

# Investor Update

## Second 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.

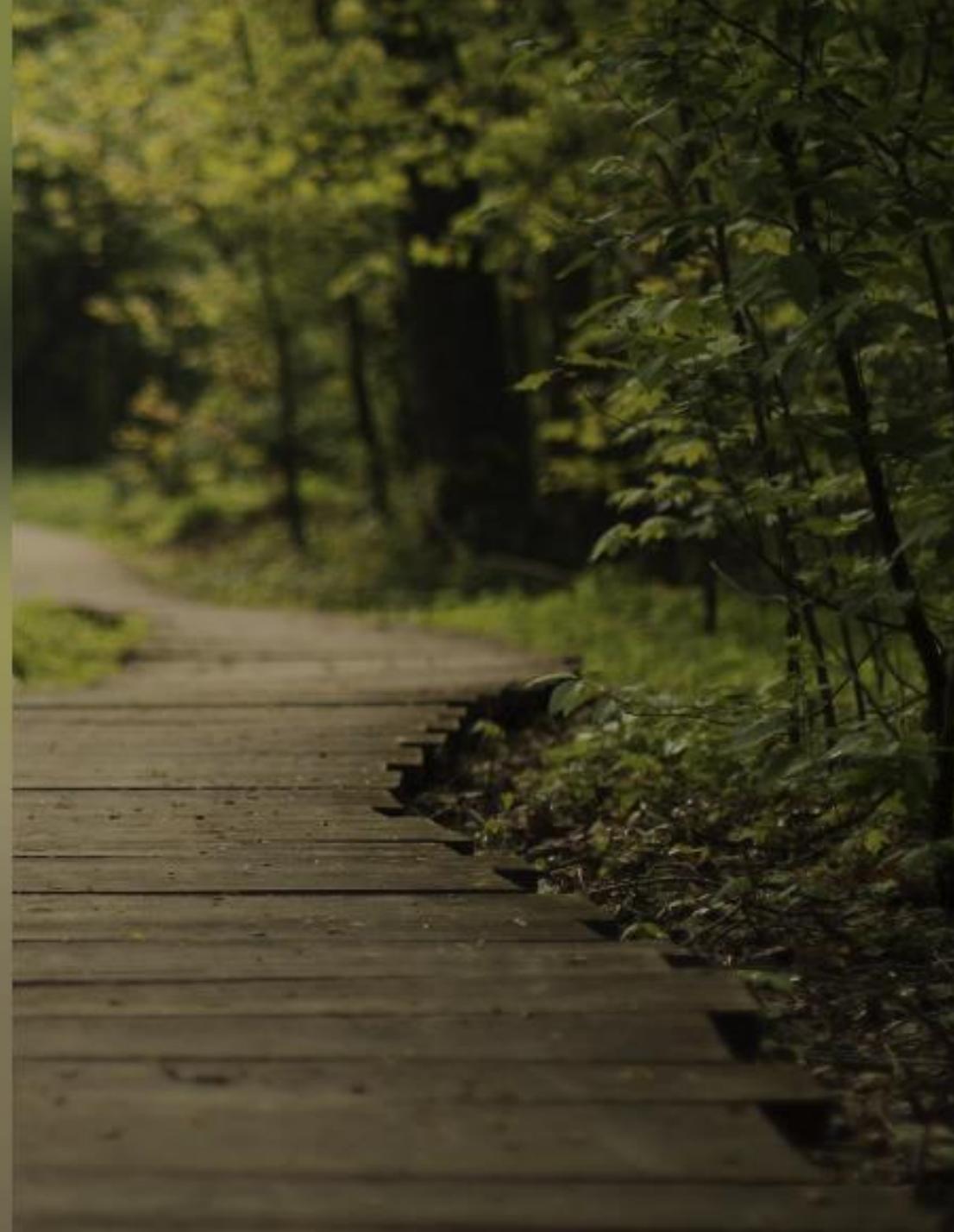
FranklinCovey

**ALL ACCESS PASS**

PASSHOLDER GUIDE

# LEADING THROUGH UNCERTAINTY

Leverage the FranklinCovey All Access Pass<sup>®</sup>  
to lead through times of change.



Leader in Me COVID-19 Response Center

# Resources for Families

FOR TEACHERS

FOR ADMINISTRATORS



Bite-Sized Lessons



7 Habits Cartoons



Activity Blog



Student Leadership Videos

Featured Resource Collections

All Resources

Over 3,800 Resources on *Leader in Me* Online!

Leader in Me School staff members can access thousands of resources including lesson plans, videos, classroom materials, and on-demand professional development courses as part of their School Membership. Feel free to share the public

# Four Takeaways

1

STRONG SECOND  
QUARTER RESULTS.  
ENTERED THIRD  
QUARTER STRONG  
OPERATIONALLY,  
FINANCIALLY, AND  
WITH SIGNIFICANT  
LIQUIDITY

2

ENTERED THIS  
PERIOD STRONG  
STRATEGICALLY,  
WITH SOLUTIONS  
AND BUSINESS  
MODEL VALUED BY  
OUR CLIENTS

3

SAME KEY FACTORS  
THAT HAVE DRIVEN  
OUR ACCELERATED  
GROWTH IN  
ADJUSTED EBITDA  
AND CASH FLOW IN  
THE PAST, WILL DO  
SO AS WE COME  
OUT OF THE  
DOWNTURN

4

IN POSITION TO  
PROVIDE OUR  
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SOLUTIONS THEY  
NEED DURING  
THESE TIMES

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# Strong Trends

(in millions and unaudited)

	As Reported		
	Q2 FY20	Q2 FY19	Change
Revenue	53.7	50.4	6.7%
Subscription and Related Sales	31.4	25.3	24%
Adjusted EBITDA	4.1	1.0	321%
Flow Through %	91%		

	YTD Q2 FY20	YTD Q2 FY19	Change
Cash Flows from Operating Activities	17.4	13.4	30%

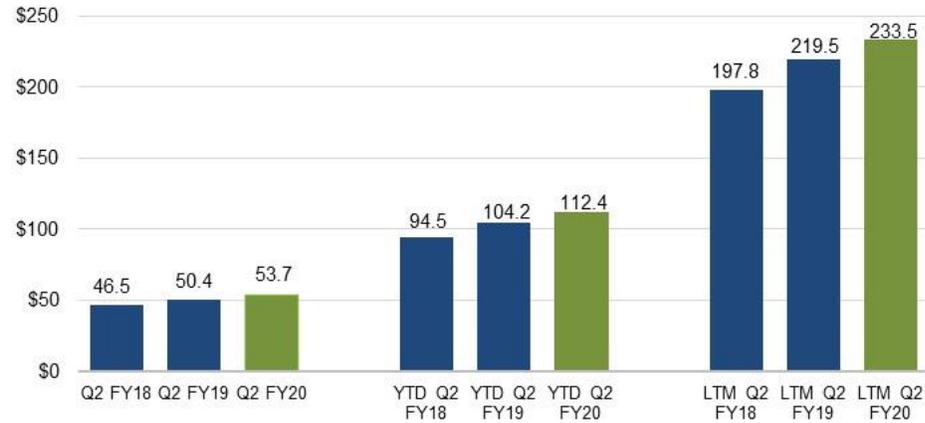
As Reported Less China and Japan's Results		
Q2 FY20	Q2 FY19	Change
49.0	44.1	11.2%
31.2	25.3	23%
3.6	(0.4)	N/A
82%		

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

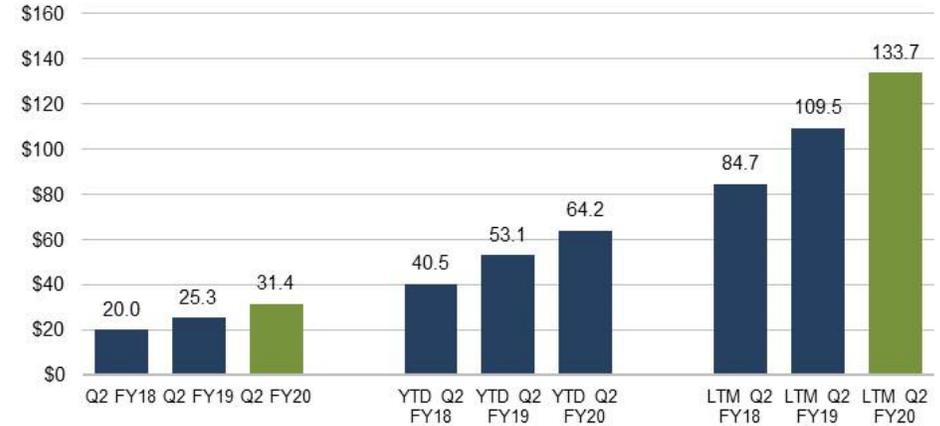
# FranklinCovey: Strong Revenue Momentum

(in millions and unaudited)

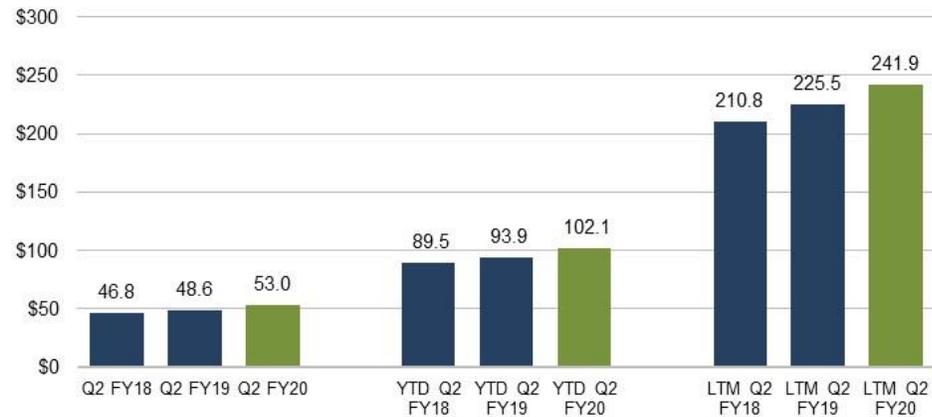
## REVENUE



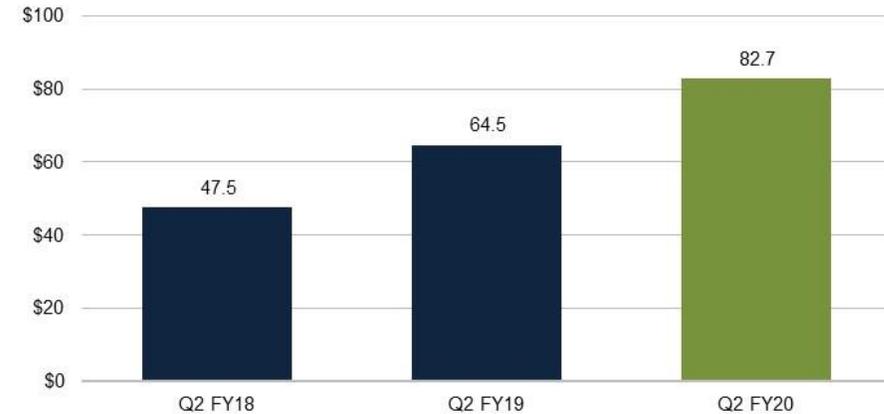
## SUBSCRIPTION AND RELATED SALES



## INVOICED



## BILLED & UNBILLED DEFERRED REVENUE



1

# FranklinCovey – Financial Summary

(in millions and unaudited)

	Q2FY20	Q2FY19	Chg	%	YTDQ2 FY20	YTDQ2 FY19	Chg	%	LTM Q2FY20	LTM Q2FY19	Chg	%
<b>Sales</b>	<b>53.7</b>	<b>50.4</b>	<b>3.4</b>	<b>6.7%</b>	<b>112.4</b>	<b>104.2</b>	<b>8.2</b>	<b>7.8%</b>	<b>233.5</b>	<b>219.5</b>	<b>14.1</b>	<b>6.4%</b>
Cost of Sales	15.1	15.0	0.1	0.6%	32.0	31.7	0.4	1.2%	65.7	64.6	1.0	1.6%
<b>Gross Profit</b>	<b>38.7</b>	<b>35.4</b>	<b>3.3</b>	<b>9.3%</b>	<b>80.7</b>	<b>72.1</b>	<b>8.5</b>	<b>11.8%</b>	<b>167.9</b>	<b>154.8</b>	<b>13.0</b>	<b>8.4%</b>
Gross Profit %	71.9%	70.2%	171 bps		71.8%	69.3%	257 bps		71.9%	70.5%	133 bps	
Operating SG&A	34.6	34.4	0.2	0.6%	71.7	68.0	3.7	5.4%	142.4	138.7	3.6	2.6%
Operating SG&A %	64.4%	68.3%	392 bps		63.8%	65.3%	149 bps		61.0%	63.2%	226 bps	
<b>Adjusted EBITDA</b>	<b>4.1</b>	<b>1.0</b>	<b>3.1</b>	<b>321.0%</b>	<b>9.0</b>	<b>4.1</b>	<b>4.9</b>	<b>118.2%</b>	<b>25.5</b>	<b>16.1</b>	<b>9.4</b>	<b>58.6%</b>

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

# Four Takeaways

1

STRONG SECOND QUARTER RESULTS. ENTERED THIRD QUARTER STRONG OPERATIONALLY, FINANCIALLY, AND WITH SIGNIFICANT LIQUIDITY

2

ENTERED THIS PERIOD STRONG STRATEGICALLY, WITH SOLUTIONS AND BUSINESS MODEL VALUED BY OUR CLIENTS

3

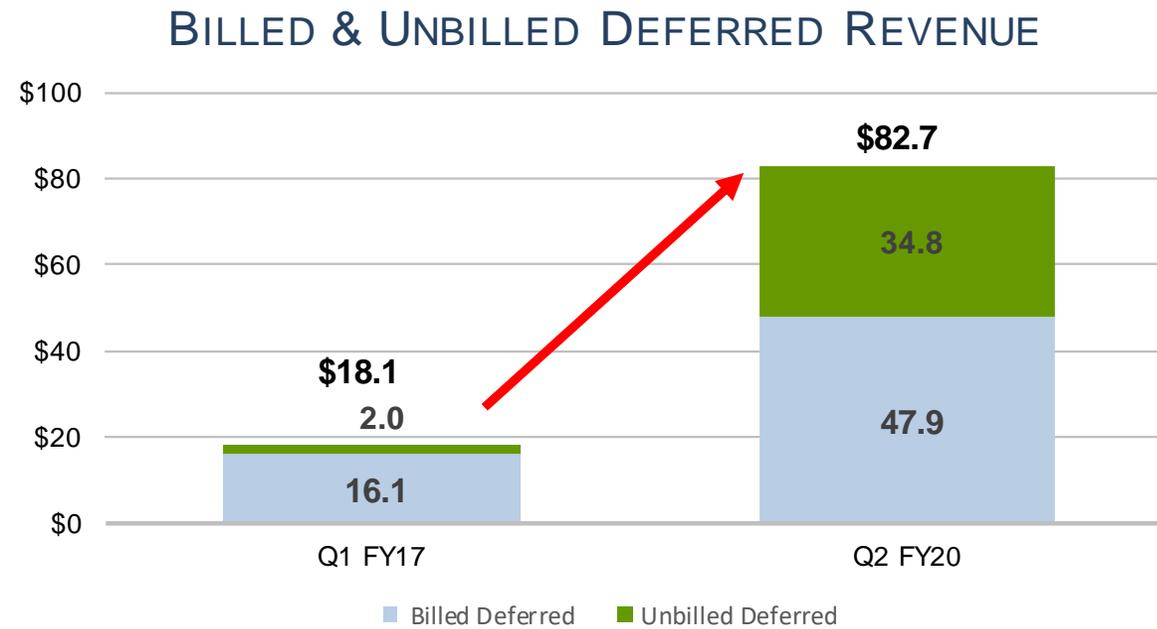
SAME KEY FACTORS THAT HAVE DRIVEN OUR ACCELERATED GROWTH IN ADJUSTED EBITDA AND CASH FLOW IN THE PAST, WILL DO SO AS WE COME OUT OF THE DOWNTURN

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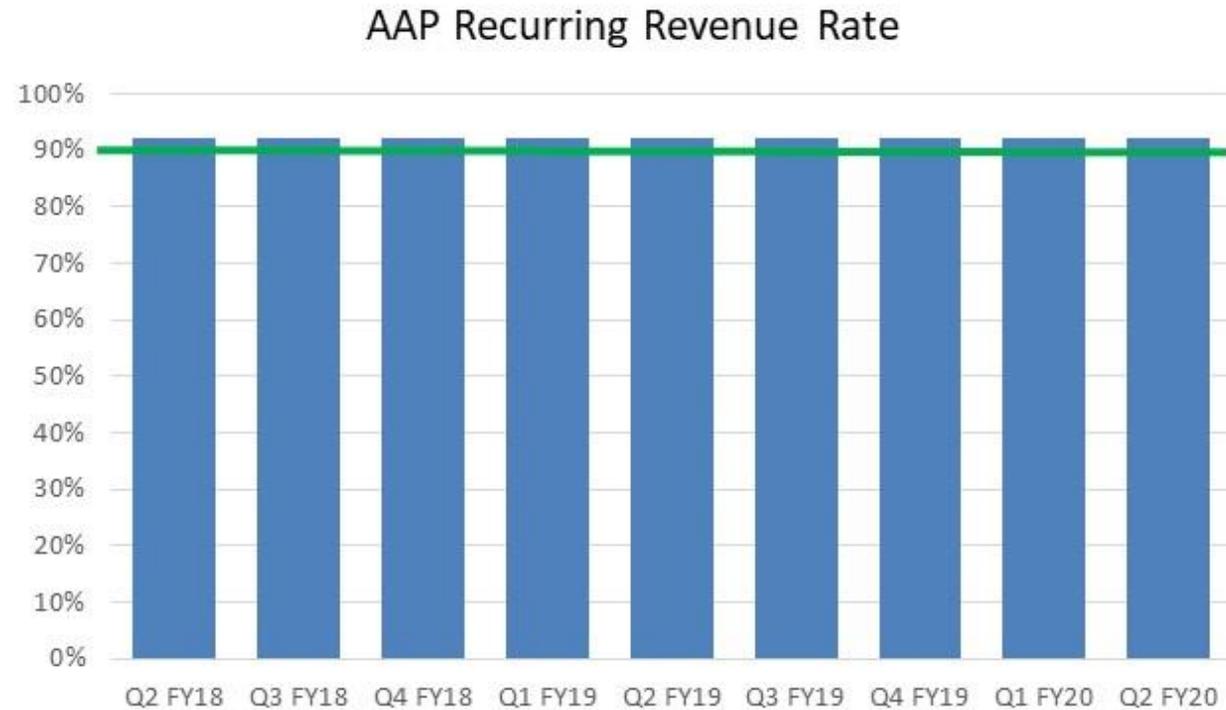
IN POSITION TO PROVIDE OUR CLIENTS WITH SOLUTIONS THEY NEED DURING THESE TIMES

# Profitable Revenue

(in millions and unaudited)



# All Access Pass Subscription Renewals



2

## Enterprise Division Examples



4,000 seat  
All Access Pass  
New Logo



Continued  
commitment to  
The 4 Disciplines  
of Execution



Multi-year All  
Access Pass to  
reduce spend with  
other providers



Adding 800 users  
to current All  
Access Pass for  
remote workers



Senior sales leader  
interest in Sales  
Performance  
solutions

2

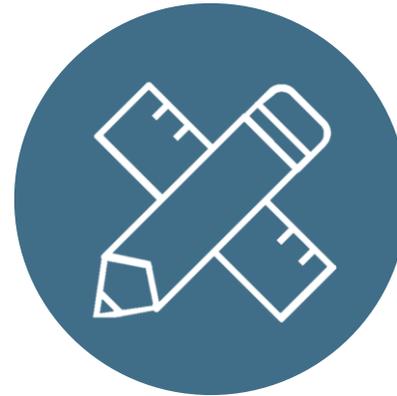
## Education Division Examples



248 Leader in Me school subscription renewals & 38 new schools in March



New contract to train 8,400 high school students live-online



Large district near Chicago proceeding with 20 new Leader in Me schools



One Client Partner recently closed 10 new district-wide deals

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## Key Factors

- Power of our subscription model
- High lifetime customer value
- High flow-through of incremental revenue to incremental Adjusted EBITDA and Cash Flow

## Powerful Subscription Model Second Quarter

Total  
Subscription and  
Related  
Revenue Grew

**24%**

All Access Pass  
and Related  
Grew

**28%**

All Access Pass  
and Related  
Sales grew to

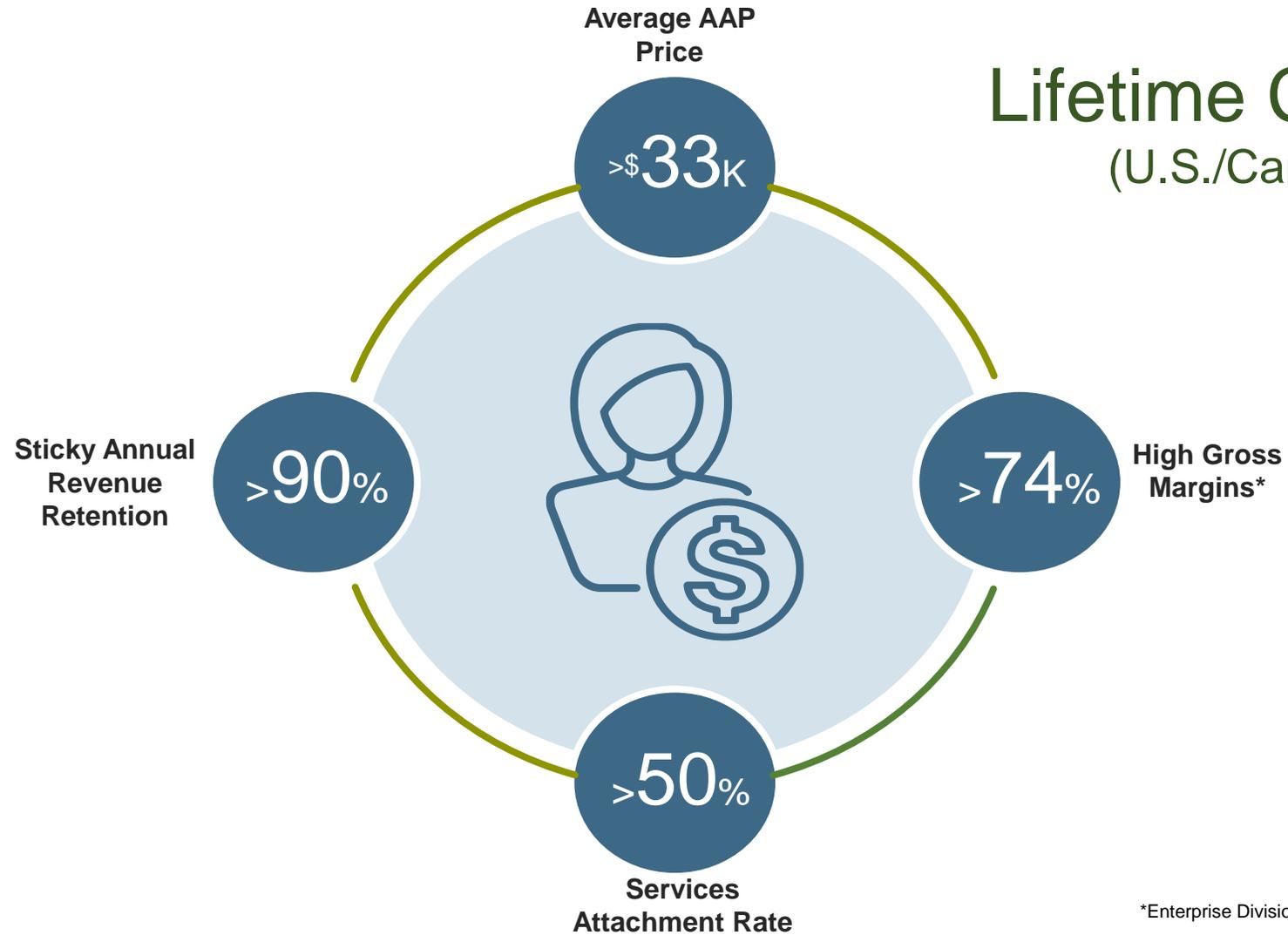
**\$91M**

for LTM Q2FY20

Deferred Revenue  
Balances Grew to

**\$82.7M**

# Key Factors



## Lifetime Customer Value (U.S./Canada/Government)

\*Enterprise Division Gross Margin - Blend between Subscription & Services

## Key Factors

1. High single digit revenue growth
2. Strong and increasing Gross Margin percentage
3. Declining Operating SG&A / Sales percentage

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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 \$8.5M in FY2020.
- Effective Tax Rate: Our normalized effective tax rate is expected to be 26% to 30%, before unusual permanent book/tax differences and benefit of re-measuring deferred taxes. Therefore, the tax rate could be a significantly different percentage, and we are not projecting an FY20 effective rate.

## OTHER INFORMATION:

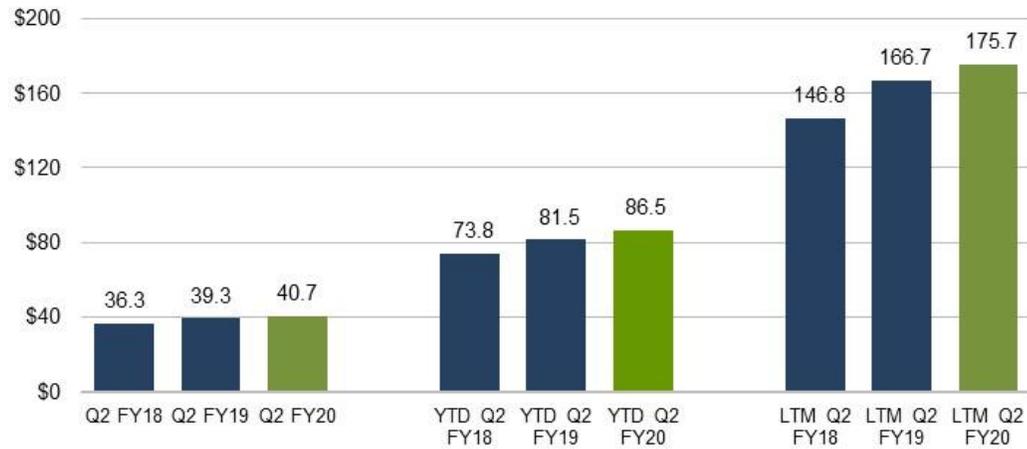
- Capital Expenditures: \$4.2M in FY2019, expected to total approximately \$5.5M to \$6.2M in FY2020.
- Capitalized Curriculum excluding acquired content: \$2.7M in FY2019, expected to total approximately \$6.0M to \$7.0M in FY2020, including localization of AAP content, AAP content development, and Education content development.
- Share Count: 13,870K shares outstanding as of March 31, 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: 255 on February 29, 2020.
- Impact of FX in Q2FY20: decrease to Sales \$.2M in Q2 and \$.3M TYD; decrease to Adjusted EBITDA \$.2M in Q2 and \$.3M YTD.

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

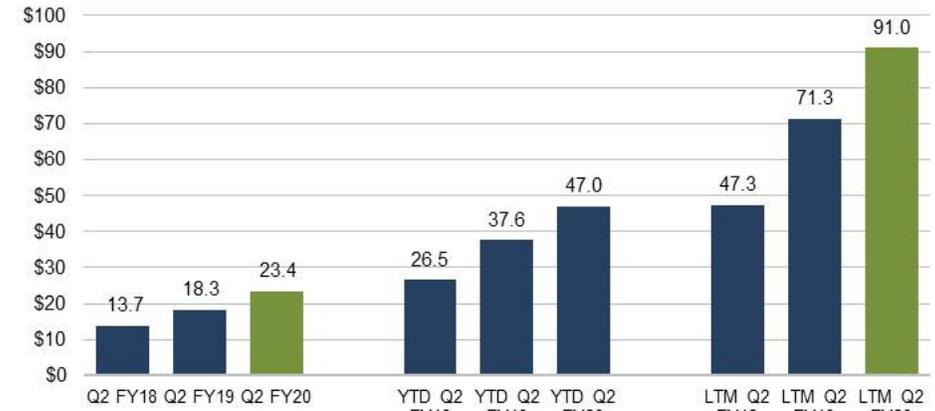
# Enterprise Division - Strong Revenue Momentum

(in millions and unaudited)

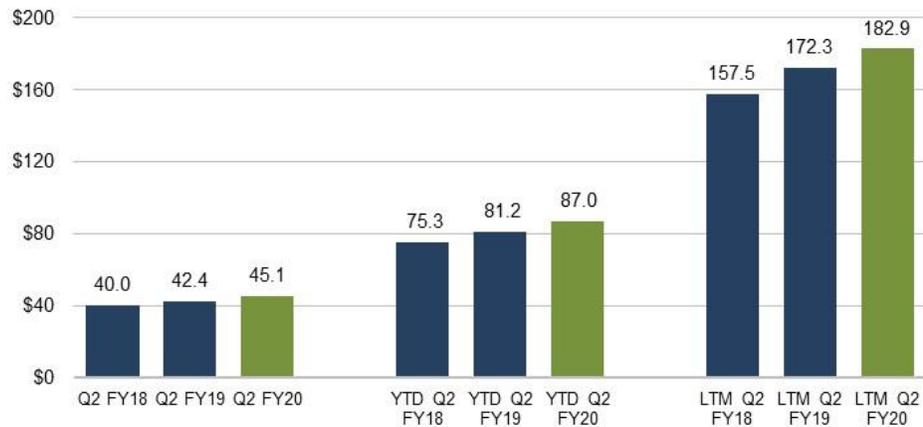
## REVENUE



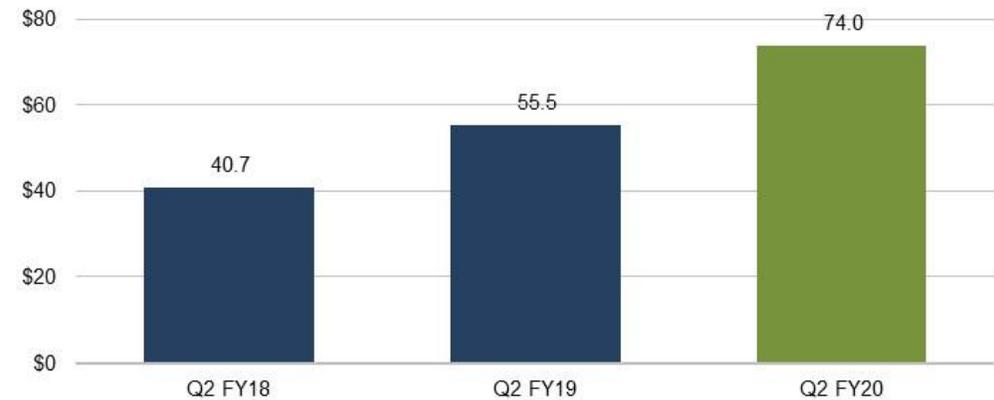
## AAP AND RELATED SALES



## INVOICED



## BILLED & UNBILLED DEFERRED REVENUE



# Enterprise Division - Financial Summary

(in millions and unaudited)

	Q2FY20	Q2FY19	Chg	%	YTDQ2 FY20	YTDQ2 FY19	Chg	%	LTM Q2FY20	LTM Q2FY19	Chg	%
<b>Sales</b>	<b>40.7</b>	<b>39.3</b>	<b>1.3</b>	<b>3.4%</b>	<b>86.5</b>	<b>81.5</b>	<b>5.0</b>	<b>6.2%</b>	<b>175.7</b>	<b>166.7</b>	<b>8.9</b>	<b>5.4%</b>
Cost of Sales	9.7	9.8	(0.1)	-0.8%	21.0	22.0	(1.0)	-4.5%	42.7	43.4	(0.8)	-1.8%
<b>Gross Profit</b>	<b>30.9</b>	<b>29.5</b>	<b>1.4</b>	<b>4.8%</b>	<b>65.5</b>	<b>59.4</b>	<b>6.0</b>	<b>10.1%</b>	<b>133.0</b>	<b>123.3</b>	<b>9.7</b>	<b>7.9%</b>
Gross Profit %	76.1%	75.1%	102 bps		75.7%	73.0%	272 bps		75.7%	74.0%	176 bps	
Operating SG&A	24.8	25.8	(0.9)	-3.6%	51.6	50.4	1.2	2.4%	102.6	102.2	0.4	0.4%
Operating SG&A %	61.0%	65.5%	446 bps		59.7%	61.9%	222 bps		58.4%	61.3%	289 bps	
<b>Adjusted EBITDA</b>	<b>6.1</b>	<b>3.8</b>	<b>2.4</b>	<b>62.7%</b>	<b>13.9</b>	<b>9.0</b>	<b>4.8</b>	<b>53.5%</b>	<b>30.4</b>	<b>21.1</b>	<b>9.3</b>	<b>44.1%</b>

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

# Enterprise Division - AAP & Related Revenue Growing Rapidly

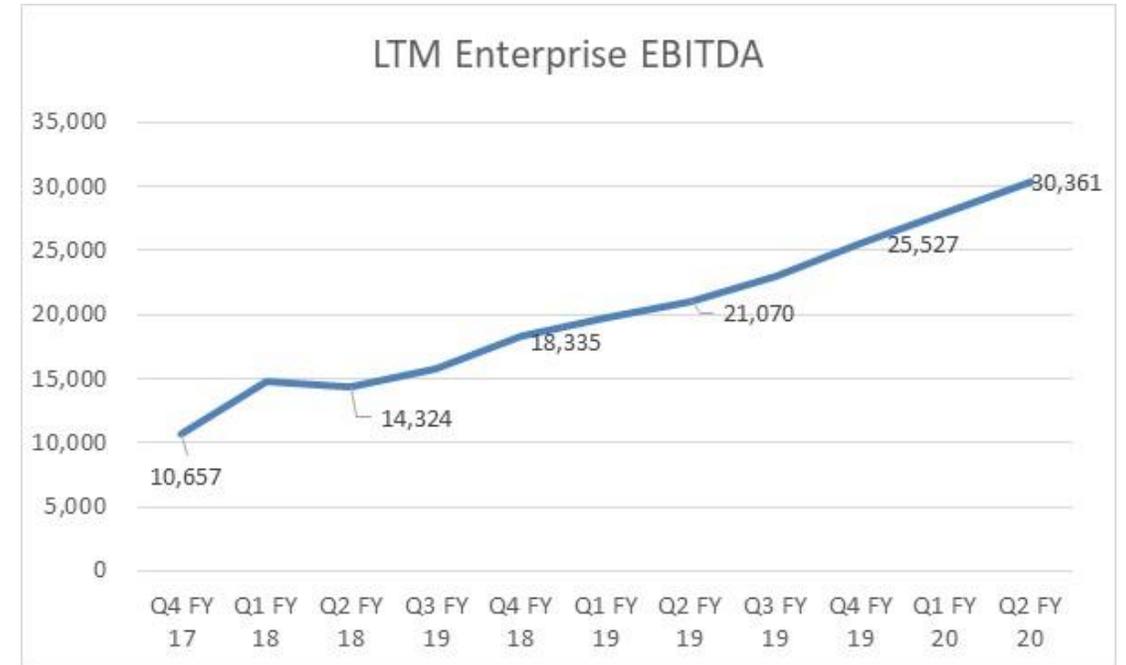
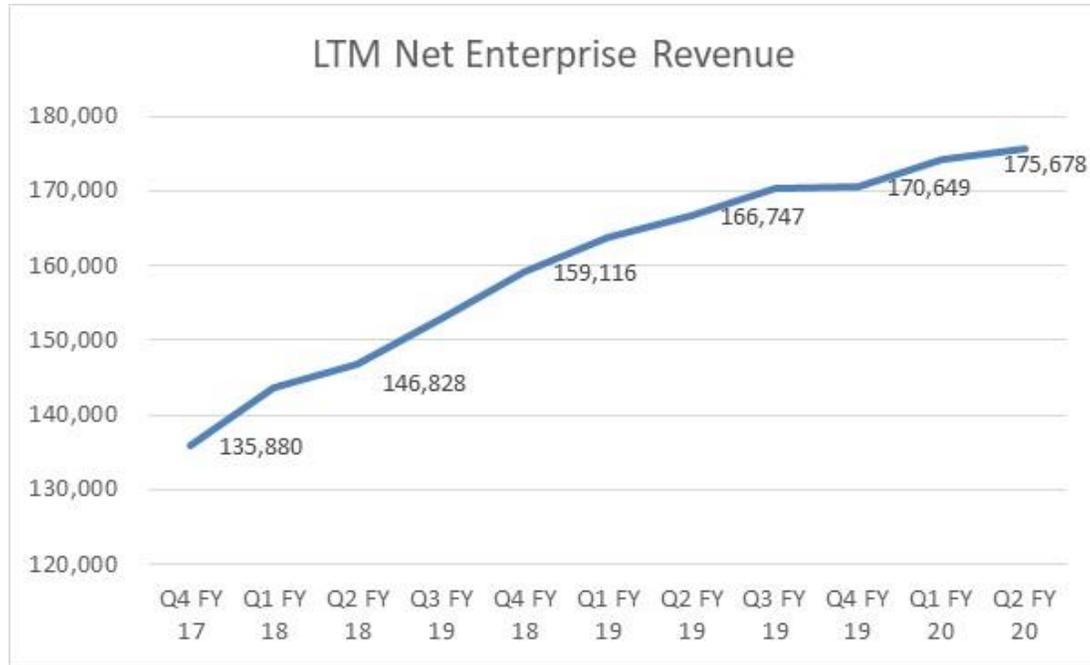
(in millions and unaudited)

## Subscription and Subscription Related Sales Information

	<i>LTM Q2 FY20</i>	<i>LTM Q2 FY 19</i>	<i>LTM Q2 FY 18</i>	<i>Q2 FY20</i>	<i>Q2 FY19</i>
AAP Sales	58.4	48.8	32.1	15.5	12.8
AAP Add on Sales	32.5	22.5	15.2	7.9	5.5
<b>Total AAP and Related</b>	<b>91.0</b>	<b>71.3</b>	<b>47.3</b>	<b>23.4</b>	<b>18.3</b>
<b>Percent of AAP and Related Sales to Total Enterprise Sales</b>	<b>52%</b>	<b>43%</b>	<b>32%</b>	<b>58%</b>	<b>47%</b>
Legacy Revenue	50.1	58.1	65.4	10.4	13.1
International licensees	12.7	13.4	13.6	2.7	2.9
Other Sales	21.9	23.9	20.6	4.1	5.0
<b>Total Enterprise Sales</b>	<b>175.7</b>	<b>166.7</b>	<b>146.8</b>	<b>40.7</b>	<b>39.3</b>

# Enterprise Division - Financial Summary

(in millions and unaudited)

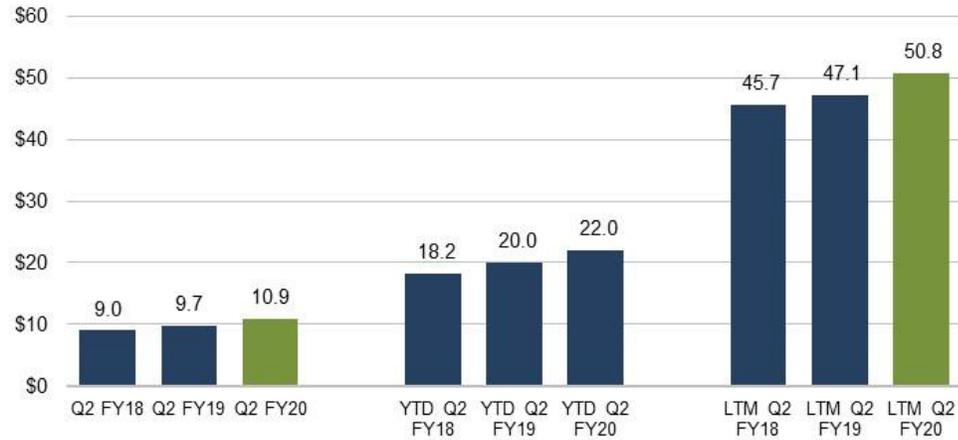


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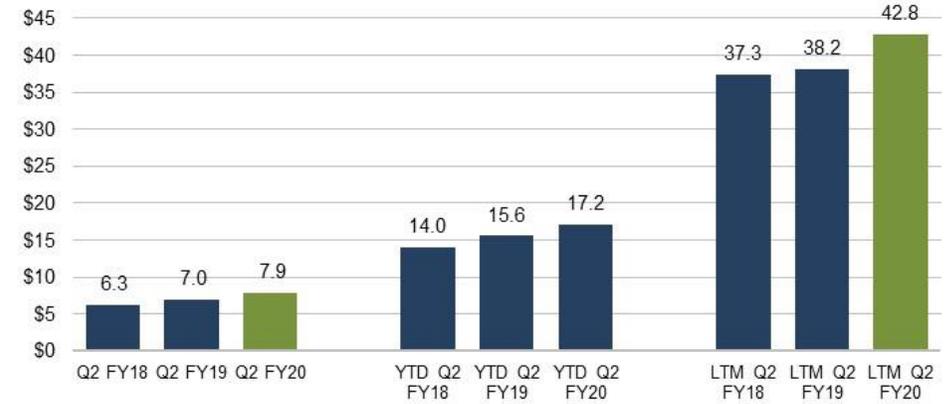
# Education Division - Strong Revenue Momentum

(in millions and unaudited)

## REVENUE



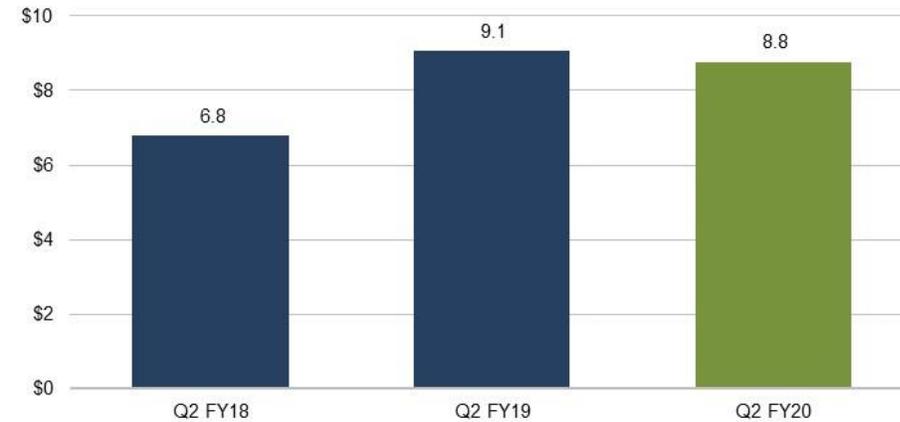
## EDUCATION (LIM) SUBSCRIPTION AND RELATED SALES



## INVOICED



## BILLED & UNBILLED DEFERRED REVENUE



# Education Division - Financial Summary

(in millions and unaudited)

	Q2FY20	Q2FY19	Chg	%	YTDQ2 FY20	YTDQ2 FY19	Chg	%	LTM Q2FY20	LTM Q2FY19	Chg	%
<b>Sales</b>	<b>10.9</b>	<b>9.7</b>	<b>1.2</b>	<b>12.3%</b>	<b>22.0</b>	<b>20.0</b>	<b>1.9</b>	<b>9.6%</b>	<b>50.8</b>	<b>47.1</b>	<b>3.7</b>	<b>7.8%</b>
Cost of Sales	4.4	4.3	0.2	3.8%	8.9	8.2	0.6	7.7%	19.1	17.3	1.9	11.0%
<b>Gross Profit</b>	<b>6.5</b>	<b>5.4</b>	<b>1.0</b>	<b>19.0%</b>	<b>13.1</b>	<b>11.8</b>	<b>1.3</b>	<b>11.0%</b>	<b>31.7</b>	<b>29.9</b>	<b>1.8</b>	<b>6.0%</b>
Gross Profit %	59.3%	56.0%	333 bps		59.7%	59.0%	71 bps		62.3%	63.4%	-107 bps	
Operating SG&A	7.5	6.3	1.2	18.8%	15.3	13.0	2.3	17.6%	29.1	26.4	2.8	10.5%
Operating SG&A %	69.1%	65.4%	-376 bps		69.6%	64.8%	-473 bps		57.3%	55.9%	-138 bps	
<b>Adjusted EBITDA</b>	<b>(1.1)</b>	<b>(0.9)</b>	<b>(0.2)</b>	<b>17.5%</b>	<b>(2.2)</b>	<b>(1.2)</b>	<b>(1.0)</b>	<b>84.9%</b>	<b>2.6</b>	<b>3.5</b>	<b>(1.0)</b>	<b>-27.6%</b>

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

# FranklinCovey – Contracts Signed

(in thousands and unaudited)

<b>Current Quarter - Q2</b>	<b>Enterprise Division</b>				<b>Education Division</b>				<b>Corporate</b>			<b>Total Company</b>			
	FY20	FY19	Change	%	FY20	FY19	Change	%	FY20	FY19	Change	FY20	FY19	Change	%
Sales	40,664	39,320	1,344	3.4%	10,893	9,698	1,195	12.3%	2,188	1,338	850	53,745	50,356	3,389	6.7%
Change in Deferred Revenue	4,477	3,052	1,425	46.7%	(5,200)	(4,847)	(353)	7.3%	-	-	-	(723)	(1,795)	1,072	-59.7%
Invoiced Amounts	45,141	42,372	2,769	6.5%	5,693	4,851	842	17.4%	2,188	1,338	850	53,022	48,561	4,461	9.2%
Change in Unbilled Deferred Revenue	1,152	457	695		(325)	76	(401)		-	-	-	827	533	294	
Total Contracts Signed	46,293	42,829	3,464	8.1%	5,368	4,927	441	9.0%	2,188	1,338	850	53,849	49,094	4,755	9.7%

<b>Year-to-Date Total</b>	<b>Enterprise Division</b>				<b>Education Division</b>				<b>Corporate</b>			<b>Total Company</b>			
	FY20	FY19	Change	%	FY20	FY19	Change	%	FY20	FY19	Change	FY20	FY19	Change	%
Sales	86,496	81,468	5,028	6.2%	21,975	20,045	1,930	9.6%	3,887	2,672	1,215	112,358	104,185	8,173	7.8%
Change in Deferred Revenue	461	(291)	752	-258.4%	(10,691)	(10,018)	(673)	6.7%	-	-	-	(10,230)	(10,309)	79	-0.8%
Invoiced Amounts	86,957	81,177	5,780	7.1%	11,284	10,027	1,257	12.5%	3,887	2,672	1,215	102,128	93,876	8,252	8.8%
Change in Unbilled Deferred Revenue	5,480	693	4,787	690.8%	(613)	(229)	(384)		-	-	-	4,867	464	4,403	948.9%
Total Contracts Signed	92,437	81,870	10,567	12.9%	10,671	9,798	873	8.9%	3,887	2,672	1,215	106,995	94,340	12,655	13.4%

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 thousands and unaudited)

	FY2018					FY2019					FY2020		
	Q1	Q2	Q3	Q4	YTD Total	Q1	Q2	Q3	Q4	YTD Total	Q1	Q2	YTD Total
<b>Sales</b>													
<b>Reported Net Sales</b>	47,932	46,549	50,461	64,818	209,760	53,829	50,356	56,006	65,165	225,356	58,613	53,745	112,358
Change in Deferred Revenue	(5,193)	211	2,461	13,925	11,404	(8,514)	(1,795)	349	18,259	8,299	(9,508)	(723)	(10,231)
<b>Invoiced Amount</b>	42,739	46,760	52,922	78,743	221,164	45,315	48,561	56,355	83,424	233,655	49,105	53,022	102,127
<b>Balance Sheet</b>													
<b>Roll-Forward of Deferred Revenue</b>													
Beginning Balance (deferred revenue)	36,397	31,429	32,067	34,521	36,397	48,432	41,375	39,580	39,929	48,432	58,188	48,680	58,188
Subscription Sales	7,882	13,941	17,324	30,563	69,710	9,798	15,902	19,276	37,848	82,824	11,599	20,615	32,214
Amounts Recorded to Revenue	(13,075)	(13,730)	(14,863)	(16,638)	(58,306)	(18,312)	(17,697)	(18,927)	(19,589)	(74,525)	(21,107)	(21,338)	(42,445)
Change in Deferred Revenue	(5,193)	211	2,461	13,925	11,404	(8,514)	(1,795)	349	18,259	8,299	(9,508)	(723)	(10,231)
FX, 606, and Other Changes	225	427	(7)	(14)	631	1,457	-	-	-	1,457	-	-	-
Ending Balance (Def Subscription Revenue)	31,429	32,067	34,521	48,432	48,432	41,375	39,580	39,929	58,188	58,188	48,680	47,957	47,957
<b>Unbilled Deferred Contracts</b>													
Beginning Balance (off balance sheet)	17,151	16,255	15,463	15,067	17,151	24,495	24,426	24,959	23,744	24,495	29,938	33,978	29,938
New Unbilled Contracts	1,863	2,149	2,766	13,437	20,215	1,434	4,578	3,534	12,760	22,306	7,030	8,540	15,570
Amounts Invoiced	(2,759)	(2,941)	(3,162)	(4,009)	(12,871)	(1,503)	(4,045)	(4,749)	(6,566)	(16,863)	(2,990)	(7,713)	(10,703)
Ending Balance (off balance sheet)	16,255	15,463	15,067	24,495	24,495	24,426	24,959	23,744	29,938	29,938	33,978	34,805	34,805
<b>Breakout of Deferred Sales (above)</b>													
<b>Subscription Sales (Invoiced Amounts)</b>													
AAP Subscriptions	6,822	13,409	11,667	16,895	48,793	8,270	15,070	13,708	21,226	58,274	10,255	19,363	29,618
Education Memberships	893	159	4,978	13,142	19,172	827	382	5,236	15,406	21,851	1,190	731	1,921
Other Subscriptions and Adjustments	167	373	679	526	1,745	701	450	332	1,216	2,699	154	521	675
Total Additions to balance sheet	7,882	13,941	17,324	30,563	69,710	9,798	15,902	19,276	37,848	82,824	11,599	20,615	32,214

**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 by immaterial amounts to conform with the current presentation - including the acquired Jhana Deferred Revenue.
- Deferred Revenue is primarily a current liability. However, a small portion is long-term and recorded as a part of Other Liabilities.

# Net Cash Generated as defined below

(in thousands and unaudited)

	Current Quarter		Year to Date		Last 4 Quarters Ended	
	Q2 FY20	Q2 FY19	Q2 FY20	Q2 FY19	Q2 FY20	Q2 FY19
Reported Adjusted EBITDA	\$ 4,056	\$ 964	\$ 9,017	\$ 4,133	\$ 25,490	\$ 16,077
Adjustments						
Change in Deferred Revenue <small>(related to subscription sales)</small>	(723)	(1,795)	(10,231)	(10,309)	8,377	6,076
Costs deferred with Deferred Revenue	123	(64)	1,675	794	(1,538)	(845)
Amortization of capitalized development	1,000	1,424	2,029	2,856	4,127	5,574
Purchases of property and equipment	(1,108)	(764)	(2,516)	(2,195)	(4,474)	(4,435)
Capitalized curriculum development costs	(1,774)	(567)	(2,232)	(1,256)	(3,664)	(2,069)
Cash paid for interest	(564)	(625)	(1,144)	(1,276)	(2,254)	(2,657)
<b>Net Cash Generated</b>	<b>\$ 1,010</b>	<b>\$ (1,427)</b>	<b>\$ (3,402)</b>	<b>\$ (7,253)</b>	<b>\$ 26,064</b>	<b>\$ 17,721</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 Income (Loss) to Adjusted EBITDA

(in thousands and unaudited)

	Quarter Ended		Two Quarters Ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
Reconciliation of net income (loss) to Adjusted EBITDA:				
Net income (loss)	\$ 1,097	\$ (3,517)	\$ 553	\$ (4,874)
Adjustments:				
Interest expense, net	544	371	1,144	975
Income tax benefit	(2,019)	(410)	(2,235)	(310)
Amortization	1,170	1,300	2,340	2,538
Depreciation	1,653	1,697	3,273	3,251
Stock-based compensation	1,793	1,043	3,644	1,989
Increase (decrease) in the fair value of contingent consideration liabilities	(182)	52	(91)	76
Knowledge Capital wind-down costs	-	-	389	-
Licensee transition costs	-	428	-	488
Adjusted EBITDA	<u>\$ 4,056</u>	<u>\$ 964</u>	<u>\$ 9,017</u>	<u>\$ 4,133</u>
Adjusted EBITDA margin	7.5%	1.9%	8.0%	4.0%

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		Two Quarters Ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
<b>Sales by Division/Segment:</b>				
Enterprise Division:				
Direct offices	\$ 37,973	\$ 36,414	\$ 80,085	\$ 74,885
International licensees	2,691	2,906	6,411	6,583
	<u>40,664</u>	<u>39,320</u>	<u>86,496</u>	<u>81,468</u>
Education Division	10,893	9,698	21,974	20,044
Corporate and other	2,188	1,338	3,887	2,673
	<u>53,745</u>	<u>50,356</u>	<u>112,357</u>	<u>104,185</u>
<b>Consolidated</b>				
	<u>\$ 53,745</u>	<u>\$ 50,356</u>	<u>\$ 112,357</u>	<u>\$ 104,185</u>
<b>Gross Profit by Division/Segment:</b>				
Enterprise Division:				
Direct offices	\$ 28,702	\$ 27,294	\$ 60,113	\$ 54,364
International licensees	2,237	2,221	5,357	5,084
	<u>30,939</u>	<u>29,515</u>	<u>65,470</u>	<u>59,448</u>
Education Division	6,460	5,429	13,117	11,822
Corporate and other	1,267	422	2,108	878
	<u>38,666</u>	<u>35,366</u>	<u>80,695</u>	<u>72,148</u>
<b>Consolidated</b>				
	<u>\$ 38,666</u>	<u>\$ 35,366</u>	<u>\$ 80,695</u>	<u>\$ 72,148</u>
<b>Adjusted EBITDA by Division/Segment:</b>				
Enterprise Division:				
Direct offices	\$ 4,734	\$ 2,543	\$ 10,444	\$ 6,183
International licensees	1,384	1,218	3,419	2,846
	<u>6,118</u>	<u>3,761</u>	<u>13,863</u>	<u>9,029</u>
Education Division	(1,068)	(909)	(2,171)	(1,174)
Corporate and other	(994)	(1,888)	(2,675)	(3,722)
	<u>4,056</u>	<u>964</u>	<u>9,017</u>	<u>4,133</u>
<b>Consolidated</b>				
	<u>\$ 4,056</u>	<u>\$ 964</u>	<u>\$ 9,017</u>	<u>\$ 4,133</u>

# Condensed Consolidated Balance Sheets

(in thousands and unaudited)

	February 29, 2020	August 31, 2019		February 29, 2020	August 31, 2019
<u>Assets</u>			<u>Liabilities and Shareholders' Equity</u>		
Current assets:			Current liabilities:		
Cash and cash equivalents	\$ 24,810	\$ 27,699	Current portion of term notes payable	\$ 5,000	\$ 5,000
Accounts receivable, less allowance for doubtful accounts of \$4,076 and \$4,242	48,722	73,227	Current portion of financing obligation	2,465	2,335
Inventories	2,795	3,481	Accounts payable	8,735	9,668
Prepaid expenses and other current assets	15,531	14,933	Deferred subscription revenue	46,746	56,250
Total current assets	91,858	119,340	Other deferred revenue	7,561	5,972
Property and equipment, net	18,368	18,579	Accrued liabilities	18,717	24,319
Intangible assets, net	45,350	47,690	Total current liabilities	89,224	103,544
Goodwill	24,220	24,220	Term notes payable, less current portion	17,500	15,000
Deferred income tax assets	7,066	5,045	Financing obligation, less current portion	15,379	16,648
Other long-term assets	14,923	10,039	Other liabilities	6,587	7,527
	\$ 201,785	\$ 224,913	Deferred income tax liabilities	180	180
			Total liabilities	128,870	142,899
			Shareholders' equity:		
			Common stock	1,353	1,353
			Additional paid-in capital	216,045	215,964
			Retained earnings	59,956	59,403
			Accumulated other comprehensive income	322	269
			Treasury stock at cost, 13,209 and 13,087 shares	(204,761)	(194,975)
			Total shareholders' equity	72,915	82,014
				\$ 201,785	\$ 224,913

# Condensed Consolidated Statements of Operations

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

	Quarter Ended		Two Quarters Ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
Net sales	\$ 53,745	\$ 50,356	\$ 112,357	\$ 104,185
Cost of sales	15,079	14,990	31,662	32,037
Gross profit	38,666	35,366	80,695	72,148
Selling, general, and administrative	36,221	35,925	75,620	70,568
Depreciation	1,653	1,697	3,273	3,251
Amortization	1,170	1,300	2,340	2,538
<b>Loss from operations</b>	<b>(378)</b>	<b>(3,556)</b>	<b>(538)</b>	<b>(4,209)</b>
Interest expense, net	(544)	(371)	(1,144)	(975)
<b>Loss before income taxes</b>	<b>(922)</b>	<b>(3,927)</b>	<b>(1,682)</b>	<b>(5,184)</b>
Income tax benefit	2,019	410	2,235	310
<b>Net income (loss)</b>	<b>\$ 1,097</b>	<b>\$ (3,517)</b>	<b>\$ 553</b>	<b>\$ (4,874)</b>
Net income (loss) per common share:				
Basic and diluted	\$ 0.08	\$ (0.25)	\$ 0.04	\$ (0.35)
Weighted average common shares:				
Basic	13,841	13,937	13,911	13,927
Diluted	13,990	13,937	14,118	13,927
Other data:				
Adjusted EBITDA <sup>(1)</sup>	\$ 4,056	\$ 964	\$ 9,017	\$ 4,133

(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)

	Two Quarters Ended	
	February 29, 2020	February 28, 2019
	(unaudited)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 553	\$ (4,874)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	5,613	5,789
Amortization of capitalized curriculum costs	2,029	2,856
Stock-based compensation expense	3,644	1,989
Deferred income taxes	(2,012)	(1,402)
Change in fair value of contingent consideration liabilities	(91)	76
Loss on disposal of assets	38	-
Changes in assets and liabilities, net of effect of acquired business:		
Decrease in accounts receivable, net	24,556	21,197
Decrease in inventories	681	402
Decrease (increase) in prepaid expenses and other assets	(180)	2,425
Decrease in accounts payable and accrued liabilities	(6,959)	(6,298)
Decrease in deferred revenue	(8,888)	(8,842)
Increase (decrease) in income taxes payable/receivable	(1,605)	214
Decrease in other long-term liabilities	(6)	(182)
Net cash provided by operating activities	<u>17,373</u>	<u>13,350</u>

# 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 upon execution of a contract. 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.
- “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.
- “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.
- 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).

# Definitions

- “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.
- “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.
- 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.