the Leader in Me offering, the contract includes both membership and Onsite training which is invoiced to the client in one lump sum. In this circumstance, the entire lump sum is included in Deferred Revenue. The deferred revenue balance is influenced by several factors, including seasonality, the compounding effects of renewals, contract duration, invoice timing and contract size. When Management refers to Deferred Revenue or the change in Deferred Revenue it is primarily referring to the subscription related portion and not the customer deposits and other portions.
- “Unbilled Deferred Revenue” is an operational measure that represents future billings under our non-cancelable subscription agreements that have not been invoiced and, accordingly are not recorded in our recognized revenue or deferred revenue.
- “Invoiced” is the sum of reported Net Sales plus the change in Deferred Revenue reported on the balance sheet (a portion of which is recorded as a current liability and a portion as a long-term liability and represents the amount of billings during the period). We typically invoice our customers annually upon execution of the contract or subscription renewals. Our clients frequently prepay for products and services, which prepayment is included in amounts invoiced and corresponding Deferred Revenue. Invoiced amounts does not include items such as deposits that are generally refundable at the client’s request prior to the satisfaction of the performance obligation.
- “Contracted” is the sum of Invoiced Amounts plus the Change in Unbilled Deferred Revenue (not recorded on the balance sheet) and, as the term reflects represents, the total amount of contracts with customers that were entered into during the period.
- “Sales Flow-Through” is the year-over-year change in Adjusted EBITDA divided by the year-over-year change in sales.
- “Add-on Sales” is a sale which has been recognized from a client that has purchased Onsite training or materials in connection with or subsequently to entering into a subscription arrangement. This is in contrast to a Legacy sale which is generally Onsite training or materials to a client which has not entered into a subscription arrangement

# Definitions

- “Operating SG&A” is non-GAAP financial measure. It generally excludes stock-based compensation, changes to contingent earn-out liability and unusual or one-time charges. See the Reconciliation of Net Income or Loss to Adjusted EBITDA in additional financial information.
- “Adjusted EBITDA” (earnings before interest, income taxes, depreciation, amortization, stock-based compensation, and certain other items) is a non-GAAP financial measure that the Company believes is useful to investors in evaluating its results. A reconciliation of “Adjusted EBITDA,” to consolidated net income (loss), the most comparable GAAP financial measure is provided within this presentation. The Company references this non-GAAP financial measure in its decision making because it provides supplemental information that facilitates consistent internal comparisons to the historical operating performance of prior periods and the Company believes it provides investors with greater transparency to evaluate operational activities and financial results. We are unable to provide a reconciliation of forward-looking estimates of non-GAAP Adjusted EBITDA to GAAP measures because certain information needed to make a reasonable forward-looking estimate is difficult to estimate and dependent on future events which may be uncertain or out of our control, including the amount of AAP contracts invoiced, the number of AAP contracts that are renewed, necessary costs to deliver our offerings such as unanticipated content development costs, and other potential variables. Accordingly, a reconciliation is not available without unreasonable effort.
- “Client Partner Ramp” is the expected amount of invoiced amounts the Company expects its client partners to generate based upon the length of time the client partner has been in a sales role. This metric measures client partners who are currently employed by the Company and does not subtract any accounts that are transitioned to a client partner from a previous client partner.
- “Constant Currency” Franklin Covey presents constant currency information to provide a framework for assessing how our underlying business performed excluding the effect of foreign currency rate fluctuations. There are several approaches that an entity can take to calculate constant currency information and Franklin Covey’s method may not be consistent with another entity’s constant currency calculation. To calculate this measure, FranklinCovey converts the actual monthly results of our foreign operations, including the results of our International Licenses, into \$USD at the respective prior year monthly exchange rate. The non-GAAP measure should not be considered as a substitute for, or superior to, the measures of financial performance prepared in accordance with generally accepted accounting principles (GAAP).