



# Investor Update

First Quarter Fiscal Year 2018

# 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 nonGAAP 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.

# 5 key takeaways

1

Q1 results indicative of inflection in revenue and Adjusted EBITDA growth expected for the full year

2

Enhanced visibility and foundation for accelerated growth

3

Growth is being driven by success of subscription business, whose key metrics are particularly strong

4

Significant inflection point behind us, paving the way for strong future financial results

5

Increasing upside for shareholders, as SaaS value is not yet reflected in market cap

# Q1 FY18 results highlights

+20.5%

Revenue  
growth

+59%

Subscription and  
subscription-related  
revenue growth

+138%

Growth of subscription  
and subscription-related  
revenue in Enterprise  
Division

+23%

Deferred Revenue  
(billed) growth

+52%

Total Deferred  
Revenue (billed and  
unbilled) growth

+\$3.4M

Growth in Adjusted  
EBITDA vs. Q1 FY17

+\$5.2M

YOY growth in Net  
Cash provided by  
operating activities

+44%

Increase in paid  
subscribers

\*Note: The Sum of subscription and subscription-related revenue plus change in deferred revenue is an operational measure. Deferred revenue represents the changes in our subscription deferred revenue and is a component of the overall Deferred Revenue account that appears on the Balance Sheet. Unbilled deferred revenue represents future billings under our non-cancelable subscription agreements that have not been invoiced and, accordingly, are not recorded in deferred revenue.

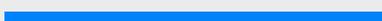
# 1

## Strong first quarter results Significant Q1 revenue growth YOY

### Total Revenue

+20.5%

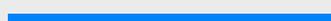
FY17 Q1  \$39.8M

FY18 Q1  \$47.9M

### Total SaaS and SaaS-Related Revenue

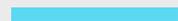
+59%

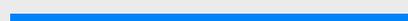
FY17 Q1  \$12.9M

FY18 Q1  \$20.5M

### SaaS growth in Enterprise Division

+138%

FY17 Q1  \$5.3M

FY18 Q1  \$12.7M

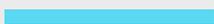
# 1

## Strong first quarter results Deferred revenue up vs. last year

### Total Deferred Revenue (billed and unbilled)

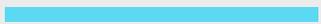
+52%



FY17 Q1  \$6.6M

FY18 Q1  \$10.1M

### Deferred Revenue (billed)

FY17 Q1  \$6.6M

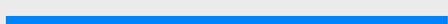
FY18 Q1  \$8.2M



+23%

### Deferred Revenue (unbilled)

FY17 Q1 \$0M

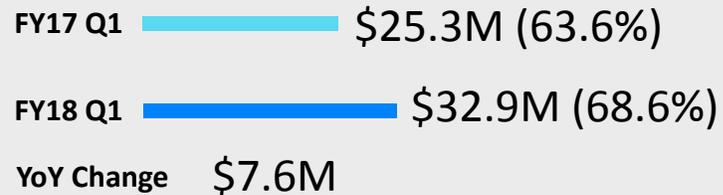
FY18 Q1  \$1.9M

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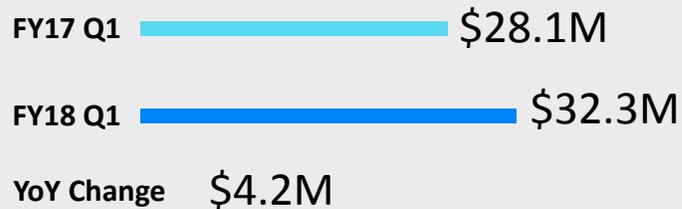
# 1

## Strong first quarter results Strong Adjusted EBITDA growth

### Gross Margin



### SG&A



### Adjusted EBITDA\*



+\$3.4M

YOY change

\*Note: Adjusted EBITDA is a non-GAAP financial measure. Please see the appendix for additional information.

# 1

## Strong first quarter results

Substantial increase in operating cash flow

Net cash provided by  
operating activities

FY17 Q1

-\$2.9M

FY18 Q1

\$2.3M

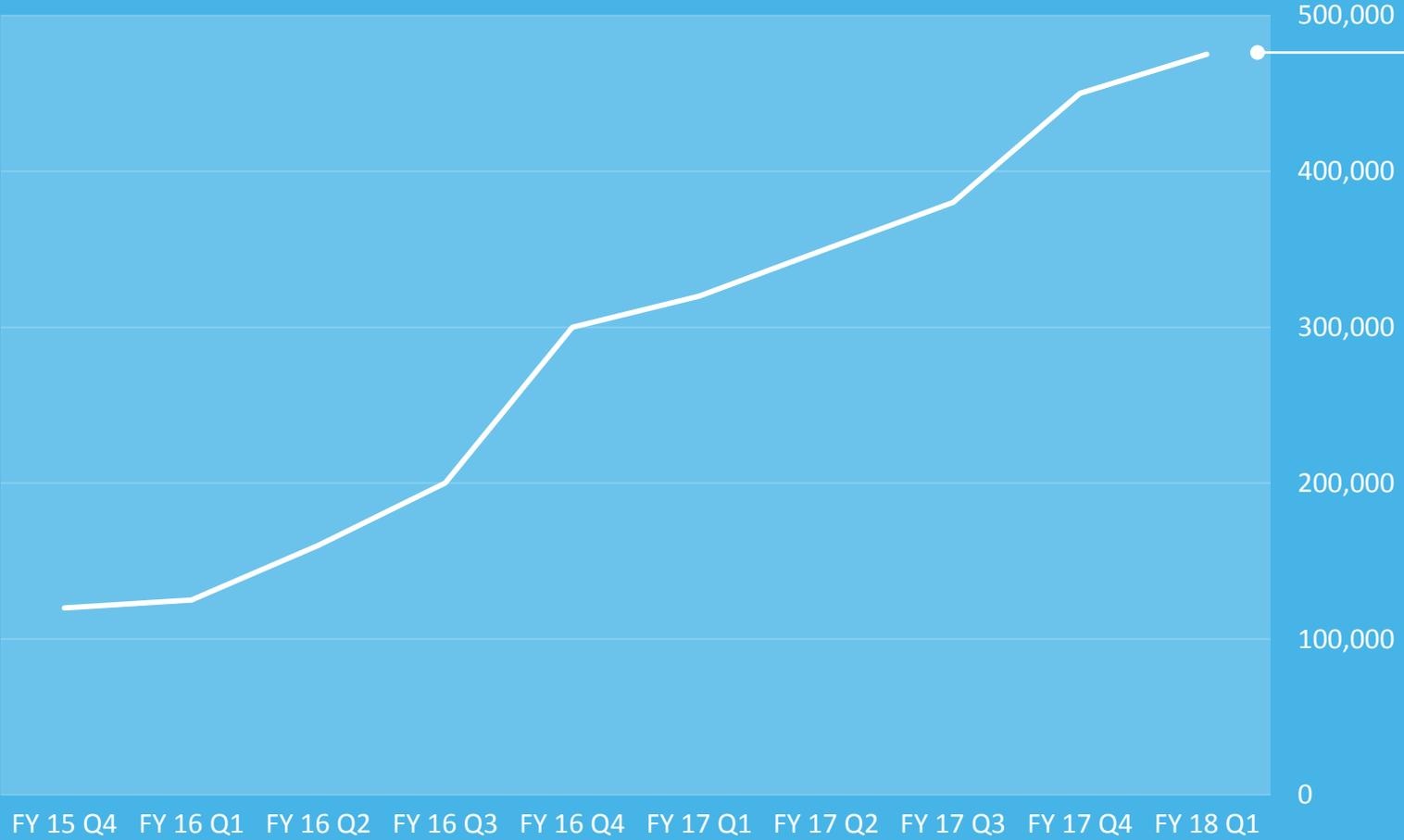
+5.2M

compared to FY17 Q1



# 1

## Strong first quarter results Paying subscribers up significantly



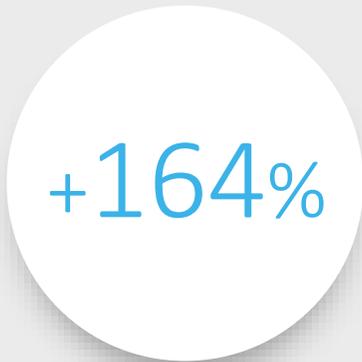
>475,000  
Active paying subscribers

+44%  
Up from Q1 2017

# 2

## Enhanced visibility and foundation for accelerated growth Significant increase in deferred revenue balances

### Total Balance of Deferred Revenue (Q1)

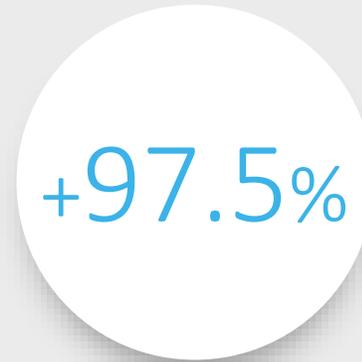


FY17 Q1

FY18 Q1

\$18.1M    \$47.7M

### Billed



FY17 Q1    \$16.1M

FY18 Q1    \$31.8M

### Unbilled



FY17 Q1    \$2.0M

FY18 Q1    \$15.9M

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# 3

## Particular success within subscription business Instrumental historical business shifts



# Particular success within subscription business

## An cross-industry shift toward SaaS business models

MarTech

HubSpot

SMB

Wix

HR

workday

Finance

xero

workiva

Security

proofpoint

Customer Service

zendesk

IT

servicenow

New Relic

ATLASSIAN

Education

2U

INSTRUCTURE

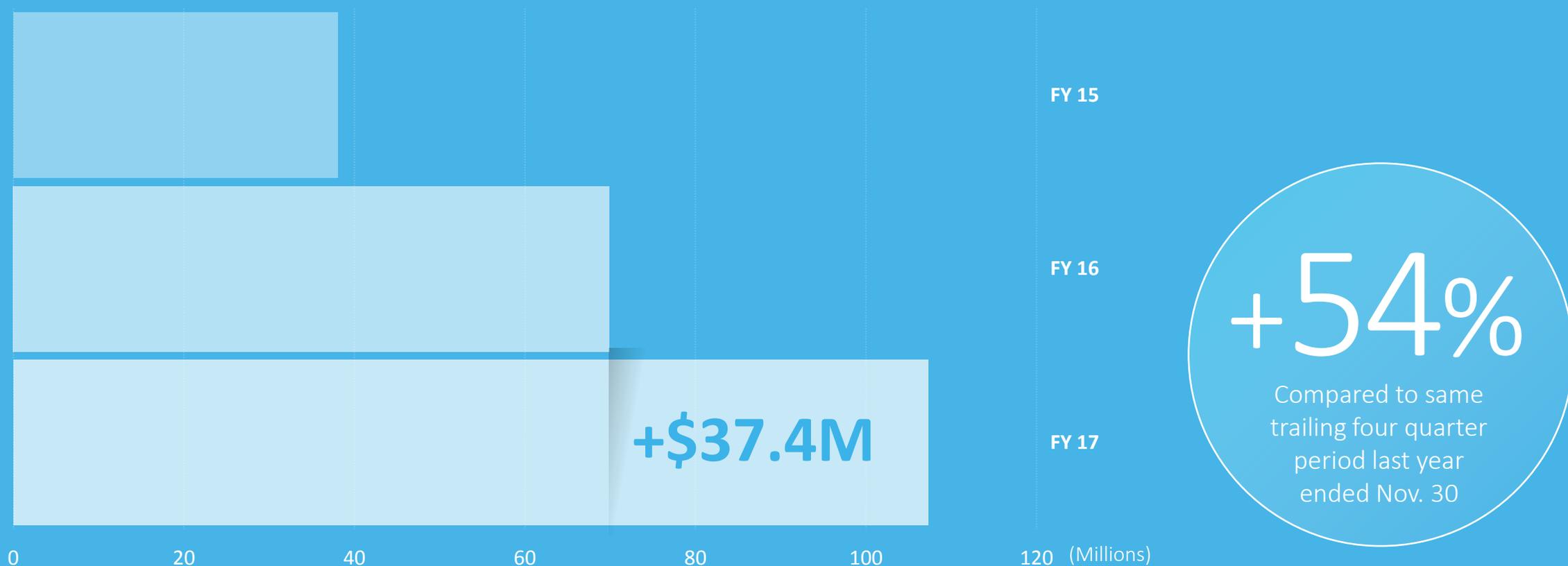
Organizational Performance Improvement

FranklinCovey  
THE ULTIMATE COMPETITIVE ADVANTAGE



# Particular success within subscription business

## Invoiced amount plus change in deferred revenue (billed and unbilled)



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# 3

## Particular success within subscription business

Total paying subscribers continues to rise



# 3

## Particular success within subscription business Subscriber growth: Enterprise division



# 3

## Particular success within subscription business

### Subscriber growth: Education division



# 3 Particular success within subscription business

Significant purchases of add-on services drove revenue growth

Q1

+71%

From \$2.1M  
To \$3.6M

Last 12 months

+292%

From \$3.8M  
To \$14.9M

# Particular success within subscription business

## Key indicators of best-in-class SaaS businesses

### Best-in-class criteria

25%+ YoY revenue growth (FY17-18)

70%+ Gross margin

30%+ Growth efficiency (Growth - burn)

Large Cap \$10B+			
Mid Cap \$1-10B+			
			
			
Small cap <\$1b			

# 3 Particular success within subscription business

Based on these metrics, our SaaS business is best-in-class



Subscription  
growth rate



Gross  
margin

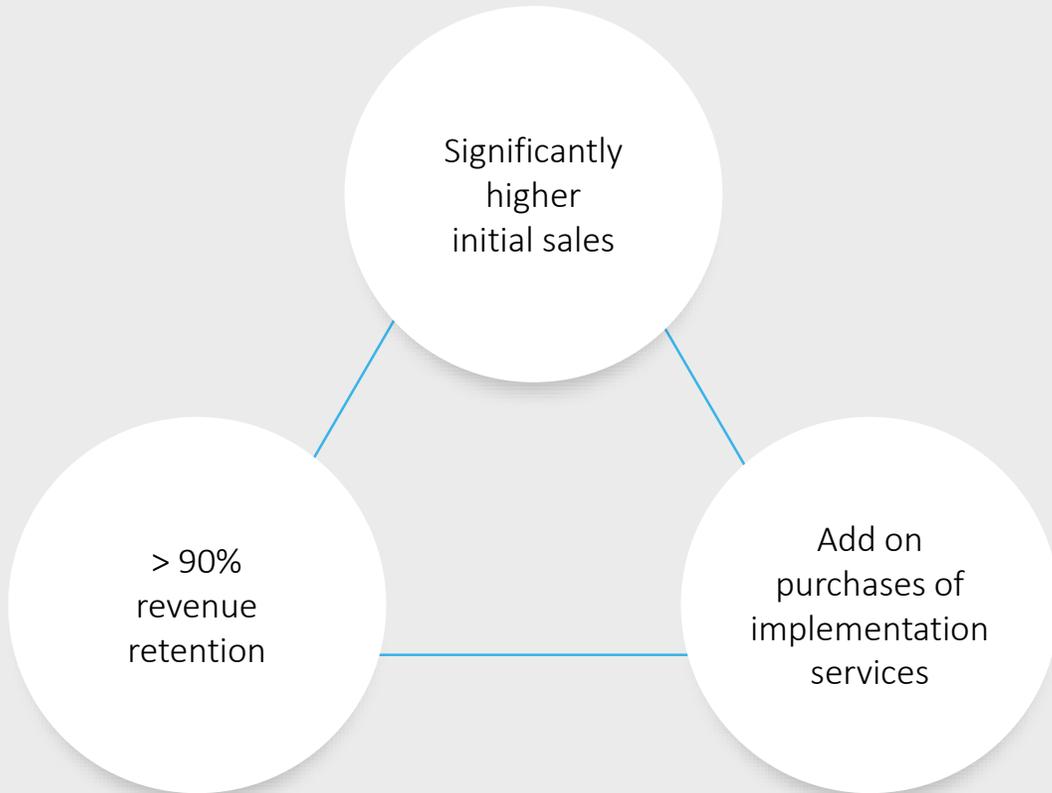


Growth  
efficiency

# 3

## Particular success within subscription business

Accelerating growth through increasing client lifetime value



	Traditional Facilitator		
Initial Sale	<b>\$15K</b>	vs.	
3 Yr. Revenue	<b>\$32K</b>	vs.	

All Access Pass

**\$28K**

**\$88.5K\***

\*+Add-on service revenue

# 4 Significant economic inflection point behind us

Shifting to a SaaS business model: temporary drag on financials, but significant upside over time

## SaaS model transition challenges

Portion of total contract value that can be recognized upfront decreased, while almost all costs associated with generating the contract are recognized upfront.

+

Disruption of legacy facilitator and onsite business model

## Benefits of SaaS model

\$47.7M\*

of high margin deferred revenue (billed and unbilled) to be recognized in FY 2018 and into FY 2019

+

- Significantly increased lifetime customer value
- Increasing gross margins & Adjusted EBITDA margins
- Increased revenue certainty and visibility

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# 4 Significant economic inflection point behind us

## Strong revenue growth and increasing gross margins and flow-through to adjusted EBITDA and cash flow expected

To date, impact of growth in SaaS on overall results has been muted by disruption of legacy businesses and investments in content, tech and talent.

**This trend is now reversing, even when considering a variety of revenue growth scenarios.**

**Revenue guidance for FY 2018:**

**\$212M**  
**+14% YOY**

**Scenario 1:** Growth slows to 7% per year thereafter

**Scenario 2:** Growth at 15% per year thereafter

### Revenue

\$226.8 in FY19, to \$242.7 in FY20, and to \$277.9 in FY22

\$243.8 in FY19, to \$280.4 in FY20, and to \$370.8 in FY22

### The Division-level Adjusted EBITDA contribution

\$43.0 in FY19, to \$55.6 in FY20, and to \$81.7 in FY22

\$46.2 in FY19, to \$64.2 in FY20, and to \$109.0 in FY22

### Reported Adjusted EBITDA

\$25.9 in FY19, to \$37.4 in FY20, and to \$61.0 in FY22

\$29.1 in FY19, to \$46.0 in FY20, and to \$88.3 in FY22

### Cash Flow

\$38.0 in FY19, to \$45.4 in FY20, and to \$67.6 in FY22

\$41.2 in FY19, to \$54.0 in FY20, and to \$94.9 in FY22

\*Note: Adjusted EBITDA is a non-GAAP financial measure. Please see the appendix for additional information.

# 5 key takeaways

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# Appendix

# All Access Pass value proposition

- Provides the passholder population with unlimited access to Franklin Covey's entire collection of best-in-class content.
- 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).
- Includes the services of an "implementation specialist" at no additional charge, who helps clients design "impact journeys" to address their key jobs to be done, and expand usage of All Access Pass.
- Offers an array of affordable add-on services (including, now, coaching) to help ensure that customers can execute on their key jobs-to-be-done.
- Has 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.
- Can (soon) be accessed globally in the sixteen major languages, through a new state-of-the-art, secure, easy-to-use portal.

# 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. Estimated at 28% for FY18 before effect of permanent book/tax differences (undetermined) and benefit of re-measuring deferred taxes (\$1.2M – \$1.5M)

## Other Information:

- Capital Expenditures: \$7.2M in FY2017, expected to total approximately \$5.0M to \$5.5M (including new ERP system) in FY2018
- Capitalized Curriculum excluding acquired content: \$6.5M in FY2017, expected to total approximately \$6.5M in FY2018, reflecting localization of AAP content, AAP content development, and Education content development (excluding acquisitions)
- Share Count: 13,858K shares outstanding as of December 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, and 224 on November 30, 2017

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

# Additional financial information (1 of 6)

## Five-Year Adjusted EBITDA & Cash Flow Sensitivity Analysis

Reported Sales		Reported Sales & \$12.5 Adjusted EBITDA					
		FY17A	FY18G	FY19	FY20	FY21	FY22
Sales Growth Rate	5%	185.3	212.0	222.6	233.7	245.4	257.7
	7%	185.3	212.0	226.8	242.7	259.7	277.9
	10%	185.3	212.0	233.2	256.5	282.2	310.4
	15%	185.3	212.0	243.8	280.4	322.4	370.8
% of EBITDA Contribution		11.9%	13.4%	18.9%	22.9%	26.4%	29.4%
Adjusted EBITDA Contribution	5%	22.0	28.5	42.1	53.5	64.8	75.8
	7%	22.0	28.5	43.0	55.6	68.6	81.7
	10%	22.0	28.5	44.2	58.8	74.5	91.3
	15%	22.0	28.5	46.2	64.2	85.1	109.0
Other costs excluded above:							
Innovations cost centers		4.6	6.7	7.4	8.1	8.9	9.8
Corporate cost centers		9.7	9.3	9.7	10.1	10.5	10.9
Reported Adjusted EBITDA	5%	7.7	12.5	25.1	35.3	45.4	55.0
	7%	7.7	12.5	25.9	37.4	49.1	61.0
	10%	7.7	12.5	27.1	40.5	55.1	70.5
	15%	7.7	12.5	29.1	46.0	65.7	88.3
Operating Cash Items							
Change in Deferred Sales		20.8	22.5	17.5	12.5	10.5	10.5
15% of the above change		(3.1)	(3.4)	(2.6)	(1.9)	(1.6)	(1.6)
Amortization of Capitalized D		3.7	5.6	6.2	6.9	7.6	8.4
Cash Contribution of Divisions	5%	43.4	53.2	63.2	71.1	81.4	93.1
	7%	43.4	53.2	64.0	73.2	85.1	99.0
	10%	43.4	53.2	65.2	76.3	91.1	108.6
	15%	43.4	53.2	67.2	81.8	101.7	126.3
Other Cash Items							
Corporate Operations		(9.7)	(9.3)	(9.7)	(10.1)	(10.5)	(10.9)
Innovations		(4.6)	(6.7)	(7.4)	(8.1)	(8.9)	(9.8)
Content Development		(6.5)	(6.5)	(4.9)	(5.5)	(6.1)	(6.7)
Property and Equipment		(7.2)	(5.0)	(4.0)	(4.0)	(4.0)	(4.0)
Cash Flow	5%	15.4	25.7	37.2	43.4	51.8	61.7
	7%	15.4	25.7	38.0	45.4	55.6	67.6
	10%	15.4	25.7	39.2	48.6	61.5	77.1
	15%	15.4	25.7	41.2	54.0	72.2	94.9

\*Note: Adjusted EBITDA is a non-GAAP financial measure. Please see the appendix for additional information.

# Additional financial information (2 of 6)

## Contracted Amounts Q1

### Enterprise Division - Q1

	FY18	FY17	Change
Reported Sales	37,516	29,815	7,701
Change in Deferred Sales	(2,226)	2,385	(4,611)
Change in Unbilled Sales	(942)	-	(942)
Contracts Signed	<u>34,348</u>	<u>32,200</u>	<u>2,148</u>

### Education Division - Q1

	FY18	FY17	Change
Reported Sales	9,176	8,743	433
Change in Deferred Sales	(2,965)	(1,685)	(1,280)
Change in Unbilled Sales	(300)	-	(300)
Contracts Signed	<u>5,911</u>	<u>7,058</u>	<u>(1,147)</u>

Note - the above information shows changes this quarter in reported sales, deferred sales and unbilled contracts.

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# Additional financial information (3 of 6)

## Division summary

	Enterprise Division				Education Division				Corporate			Total Company			
	FY18	FY17	Chng	%	FY18	FY17	Chng	%	FY18	FY17	Chng	FY18	FY17	Chng	%
Sales	37.5	29.8	7.7	26%	9.2	8.7	0.4	5%	1.2	1.2	0.0	47.9	39.8	8.1	20%
Cost of Sales	10.5	10.2	0.2	2%	3.7	3.7	0.0	1%	0.9	0.5	0.3	15.1	14.5	0.6	4%
Gross Margin	27.1	19.6	7.5	38%	5.4	5.0	0.4	8%	0.4	0.7	(0.3)	32.9	25.3	7.6	30%
GM%	72.14%	65.70%	6.44%		59.18%	57.45%	1.72%		30.19%	56.59%	-26.40%	68.57%	63.61%	4.96%	
Segment Expenses	22.6	19.9	2.7	14%	6.1	4.8	1.3	27%	3.6	3.5	0.1	32.3	28.1	4.1	15%
Adjusted EBITDA	4.5	(0.3)	4.8	-	(0.7)	0.2	(0.9)	-	(3.2)	(2.8)	(0.4)	0.6	(2.8)	3.4	-
	12%	-1%	13%		-7%	3%	-10%		-260%	-227%	-33%	1%	-7%	8%	

\*Note: Adjusted EBITDA is a non-GAAP financial measure. Please see the appendix for additional information.

# Additional financial information (4 of 6)

## Reconciliation of Net Loss to Adjusted EBITDA

(in thousands and unaudited)

	Quarter Ended	
	November 30, 2017	November 26, 2016
Reconciliation of net loss to Adjusted EBITDA:		
Net loss	\$(2,392)	\$(3,958)
Adjustments:		
Interest expense, net	488	504
Income tax benefit	(1,348)	(1,921)
Amortization	1,395	722
Depreciation	901	866
Stock-based compensation	956	1,214
Increase (reduction) in contingent consideration liabilities	176	(1,013)
ERP implementation costs	426	288
China office start-up costs	-	479
	<u>          </u>	<u>          </u>
Adjusted EBITDA	<u>\$602</u>	<u>\$(2,819)</u>
Adjusted EBITDA margin	1.3%	-7.1%

## Additional Sales Information

(in thousands and unaudited)

	Quarter Ended	
	November 30, 2017	November 26, 2016
<b>Sales by Segment:</b>		
Direct offices	\$34,197	\$26,383
Education	9,176	8,743
Licensees	3,320	3,431
Corporate and other	<u>1,239</u>	<u>1,230</u>
<b>Total</b>	<u>\$47,932</u>	<u>\$39,787</u>
<b>Sales by Category:</b>		
Training and consulting services	\$46,549	\$38,073
Products	490	828
Leasing	<u>893</u>	<u>886</u>
	<u>47,932</u>	<u>39,787</u>
<b>Cost of Goods Sold by Category:</b>		
Training and consulting services	14,268	13,558
Products	247	435
Leasing	<u>549</u>	<u>486</u>
	<u>15,064</u>	<u>14,479</u>
<b>Gross Profit</b>	<u>\$32,868</u>	<u>\$25,308</u>

\*Note: Adjusted EBITDA is a non-GAAP financial measure.  
Please see the appendix for additional information.

# Additional financial information (5 of 6)

## Condensed Consolidated Balance Sheets (in thousands and unaudited)

	November 30, 2017	August 31, 2017
<u>Assets</u>		
Current assets:		
Cash	\$8,087	\$8,924
Accounts receivable, less allowance for doubtful accounts of \$2,738 and \$2,310	50,153	66,343
Receivable from related party	1,182	1,020
Inventories	3,309	3,353
Income taxes receivable	329	259
Prepaid expenses and other current assets	12,604	11,936
Total current assets	<u>75,664</u>	<u>91,835</u>
Property and equipment, net	21,435	19,730
Intangible assets, net	55,899	57,294
Goodwill	24,220	24,220
Long-term receivable from related party	754	727
Other long-term assets	16,889	16,925
	<u>\$194,861</u>	<u>\$210,731</u>

	November 30, 2017	August 31, 2017
<u>Liabilities and Shareholders' Equity</u>		
Current liabilities:		
Current portion of financing obligation	\$1,922	\$1,868
Current portion of term notes payable	6,250	6,250
Accounts payable	7,068	9,119
Deferred revenue	35,250	40,772
Accrued liabilities	15,781	22,617
Total current liabilities	<u>66,271</u>	<u>80,626</u>
Line of credit	9,050	4,377
Term notes payable, less current portion	11,563	12,813
Financing obligation, less current portion	20,570	21,075
Other liabilities	5,626	5,742
Deferred income tax liabilities	39	1,033
Total liabilities	<u>113,119</u>	<u>125,666</u>
Shareholders' equity:		
Common stock	1,353	1,353
Additional paid-in capital	209,840	212,484
Retained earnings	67,064	69,456
Accumulated other comprehensive income	590	667
Treasury stock at cost, 13,261 and 13,414 shares	(197,105)	(198,895)
Total shareholders' equity	<u>81,742</u>	<u>85,065</u>
	<u>\$194,861</u>	<u>\$210,731</u>

# Additional financial information (6 of 6)

## Condensed Consolidated Statements of Operations

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

	Quarter Ended	
	November 30, 2017	November 26, 2016
Net sales	\$47,932	\$39,787
Cost of sales	<u>15,064</u>	<u>14,479</u>
Gross profit	32,868	25,308
Selling, general, and administrative	33,824	29,095
Depreciation	901	866
Amortization	<u>1,395</u>	<u>722</u>
<b>Loss from operations</b>	<b>(3,252)</b>	<b>(5,375)</b>
Interest expense, net	<u>(488)</u>	<u>(504)</u>
<b>Loss before income taxes</b>	<b>(3,740)</b>	<b>(5,879)</b>
Income tax benefit	<u>1,348</u>	<u>1,921</u>
<b>Net loss</b>	<b><u><u>\$(2,392)</u></u></b>	<b><u><u>\$(3,958)</u></u></b>
Net loss per common share:		
Basic and diluted	\$(0.17)	\$(0.29)
Weighted average common shares:		
Basic and diluted	13,725	13,791
Other data:		
Adjusted EBITDA <sup>(1)</sup>	<u><u>\$602</u></u>	<u><u>\$(2,819)</u></u>

<sup>(1)</sup>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 as shown below.