



FranklinCovey®

THE ULTIMATE COMPETITIVE ADVANTAGE



**Investor Update**  
*Fourth Quarter Fiscal Year 2017*

# Forward-Looking Statements / Non-GAAP

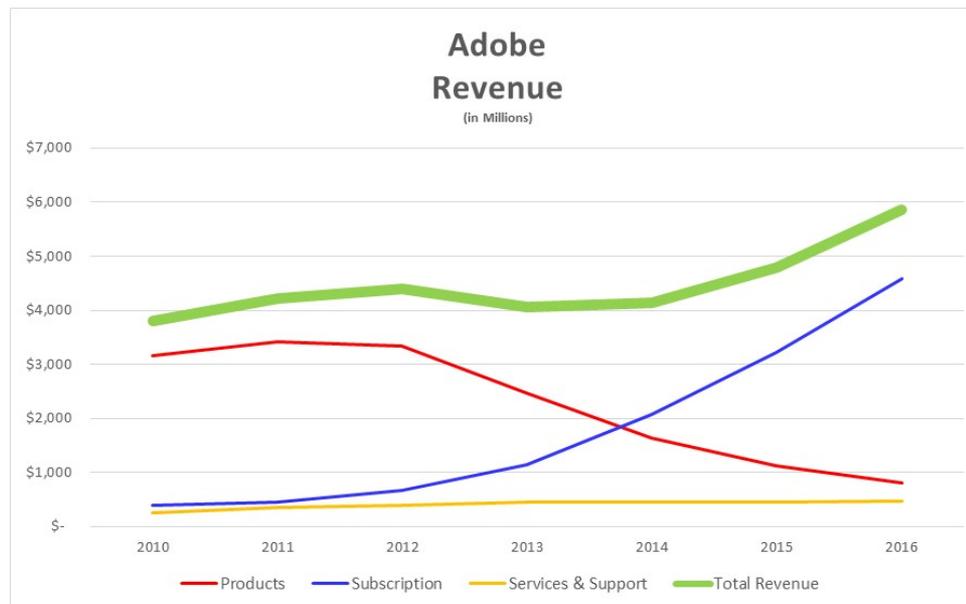
This presentation contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based upon management's current expectations and are subject to various risks and uncertainties including, but not limited to: The ability of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

# Adobe Systems

|                        | 2010            | 2011            | 2012            | 2013            | 2014            | 2015            | 2016            |
|------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Revenue (in Millions): |                 |                 |                 |                 |                 |                 |                 |
| Products               | \$ 3,159        | \$ 3,416        | \$ 3,343        | \$ 2,470        | \$ 1,628        | \$ 1,125        | \$ 800          |
| Subscription           | \$ 387          | \$ 458          | \$ 673          | \$ 1,138        | \$ 2,076        | \$ 3,223        | \$ 4,585        |
| Services & Support     | \$ 254          | \$ 341          | \$ 387          | \$ 447          | \$ 443          | \$ 446          | \$ 469          |
| <b>Total Revenue</b>   | <b>\$ 3,800</b> | <b>\$ 4,215</b> | <b>\$ 4,403</b> | <b>\$ 4,055</b> | <b>\$ 4,147</b> | <b>\$ 4,794</b> | <b>\$ 5,854</b> |



## Four Questions

1. What are some of the key indicators that the transition to the subscription business model is on track?
2. What factors are behind the significant growth in the subscription business?
3. What are the opportunities you see for accelerating both the growth of the business, and the strength of your strategic position in the marketplace?
4. When will you hit the inflection point where the new business model is more than offsetting the disruption of the old business model?

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# What are some of the key indicators that the transition to the subscription business model is on track? All Access Pass Growth in Enterprise Division

| Fiscal 2017  |                  |                   |                   |                   |                   |
|--|------------------|-------------------|-------------------|-------------------|-------------------|
| All Access Pass  | 1st Quarter      | 2nd Quarter       | 3rd Quarter       | 4th Quarter       | Fiscal 2017       |
| Total Revenue Plus Binding Contracts                                     | 4,975,000        | 7,800,000         | 9,200,000         | 27,775,000        | 49,750,000        |
| AAP Add-on Services and Materials  | 2,075,000        | 3,450,000         | 3,875,000         | 3,925,000         | 13,325,000        |
| <b>Total</b>   | <b>7,050,000</b> | <b>11,250,000</b> | <b>13,075,000</b> | <b>31,700,000</b> | <b>63,075,000</b> |
| AAP Reveue, Add-on Services and Binding Contracts as a % of net invoiced |                  |                   |                   |                   | 73%               |

| Fiscal 2016  |                |                  |                  |                   |                   |
|--|----------------|------------------|------------------|-------------------|-------------------|
| All Access Pass  | 1st Quarter    | 2nd Quarter      | 3rd Quarter      | 4th Quarter       | Fiscal 2016       |
| Total Revenue Plus Binding Contracts                                     | 375,000        | 3,075,000        | 5,800,000        | 12,225,000        | 21,475,000        |
| AAP Add-on Services and Materials  | -              | -                | 225,000          | 1,500,000         | 1,725,000         |
| <b>Total</b>   | <b>375,000</b> | <b>3,075,000</b> | <b>6,025,000</b> | <b>13,725,000</b> | <b>23,200,000</b> |
| AAP Reveue, Add-on Services and Binding Contracts as a % of net invoiced |                |                  |                  |                   | 24%               |

Note--There was no binding contracts related

| Change  |                  |                  |                  |                   |                   |
|---|------------------|------------------|------------------|-------------------|-------------------|
| All Access Pass   | 1st Quarter      | 2nd Quarter      | 3rd Quarter      | 4th Quarter       | Fiscal 2017       |
| Total Invoiced Pass Amounts   | 4,600,000        | 4,725,000        | 3,400,000        | 15,550,000        | 28,275,000        |
| AAP Services and Materials  | 2,075,000        | 3,450,000        | 3,650,000        | 2,425,000         | 11,600,000        |
| <b>Total Invoiced Amounts</b>   | <b>6,675,000</b> | <b>8,175,000</b> | <b>7,050,000</b> | <b>17,975,000</b> | <b>39,875,000</b> |
| Percent of AAP Invoiced Amounts to Total Revenue of locations selling AAP |                  |                  |                  |                   | 49%               |

# What are some of the key indicators that the transition to the subscription business model is on track? Leader-in-Me Growth in Education Division

## Fiscal 2017

| <i>Education Membership Revenue</i> | <i>1st Quarter</i> | <i>2nd Quarter</i> | <i>3rd Quarter</i> | <i>4th Quarter</i> | <i>Fiscal 2017</i> |
|-------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Total Membership Revenue            | 807,000            | 458,000            | 4,515,000          | 9,720,000          | 15,500,000         |
| Additional Member Add-on Services   | 4,977,000          | 2,848,000          | 4,153,000          | 13,611,000         | 25,589,000         |
| <b>Total</b>                        | <b>5,784,000</b>   | <b>3,306,000</b>   | <b>8,668,000</b>   | <b>23,331,000</b>  | <b>41,089,000</b>  |

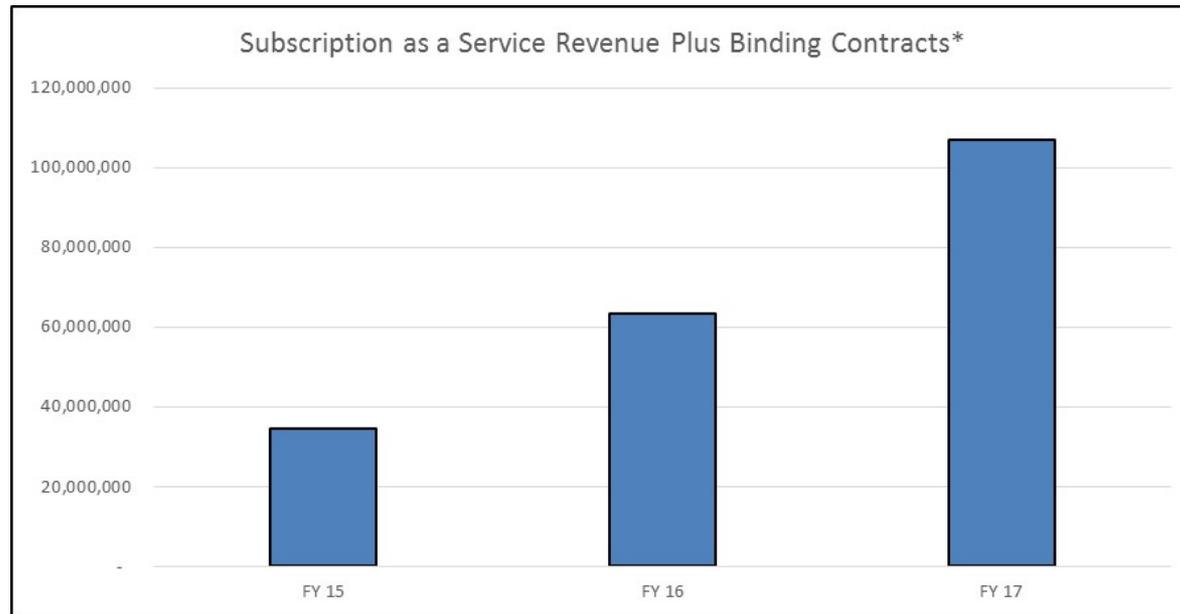
## Fiscal 2016

| <i>Education Membership Revenue</i> | <i>1st Quarter</i> | <i>2nd Quarter</i> | <i>3rd Quarter</i> | <i>4th Quarter</i> | <i>Fiscal 2017</i> |
|-------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Total Membership Revenue            | 765,000            | 530,000            | 2,772,000          | 6,533,000          | 10,600,000         |
| Additional Member Add-on Services   | 4,846,000          | 3,243,000          | 3,459,000          | 13,482,000         | 25,030,000         |
| <b>Total</b>                        | <b>5,611,000</b>   | <b>3,773,000</b>   | <b>6,231,000</b>   | <b>20,015,000</b>  | <b>35,630,000</b>  |

## Change

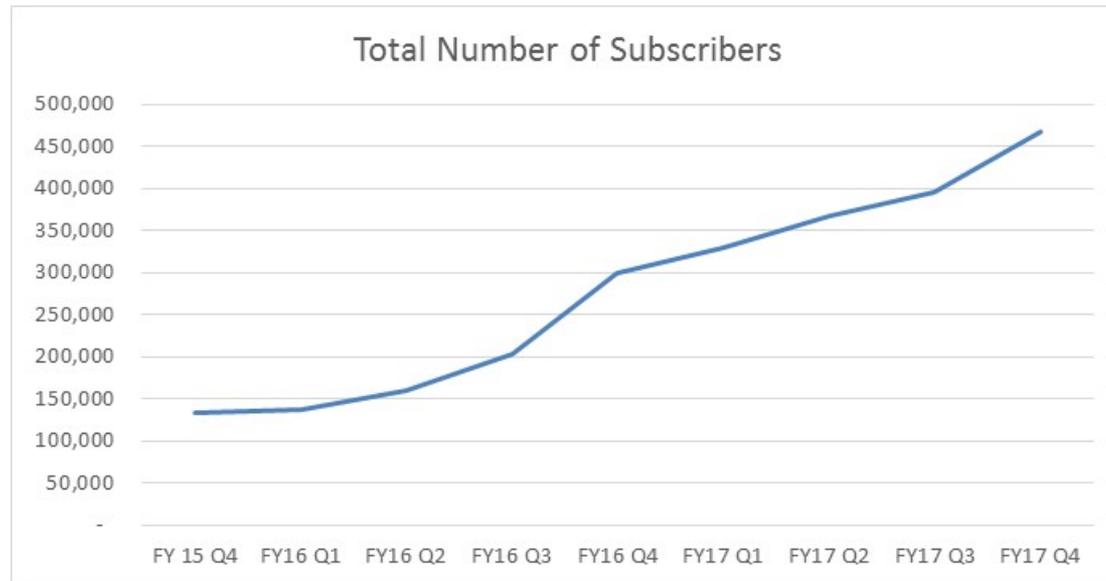
| <i>Education Membership Revenue</i> | <i>1st Quarter</i> | <i>2nd Quarter</i> | <i>3rd Quarter</i> | <i>4th Quarter</i> | <i>Fiscal 2017</i> |
|-------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Total Membership Revenue            | 42,000             | (72,000)           | 1,743,000          | 3,187,000          | 4,900,000          |
| Additional Member Add-on Services   | 131,000            | (395,000)          | 694,000            | 129,000            | 559,000            |
| <b>Total</b>                        | <b>173,000</b>     | <b>(467,000)</b>   | <b>2,437,000</b>   | <b>3,316,000</b>   | <b>5,459,000</b>   |

# What are some of the key indicators that the transition to the subscription business model is on track? Total Subscription and Subscription Related Growth in Enterprise and Education Divisions

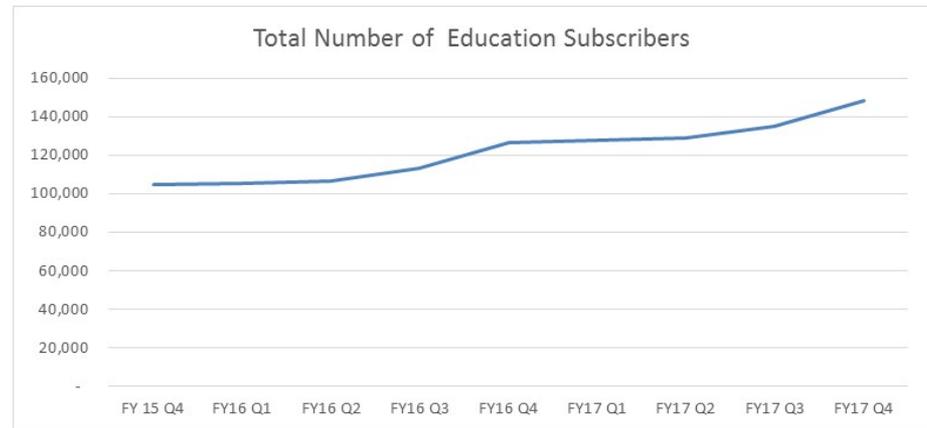
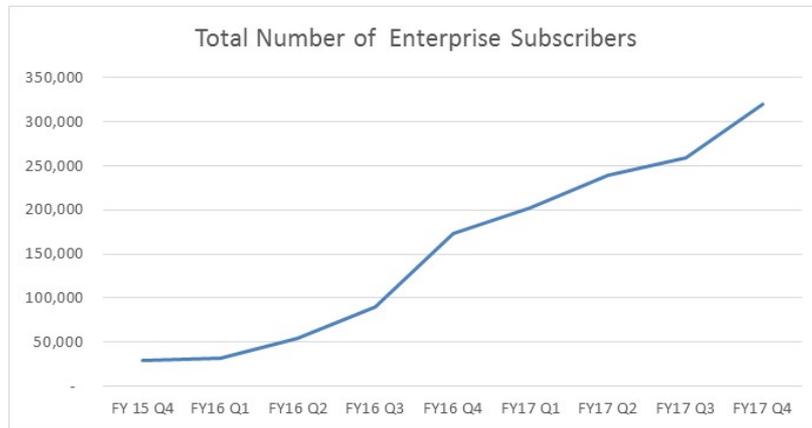


\*This amount contains amounts recognized as revenue, plus the increase in Deferred Revenue (billed and unbilled)

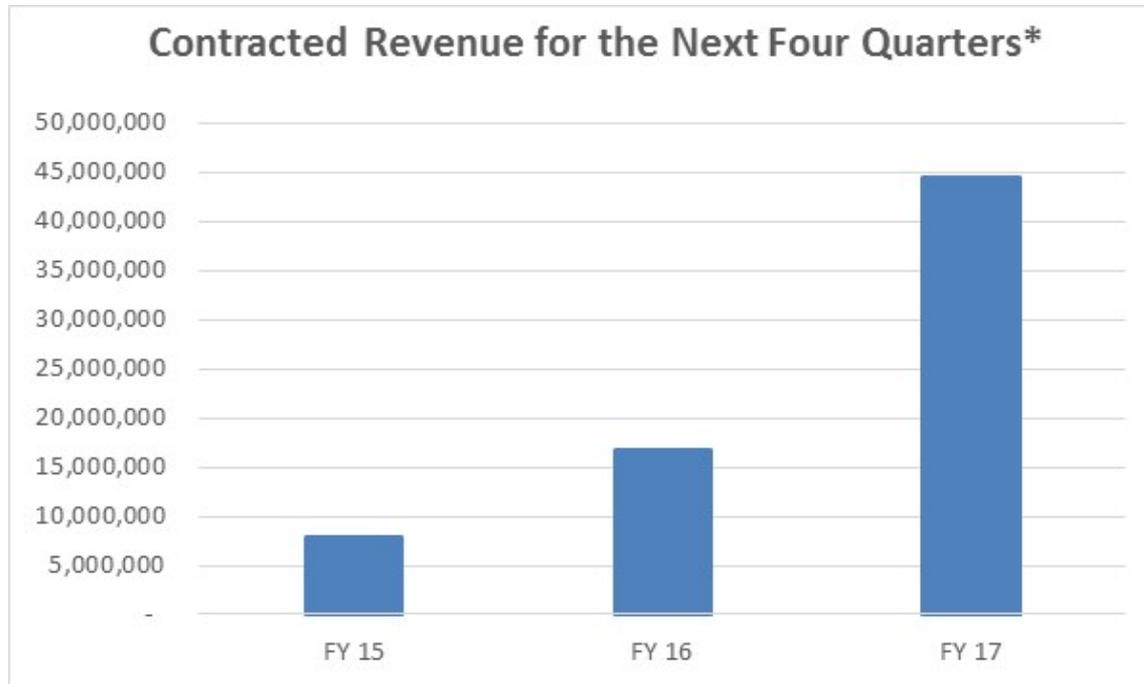
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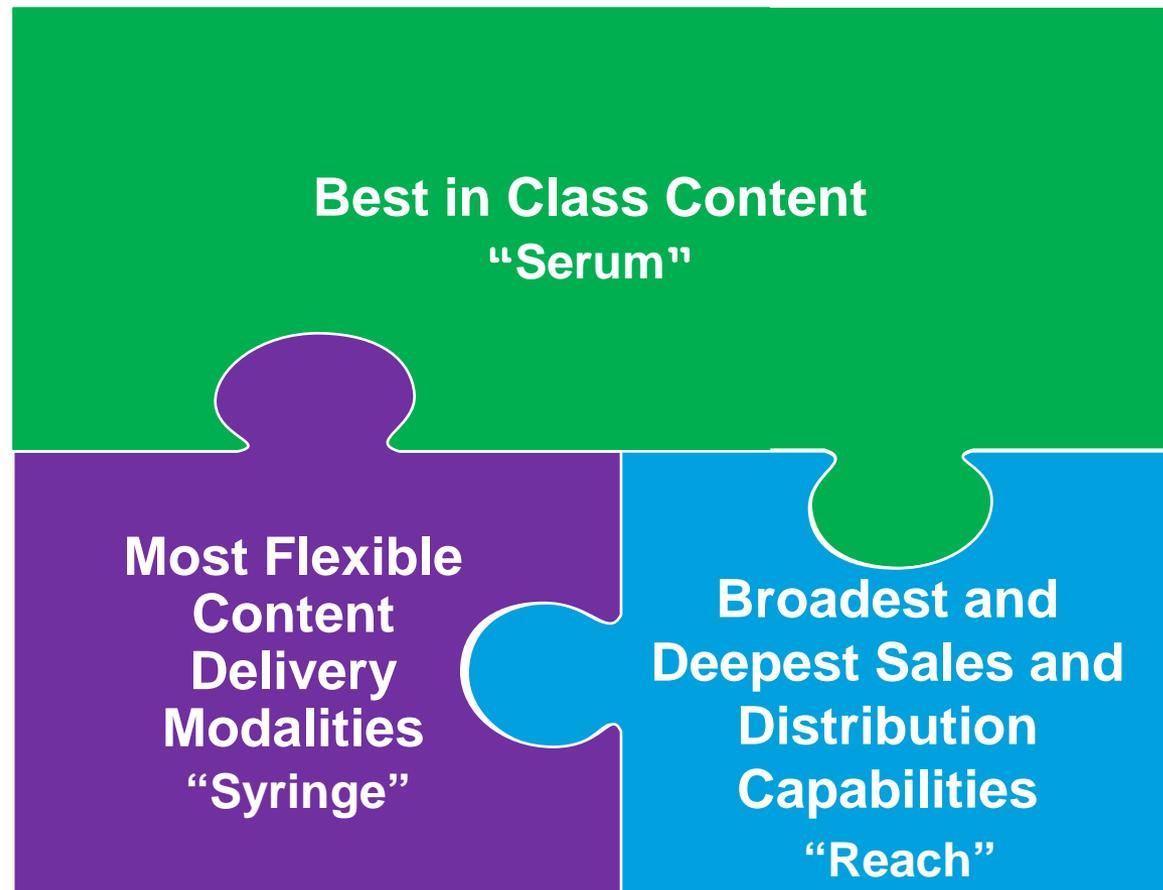


\*Excludes License MRPs and Rental Revenue

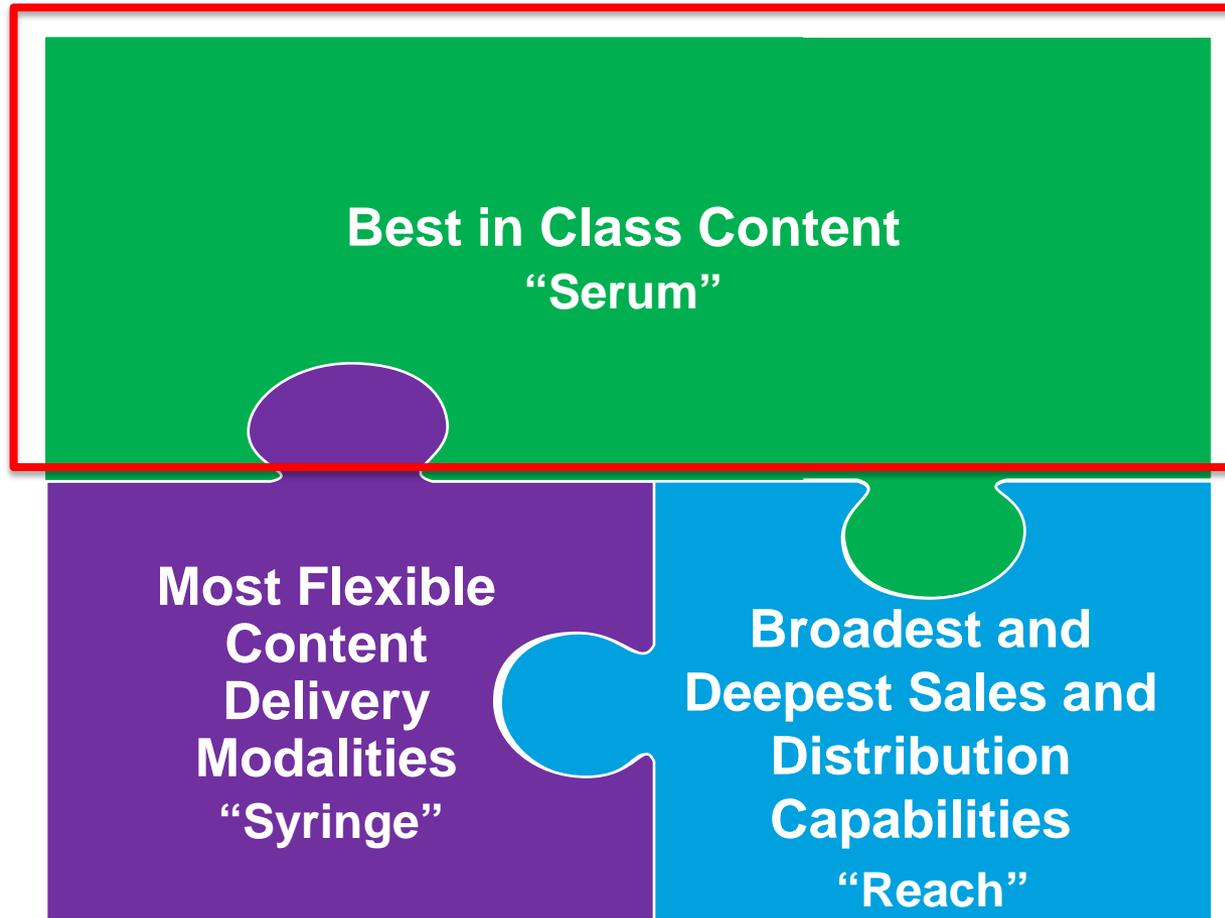
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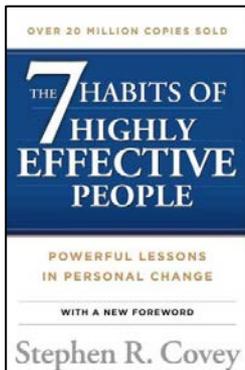
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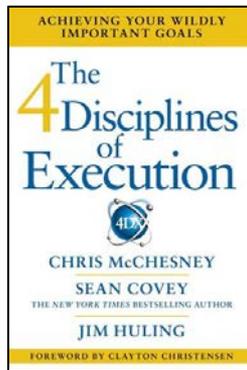
01

Leadership



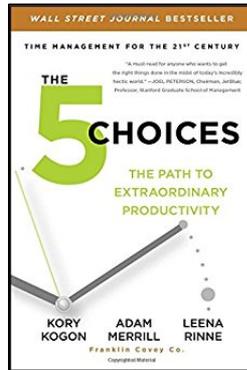
02

Execution



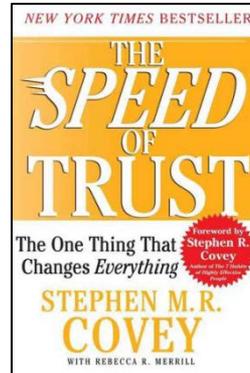
03

Productivity



04

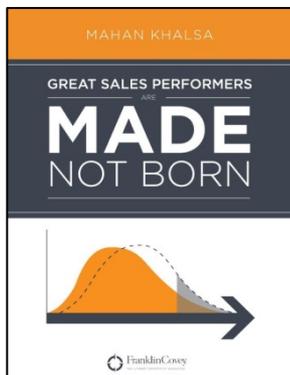
Trust



**\$1.5 billion**  
in training revenue with  
**67% gross margins**,  
since 2009.

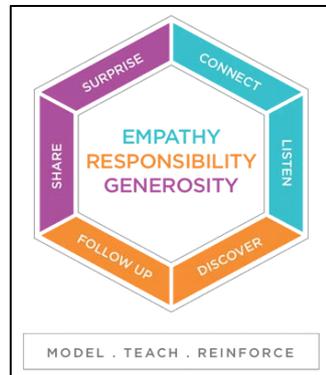
05

Sales Performance



06

Customer Loyalty



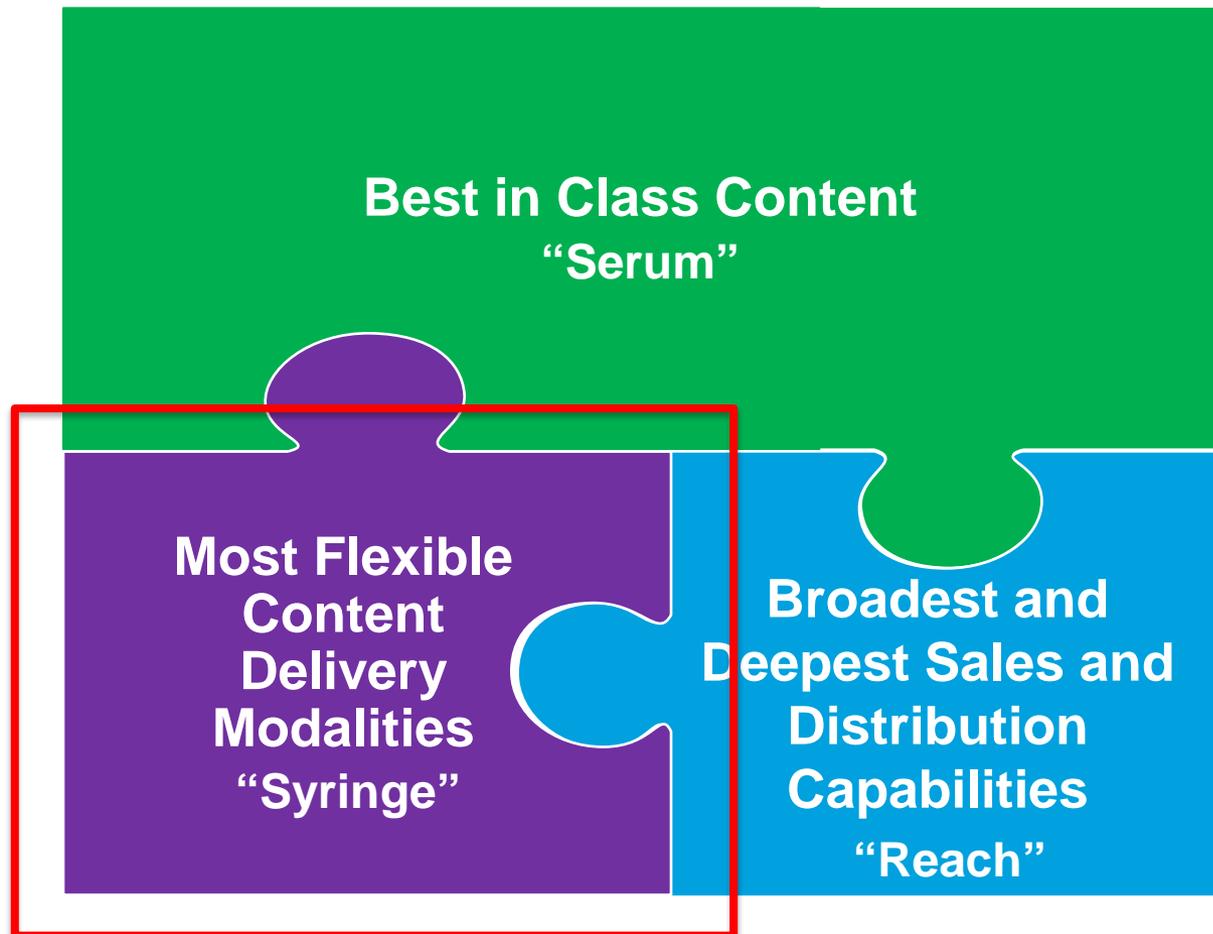
07

Education



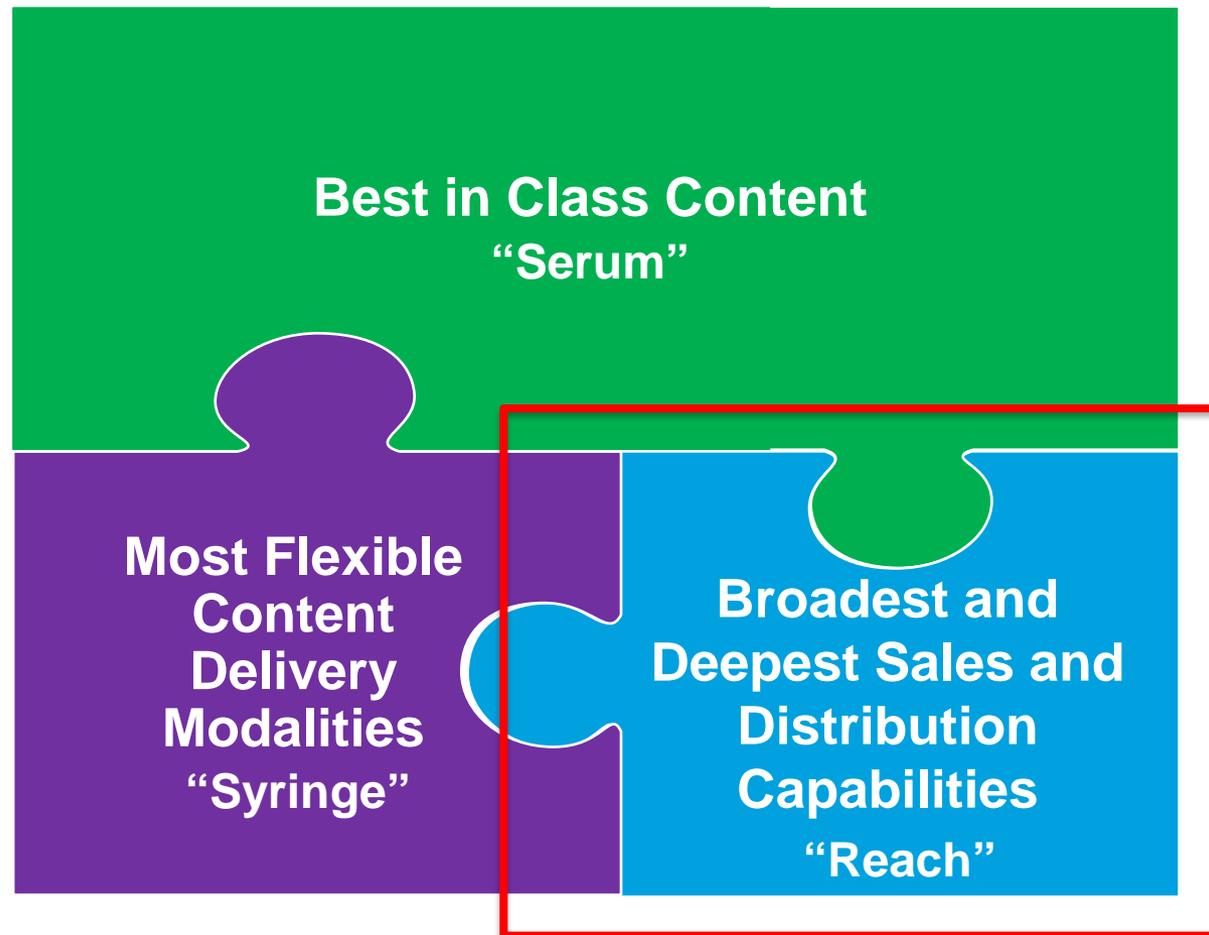
Used by  
**90% of Fortune 100** and  
more than  
**75% of Fortune 500**

# What factors are behind the significant growth in the subscription business?

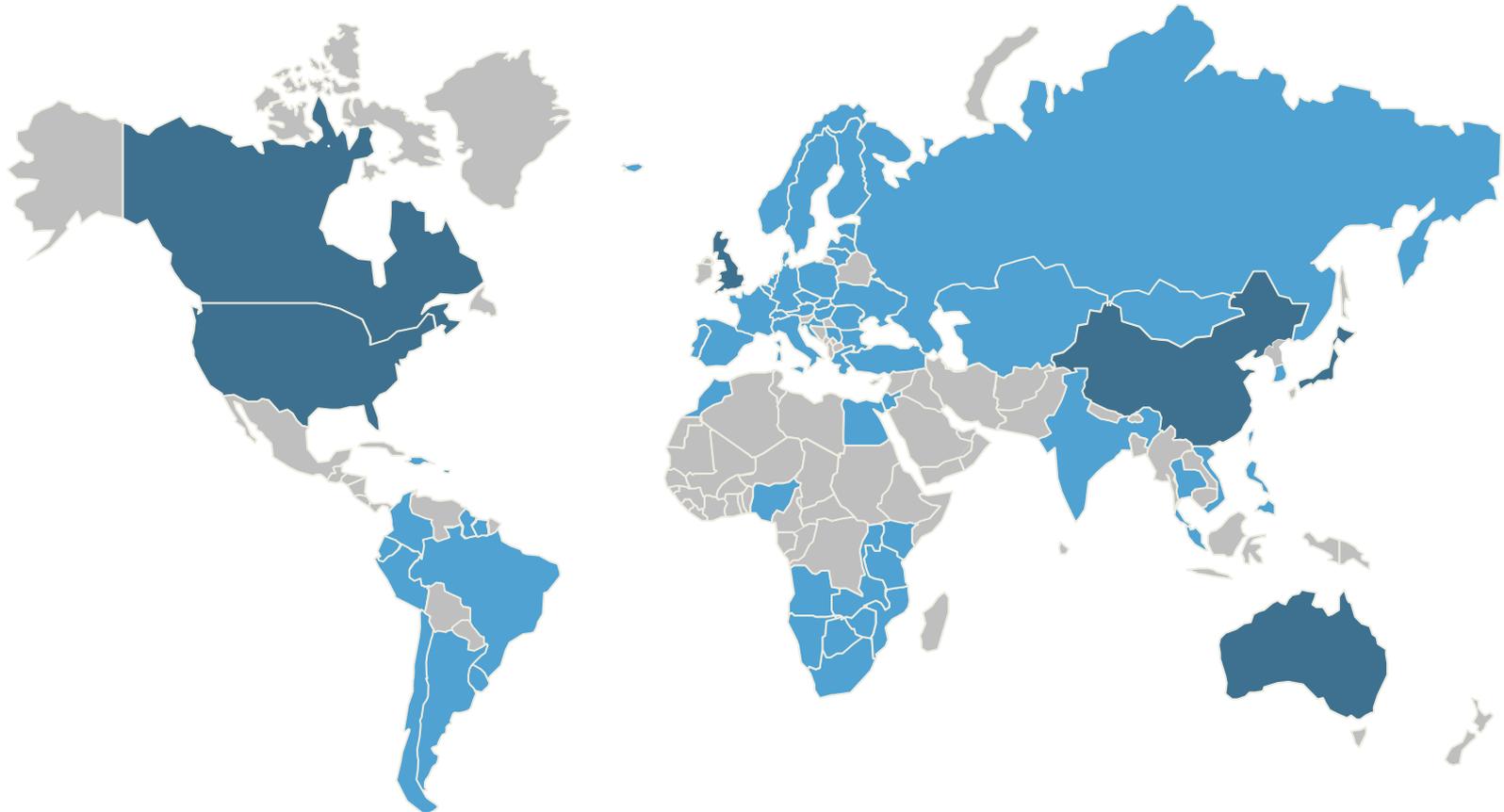




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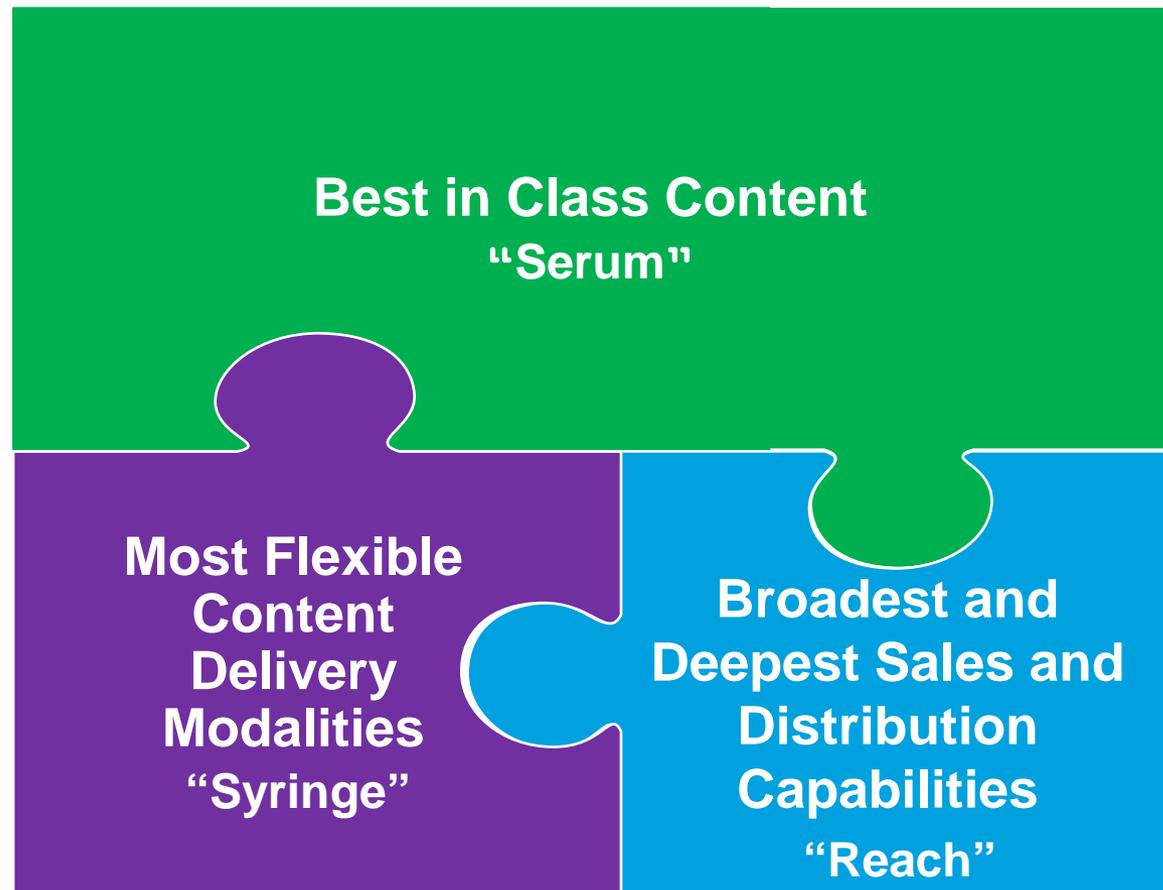
# What factors are behind the significant growth in the subscription business?



■ Direct Offices (6 countries)  
US, Canada, UK, China,  
Australia, & Japan

■ International Licensees (150+ countries)  
International Licensees gross \$68 million.  
Franklin Covey earns approximately 15%  
royalty.

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FranklinCovey

**A L L A C C E S S**

Solve your business challenges with the flexibility of the FranklinCovey All Access Pass™.

The logo features the word 'ALL ACCESS' in a bold, sans-serif font. The letters are arranged in a way that suggests movement and connectivity. Above the letters, there are blue curved lines that connect the tops of the letters, and below them, there are blue curved lines that connect the bottoms. An orange triangle is positioned above the 'A' and below the 'L', and another orange triangle is positioned below the 'A' and above the 'C'. A small 'TM' trademark symbol is located to the right of the 'S'.

Launched 2016

Revenue Growth: 115%  
Renewal Rates: 90%+  
Target EBITDA margin: 30-40%



# Training Modalities

Creates the ability to assemble, integrate, and deliver FC's content and solutions through an almost limitless combination of delivery modalities (live, live-online, online, webcasts, podcasts, integration of pieces of content into existing customer training offerings, and now, micro-learning through Jhana).

| Figure 5 Training Modalities: Use vs Effectiveness (Average Score, 5-point Scale) |      |               |
|---|------|---------------|
| Modality  | Use  | Effectiveness |
| In-person, instructor-led classroom   | 3.40 | 3.79          |
| eLearning modules   | 2.78 | 3.23          |
| Informal peer-to-peer learning  | 2.59 | 3.56          |
| On-the-job exercises  | 2.58 | 3.71          |
| Coaching/mentoring  | 2.48 | 3.88          |
| Paper-based performance support   | 2.43 | 2.85          |
| Online performance support  | 2.33 | 3.23          |
| Conference calls  | 2.28 | 2.53          |
| Video learning  | 2.17 | 2.95          |
| Virtual synchronous classrooms  | 2.13 | 3.00          |
| Industry conferences/events   | 2.07 | 2.82          |
| Pre-recorded instructor led training  | 2.03 | 2.56          |
| Recorded Webinars   | 2.01 | 2.51          |
| Published books or research   | 1.83 | 2.37          |
| Social/collaboration tools  | 1.83 | 2.98          |
| Mobile Learning delivery  | 1.70 | 2.86          |
| On-line academic institutions   | 1.69 | 2.70          |
| In-person academic institutions   | 1.68 | 2.95          |
| Games/simulations (in-person)   | 1.52 | 3.00          |
| Games/simulations (online)  | 1.48 | 2.83          |
| Podcasts  | 1.45 | 2.39          |

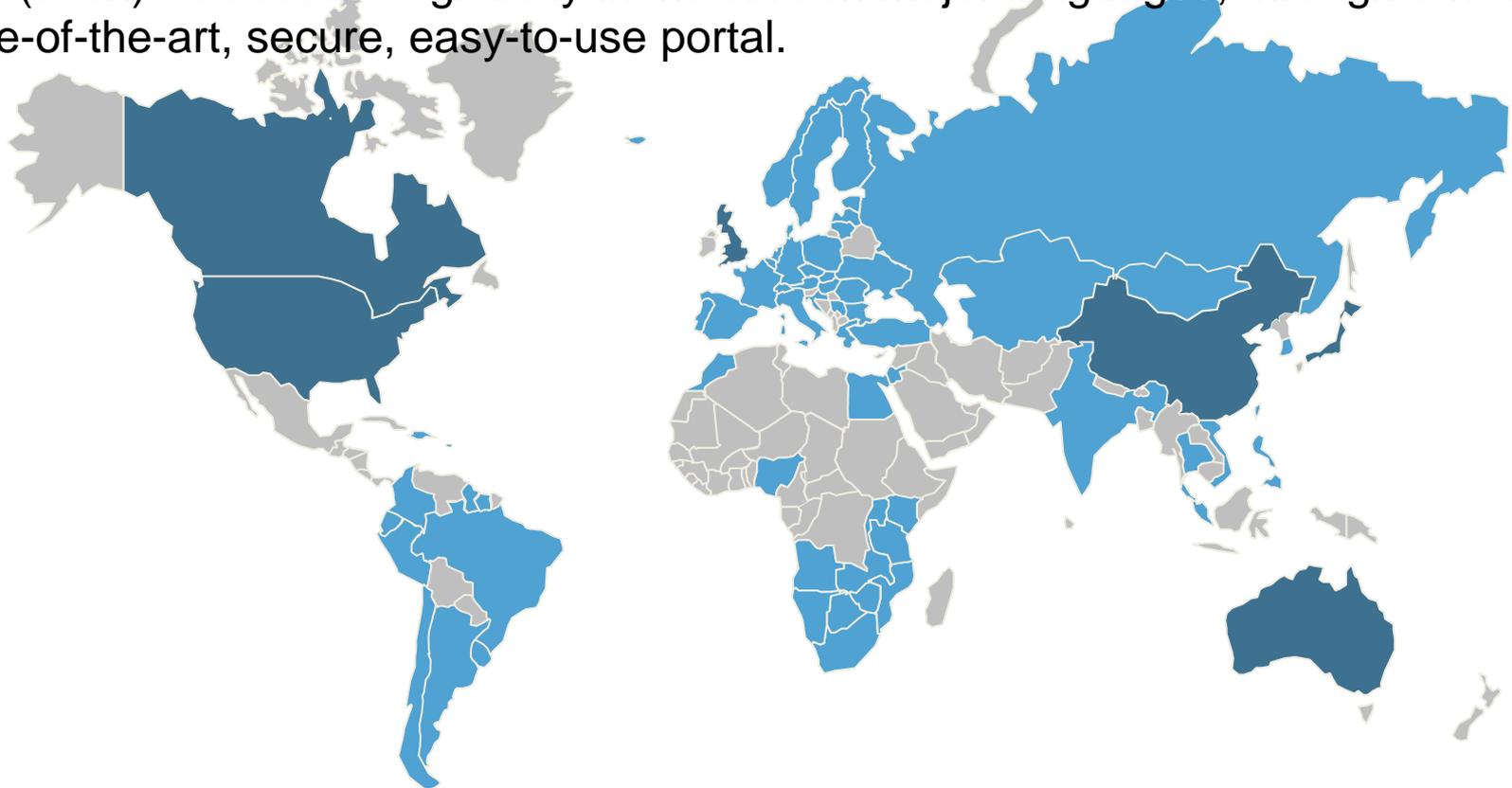
Franklin Covey



Source: 2016 Brandon Hall Group Training Benchmarking Study (n=316)

# Global Distribution

Can (soon) be accessed globally in the sixteen major languages, through a new state-of-the-art, secure, easy-to-use portal.

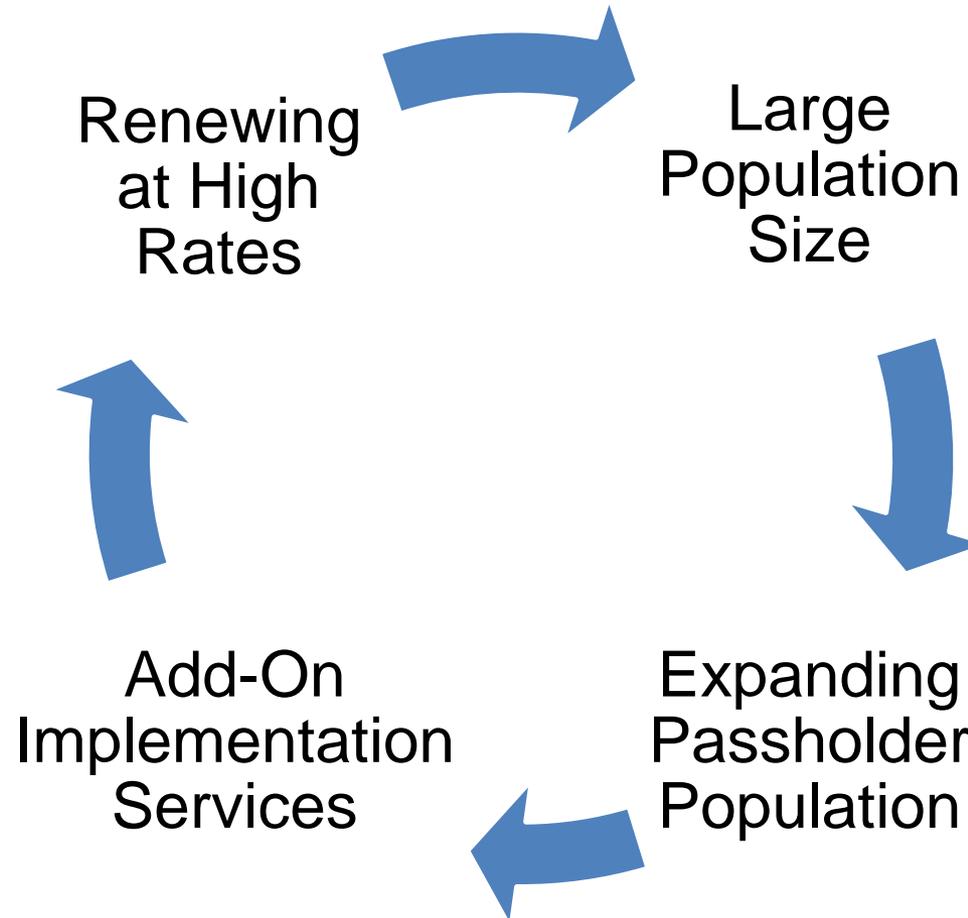


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 International Licensees (150+ countries)  
International Licensees gross \$68 million.  
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...at a cost-per-population trained which is less than or equal to that available from other providers for just a single course in a single delivery modality.

# AAP “Virtuous” Cycle



## Four Questions

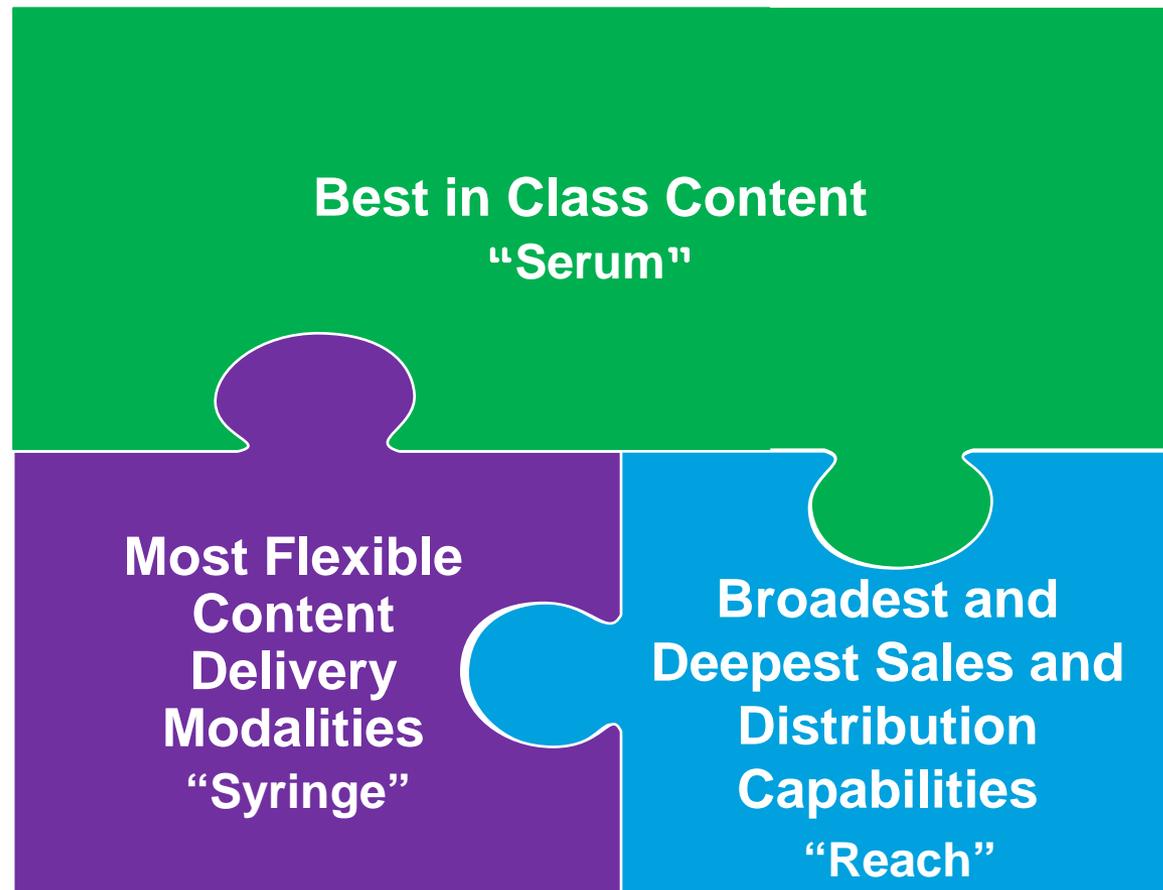
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# What are the opportunities you see for accelerating both the growth of the business, and the strength of your strategic position in the marketplace?

## Building an All Access Pass Book of Business

| Year | 10 New Passes | 20% Add-On Services | 90% Revenue Renewal | Total Revenue |
|------|---------------|---------------------|---------------------|---------------|
| 1    | \$300,000     | \$60,000            | -                   | \$360,000     |
| 2    | \$300,000     | \$114,000           | \$270,000           | \$684,000     |
| 3    | \$300,000     | \$162,600           | \$513,000           | \$975,600     |
| 4    | \$300,000     | \$206,340           | \$731,700           | \$1,238,040   |
| 5    | \$300,000     | \$245,706           | \$928,530           | \$1,474,236   |
| 6    | \$300,000     | \$281,135           | \$1,105,677         | \$1,686,812   |
| 7    | \$300,000     | \$313,022           | \$1,265,109         | \$1,878,131   |
| 8    | \$300,000     | \$341,720           | \$1,408,598         | \$2,050,318   |
| 9    | \$300,000     | \$367,548           | \$1,537,739         | \$2,205,286   |
| 10   | \$300,000     | \$390,793           | \$1,653,965         | \$2,344,758   |

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**Jhana**  
acquired July 2017

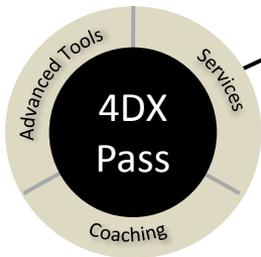
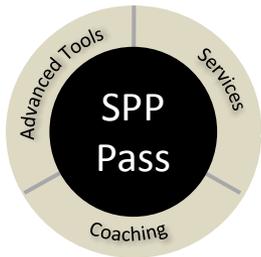
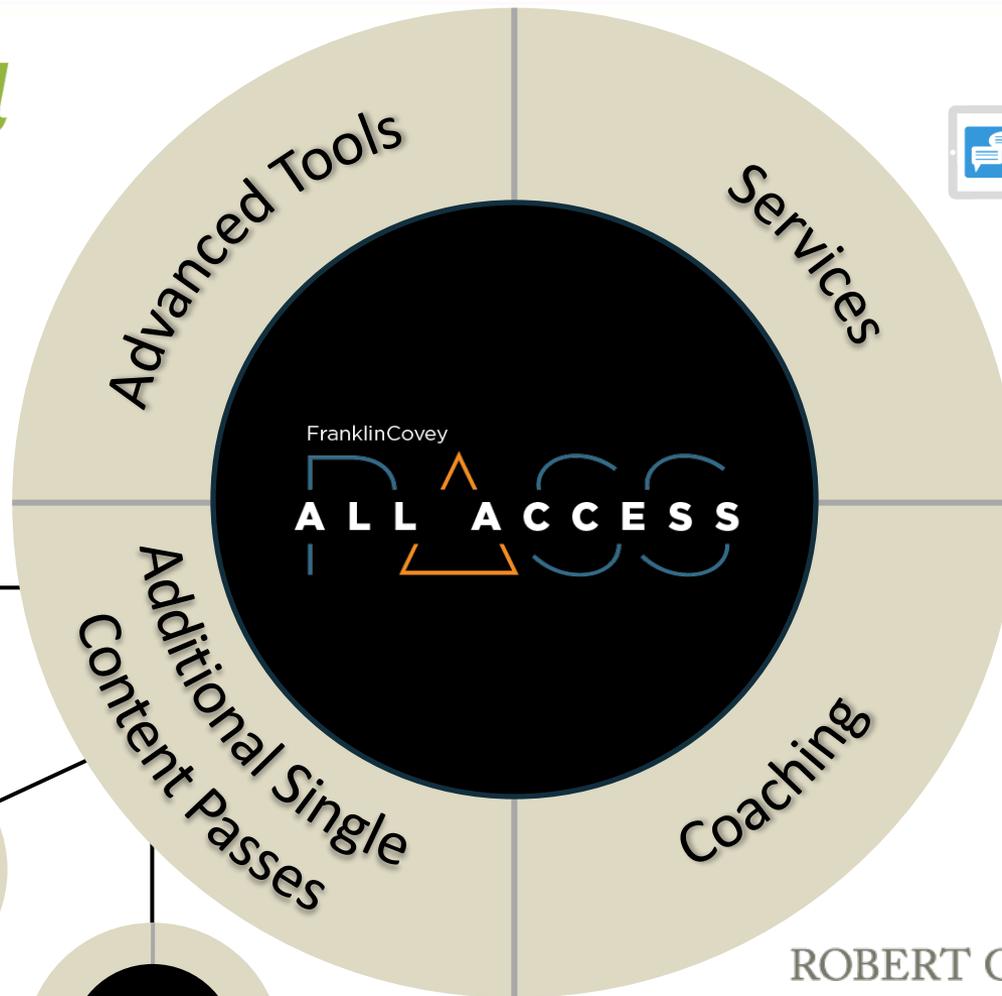


In-person Consultation  
Solution Installation  
LMS Integration  
Customization

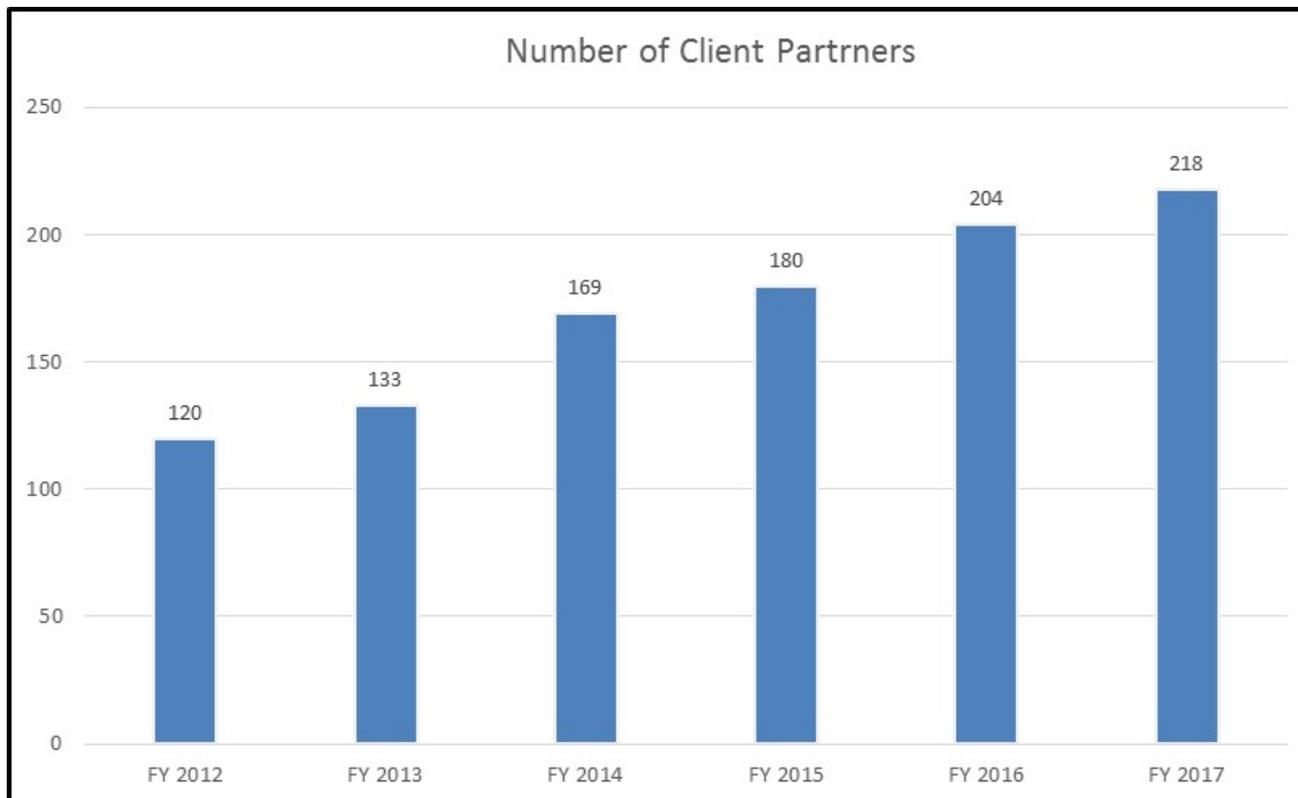
Clayton Christensen's  
"Find Out Why"  
Content

**ROBERT GREGORY** Partners  
The Next Generation in Executive Coaching and Leadership Development

acquired May 2017

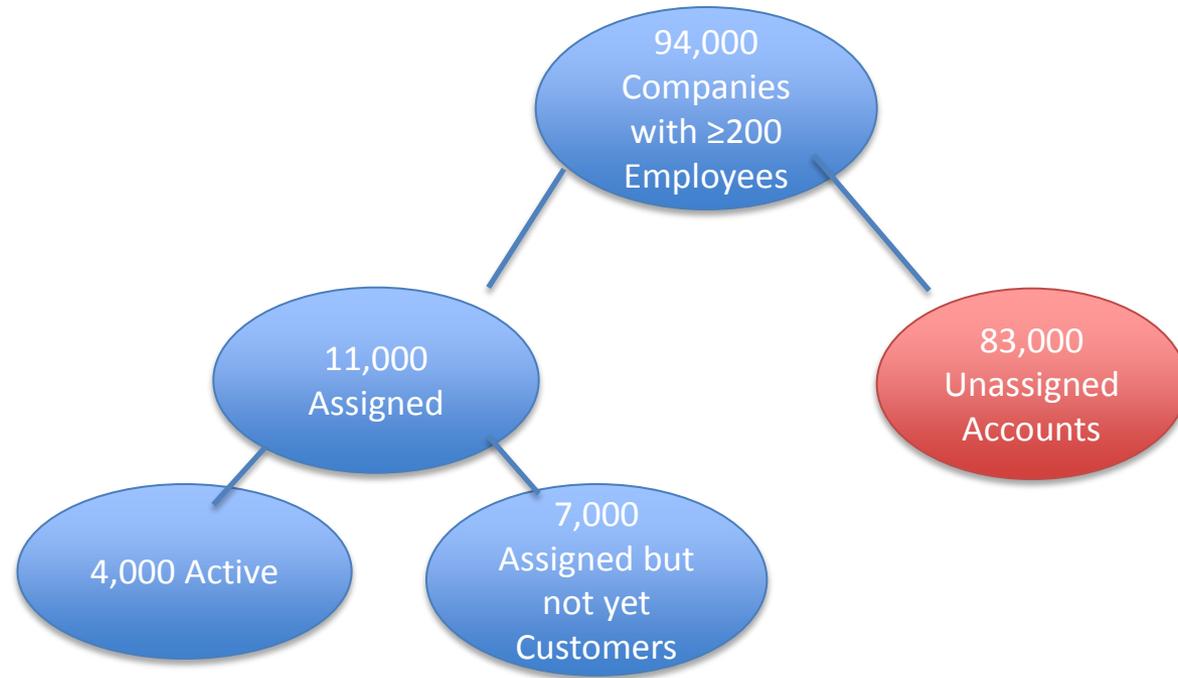


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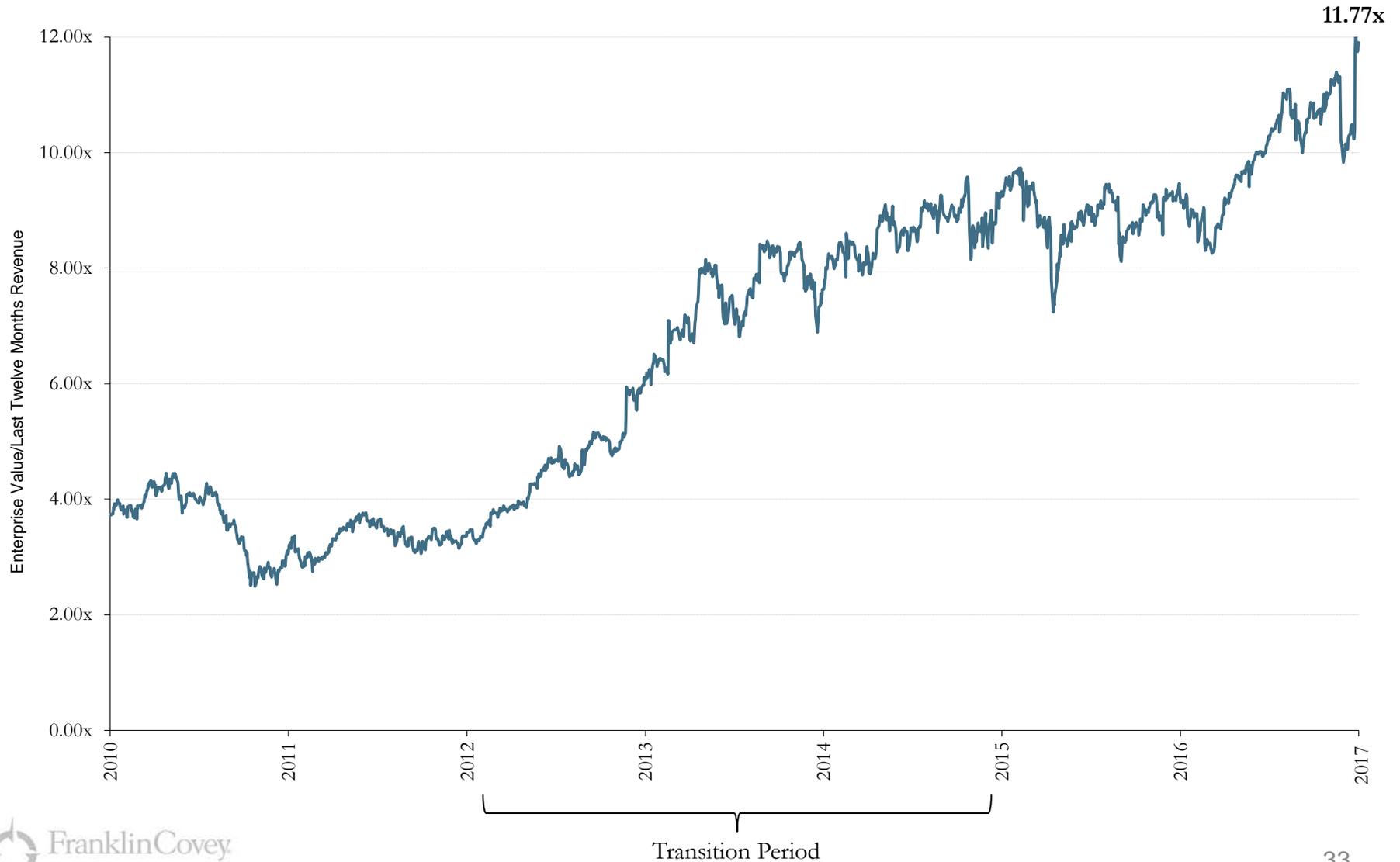


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The size of our untapped opportunity is substantial. In the U.S. alone there are more than 94,000 companies or company units with at least 200 employees – a great target for our direct sales force. Of these, only 11,000 are assigned to existing client partners (approximately 85 per Client Partner), of which 4,000 are currently active accounts. The 83,000 unassigned accounts will be assigned to new Client Partners as they are hired.



# Adobe's Transition to a SaaS Business Model

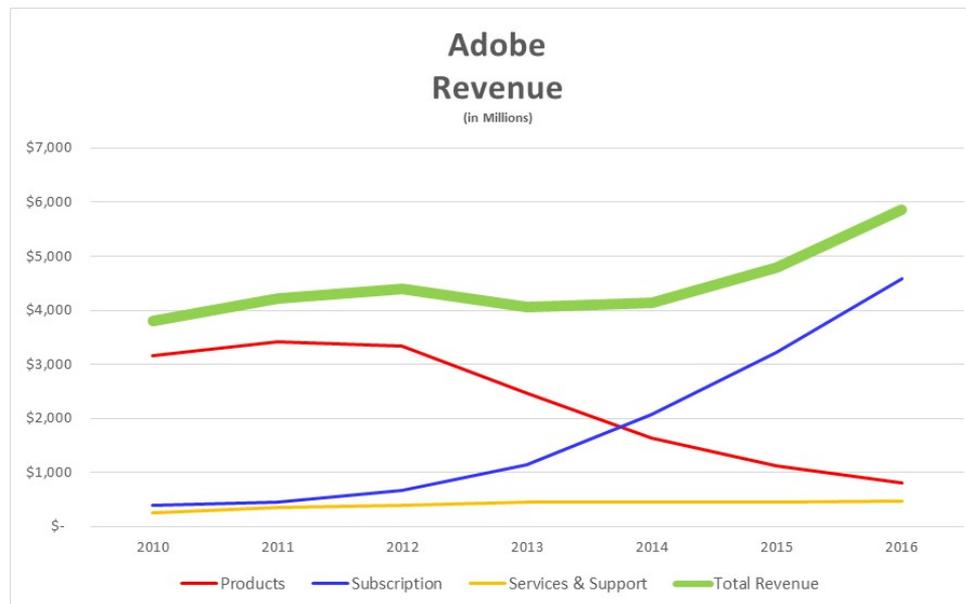


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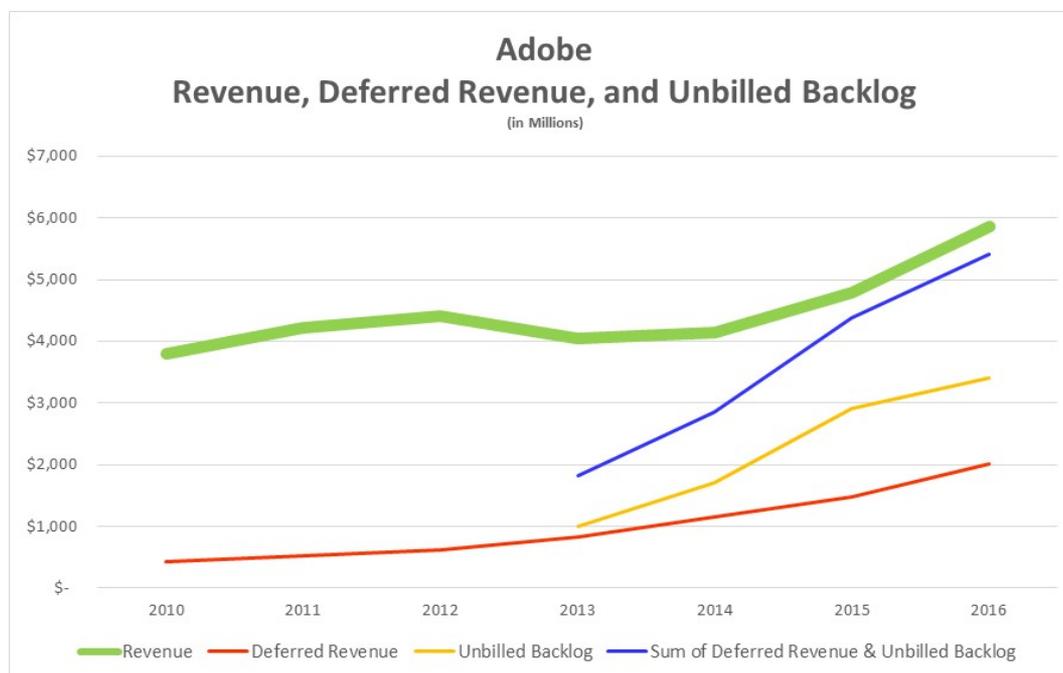
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| <b>Total Revenue</b>   | <b>\$ 3,800</b> | <b>\$ 4,215</b> | <b>\$ 4,403</b> | <b>\$ 4,055</b> | <b>\$ 4,147</b> | <b>\$ 4,794</b> | <b>\$ 5,854</b> |

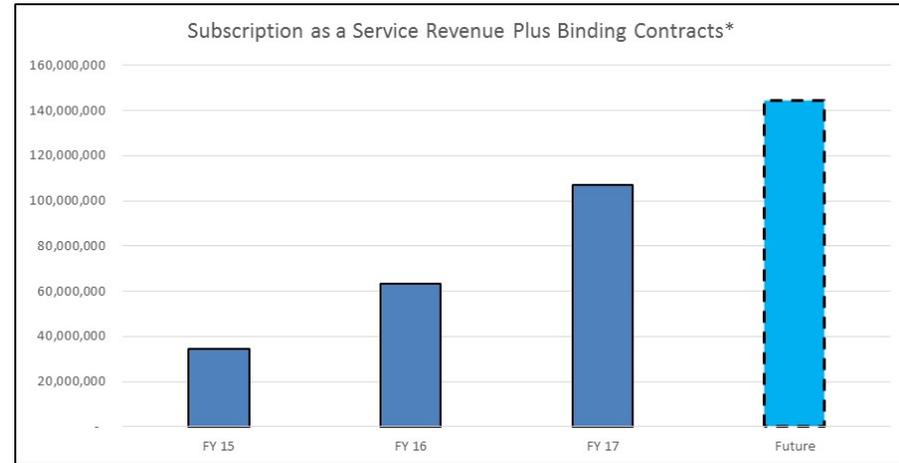
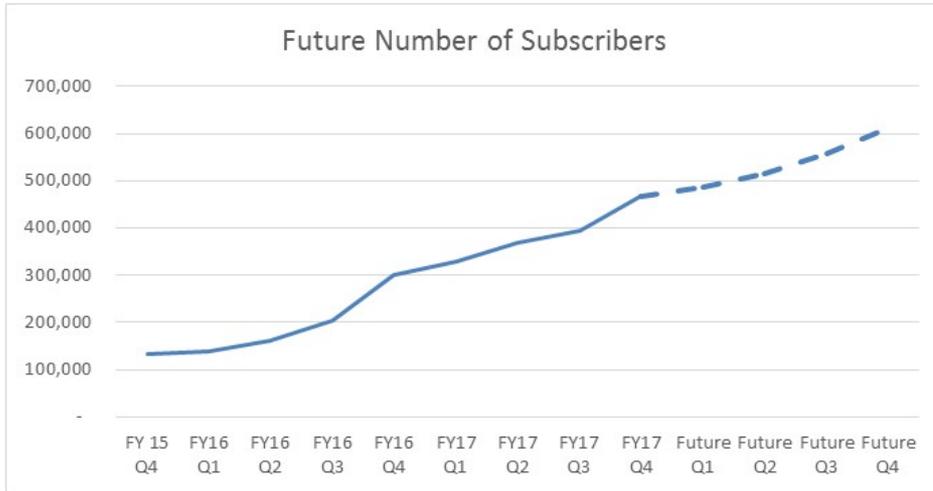


# Adobe Systems

|  | 2010     | 2011     | 2012     | 2013     | 2014     | 2015     | 2016     |
|--|----------|----------|----------|----------|----------|----------|----------|
| Revenue                                    | \$ 3,800 | \$ 4,215 | \$ 4,403 | \$ 4,055 | \$ 4,147 | \$ 4,794 | \$ 5,854 |
| Deferred Revenue                           | \$ 430   | \$ 531   | \$ 619   | \$ 829   | \$ 1,155 | \$ 1,485 | \$ 2,015 |
| Unbilled Backlog                           |          |          |          | \$ 1,000 | \$ 1,700 | \$ 2,900 | \$ 3,400 |
| Sum of Deferred Revenue & Unbilled Backlog |          |          |          | \$ 1,829 | \$ 2,855 | \$ 4,385 | \$ 5,415 |



# Future Possibilities



# Appendix

# Other Information

## Other Income Statement Information:

- Depreciation: \$3.9M in FY2017, expected to total approximately \$5.5M in FY2018
- Amortization: \$3.6M in FY2017, expected to total approximately \$5.4M in FY2018
- Net Interest and Discount: \$2.0M in FY2017, expected to total approximately \$2.2M in FY2018
- Share-based Compensation, Impaired Assets, Restructuring, ERP Implementation, Accrued Earnout and Other: totaling \$9.2M in FY2017; Share-Based Compensation, ERP Implementation, Japan Publishing, Acquisition Costs, and Other, expected to total approximately \$6.0M in FY2018
- Earnout Adjustments are not a part of these estimated amounts in FY18
- Effective Tax Benefit Rate: 34% in FY2017

## Other Information:

- Capital Expenditures: \$7.2M in FY2017, expected to total approximately \$6.4M (including new ERP system) in FY2018
- Capitalized Curriculum excluding acquired content: \$6.5M in FY2017, expected to total approximately \$6.4M in FY2018, reflecting localization of AAP content, AAP content development, and Education content development
- Share Count: 13,703K shares outstanding as of October 31, 2017. 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
- Number of salespersons: 204 on August 31, 2016, increased to 218 on August 31, 2017
- Net Cash Generated was \$28.7M in FY2016, and \$12.9M in FY2017.

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

|   | <i>Scenario A</i> | <i>Scenario D</i> |
|---|-------------------|-------------------|
| <b>Adjusted EBITDA as Reported</b>  | <b>7.7</b>        | <b>7.7</b>        |
| Management and Sales Commissions related to the significant amount of Binding Contracts             | 2.1               | 2.1               |
| <b>Adjusted EBITDA Before Certain Commissions</b>   | <b>9.8</b>        | <b>9.8</b>        |
| Contribution in Change in Subscription Related Deferred Revenue Net of Commissions                  | -                 | 17.7              |
| Amount of Contribution in Unbilled Contracted Revenue to be recognized in the next 12 months Net of | N/A               | N/A               |
| Total Amount of Unbilled Contracted Revenue   | N/A               | 14.0              |
| Commissions to be paid on Contributions considered  | -                 | (2.1)             |
| <b>Total</b>  | <b>9.8</b>        | <b>39.4</b>       |
| <b>4th Quarter Contribution under the same approach</b>   | <b>13.0</b>       | <b>35.0</b>       |
| Contribution embedded in Deferred Revenue and Unbilled Contracts not yet considered                 | 29.6              | -                 |

|   | <i>Scenario A</i> | <i>Scenario B</i> | <i>Scenario C*</i> | <i>Scenario D</i> |
|---|-------------------|-------------------|--------------------|-------------------|
| <b>Adjusted EBITDA as Reported</b>  | <b>7.7</b>        | <b>7.7</b>        | <b>7.7</b>         | <b>7.7</b>        |
| Management and Sales Commissions related to the significant amount of Binding Contracts             | 2.1               | 2.1               | 2.1                | 2.1               |
| <b>Adjusted EBITDA Before Certain Commissions</b>   | <b>9.8</b>        | <b>9.8</b>        | <b>9.8</b>         | <b>9.8</b>        |
| Contribution in Change in Subscription Related Deferred Revenue Net of Commissions                  | -                 | 17.7              | 17.7               | 17.7              |
| Amount of Contribution in Unbilled Contracted Revenue to be recognized in the next 12 months Net of | N/A               | N/A               | 5.7                | N/A               |
| Total Amount of Unbilled Contracted Revenue   | N/A               | N/A               | N/A                | 14.0              |
| Commissions to be paid on Contributions considered  | -                 |                   | (0.8)              | (2.1)             |
| <b>Total</b>  | <b>9.8</b>        | <b>27.5</b>       | <b>32.4</b>        | <b>39.4</b>       |
| <b>4th Quarter Contribution under the same approach</b>   | <b>13.0</b>       | <b>23.7</b>       | <b>28.6</b>        | <b>35.0</b>       |
| Contribution embedded in Deferred Revenue and Unbilled Contracts not yet considered                 | 29.6              | 11.9              | 7.0                | -                 |

\* This column represents as reported EBITDA plus change in deferred Revenue (Billed and Unbilled) less certain costs to be recognized over the next 12 months

# Definitions

- “Deferred Revenue” primarily consists of billings or payments received in advance of revenue recognition from subscription services and is recognized as the revenue recognition criteria are met. The Company generally invoices customers in annual installments. The deferred revenue balance is influenced by several factors, including seasonality, the compounding effects of renewals, invoice duration, invoice timing and dollar 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.
- “Embedded Adjusted EBITDA Contribution” represents Deferred Revenue and Unbilled Deferred Revenue balances less a standard estimated 15% charge for certain costs.
- “Contracted Revenue for Next Four Quarters” represents the amount of Deferred Revenue and Unbilled Deferred Revenue expected to be recognized in the next four quarters.

# Definitions

- Net Cash Generated – Adjusted EBITDA, plus change in Deferred Revenue less certain costs (calculated as 15% of the change in Deferred Revenue), plus curriculum amortization, less purchase of property and equipment, less curriculum development costs, less cash paid for taxes, and excluding changes to working capital and other operating costs not included in Adjusted EBITDA.

# Non-GAAP Financial Information

A reconciliation of a non-GAAP financial measure, “Adjusted EBITDA,” to consolidated net income (loss), the most comparable GAAP financial measure is provided within this presentation. The Company defines Adjusted EBITDA as net income or loss from operations excluding the impact of interest expense, income tax expense, amortization, depreciation, stock-based compensation expense, restructuring charges, and certain other items such as adjustments to the fair value of contingent consideration liabilities resulting from the acquisition of businesses. 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.

**FRANKLIN COVEY CO.**  
**Condensed Consolidated Statements of Operations**  
(in thousands, except per-share amounts, and unaudited)

|  | <u>Quarter Ended</u>       |                            | <u>Fiscal Year Ended</u>   |                            |
|--|----------------------------|----------------------------|----------------------------|----------------------------|
|  | <u>August 31,<br/>2017</u> | <u>August 31,<br/>2016</u> | <u>August 31,<br/>2017</u> | <u>August 31,<br/>2016</u> |
| Net sales                                | \$ 59,523                  | \$ 64,831                  | \$ 185,256                 | \$ 200,055                 |
| Cost of sales                            | <u>17,535</u>              | <u>19,164</u>              | <u>62,589</u>              | <u>64,901</u>              |
| Gross profit                             | 41,988                     | 45,667                     | 122,667                    | 135,154                    |
| Selling, general, and administrative     | 31,970                     | 30,069                     | 121,148                    | 113,589                    |
| Restructuring costs                      | 147                        | 400                        | 1,482                      | 776                        |
| Contract termination costs               | -                          | -                          | 1,500                      | -                          |
| Depreciation                             | 1,136                      | 868                        | 3,879                      | 3,677                      |
| Amortization                             | 1,261                      | 721                        | 3,538                      | 3,263                      |
| <b>Income (loss) from operations</b>     | <b><u>7,474</u></b>        | <b><u>13,609</u></b>       | <b><u>(8,880)</u></b>      | <b><u>13,849</u></b>       |
| Interest expense, net                    | <u>(479)</u>               | <u>(523)</u>               | <u>(2,029)</u>             | <u>(1,938)</u>             |
| <b>Income (loss) before income taxes</b> | <b><u>6,995</u></b>        | <b><u>13,086</u></b>       | <b><u>(10,909)</u></b>     | <b><u>11,911</u></b>       |
| Income tax benefit (provision)           | <u>(2,336)</u>             | <u>(5,360)</u>             | <u>3,737</u>               | <u>(4,895)</u>             |
| <b>Net income (loss)</b>                 | <b><u>\$ 4,659</u></b>     | <b><u>\$ 7,726</u></b>     | <b><u>\$ (7,172)</u></b>   | <b><u>\$ 7,016</u></b>     |
| Net income (loss) per common share:      |                            |                            |                            |                            |
| Basic                                    | \$ 0.34                    | \$ 0.55                    | \$ (0.52)                  | \$ 0.47                    |
| Diluted                                  | 0.33                       | 0.55                       | (0.52)                     | 0.47                       |
| Weighted average common shares:          |                            |                            |                            |                            |
| Basic                                    | 13,824                     | 13,998                     | 13,819                     | 14,944                     |
| Diluted                                  | 13,983                     | 14,118                     | 13,819                     | 15,076                     |
| Other data:                              |                            |                            |                            |                            |
| Adjusted EBITDA <sup>(1)</sup>           | <u>\$ 10,905</u>           | <u>\$ 16,219</u>           | <u>\$ 7,699</u>            | <u>\$ 26,894</u>           |

(1) The term Adjusted EBITDA (earnings before interest, income taxes, depreciation, amortization, stock-based compensation, restructuring charges, 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      |                    | Fiscal Year Ended  |                    |
|---|--------------------|--------------------|--------------------|--------------------|
|   | August 31,<br>2017 | August 31,<br>2016 | August 31,<br>2017 | August 31,<br>2016 |
| Reconciliation of net income (loss) to Adjusted EBITDA: |                    |                    |                    |                    |
| Net income (loss)                                       | \$ 4,659           | \$ 7,726           | \$ (7,172)         | \$ 7,016           |
| Adjustments:  |                    |                    |                    |                    |
| Interest expense, net                                   | 479                | 523                | 2,029              | 1,938              |
| Income tax provision (benefit)                          | 2,336              | 5,360              | (3,737)            | 4,895              |
| Amortization  | 1,261              | 721                | 3,538              | 3,263              |
| Depreciation  | 1,136              | 868                | 3,879              | 3,677              |
| Stock-based compensation                                | (329)              | 199                | 3,658              | 3,121              |
| Costs to exit Japan publishing business                 | 315                | -                  | 2,107              | -                  |
| Restructuring costs                                     | 147                | 400                | 1,482              | 776                |
| Contract termination costs                              | -                  | -                  | 1,500              | -                  |
| Increase (reduction) to contingent earnout liabilities  | -                  | 82                 | (1,936)            | 1,538              |
| ERP system implementation costs                         | 484                | 224                | 1,404              | 448                |
| Business acquisition costs                              | 417                | -                  | 442                | -                  |
| China start-up costs                                    | -                  | 116                | 505                | 222                |
| Adjusted EBITDA   | <u>\$ 10,905</u>   | <u>\$ 16,219</u>   | <u>\$ 7,699</u>    | <u>\$ 26,894</u>   |
| Adjusted EBITDA margin                                  | 18.3%              | 25.0%              | 4.2%               | 13.4%              |

**FRANKLIN COVEY CO.**

**Additional Sales and Financial Information**

(in thousands and unaudited)

|  | Quarter Ended      |                    | Fiscal Year Ended  |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | August 31,<br>2017 | August 31,<br>2016 | August 31,<br>2017 | August 31,<br>2016 |
| <b>Sales Detail by Segment:</b>        |                    |                    |                    |                    |
| Direct offices                         | \$ 27,984          | \$ 31,496          | \$ 96,662          | \$ 103,605         |
| Strategic markets                      | 6,794              | 8,149              | 22,974             | 29,819             |
| Education practice                     | 18,935             | 18,324             | 44,122             | 40,844             |
| International licensees                | 3,381              | 4,412              | 13,571             | 17,113             |
| Corporate and other                    | 2,429              | 2,450              | 7,927              | 8,674              |
| <b>Total</b>                           | <u>\$ 59,523</u>   | <u>\$ 64,831</u>   | <u>\$ 185,256</u>  | <u>\$ 200,055</u>  |
| <b>Sales Detail by Category:</b>       |                    |                    |                    |                    |
| Training and consulting services       | \$ 57,835          | \$ 61,915          | \$ 177,816         | \$ 189,661         |
| Products                               | 798                | 1,884              | 3,881              | 6,009              |
| Leasing                                | 890                | 1,032              | 3,559              | 4,385              |
|  | <u>59,523</u>      | <u>64,831</u>      | <u>185,256</u>     | <u>200,055</u>     |
| <b>Cost of Goods Sold by Category:</b> |                    |                    |                    |                    |
| Training and consulting services       | 16,375             | 17,375             | 56,557             | 59,158             |
| Products                               | 658                | 1,125              | 3,990              | 3,206              |
| Leasing                                | 502                | 664                | 2,042              | 2,537              |
|  | <u>17,535</u>      | <u>19,164</u>      | <u>62,589</u>      | <u>64,901</u>      |
| <b>Gross Profit</b>                    | <u>\$ 41,988</u>   | <u>\$ 45,667</u>   | <u>\$ 122,667</u>  | <u>\$ 135,154</u>  |

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

|   | August 31,<br>2017 | August 31,<br>2016 |
|---|--------------------|--------------------|
| <u>Assets</u>   |                    |                    |
| Current assets:   |                    |                    |
| Cash  | \$ 8,924           | \$ 10,456          |
| Accounts receivable, less allowance for<br>doubtful accounts of \$2,310 and \$1,579 | 66,343             | 65,960             |
| Receivable from related party   | 1,020              | 1,933              |
| Inventories   | 3,353              | 5,042              |
| Income taxes receivable   | 259                | -                  |
| Prepaid expenses and other current assets   | 11,936             | 6,350              |
| Total current assets  | <u>91,835</u>      | <u>89,741</u>      |
| Property and equipment, net   | 19,730             | 16,083             |
| Intangible assets, net  | 57,294             | 50,196             |
| Goodwill  | 24,220             | 19,903             |
| Long-term receivable from related party   | 727                | 1,235              |
| Other long-term assets  | 16,925             | 13,713             |
|   | <u>\$ 210,731</u>  | <u>\$ 190,871</u>  |
| <u>Liabilities and Shareholders' Equity</u>   |                    |                    |
| Current liabilities:  |                    |                    |
| Current portion of financing obligation   | \$ 1,868           | \$ 1,662           |
| Current portion of term notes payable   | 6,250              | 3,750              |
| Accounts payable  | 9,119              | 10,376             |
| Deferred revenue  | 40,772             | 20,847             |
| Accrued liabilities   | 22,617             | 17,422             |
| Total current liabilities   | <u>80,626</u>      | <u>54,057</u>      |
| Line of credit  | 4,377              | -                  |
| Term notes payable, less current portion  | 12,813             | 10,313             |
| Financing obligation, less current portion  | 21,075             | 22,943             |
| Other liabilities   | 5,742              | 3,173              |
| Deferred income tax liabilities   | 1,033              | 6,670              |
| Total liabilities   | <u>125,666</u>     | <u>97,156</u>      |
| Shareholders' equity:   |                    |                    |
| Common stock  | 1,353              | 1,353              |
| Additional paid-in capital  | 212,484            | 211,203            |
| Retained earnings   | 69,456             | 76,628             |
| Accumulated other comprehensive income  | 667                | 1,222              |
| Treasury stock at cost, 13,414 and 13,332 shares                                    | (198,895)          | (196,691)          |
| Total shareholders' equity  | <u>85,065</u>      | <u>93,715</u>      |
|   | <u>\$ 210,731</u>  | <u>\$ 190,871</u>  |