



# **Investor Update**

*First Quarter of Fiscal Year 2017*

# Forward-Looking Statements / Non-GAAP

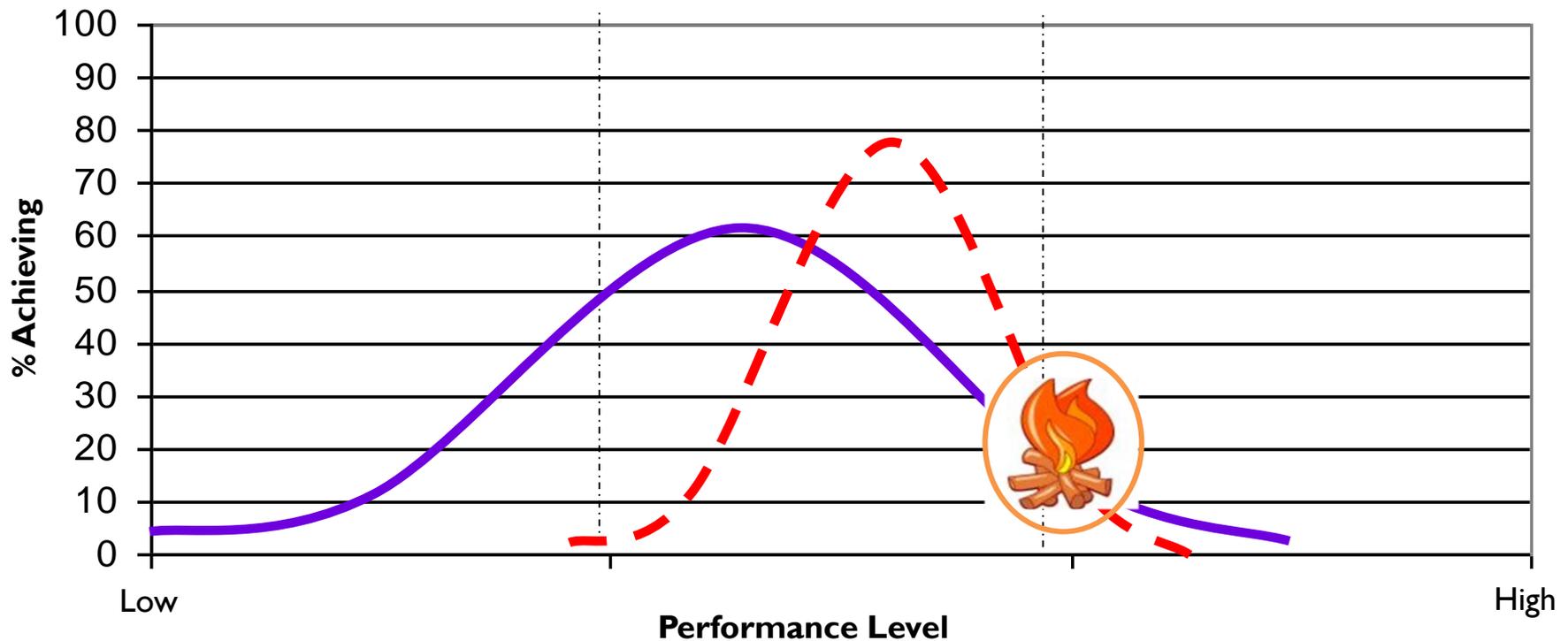
This presentation contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based upon management's current expectations and are subject to various risks and uncertainties including, but not limited to: The ability of the Company to stabilize and grow revenues; The 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 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).

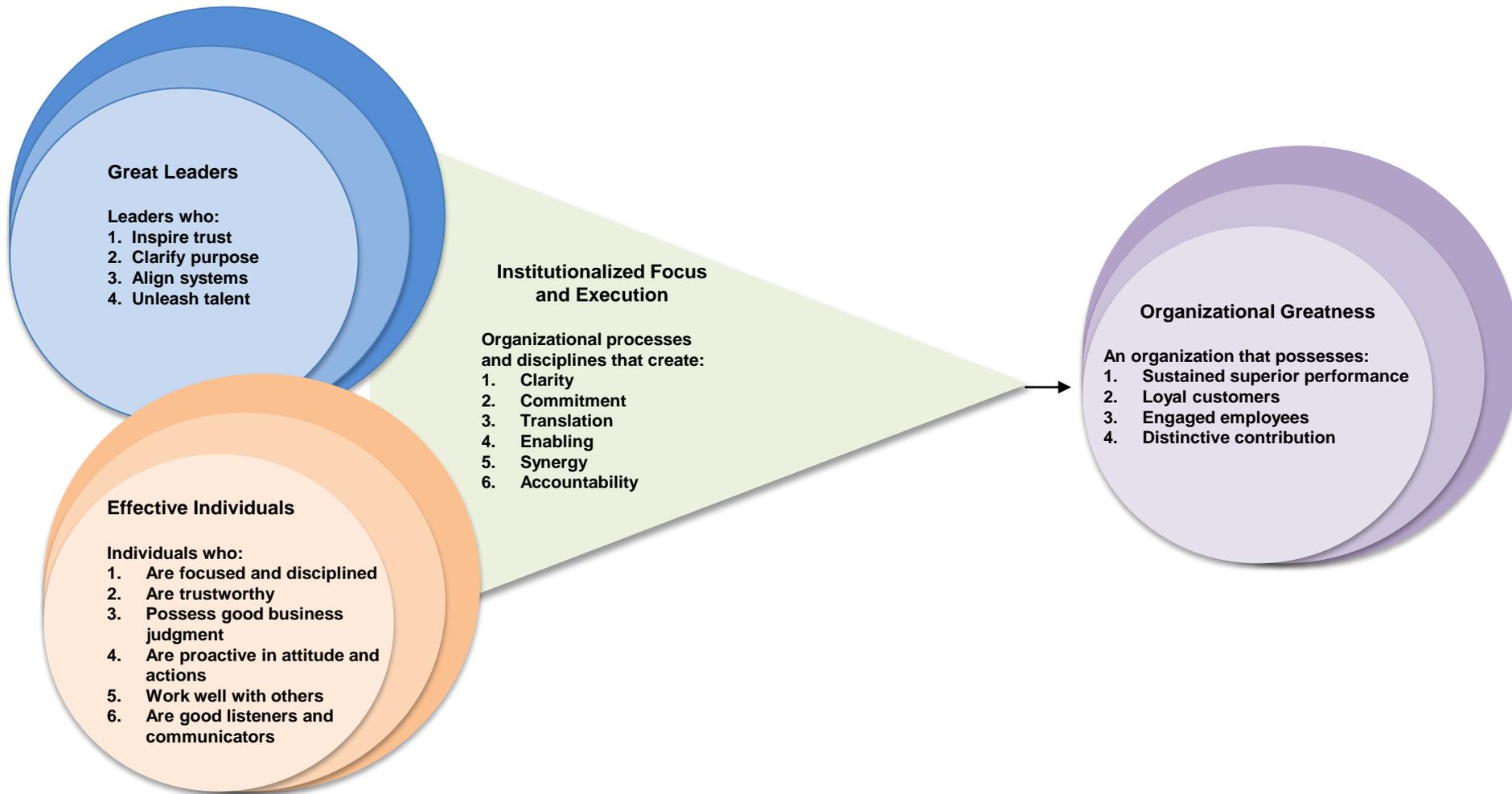
Franklin Covey uses the non-GAAP financial measure "earnings before interest, taxes, depreciation and amortization" ("EBITDA") to assess the operating results and effectiveness of the Company's ongoing training and consulting business. In addition, the Company also uses the non-GAAP financial measure "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.

# Righter & Tighter

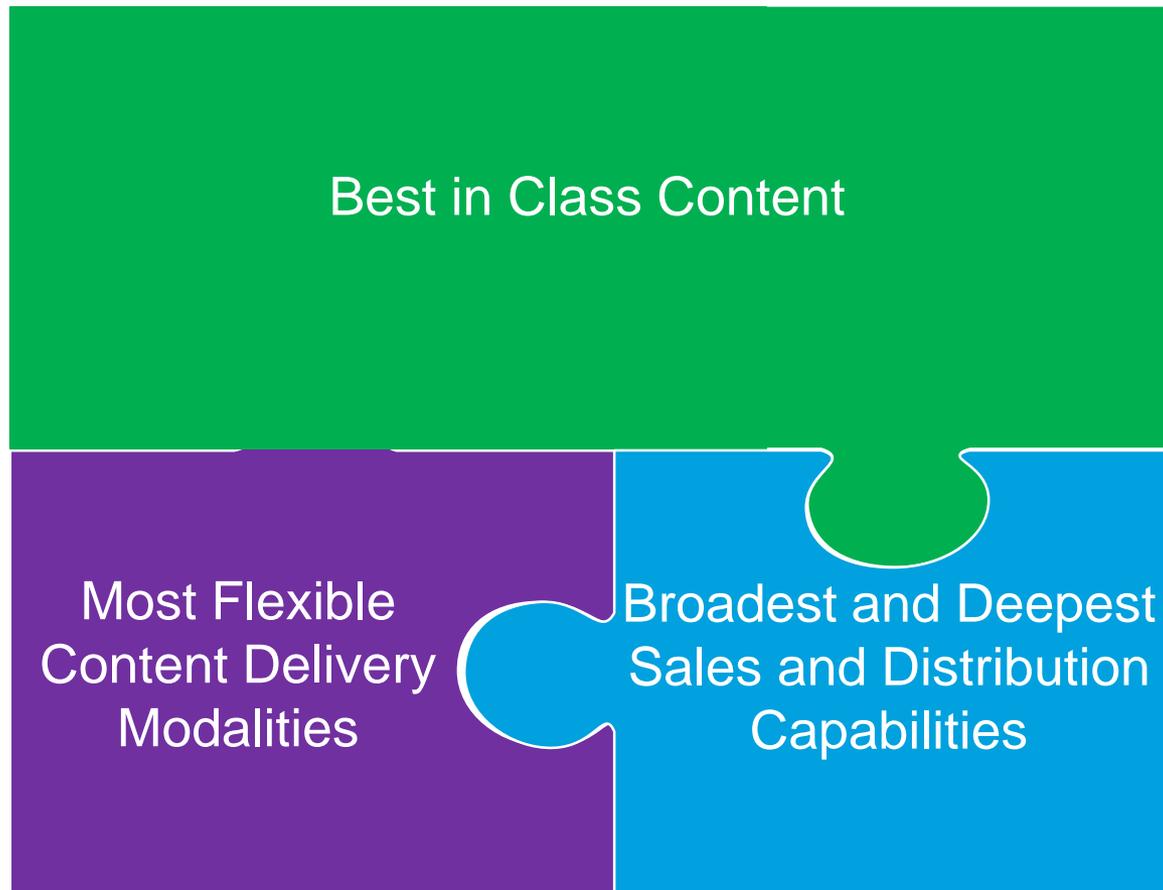
Variability is a given...but the shape of one's variability curve is not. The key is in moving the middle.



# Greatness Map



# Strategic Leadership



# Strong All Access Pass Growth

<b>All Access Pass</b>	<b>Fiscal 2016</b>	<b>1st QTR FY 2017</b>	<b>YTD FY 2017</b>	<b>AAP Inception to Date</b>
Total Invoiced Pass Amounts	21,484,031	4,970,957	6,712,623	28,196,655
AAP Services and Materials	1,742,560	1,362,385	2,253,941	3,996,500
<b>Total Invoiced Amounts</b>	<b>23,226,591</b>	<b>6,333,342</b>	<b>8,966,564</b>	<b>32,193,155</b>
<b>Total Revenue of Offices Selling AAP</b>	<b>97,956,313</b>	<b>16,810,926</b>	<b>21,386,255</b>	<b>119,342,568</b>
<b>AAP Revenue Recognized</b>	<b>15,972,019</b>	<b>3,766,424</b>	<b>5,802,960</b>	<b>21,774,980</b>
<b>Percent of AAP Invoiced Amounts to Total Revenue of locations selling AAP</b>	<b>24%</b>	<b>38%</b>	<b>42%</b>	<b>27%</b>
Change in Deferred AAP Revenue Balance	7,254,572	2,566,918	3,163,603	10,418,175
<b>Balance of AAP Deferred Revenue</b>	<b>7,254,572</b>	<b>9,821,490</b>	<b>10,418,175</b>	<b>10,418,175</b>

# Selected Financial Summary

(in thousands)

					Fiscal 2016
	Q1	Q2	Q3	Q4	Total
<b><u>Total Company excluding Education</u></b>					
Invoiced amounts	36,987	39,609	38,878	50,485	165,959
% of Total for the year	22%	24%	23%	30%	
Adjusted EBITDA plus the Change in Deferred Revenue (less certain costs)	4,108	6,426	4,649	12,660	27,843
% of Total for the year	15%	23%	17%	45%	
<b><u>Education Division</u></b>					
Invoiced amounts	6,900	5,175	7,986	22,655	42,716
% of Total for the year	16%	12%	19%	53%	
Adjusted EBITDA plus the Change in Deferred Revenue (less certain costs)	(810)	(2,518)	(992)	10,921	6,601
% of Total for the year	-12%	-38%	-15%	165%	
<b><u>Total Company</u></b>					
Invoiced amounts	43,887	44,784	46,864	73,140	208,675
% of Total for the year	21%	21%	22%	35%	
Adjusted EBITDA plus the Change in Deferred Revenue (less certain costs)	3,298	3,908	3,657	23,581	34,444
% of Total for the year	10%	11%	11%	68%	

# Additional Guidance

**The following is the portion of the December 22, 2016 press release which addressed Guidance and Additional Guidance Detail. The Company's Guidance excludes the impact of foreign exchange rates.**

During the Company's November conference call in which it reviewed fourth quarter and full-year results for fiscal 2016, the Company also issued its financial guidance for fiscal 2017. That guidance was that the sum of reported Adjusted EBITDA, plus the Change in Deferred Revenue (less certain costs) for fiscal 2017, is expected to range between \$35 million and \$38 million. The Company expects to affirm this previously issued guidance in its January 5, 2017 conference call. In addition, because the Company is transitioning its business model to having a significant portion of its revenue recognized as subscription revenue, the Company offered to provide expanded and more detailed financial guidance for fiscal 2017 including guidance on Cash Flow, and on Adjusted EBITDA as it will be reported. This detailed guidance is included below, and will be discussed in greater detail during the January conference call.

The Company's additional guidance detail is as follows:

First, the Company expects to affirm its previously-provided guidance that the sum of reported Adjusted EBITDA, plus the Change in Deferred Revenue (less certain costs) for fiscal 2017 is expected to be between \$35 million and \$38 million. Adjusted EBITDA, plus the Change in Deferred Revenue (less certain costs), is expected to break down by quarter as follows:

- First quarter: (\$2.5) million, compared to \$3.4 million on the same basis in fiscal 2016, reflecting increases in investments in the first quarter related to: (1) translating and localizing all of the core All Access Pass content into 15 major languages (in addition to English), and building a new All Access Pass portal in preparation for the global launch of All Access Pass at the end of the second quarter; (2) the hiring of 24 new client partners and 10 new Education Practice coaches whose costs will hit in the first and second quarters of fiscal 2017, and which are expected to be more than covered by the revenue they generate in the third and fourth quarters; (3) lower revenue in the Sales Performance Practice, partially reflecting the change in the timing of some major training and content contracts; and the somewhat longer All Access Pass sales cycle, compared to the facilitator sales cycle, in the U.S. Direct Offices.
- Second quarter: \$1.0 million to \$2.0 million, compared to \$3.4 million on the same basis in fiscal 2016, reflecting: (1) continued investments to prepare for the global launch of All Access Pass; (2) lower revenue in the Sales Performance Practice; and (3) continued investment in new client partners and new Education Practice coaches, offset by the conversion of the significantly increased pipelines in most operations resulting from first quarter investments, and the expected high renewal rate for that portion of the more than \$3.0 million of All Access Pass amounts invoiced in last year's second quarter that are renewable in the second quarter and new All Access Pass sales.

# Additional Guidance - Continued

- Third quarter: \$8.0 million to \$9.0 million, compared to \$3.5 million on the same basis in fiscal 2016, reflecting the continued conversion of the Company's significant pipelines, and the expected high renewal rate for that portion of the more than \$6.0 million of All Access Pass amounts invoiced in last year's third quarter that are renewable in the third quarter of fiscal 2017, and new All Access Pass sales.
- Fourth quarter: \$27.5 million to \$29.5 million, compared to \$24.1 million on the same basis in fiscal 2016, reflecting: (1) the recognition of substantially all of the Education Practice's EBITDA for fiscal 2017; (2) the expected high renewal rate for that portion of the more than \$12.0 million in All Access Pass amounts invoiced in last year's fourth quarter that are renewable in the fourth quarter of fiscal 2017 and new All Access Pass sales; and (3) seasonally higher sales in the U.S., Japan, the U.K., and Australia.

Second, Net Cash Generated (Adjusted EBITDA, plus change in Deferred Revenue, less certain costs, plus curriculum amortization (approximately \$4.5 million), less purchase of property and equipment (approximately \$5.4 million), less curriculum development costs (approximately \$8.0 million, including All Access Pass localization costs), less cash paid for taxes (approximately \$2.9 million), excluding changes to working capital and other operating costs not included in Adjusted EBITDA), is expected to range between \$21 million and \$24 million in fiscal 2017.

Third, the Company expects that Adjusted EBITDA as actually reported in fiscal 2017, before adding the amount of Adjusted EBITDA contribution embedded in the increase in Deferred Revenue, is expected to range between \$10 million and \$14 million, an amount significantly less than the amount reported in fiscal 2016, due almost entirely to the expected significant increase in the amount of very high-margin Deferred Revenue expected to be reported on the balance sheet.

A majority of the Company's *reported* Adjusted EBITDA is expected to be generated in its fiscal fourth quarter, reflecting the investments and factors discussed above. Without considering changes in the amounts of high-margin Deferred Revenue, there is a projected reported Adjusted EBITDA loss in the first and second quarters of (\$2.9) million and (\$1.5) million respectively, and projected positive Adjusted EBITDA in the third and fourth quarters of \$1.5 million and \$14.0 million respectively, with the difference between these amounts and the expected \$35 million and \$38 million sum of reported Adjusted EBITDA plus the Change in Deferred Revenue, being reflected in the significant increases in Deferred Revenue less certain costs.

# Other Information

## Other Income Statement Information:

- Depreciation: \$3.7M in FY2016, expected to total approximately \$3.9M in FY2017.
- Amortization: \$3.3M in FY2016, expected to total approximately \$2.9M in FY2017.
- Net Interest and Discount: \$1.9M in FY2016, As pre-tax income becomes a very small amount, the effective tax rate for the year is impossible to accurately predict.
- Share-based Compensation, Impaired Assets, Restructuring, ERP Implementation, Accrued Earnout and Other, totaling: \$6.1M in FY2016; Share-Based Compensation, ERP Implementation, possible Earnout and Other, expected to total approximately \$7.0M in FY2017.
- Effective Tax Rate: 41% in FY2016. As pre-tax income becomes a very small amount, the effective tax rate for the year is impossible to accurately predict.

## Other Information:

- Capital Expenditures: \$4.0M in FY2016, expected to total approximately \$5.4M (including new ERP system) in FY2017.
- Capitalized Curriculum: \$2.2M in FY2016, expected to total approximately \$8.0M in FY2017.
- Share Count: 13,802K shares outstanding as of December 31, 2016. The Company's share count may increase due to the vesting of share-based awards, and decrease due to the company buying back shares under its authorized share buy-back program.

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

**FRANKLIN COVEY CO.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

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

	Quarter Ended	
	November 26, 2016	November 28, 2015
Net sales	\$ 39,787	\$ 45,218
Cost of sales	14,479	15,147
Gross profit	25,308	30,071
Selling, general, and administrative	29,095	26,489
Depreciation	866	912
Amortization	722	910
<b>Income (loss) from operations</b>	<b>(5,375)</b>	<b>1,760</b>
Interest expense, net	(504)	(464)
<b>Income (loss) before income taxes</b>	<b>(5,879)</b>	<b>1,296</b>
Income tax benefit (provision)	1,921	(506)
<b>Net income (loss)</b>	<b>\$ (3,958)</b>	<b>\$ 790</b>
Net income (loss) per common share:		
Basic and diluted	\$ (0.29)	\$ 0.05
Weighted average common shares:		
Basic	13,791	16,218
Diluted	13,791	16,352
Other data:		
Adjusted EBITDA <sup>(1)</sup>	\$ (2,819)	\$ 4,475

(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 Income (Loss) to Adjusted EBITDA as shown below.

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

	Quarter Ended	
	November 26, 2016	November 28, 2015
Reconciliation of net income (loss) to Adjusted EBITDA:		
Net Income (loss)	\$ (3,958)	\$ 790
Adjustments:		
Interest expense, net	504	464
Income tax provision (benefit)	(1,921)	506
Amortization	722	910
Depreciation	866	912
Stock-based compensation	1,214	763
Increase (reduction) to contingent earnout liability	(1,013)	130
China office start-up costs	479	-
Other expense	288	-
	<u>\$ (2,819)</u>	<u>\$ 4,475</u>
Adjusted EBITDA margin	-7.1%	9.9%

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

	Quarter Ended	
	November 26, 2016	November 28, 2015
<b>Sales by Division:</b>		
Direct offices	\$ 21,247	\$ 23,651
Strategic markets	4,761	7,195
Education practice	8,743	8,169
Licensees	3,431	4,519
Corporate and other	1,605	1,684
	<u>\$ 39,787</u>	<u>\$ 45,218</u>
<b>Sales by Category:</b>		
Training and consulting services	\$ 38,073	\$ 43,194
Products	828	912
Leasing	886	1,112
	<u>39,787</u>	<u>45,218</u>
<b>Cost of Goods Sold by Category:</b>		
Training and consulting services	13,558	14,058
Products	435	522
Leasing	486	567
	<u>14,479</u>	<u>15,147</u>
<b>Gross Profit</b>	<u>\$ 25,308</u>	<u>\$ 30,071</u>

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

	November 26, 2016	August 31, 2016
<u>Assets</u>		
Current assets:		
Cash	\$ 7,876	\$ 10,456
Accounts receivable, less allowance for doubtful accounts of \$2,231 and \$1,579	54,717	65,960
Receivable from related party	2,117	1,933
Inventories	5,077	5,042
Income taxes receivable	2,633	-
Prepaid expenses and other current assets	8,053	6,350
Total current assets	80,473	89,741
Property and equipment, net	17,172	16,083
Intangible assets, net	49,471	50,196
Goodwill	19,903	19,903
Long-term receivable from related party	1,281	1,235
Other assets	12,989	13,713
	\$ 181,289	\$ 190,871
<u>Liabilities and Shareholders' Equity</u>		
Current liabilities:		
Current portion of financing obligation	\$ 1,712	\$ 1,662
Current portion of term notes payable	5,000	3,750
Accounts payable	7,440	10,376
Income taxes payable	-	4
Deferred revenue	20,282	20,847
Accrued liabilities	13,516	17,418
Total current liabilities	47,950	54,057
Financing obligation, less current portion	22,493	22,943
Term notes payable, less current portion	12,813	10,313
Other liabilities	1,235	3,173
Deferred income tax liabilities	6,328	6,670
Total liabilities	90,819	97,156
Shareholders' equity:		
Common stock	1,353	1,353
Additional paid-in capital	212,368	211,203
Retained earnings	72,670	76,628
Accumulated other comprehensive income	587	1,222
Treasury stock at cost, 13,320 and 13,332 shares	(196,508)	(196,691)
Total shareholders' equity	90,470	93,715
	\$ 181,289	\$ 190,871

# Non-GAAP Financial Information

The Company defines Adjusted EBITDA as net income or loss excluding the impact of interest expense, income tax expense, amortization, depreciation, share-based compensation expense, impaired asset charges, restructuring costs, adjustments to contingent earn out liabilities, and certain other items. 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. The Company does not provide forward-looking GAAP measures or a reconciliation of the forward-looking Adjusted EBITDA to GAAP measures because of the inability to project certain of the costs included in the calculation of Adjusted EBITDA.