

## Franklin Covey Co.(Q1 2025 Earnings)

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### Corporate Speakers:

- Derek Hatch; Franklin Covey; Corporate Controller
- Paul Walker; Franklin Covey; Chief Executive Officer
- Stephen Young; Franklin Covey; Chief Financial Officer
- Holly Procter; Franklin Covey; Chief Revenue Officer
- Jennifer Colosimo; Franklin Covey; President of the Enterprise Division
- Unidentified Speaker; Franklin Covey; Company Representative

### Participants:

- Alexander Paris; Barrington Research; Analyst
- David Storms; Stonegate; Analyst
- Nehal Chokshi; Northland Capital Markets; Analyst
- Jeff Martin; ROTH Capital Markets; Analyst

## PRESENTATION

Operator^ Good day. And thank you for standing by. Welcome to Q1 2025 Franklin Covey Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to turn the conference over to Derek Hatch, Corporate Controller. Please go ahead.

Derek Hatch^ Hello, everyone. And thanks so much for joining us today. We're glad to have the opportunity to talk with you today. Participating on the call this afternoon are Paul Walker, our Chief Executive Officer; Steve Young, our Chief Financial Officer; Jennifer Colosimo, President of the Enterprise Division; Sean Covey, President of the Education Division; and Holly Procter, our Chief Revenue Officer.

As we get started, I'd like to remind everyone that 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 grow revenues, the acceptance of and renewal rates for our subscription offerings including the All Access Pass and the Leader in Me memberships; the ability of the company to hire productive sales and other client-facing professionals; general economic conditions; competition in the company's targeted marketplace; market acceptance of new offerings 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 upon 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. With that out of the way, we'd like to turn the time over to Mr. Paul Walker. Paul?

Paul Walker^ Thank you, Derek. Welcome, everyone. It's great to be with you. Today I'd like to provide an update on two areas. First, our Q1 performance; and second, the progress we're making on the transformation of our North American enterprise efforts, what we've been referring to as project expand and project land.

And when we have these investments, we'll begin to meaningfully accelerate our revenue growth. So first, just a comment or two about the first quarter performance.

Our first quarter revenue grew 1% to \$69.1 million compared to \$68.4 million in last year's first quarter. This reflects strong growth in education, where sales grew 11%, and flat sales in enterprise, which were essentially in line with what we had hoped and expected as we undertook the transitioning of our sales force to an even more powerful go-to-market model in Enterprise North America in the quarter.

First quarter adjusted EBITDA was \$7.7 million or \$8.1 million in constant currency. This is right in line with our expectation and our guidance that adjusted EBITDA in constant currency in the first quarter would be between \$7.5 million and \$8.5 million. This compares with adjusted EBITDA of \$11 million in last year's first quarter, primarily reflecting the first quarter share of the \$16 million total increase in growth investments we're making this year.

As we discussed in November, and we'll address more in a moment, we've transformed our sales structure so that one large group of salespeople will focus exclusively on expanding existing business within our existing clients, while another significant group of salespeople will be hunters focused exclusively on landing new logos.

You can see as shown on Slide 4, the investments being made to support these two efforts. These investments include: first, our investment in client expansion, which includes additional implementation strategists, practice leaders and consultants to help us achieve significant penetration in our existing All Access Pass-holding clients. The second area of investment is in our new hunting team.

It's the hunter salespeople themselves, and then marketing and lead generation and closing support for those hunting client partners. The third area is investments in sales leadership and sales operations to allow us to scale this whole new structure.

And then the final area is a slight increase in content and technology. We expect these investments to accelerate our revenue growth from single digit to consistent double-digit levels with a high flow-through of this increased revenue to increases in adjusted EBITDA and cash flow.

Our growth investments in the first quarter came in right where we expected they would. I'd also like to share just a bit more about the results in our Education Division.

As I mentioned, revenue in the first quarter grew a significant 11% with the number of contracted Leader in Me schools increasing 58% over last year's first quarter from 52 schools last year to 82 schools in the first quarter this year.

Importantly, we're achieving continued success in making sales to entire districts and even to some states rather than selling only to individual schools.

In fact, last year, 74% of our schools that were brought on were brought on as part of a district contract. And in a few cases, we're now beginning to engage, as I said, in statewide opportunities. I'll just maybe share an example of this transition is what's happening with a new statewide contract in the Southeastern United States.

For many years, we brought on numerous single schools in this state. After partnering with these schools to achieve strong results in our first quarter, we signed a contract at the state level that will include more than 100 initial schools to come on throughout this year with many more schools to follow.

The second thing I'd like to provide a deeper dive into is our progress on the investments to accelerate our go-to-market efforts. Specifically, I'll identify the key leverage points on which the realignment of our sales force is focused.

In our earnings call in November, we shared that we were pleased to have substantially achieved the three big strategic initiatives we've undertaken in the previous years. Specifically, first, that we've transitioned our entire business model to subscription.

Second, we've invested heavily in the technology enablement of all of our solutions so that they can be delivered seamlessly across entire organizations in a variety of modalities and in more than 25 languages worldwide as well as institutionalizing our significant ongoing investments in technology.

The third is that we've made significant investments to ensure that our content and solutions represent the gold standard in our space and have also institutionalized our processes and ongoing investments in content, so that our solutions will continue to define this gold standard.

In addition, we have some exciting new additions to our content lineup which we'll be launching in the coming periods in which we expect will help to further penetrate existing clients and accelerate winning new clients. These include a new communications suite of offerings, which is one of our most requested new solution areas as well as additional

leadership solutions to fill out the leadership map to help support leaders on the journey from being a new leader all the way to being the leader of an enterprise.

Having completed the heaviest lifting involved in each of these important strategic initiatives, we're now positioned to leverage the collective impact of these initiatives by accelerating our go-to-market efforts to capture an even greater share of our very large TAM.

The two key areas of focus and investment in this go-to-market acceleration are: first, to focus a large number of our client partners solely on increasing client penetration and retention and to provide them with the additional client support resources necessary to achieve this expansion within our clients.

The second area is to build a large and growing specially trained team of new logo hunting client partners, who will have the sole responsibility to win a significantly increasing number of new logos.

As previously mentioned, we expect the combined impact of these focused initiatives to result in a significant increase in our sustainable ongoing revenue growth rate from single digits to consistently achieving double-digit growth and also generate accelerated levels of adjusted EBITDA and cash flow.

Importantly, because almost all of our investment dollars are going into client-facing people and activities, the impact of these investments can be very direct.

Over the coming quarters, we'll be reporting our progress against the key leading and lagging indicators that will track our progress towards achieving consistent double-digit revenue and adjusted EBITDA growth. The path of impact from these investments will be seen first in increases in the size of our pipelines of opportunities, then in the magnitude of our growth in invoice sales, and finally, in our reported revenues as the invoice sales that have gone on to our books as deferred revenue are recognized over the ensuing 12 or more months.

Given this cycle, we expect that our increased investments will begin to result in an increase in our volume of invoice sales in the back half of fiscal '25, followed by the beginning of a fundamental shift in our growth curve of reported sales in the quarters thereafter.

I'd like to provide some additional detail on the key points of leverage for each of these efforts. As noted, the first of our new go-to-market investments is focused on achieving even further penetration within our existing clients. We call this project expand.

As we've previously reported, since our conversion to subscription, our average annual revenue per client has expanded from approximately \$39,000 to \$85,000. This 218% increase results from the efficacy of our solutions in consistently helping clients achieve their desired results. This expansion occurs when organizations who have been utilizing one or more of our solutions for a portion of their overall population, not only renews for

that portion, but expand their subscription to make the same or additional solutions available to an even broader portion of their overall organization.

Where in the past, several client partners may have been working with different operating units of the same company, but with none of those client partners having responsibility for achieving an overall penetration level throughout the client's entire organization. Under our new go-to-market structure, a single client partner on the expand side of our sales force is now responsible for expanding the use of our solutions across the client's entire organization.

We're already experiencing the power of this new high-focus penetration model. An example is our work with one of the world's largest food and beverage companies, where we've been working within one of the company's operating units over the last five years, generating around \$500,000 a year annually.

However, as significant as the work within this unit has been under our prior organizational structure, the assigned client partner had little to no visibility into the broader needs of the parent company. Under our new project expand structure, a single client partner is now responsible not only for penetrating the operating unit to which they had traditionally been assigned, but for understanding and meeting the needs of the company's entire global organization.

Over the past 18 months or so as part of our Project Expand pilot, this client partner took on the expanded responsibility and in so doing identified a large global leadership development initiative being driven by the CEO and most of the senior leaders in the organization.

Having developed broad relationships within the client's overall organization, our client partner was able to demonstrate how All Access Passes collection of best-in-class leadership solutions offered in more than 25 languages could meet their needs globally. This resulted in our being selected as their partner of choice for their global leadership development rollout, and this is now shaping up to be a 3-year \$5 million opportunity and partnership.

This is a great example of the significant white space for expansion we have across the majority of our client base, where as significant as our expansion of revenue per client has been over the years, we're still reaching only approximately 10% of these clients' addressable populations. Achieving the magnitude of client penetration achieved in just this specific client is exactly the focus of Project Expand.

By reducing the number of client accounts for which each of our expansion client partners is responsible and providing these expansion client partners with access to a larger pool of implementation strategist, consultant and practice leader resources, we expect to unleash the same kinds of breakthroughs and client penetration just discussed across a significant number of our clients.

Our second area of focus is on winning a significantly increased number of new logos. What we're calling Project Land or in other words, for landing new logos. Since our conversion to subscription, we've won thousands of new logos.

However, even with this success, we're only scratching the surface of the potential that exists for winning new clients and partnering with them to address their big opportunities and challenges within the large markets we serve.

As shown on Slide 5, we've organized the market into four segments based on organization, employee size and have assigned our hunting client partner teams, accordingly. Here, you can see the number of clients in each segment that are not yet Franklin Covey clients into which we have massive headroom for growth and for hiring many, many more hunting client partners.

We're significantly increasing our investment in both marketing and sales closing support resources to help our significant group of client partners whose entire focus is now solely on winning new logos.

We're also making investments into central sales leadership and sales operations functions to allow us to scale our sales force even more rapidly in the future.

We fully transitioned the sales force approximately five weeks ago and are really encouraged by the tremendous energy they're bringing to these focused roles. As it relates to winning new logos, we set an initial target to have 100% of our new logo hunting client partners in place by March one of this year.

I'm pleased to report that as of today, 95% of these hunting client partners are already in place. Being months ahead in filling these key roles will help us ensure that we achieve and possibly exceed our new logo targets in fiscal '25 and we're already realizing some important new logo wins.

For example, we recently won as a new logo, one of the five largest banks in America. We're partnering with this bank and the development of 2,000 of their leaders. This is an initial portion of their many thousands of leaders.

In our old selling model, this prospect would have been assigned to several client partners because there are multiple buyers distributed across the country. And in our old model, we would have likely won business, but initially for only a portion of the 2,000 leaders.

In our new selling model, this opportunity was owned by a single account executive focused solely on winning new logos and with the skill and expertise aligned to the needs of our large enterprise segment clients. This new alignment resulted in this \$350,000 new logo win, which is approximately eight or 9x the size of our historical average.

We supported this sale with new closing resources who partnered with our client partners to determine the right solution to deploy to this client. This is just one of the many deals we're developing in our pipeline which are benefiting from the focused attention of our new logo hunting team and the investment in our new closing resources.

In conclusion, our target was to begin the second quarter on December 1, fully transitioned into our new go-to-market structure.

I'm pleased to report that we hit that target. Today in Enterprise North America, every salesperson has focused 100% on expanding and retaining existing clients or they're focused 100% on winning brand-new clients.

As we shared, fiscal '25 will be an investment year in which we expect to generate a significant amount of new pipeline and add a lot of new invoiced revenue to our balance sheet, which will then be recognized as reported sales in subsequent periods, ultimately shifting our growth from single digits to consistent double-digit growth.

We're really excited about our accelerated go-to-market focus and look forward to reporting our progress. Now with those remarks out of the way, I'd like to turn the time over to Steve to discuss our specific results for Q1 in a bit more detail and also share our guidance.

Stephen Young^ Thank you, Paul. In Q1, revenue, adjusted EBITDA, cash flows from operating activities and free cash flow continued to be strong and essentially in line with expectations. Specifically, as shown on Slide 6. In Q1, revenue was \$69.1 million, up 1% compared to Q1 last year.

In Q1, due primarily to growth investments we have discussed and which came in essentially right in line with our expectations, adjusted EBITDA was \$7.7 million compared with the \$11 million generated last year and constant currency, adjusted EBITDA was \$8.1 million.

Cash flows from operating activities remained strong at \$14.1 million compared to \$17.4 million last year. The difference was also primarily due to our growth investments. Free cash flow for the first quarter was also strong at \$11.4 million compared to \$13.7 million generated in the first quarter of FY '24. The foundation for increased future growth is being established by the increase in our balancing of deferred subscription revenue, which increased 10% from Q1 last year to \$95.7 million.

We are encouraged by the double-digit increase in our service booking rate in Q4 in Enterprise North America and importantly, that the strong momentum has continued in this year's first quarter.

Now I'd like to briefly provide more detail on the factors underlying our performance in three key areas of our company, specifically our Enterprise business in North America, our Enterprise business internationally in both our direct offices and international licensee operations and our Education business.

I'll start with our Enterprise Division. In FY '24, our Enterprise division generated 73% of the company's overall revenue, with the Education Division generating 26% of the company's revenue. In Q1, revenue on our Enterprise Division was down 2%, primarily due to the difficult business environment in Asia.

Slide 7 shows results in our Enterprise business in North America, which represented 75% of our total Enterprise Division revenue in FY '24. Revenue in North America for Q1 FY '25 was \$40.1 million compared to \$40.3 million last year.

Subscription revenue in North America for Q1 was \$21.8 million compared to \$22.5 million last year. The combination of subscription and subscription services revenue in North America was \$34.3 million, which is down 2% compared to the first quarter of last year.

Our balance of billed deferred subscription revenue in North America was \$41.8 million, which is down 7% from last year. And our balance of unbilled deferred revenue was \$66.5 million, which is down 13% from last year.

The percentage of North America's All Access Passes contracted for multiyear periods increased to 55% from 54% in the first quarter last year. And the percentage of invoiced revenue represented by multiyear contracts remain consistent with the first quarter last year at 60%.

As shown on Slide 8, revenue from our international direct operations, which account for approximately 16% of our total Enterprise Division revenue in FY '24 was \$8.2 million, a decrease of \$0.5 million primarily as a result of our business in Asia decreasing due to challenging business conditions.

Also shown on Slide 8, our international licensee revenue was \$3.2 million, a decrease of \$200,000 from Q1 last year.

Finally, as shown on Slide 9, revenue in our Education business, grew 11% to \$16.5 million for the quarter and grew 8% for the latest 12 months. Education invoiced amounts grew to \$12.2 million in Q1, which represents 43% growth over the prior year. The invoiced amounts for the last 12 months grew 9%.

This significant growth over last year is due in part to a contract with the State Board of Education that Paul referenced in his remarks. Education subscription and subscription services revenue grew 12% to \$14.9 million for the quarter and was up 6% for the last 12 months. Education's balance of billed deferred subscription revenue increased 29% or \$10 million to \$44.2 million, establishing a strong foundation for continued growth in future years. Now a little bit about cash flows and the balance sheet.

As shown on Slide 10, our cash flows from operating activities for Q1 was a strong \$14.1 million compared to the \$17.4 million generated in the first quarter of last year, reflecting a decrease in our net income due to the first quarter's share of this year's \$16 million growth investment.

Our free cash flow was \$11.4 million for the quarter compared to \$13.7 million in the prior year. In Q1 FY '25, we purchased 146,000 shares of Franklin Covey stock at a cost of \$6 million. Since 2021, we have invested approximately \$96 million in stock repurchases.

We have approximately \$116 million in total liquidity at the end of FY -- end of Q1 FY '25 even after these purchases of stock including \$53.3 million in cash and \$62.5 million available under our revolving credit agreement. The company remains in a strong position to continue to execute on our key objectives.

Now let me turn to guidance.

We are affirming the guidance provided at year-end that we expect revenue in the range of \$295 million to \$305 million in constant currency, reflecting the expectation that growth will accelerate in the back half of this year as our investments continue to take effect.

We also note that a significant portion of that growth will be reported on the balance sheet as deferred subscription revenue and then be recognized in future quarters as reported revenue.

Also consistent with the guidance provided at year-end, which reflected a \$16 million of growth investments we are making this year, we expect to achieve adjusted EBITDA in the range of \$40 million to \$44 million in constant currency.

For the second quarter of FY '25, we expect revenue to be higher than last year or between \$61.5 million and \$63 million in constant currency.

We expect adjusted EBITDA to be between \$1.5 million and \$2.5 million, again, in constant currency compared to the \$7.4 million last year, with the vast majority of the difference coming from the impact of the second quarter's portion of the \$16 million in incremental growth investments that we've been talking about.

We recognize that in order to achieve our full year guidance, we'll need to achieve accelerated revenue growth in the back half of the year, and we expect this to happen. To give some additional context to some areas of strength we are seeing in the business that support our confidence in Enterprise North America in Q1 where subscription invoiced amounts declined from the prior year more than 100% of this decline was due to five contracts of which four were timing related, and we expect to renew all four this year.

Additionally, we are pleased with the Q2 forecast for invoice growth in Enterprise North America and expect to achieve meaningful growth in this important metric in the quarter. We are pleased with the tremendous progress being made in North America Enterprise growth initiatives.

While it is, of course, very difficult to forecast long-term results, we remain optimistic about our ability to generate increasing revenue and adjusted EBITDA growth in coming years, ultimately moving from single digit to consistent double-digit growth rates. Now I'll turn the time back to Paul.

Paul Walker^ Thank you, Steve. Maybe just a final comment here before we open the line to questions. We feel very good about our progress and the path that we're pursuing

to accelerate our growth in revenue and adjusted EBITDA and cash flow and to do this in the coming quarters and as we move into next year and beyond.

And also at the same time feel great about just our continued increase in our ability to partner with our clients and to deliver extraordinary impact as their partners, grateful to all of our associates around the world for all that they're doing as well and grateful to each of you. So with that, we'd now like to invite the operator to open the line for your questions.

## QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Today, our first question will come from the line of Alex Paris of Barrington Research.

Alexander Paris^ I guess the first one would be a little bit more discussion on growth investments. In Q1, revenues were essentially in line with your constant currency guidance for the quarter and adjusted EBITDA on a constant currency basis was right in the middle of that forecasted range.

Looking at your guidance for Q2, it looks like adjusted EBITDA will be more significantly below my expectation of \$5.9 million and the FactSet consensus of \$5.0 million, you were guiding to \$1.5 million to \$2.5 million.

Is that attributable to increased growth investments versus the first quarter? So I guess the question is two parts. Of the \$16 million, how much was expended in Q1? And how much do you expect to expend on these growth investments in Q2?

Paul Walker^ Steve, do you want to take that?

Stephen Young^ Yes, Alex. So we spent a little bit under \$3 million in Q1. We expect to spend a little bit over \$4 million in Q2 and then probably pretty even like \$4.5 million in each of Q3 and Q4, adding up to \$16 million. So there was a \$1 million plus, \$1 million couple of hundred thousand additional spending in Q2 versus Q1.

Alexander Paris^ Got you. And then I think you called out some of the early returns from these initiatives in Q1, you gave the new logo example and the increase in deferred subscription revenue, I think. What else can you share with us in terms of early return KPIs realizing that we're going to see this more substantially in the second half and beyond?

Paul Walker^ Yes. Yes. Great. Thanks for that caveat as well. So just from a timing standpoint, so to back everybody up for a second. A little over 18 months ago, we initiated some pilots to test this out.

We were -- we liked what we saw in those pilots. And that is what gave us the conviction to actually move forward with the transition in the go-to-market that we've been talking about the last two quarters.

Q1 was a quarter of preparation, and we actually wasn't until the first day of Q2, so December one that we are now fully in the new structure. And so a couple of those examples we shared are people who had transitioned earlier as part of the pilot. And are now in those same roles moving forward, they're either expanders or they're new logo hunters. And so we really expect, Alex, this is kind of -- this is really the first quarter.

So we had two weeks before the holidays or so and now -- and then the holidays, and now we're back and everybody is in their roles.

And so as far as KPIs go, what we expect and what we'll be reporting in our following reports here will be kind of the walk from -- by the way, everybody is in place. We mentioned that a minute ago as well. And so we've got everybody here. They're all in place. They're all firing now in their new roles.

And what we expect to see is increased marketing and lead generation from marketing investments that we've -- that we will be making throughout the increased marketing investments throughout the year.

We expect larger new logo pipelines. We expect good like we've had and even better retention of clients and the revenue associated with that.

But the leading indicators would be lead flow, would be pipeline, sales activity, that would then turn into more invoiced revenue growth in the back half of the year, which is then, of course, will come off the balance sheet and be reported as revenue in future periods.

So in terms of early returns, I would point to the quality of the hires that we've been able to bring in. And in fact, maybe on that one in just a second, I have Holly Procter, who's on talk about some of the great new logo hunting folks we brought in, that will be an indicator of success. And then we'll be looking closely at the growing and building pipelines as we move forward.

But this is -- we're just a couple of weeks into this whole new structure now. Holly, any thought on the -- you want to offer on the people we've been able to attract?

Holly Procter^ Yes. Sure. Alex, it's great to meet you. I can share a little bit on the speed and quality of the hires we've made so far. So as Paul alluded to, we've been able to fill the new logo hunting board well ahead of schedule. So we're excited about the speed.

In addition to the speed, though, probably the thing I'm most excited about is the quality of the candidates we've been able to attract. And so we pulled over sales coming from Zoom, LinkedIn, Udemy, Skillsoft, EY, some of the best brands, and we're eager to bring their skills into Franklin Covey. They're certainly excited to hit the ground running and eager to get in their territory.

So thrilled not just about the speed but also the quality.

Alexander Paris^ That's great. And in terms of quantity, on the hunter side, the target was just to be clear, 44 or so. And then on the farmer side or the expand side, 88 client-facing CPs?

Holly Procter^ That's correct.

Paul Walker^ Yes. Yes. And just a quick note on that to follow up on that. So the great thing is the 88 on the expanding side, we don't want to call -- we don't call them -- nobody is a farmer here because you got to expand what you have and grow it. But those are all incumbents.

So we went through -- those are the best of the best that we've had at client retention and expansion. That's the group that's been responsible for the 218% expansion in revenue per client we've achieved over the last few years.

And now that's all we've asked them to focus on. And so yes, they're all in place, and that was not a lot of new hiring. Those people are in here and they're doing the job that they've been doing even more focused now in this new structure. On the other side, the 44, yes, the 42 or the 44 here today, yes.

Alexander Paris^ And those are the quality hires that, Holly, you were referring to coming from Udemy and LinkedIn and Skillssoft, et cetera.

Holly Procter^ Correct.

Alexander Paris^ Great. And then just a quick maybe a Jen question. But on our last call we had talked about launching seven Habits 5.0, it had been done in the weeks prior to that call maybe a week prior to that call what are the early read-throughs of that product launch or relaunch?

Jennifer Colosimo^ Thanks, Alex. Well as you know we did quite a bit of marketing in Q1, and we had very significant growth in registrations in our marketing events.

We grew about 15%. One of the great indicators is that we had over 2,000 people come live to seven Habits events in the U.S. and Canada. And in fact, they took place all over the world and over 4,000 people for our webcast. So we really believe in the strength of this solution.

Steve alluded to our excitement about our booking pace, and we've definitely seen that impacted by the seven Habits, timeless principles, but as we've updated some of the practices, our clients are very excited about it, and it's also gotten us into some new prospects.

Operator^ (Operator Instructions) And our next question will be coming from the line of Dave Storms of Stonegate.

David Storms^ I kind of want to start on the first one around your TAM and how you see it per client. And just bear with me on the math here.

If the rough math is \$85,000 per client, that's about a 10% penetration on average. Does that then full 100% penetration rate factor in only the current offerings that you guys have in place? Or does that factor in any offerings that you may be able to add on down the line? And apologies if I didn't ask that question quite right.

Paul Walker^ I think I understand the question. And so the -- Dave, I think the answer to -- if I understand the question right, so moving from the 10% -- so yes, your math is right that on average, across our client base, we're generating \$85,000 a year in revenue per client.

And obviously that number looks a little bit different depending on the segment, the size of the organization that we're in, but that is the average. And that's -- we're achieving that average today with about 10% average penetration into those organizations in terms of number of seats that we could be selling All Access Pass into.

In terms of your question about where do we go from here and what are the drivers of moving that 10% penetration to 15%, 20%, 25%, 30% driving that higher. There are a couple of drivers of that. You asked about the content parts. Let me answer that first, and then I'll come back to the second driver.

So on the content side, we have been working hard over the last couple of years to build solutions that naturally should radiate further into our client organizations.

I'll give you an example. Prior to the most recent launch of the Speed of Trust. So in the prior version of Speed of Trust going back now a year ago, we really had a version of that solution that was geared only to leaders.

So that right there meant that if there are about 10% or 15% of your company is leaders, then that kind of define the population and that solution could be utilized by. When we launched the new version of Trust this past year, we created a working at the Speed of Trust companion offering to the traditional leading at the Speed of Trust offering. That right there is built to scale to the rest of a broad organization.

And so we've taken that approach across a number of our different solutions such that even with the current set of offerings, we believe that they can scale, and we should be able to scale the business to more users inside organizations.

A second example of that was the investment in the Impact Platform, right? We bought Strive a few years ago.

We rebranded that as our Impact Platform, again, to give us the technology backbone and the ability to support a variety of delivery modalities so that we could address larger portions of organizations.

And then the third part of the content is we are building and launching more solutions. You'll recall there was a time when we invested 4%, 4.5% a year in new solution development. That's about double that amount now and that's a percent of revenue. And

so on our product roadmap that this year and in the coming years are more solutions that are built with scale in mind. And the reason that, that was important to get that in place first is that now that we've transitioned the sales force, we now have a group of expanding client partners on that side of the sales force that that's their entire job.

Their entire job is to take these organizations that are now All Access Pass holders, and focus intently on moving us from 10% penetration to something much more significant. And the good news is that's all they're focused on. And they have and increasingly will have a product set that's built to support that kind of expansion.

David Storms^ That's incredibly helpful. And then just one more for me. With the expanding capability of the landing team, I guess what kind of early profile does this allow you to target that maybe you couldn't before?

Are you going to be able to maybe go up in size because the landing team will have more ability to be more focused? Or are you going to be able to go down in size because you're just going to have more eyes on a type of logo?

Just trying to get a sense of maybe where you're focused -- or is it all of the above? Just trying to get a sense of where your focus shifts on the landing side going forward?

Paul Walker^ Dave, just to be clear, I'll turn it over to Holly. Your question is about the target companies we're selling to and what happens kind of the average deal size there, it's not about who we go higher in as new landing hunting client partners, right? You're asking about the clients that we focus?

David Storms^ Correct. Yes, about maybe wins on the client side.

Paul Walker^ Yes. Great. Holly, do you want to opine on that?

Holly Procter^ Yes. No problem. So first, just to take a step back on how we were organized prior to this transformation. We had client partners that were set up in all major geos across the U.S. and Canada. And so they were very much focused on our local geography.

In this new model, we've adjusted to be organized by segments, and those segments are SMB, major accounts, enterprise and key accounts.

And those are organized by two things. The first is the size of the company, so the FTE count of the company. And then on the customer side of the house, there's also an inclusion of how much they spend. And so now that we have them organized by the size of the company, we'll not just organize the sales team, but then their associated team members across the company and other functions like product and marketing and sale support to go after segment-based customers.

So to your point, there's likely a very different solution that we'll give to our SMB audience, that's a high velocity sale, very large volume and lower price point.

And then as we go all the way up the stack to our key account audience, it's the largest brands in the world, the company is over 25,000 employees where our key differentiator is that we're offering them a global solution at scale.

Operator^ (Operator Instructions) And our next question will be coming from the line of Nehal Chokshi of Northland Capital Markets.

Nehal Chokshi^ Steve, thank you for the detail on the driver of the invoice, subscription invoice decline. Do you guys believe that that's any way the timing because they were largely related to timing? Is that in any way related to the transition to the hunter-farmer sales model here?

Paul Walker^ Steve, you want me take that one? Yes. Actually, no, not on those deals, Nehal. So where the timing is on those. One is a large government contract.

And the timing on that is actually tied to the election and potential government shutdown, which has now been resolved, and so that just moved it out of the first quarter, the renewal of that All Access Pass subscription out of the quarter.

In fact, the salesperson that's assigned to that account was assigned to -- it's still assigned to it. We're not moving that away from the great successful client partner we've had attached to that.

Another example is a client that we actually was quite a large client we won the first quarter last year. And the renewal of that contract was always going to be a Q2 renewal to get it into -- to tie to their calendar year -- sorry, to their fiscal year, which is the calendar year, and so that shifted it from our Q1 to our Q2.

So it's examples of some things like that. And therefore, four of the 5, we expect -- fully expect we'll get back in this year, and that will help our invoiced amounts here over the coming three quarters.

Nehal Chokshi^ Great.

Okay. Fantastic. Let's see Steve, as you disclosed how much shares you bought back in the quarter?

Stephen Young^ 146,000 shares. Nehal, good to talk with you.

Nehal Chokshi^ Yes.

So that translates to about \$4.5 million.

Stephen Young^ \$6 million.

Nehal Chokshi^ \$6 million. Okay. All right. And that's a nice healthy pace expected to continue at a healthy pace going forward here, essentially even accelerated?

Stephen Young^ Well as you know we don't project what we're going to do. We see the same things that you see and we have a history of buying back shares. So we'll definitely be looking at it.

Nehal Chokshi^ Okay. All right. Look, we are big believers that shift to the hunter-farmer model will drive the key metrics on churn, hunt and expansion positively. Of these three metrics, which one do you think is going to have the biggest impact as you make this transition here?

Paul Walker^ The three metrics -- sorry, which -- say the 3?

Nehal Chokshi^ Churn -- churn, hunting or landing and then the expansion or farming basically. These are your three key metrics of hunter-farmer model.

Paul Walker^ Yes. Okay. Yes. I think the -- where this new go-to-market engine will benefit us. I think we'll be across those. And what we should see -- what we expect to see, and we're seeing early green shoots of this in a number of different places across the company is, to your point, that this will improve client and revenue churn, right?

So no question that we expect that, that will be the case. It will also equally should improve new client acquisition, right? And both of those then ladder up to the ever important metric, which is invoiced subscription growth, right?

And as that starts to grow at a pace ahead of reported revenue growth then that's the -- obviously the leading indicator that those sales, which initially end up deferred on the balance sheet will come back over into reported sales so there's a bit of a lag there before the reported revenue starts to grow, and that's why our guidance for -- the midpoint of our guidance for this year is around 4% or 4.5%, revenue growth, and then we expect it to meaningfully accelerate from there as we're building out those balances of deferred sales.

But I think, Nehal, it is a -- I think it's -- we will get better retention and more expansion within our existing customers, and we will get more new logo sales. And then all we have to do is maintain -- if we even maintain anywhere near the same services attach rate we've had, which has been 50%, 60%-ish service attach rate.

If that remains the same on those larger balances of invoice sales, that would be a meaningful growth in services as well. And so those are the three legs of the stool that we're focused on with this transformation.

Nehal Chokshi^ Great. Has the level of confidence of being able to achieve fiscal year 2025 guidance changed relative to the quarter ago call?

Paul Walker^ I'd say we still see it the same way.

Nehal Chokshi^ Okay. Good. And then the service attach rate does look like it did tick down year-over-year in enterprise? And any thoughts on why that was?

Paul Walker^ Boy, do you have that? Just one second, Nehal.

Unidentified Speaker^ Service attach rate for the quarter was 55% compared to 55% last quarter, same quarter.

Paul Walker^ So Nehal, we show it being the same Q1 last year to Q1 this year, 55%.

Nehal Chokshi^ Okay. I must have had that wrong. Sorry about that. And then you did mention that you can achieve and exceed new logo targets for fiscal year '25. You're willing to share what is the actual new logo targets or how much of the year-over-year increase you're looking for here?

Paul Walker^ So I mentioned that we -- that comment was specifically tied to the fact that we were -- we wanted to have all of our new hunters in place by the 1st of March, and they're in place now.

We still need to get to, but they're essentially on place. That extra couple of months makes a difference. And so that -- as we ramp them, that's the thing that might allow us to exceed the targets.

We're not ready to share the target yet, but I think that's something that as we go into future quarters, we'll be sharing more kind of a little more detail into some of those metrics to both paint a picture for people and also there's a few metrics here that we haven't disclosed in the past that we're just working on and likely will disclose in the future.

Operator^ (Operator Instructions) And our next question will be coming from the line of Jeff Martin of ROTH Capital Markets.

Jeff Martin^ Excellent.

So Paul, I wanted to just understand a little more about the lessons and experience of doing the pilot project for the past 18 months under this new model.

What are some of the most important or more important lessons that you learned along the way? And what are you most optimistic about that you learned during that pilot process?

Paul Walker^ Yes. A couple of things as it relates to pilot. First of all, we recognized before 18 months ago that this was a transformation that we needed to make, right? We've grown the invoiced, we've grown our subscription business nicely from its conversion now it's been, what, nine years ago. And we've seen good growth on that year-on-year.

And then we saw that start to flatten out. And as we looked at what we could do to accelerate that, we recognize that we have good product. There's big demand for what we are doing in the market.

In fact, I would say that the need for what we're doing actually is growing day by day, not getting less. And yet, we were a little bit kind of a victim of the success that got us to where we were and that structure was not going to get us to where we needed to go.

And what I mean by that is that I think going through the conversion to subscription nine years ago and not disrupting the sales force while we disrupted just about everything else we were doing, I think that was a good decision.

However, as we built the subscription business up to be as large as it is, the task of maintaining and expanding all the existing clients we've built up and then also going out and finding new became just too big of a job for the same salesperson to come in every day and do and not just a salesperson, but their managers and the people that surrounded them.

We kind of -- everybody coming in every day thinking having to be responsible for everything from finding a new client all the way to retaining and expanding. And so we became aware of that and it became a question of when, when should we move in this direction.

So that led to the pilot. And we entered the pilot kind of already thinking this. We're piloting this to test the idea, not to -- and to kind of prove it. So a couple of things we learned.

One, we did learn that by focusing people on either landing or expanding and then by special -- making sure that they had the specialized resources around them to help them land and to help them expand. We saw good results from there and some returns from those pilots.

Another thing we learned is, and this was a challenging lesson, but there were a number of salespeople who were great people and who were good at doing both but not exceptional at either landing or expanding. And so that led to -- we turned some salespeople over, as you know both starting in Q3 last year and then the first quarter this year as we really refine that profile and said now you either need to be a world-class hunter or you need to be a world-class expander.

And that was another key learning is that actually by separating those two, it kind of opened the aperture up and kind of when we flip that outside, we said, "Wow, now the profile looks different." We're not trying to look for this needle in a haystack person that could do both of those things.

We really just need to find the people who are exceptional at one of those two jobs. And that's made a big impact in terms of hiring and recruiting.

I think a third lesson is -- and then I'll just maybe stop and let you jump back in if you have another question in a lot more detail. Third lesson is we were compensating in terms of sales compensation on kind of maintaining and retaining the overall book of business, and that didn't put enough compensation leverage on the new logo side. Nor did it put enough compensation leverage on the -- you got to go expand and grow your business if

you have these existing clients. And so I think we've we learned that there were some tweaks that we could and should make there as well.

So those are a few of the lessons learned throughout the 18 months that we've been applying. Maybe just the last, Jeff would be the point Holly mentioned that we were going to market and every client partner's book of business had some very large customers to medium size and some smaller size.

And we recognize that actually by having people assigned to a segment, you're either assigned only to large companies or only the medium-size or only to SMB that we could actually get a lot more velocity and focus and specialization there as well. So those would be four lessons we learned that we've been now applying in this new structure.

Jeff Martin^ Got it. Okay. And with a lot of the initial investment in personnel happening pretty much up to this point already. Just curious how the residual or the remaining part of that \$16 million growth investment plan this year, is going to be allocated? Are you going to do some brand repositioning?

Are you doing specifically marketing? Is it more driving marketing events where you're doing seminars and sales meetings, those sorts of things? Help us understand what's been remaining this year, how that's going to be allocated.

Paul Walker^ Yes, great question. So largely the people are in place, as you said. There are two more areas of people-related investments to bring in. One, is the group that precedes the hunters, which is kind of the SDR function. We're augmenting the team that we had with a few more people.

We just made a great new leader hire there. And that's the team responsible that kind of sits between marketing and the salespeople to gin up lots of client meetings for our new hunter salespeople.

So that's an area of people. And then we have a few more people that go on kind of the -- as the invoice subscription growth in the back half of the year, we'll need more implementation strategies.

We talked about them. That's our CSM function. So there's a few more people there. But then to your point, there will be some investment -- increased investment in marketing, as we sharpen the brand up.

But that marketing is really focused on lead generation to feed the new logo salespeople and also lead generation into our existing customers as we expand from our current approximately 10% penetration to larger populations. So marketing and then a few additional roles that are part of this transformation.

Operator^ Thank you. That does conclude today's Q&A session. I would now like to turn the call back over to Paul Walker for closing remarks. Please go ahead.

Paul Walker^ Wonderful. Thank you. Just want to say Happy New Year to everyone. Thanks for joining us today. Thanks for your great questions and for the work that you do to understand Franklin Covey, our business and where we're trying to go here. I feel really good about the speed at which we're executing on this new set of initiatives.

I feel great about where Sean and the Education team came in, in the first quarter and the trajectory and the momentum in that business and look forward to reporting again at the end of our second quarter and hope you all have a wonderful rest of your day.

Operator^ This does conclude today's conference call. You may all disconnect.