



# Investor Update

Second 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 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.

# 4 key takeaways

1

Stronger than expected second quarter results.

2

Growth in Deferred Revenue provides significantly increased visibility.

3

Subscription momentum is accelerating.

4

Inflection driven by interplay of key factors.

# Q2 FY18 results highlights

(unaudited)

+10.3%

15.2% YTD

Revenue growth

+55%

57% YTD

Subscription and  
subscription-related  
revenue growth

+81%

104% YTD

Growth of subscription &  
subscription-related  
revenue in Enterprise  
Division

+95%

Deferred Revenue  
(billed) growth

+165%

Deferred Revenue  
(billed & unbilled)  
growth

70.3%

Gross Margin: YOY  
increase of  
392 bps

Adjusted EBITDA

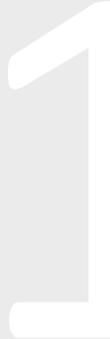
+.7M

better than guidance

+\$2.6M

YTD increase in Net  
Cash provided by  
Operating Activities  
YOY

\*Note: Deferred Revenue (billed and unbilled) is a Non-GAAP operational measure. Deferred Revenue (billed) represents the amount of non-cancellable subscription contracts that have been invoiced to our customers and is considered in our Deferred Revenue account on our Balance Sheet. Deferred Revenue (unbilled) represents the amount of non-cancellable contracts that have not been billed to our customers and are not reflected in our financial statements, but is an important management measure.



# Stronger than expected second quarter results

## Significant Q2 revenue growth YOY

(unaudited)

### Total Revenue

+10.3%

+15.2% YTD



FY17 Q2 \$42.2M  
FY18 Q2 \$46.5M

FY17 Q2 YTD \$82.0M  
FY18 Q2 YTD \$94.5M

### Total Subscription and Subscription-Related Revenue

+55%

+57% YTD



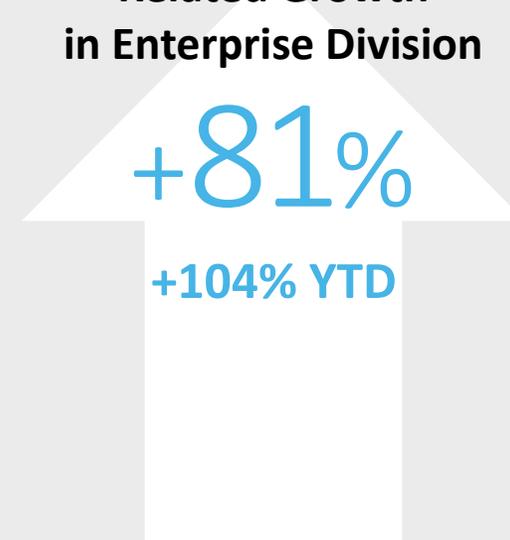
FY17 Q2 \$12.9M  
FY18 Q2 \$20.0M

FY17 Q2 YTD \$25.8M  
FY18 Q2 YTD \$40.5M

### Subscription and Subscription-Related Growth in Enterprise Division

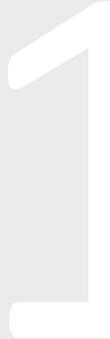
+81%

+104% YTD



FY17 Q2 \$7.6M  
FY18 Q2 \$13.7M

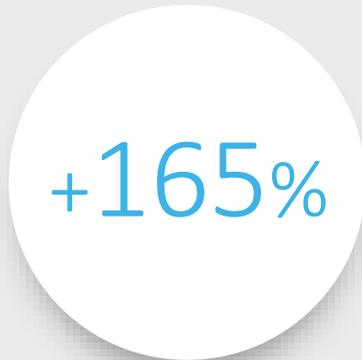
FY17 Q2 YTD \$13.0M  
FY18 Q2 YTD \$26.5M



# Stronger than expected second quarter results

## Significant increase in deferred revenue balances (unaudited)

### Q2 Year-Over-Year Deferred Revenue Balances (billed and unbilled)

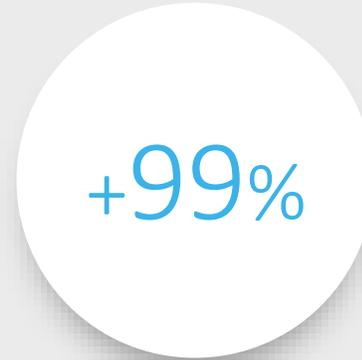


FY17 Q2

FY18 Q2

**\$17.8M**    **\$47.2M**

### Billed



FY17 Q2 \$16.1M

FY18 Q2 \$32.1M

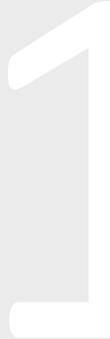
### Unbilled



FY17 Q2 \$1.7M

FY18 Q2 \$15.1M

\*Note: Deferred Revenue (billed and unbilled) is a Non-GAAP operational measure. Deferred Revenue (billed) represents the amount of non-cancellable subscription contracts that have been invoiced to our customers and is considered in our Deferred Revenue account on our Balance Sheet. Deferred Revenue (unbilled) represents the amount of non-cancellable contracts that have not been billed to our customers and are not reflected in our financial statements, but is an important management measure.



# Stronger than expected second quarter results

## Significant gross margin improvement offset growth investments (unaudited)

### Gross Margin



### Operating SG&A



### Adjusted EBITDA\*



\*Note: Adjusted EBITDA and Operating SG&A are non-GAAP financial measures. Please see the appendix for additional information.

1

# Stronger than expected second quarter results

Substantial increase in operating cash flow  
(unaudited)

Net cash provided by  
operating activities

Q2 FY17 YTD

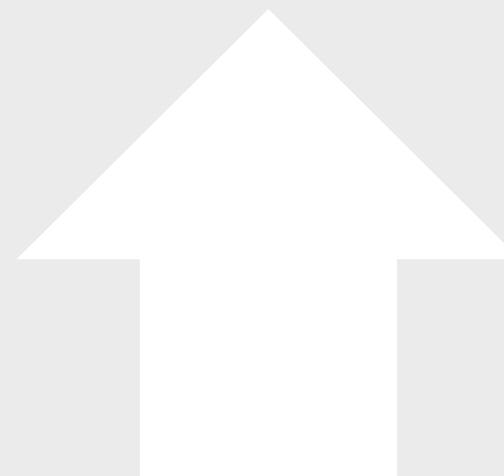
\$6.8M

Q2 FY18 YTD

\$9.4M

+2.6M

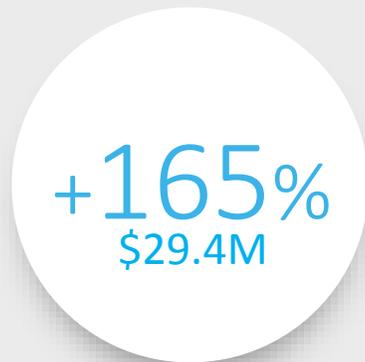
compared to Q2 FY17 YTD



# 2

## Growth in Deferred Revenue provides increased visibility Significant increase in deferred revenue balances

Total Q2 Balance of Deferred Revenue  
(billed and unbilled)

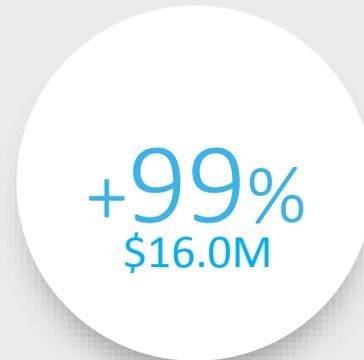


FY17 Q2

FY18 Q2

\$17.8M    \$47.2M

Billed



FY17 Q2    \$16.1M

FY18 Q2    \$32.1M

Unbilled



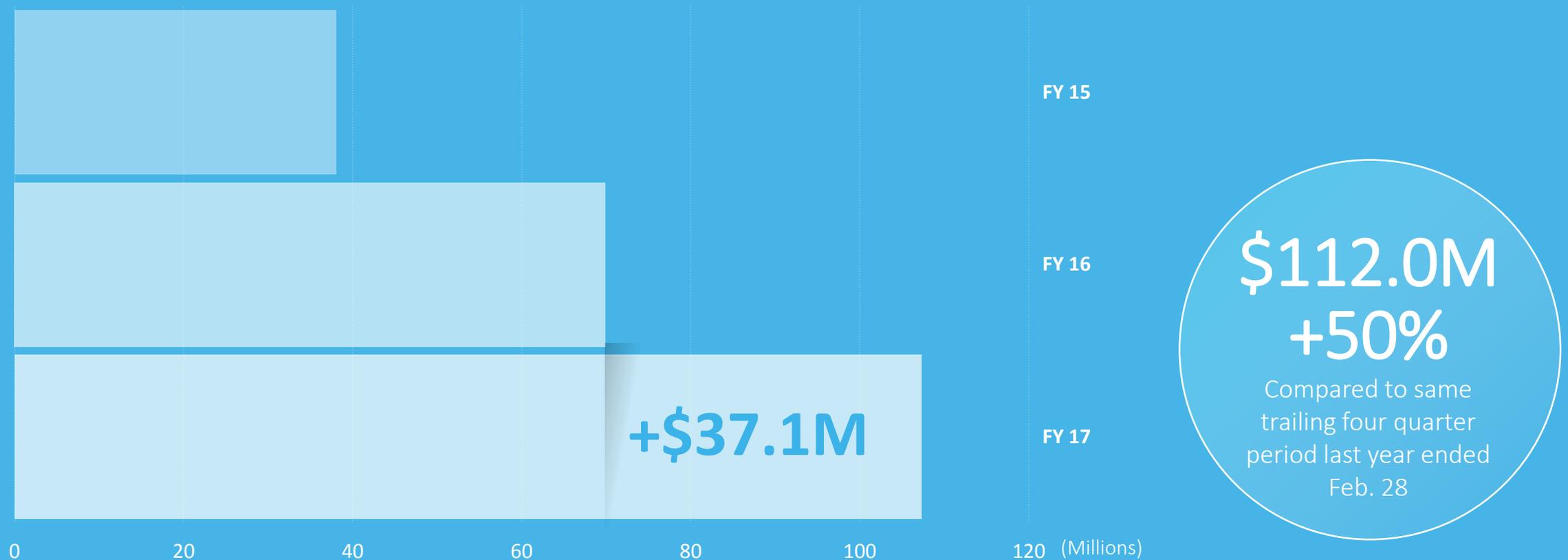
FY17 Q2    \$1.7M

FY18 Q2    \$15.1M

\*Note: Deferred Revenue (billed and unbilled) is a Non-GAAP operational measure. Deferred Revenue (billed) represents the amount of non-cancellable subscription contracts that have been invoiced to our customers and is considered in our Deferred Revenue account on our Balance Sheet. Deferred Revenue (unbilled) represents the amount of non-cancellable contracts that have not been billed to our customers and are not reflected in our financial statements, but is an important management measure.

# Subscription momentum is accelerating

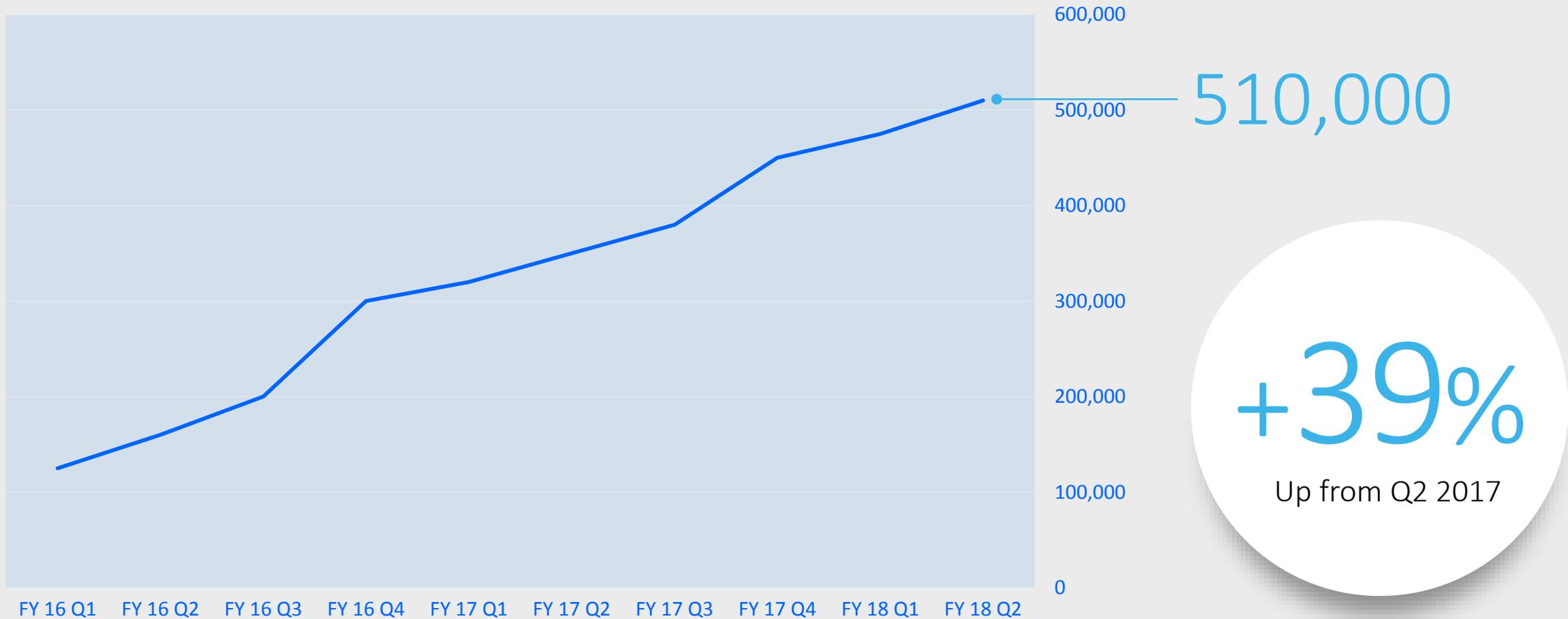
Reported revenue plus change in deferred revenue (billed and unbilled)



\*Note: Deferred Revenue (billed and unbilled) is a Non-GAAP operational measure. Deferred Revenue (billed) represents the amount of non-cancellable subscription contracts that have been invoiced to our customers and is considered in our Deferred Revenue account on our Balance Sheet. Deferred Revenue (unbilled) represents the amount of non-cancellable contracts that have not been billed to our customers and are not reflected in our financial statements, but is an important management measure.

# 3

## Subscription momentum is accelerating Total paying subscribers continues to rise



# 3

## Subscription momentum is accelerating Subscriber growth: Enterprise Division



360,000

**+50%**  
Up from Q2 2017

# 3

## Subscription momentum is accelerating Subscriber growth: Education Division



## 3 Subscription momentum is accelerating

Significant purchases of All Access Pass related add-on services drove revenue growth

(unaudited)

Last 12 months

+110%

From \$7.3M  
To \$15.2M

# Subscription momentum is accelerating

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

# 3 Subscription momentum is accelerating

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



Subscription  
growth rate



Gross  
margin



Growth  
efficiency

# 4 Inflection driven by interplay of key factors

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

## Subscription 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 a Subscription Model

\$47.2M\*

of high margin deferred revenue (billed and unbilled) to be recognized in FY2018 and into FY2019

+

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

\*Note: Deferred Revenue (billed and unbilled) is a Non-GAAP operational measure. Deferred Revenue (billed) represents the amount of non-cancellable subscription contracts that have been invoiced to our customers and is considered in our Deferred Revenue account on our Balance Sheet. Deferred Revenue (unbilled) represents the amount of non-cancellable contracts that have not been billed to our customers and are not reflected in our financial statements, but is an important management measure.

# 4

## Inflection driven by interplay of key factors

FIGURE A

Subscription Growth vs. Legacy Decline

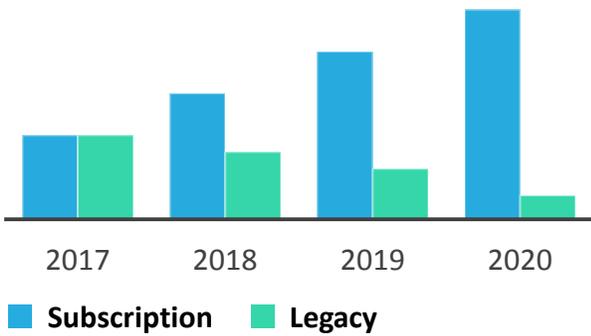


FIGURE B

Revenue Growth vs. Growth in Central & Support Costs

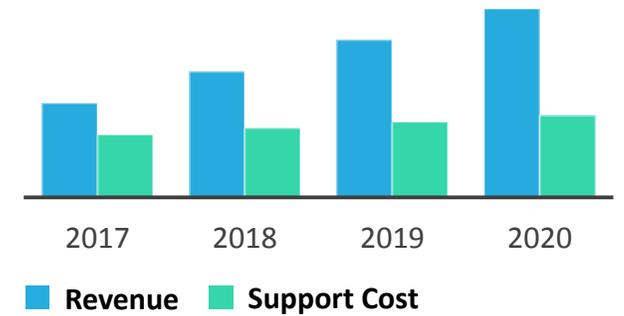


FIGURE C

Growth in Revenue vs. Adjusted EBITDA

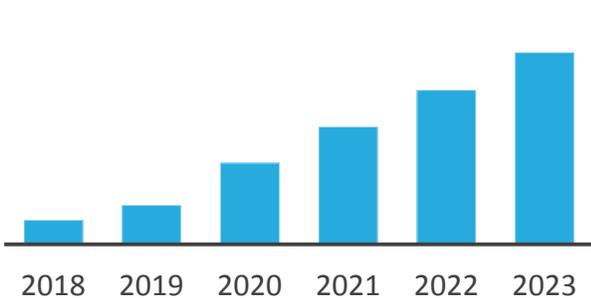
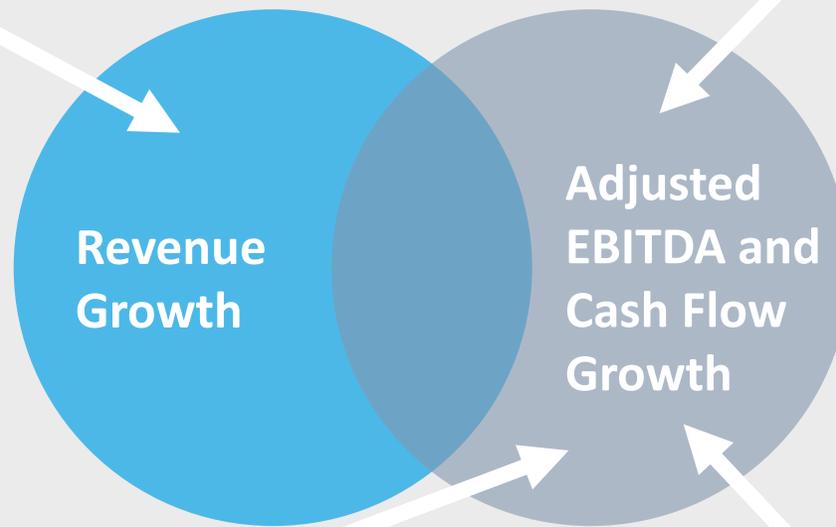
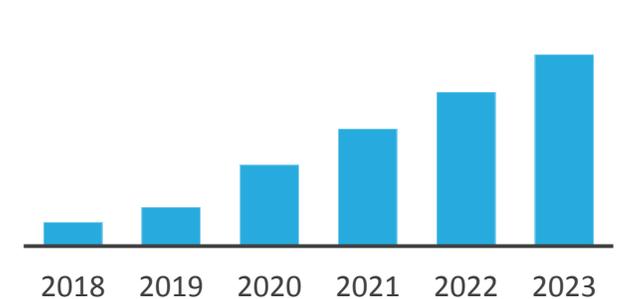


FIGURE D

Growth in Pre-Tax Cash Flow



# 4 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 \$5.6M 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 \$2.4M 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). Therefore, the tax rate could be a significantly different percentage, and we are not projecting on FY18 rate.

## Other Information:

- Capital Expenditures: \$7.2M in FY2017, expected to total approximately \$7.0M to \$7.5M (including new ERP system) in FY2018.
- Capitalized Curriculum excluding acquired content: \$6.5M in FY2017, expected to total approximately \$5.0M in FY2018, reflecting localization of AAP content, AAP content development, and Education content development (excluding acquisitions).
- Share Count: 13,897K shares outstanding as of March 31, 2018. 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 220 on February 28, 2018.

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

## Additional financial information

### Contracted Amounts Q2

	Q2			YTD through Q2		
	FY18	FY17	Change	FY18	FY17	Change
Reported Net Sales	36,321	33,074	3,247	73,838	62,889	10,949
Change in Deferred Revenue	3,704	4,066	(362)	1,478	6,452	(4,974)
Change in Unbilled Contracts	(792)	(250)	(542)	(1,733)	(250)	(1,483)
<b>Total Contracts Signed</b>	<b>39,233</b>	<b>36,890</b>	<b>2,343</b>	<b>73,583</b>	<b>69,091</b>	<b>4,492</b>
			6%			7%

### Education Division - Q2 and YTD

(Unaudited)

	Q2			YTD through Q2		
	FY18	FY17	Change	FY18	FY17	Change
Reported Net Sales	9,007	7,848	1,159	18,183	16,591	1,592
Change in Deferred Revenue	(3,493)	(1,997)	(1,496)	(6,460)	(3,681)	(2,779)
Change in Unbilled Contracts	-	-	-	(300)	(400)	100
<b>Total Contracts Signed</b>	<b>5,514</b>	<b>5,851</b>	<b>(337)</b>	<b>11,423</b>	<b>12,510</b>	<b>(1,087)</b>
			-6%			-9%

\*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.

# Additional financial information

## Division summary

<b>Current Quarter</b>	<b>Enterprise Division</b>				<b>Education Division</b>				<b>Corporate</b>			<b>Total Company</b>			
	FY18	FY17	Chang	%	FY18	FY17	Chang	%	FY18	FY17	Chang	FY18	FY17	Chang	%
Sales	36.3	33.1	3.2	10%	9.0	7.8	1.2	15%	1.2	1.3	(0.1)	46.5	42.2	4.4	10%
Cost of Sales	9.1	10.0	(0.9)	-9%	3.8	3.4	0.4	12%	0.9	0.8	0.1	13.8	14.2	(0.4)	-3%
Gross Margin	27.2	23.1	4.1	18%	5.2	4.4	0.8	17%	0.3	0.5	(0.2)	32.7	28.0	4.7	17%
GM%	75.0%	69.9%	5.1%		57.3%	56.2%	1.2%		27.7%	39.2%	-11.5%	70.3%	66.4%	3.9%	
Segment Expenses	24.3	20.2	4.1	20%	6.0	5.0	1.1	22%	3.1	3.2	(0.1)	33.4	28.4	5.0	18%
Adjusted EBITDA	2.9	2.9	0.1	2%	(0.9)	(0.6)	(0.3)	-	(2.7)	(2.7)	(0.0)	(0.7)	(0.4)	(0.3)	-
<b>Year To Date</b>	<b>Enterprise Division</b>				<b>Education Division</b>				<b>Corporate</b>			<b>Total Company</b>			
	FY18	FY17	Chang	%	FY18	FY17	Chang	%	FY18	FY17	Chang	FY18	FY17	Chang	%
Sales	73.8	62.9	10.9	17%	18.2	16.6	1.6	10%	2.5	2.5	(0.0)	94.5	82.0	12.5	15%
Cost of Sales	19.5	20.2	(0.6)	-3%	7.6	7.2	0.4	6%	1.7	1.3	0.4	28.9	28.6	0.2	1%
Gross Margin	54.3	42.7	11.6	27%	10.6	9.4	1.2	12%	0.7	1.2	(0.5)	65.6	53.3	12.3	23%
GM%	73.6%	67.9%	5.6%		58.3%	56.8%	1.4%		28.9%	47.8%	-18.9%	69.4%	65.1%	4.4%	
Segment Expenses	46.9	40.1	6.8	17%	12.1	9.8	2.4	25%	6.7	6.7	(0.0)	65.7	56.5	9.2	16%
Adjusted EBITDA	7.4	2.6	4.8	183%	(1.6)	(0.3)	(1.2)	-	(5.9)	(5.5)	(0.4)	(0.1)	(3.2)	3.1	-

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

## Additional financial information

### Reconciliation of Net Loss to Adjusted EBITDA

(in thousands and unaudited)

	Quarter Ended		Two Quarters Ended	
	February 28, 2018	February 28, 2017	February 28, 2018	February 28, 2017
Reconciliation of net loss to Adjusted EBITDA:				
Net loss	\$ (2,740)	\$ (3,333)	\$ (5,132)	\$ (7,291)
Adjustments:				
Interest expense, net	638	514	1,125	1,019
Income tax benefit	(3,025)	(1,669)	(4,373)	(3,590)
Amortization	1,395	721	2,791	1,443
Depreciation	1,379	928	2,280	1,794
Stock-based compensation	779	1,564	1,736	2,777
Contract termination costs	-	1,500	-	1,500
Increase (reduction) to contingent earnout liability	477	(924)	652	(1,936)
ERP implementation costs	429	306	855	593
China start-up costs	-	26	-	505
Adjusted EBITDA	<u>\$ (668)</u>	<u>\$ (367)</u>	<u>\$ (66)</u>	<u>\$ (3,186)</u>
Adjusted EBITDA margin	-1.4%	-0.9%	-0.1%	-3.9%

### Additional Sales Information

(in thousands and unaudited)

	Quarter Ended		Two Quarters Ended	
	February 28, 2018	February 28, 2017	February 28, 2018	February 28, 2017
<b>Sales Detail by Segment:</b>				
Direct offices	\$ 33,275	\$ 30,137	\$ 67,471	\$ 56,520
Education	9,007	7,848	18,183	16,591
International licensees	3,046	2,937	6,366	6,369
Corporate and other	1,219	1,274	2,459	2,503
<b>Total</b>	<u>\$ 46,547</u>	<u>\$ 42,196</u>	<u>\$ 94,479</u>	<u>\$ 81,983</u>

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

# Additional financial information

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

	February 28, 2018	August 31, 2017
<u>Assets</u>		
Current assets:		
Cash	\$ 10,760	\$ 8,924
Accounts receivable, less allowance for doubtful accounts of \$2,933 and \$2,310	48,730	66,343
Receivable from related party	794	1,020
Inventories	3,520	3,353
Income taxes receivable	549	259
Prepaid expenses and other current assets	11,997	11,936
Total current assets	<u>76,350</u>	<u>91,835</u>
Property and equipment, net	21,294	19,730
Intangible assets, net	54,512	57,294
Goodwill	24,220	24,220
Long-term receivable from related party	49	727
Deferred income tax assets	5,936	1,647
Other long-term assets	14,585	15,278
	<u>\$ 196,946</u>	<u>\$ 210,731</u>

	February 28, 2018	August 31, 2017
<u>Liabilities and Shareholders' Equity</u>		
Current liabilities:		
Current portion of financing obligation	\$ 1,978	\$ 1,868
Current portion of term notes payable	6,250	6,250
Accounts payable	9,108	9,119
Deferred revenue	36,136	40,772
Accrued liabilities	18,986	22,617
Total current liabilities	<u>72,458</u>	<u>80,626</u>
Line of credit	9,919	4,377
Term notes payable, less current portion	9,688	12,813
Financing obligation, less current portion	20,055	21,075
Other liabilities	4,421	5,742
Deferred income tax liabilities	41	1,033
Total liabilities	<u>116,582</u>	<u>125,666</u>
Shareholders' equity:		
Common stock	1,353	1,353
Additional paid-in capital	210,007	212,484
Retained earnings	64,324	69,456
Accumulated other comprehensive income	1,019	667
Treasury stock at cost, 13,179 and 13,414 shares	(196,339)	(198,895)
Total shareholders' equity	<u>80,364</u>	<u>85,065</u>
	<u>\$ 196,946</u>	<u>\$ 210,731</u>

## Additional financial information

### Condensed Consolidated Statements of Operations

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

	Quarter Ended		Two Quarters Ended	
	February 28, 2018	February 28, 2017	February 28, 2018	February 28, 2017
Net sales	\$ 46,547	\$ 42,196	\$ 94,479	\$ 81,983
Cost of sales	13,803	14,165	28,867	28,643
Gross profit	32,744	28,031	65,612	53,340
Selling, general, and administrative	35,097	29,370	68,921	58,465
Contract termination costs	-	1,500	-	1,500
Depreciation	1,379	928	2,280	1,794
Amortization	1,395	721	2,791	1,443
<b>Loss from operations</b>	<b>(5,127)</b>	<b>(4,488)</b>	<b>(8,380)</b>	<b>(9,862)</b>
Interest expense, net	(638)	(514)	(1,125)	(1,019)
<b>Loss before income taxes</b>	<b>(5,765)</b>	<b>(5,002)</b>	<b>(9,505)</b>	<b>(10,881)</b>
Income tax benefit	3,025	1,669	4,373	3,590
<b>Net loss</b>	<b>\$ (2,740)</b>	<b>\$ (3,333)</b>	<b>\$ (5,132)</b>	<b>\$ (7,291)</b>
Net loss per common share:				
Basic and diluted	\$ (0.20)	\$ (0.24)	\$ (0.37)	\$ (0.53)
Weighted average common shares:				
Basic and diluted	13,867	13,825	13,796	13,808
Other data:				
Adjusted EBITDA <sup>(1)</sup>	\$ (668)	\$ (367)	\$ (66)	\$ (3,186)

<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.

# Enterprise Division Revenue (Unaudited)

## Enterprise Division Revenue

(Unaudited)

### Total Revenue of

locations selling AAP	1st Qtr 2017	1st Qtr 2018	Percent	2nd Qtr 2017	2nd Qtr 2018	Percent	2nd Qtr YTD 2017	2nd Qtr YTD 2018	Percent
AAP	2.3	8.6	276%	3.7	8.4	125%	6.0	17.1	182%
Facilitator	4.0	4.5	10%	7.8	5.3	-32%	11.8	9.7	-18%
Onsites	10.0	11.2	12%	9.9	8.4	-15%	20.0	19.6	-2%
Other	2.1	1.5	-28%	1.3	2.4	81%	3.4	3.9	14%
<b>Total</b>	<b>18.5</b>	<b>25.8</b>	<b>40%</b>	<b>22.8</b>	<b>24.6</b>	<b>8%</b>	<b>41.3</b>	<b>50.4</b>	<b>22%</b>
<b>Other Direct Offices</b>									
Japan/China	6.6	6.4	-4%	5.5	6.3	13%	12.2	12.6	4%
Other	1.3	2.0	56%	1.7	2.4	40%	3.0	4.5	47%
<b>Total</b>	<b>7.9</b>	<b>8.4</b>	<b>6%</b>	<b>7.3</b>	<b>8.7</b>	<b>19%</b>	<b>15.2</b>	<b>17.1</b>	<b>12%</b>
<b>Total Direct Offices</b>	<b>26.4</b>	<b>34.2</b>	<b>30%</b>	<b>30.1</b>	<b>33.3</b>	<b>10%</b>	<b>56.5</b>	<b>67.5</b>	<b>19%</b>
International Licenses	3.4	3.3	-3%	2.9	3.0	4%	6.4	6.4	0%
<b>Total Enterprise Division</b>	<b>29.8</b>	<b>37.5</b>	<b>26%</b>	<b>33.1</b>	<b>36.3</b>	<b>10%</b>	<b>62.9</b>	<b>73.8</b>	<b>17%</b>

## Definitions

- “Deferred Revenue” primarily consists of billings or payments received in advance of revenue recognition from subscription services and is recognized as the revenue recognition criteria are met. The Company generally invoices customers in annual installments. The deferred revenue balance is influenced by several factors, including seasonality, the compounding effects of renewals, invoice duration, invoice timing and dollar size. When Management refers to Deferred Revenue or the change in Deferred Revenue it is primarily referring to the subscription related portion and not the customer deposits and other portions.
- “Unbilled Deferred Revenue” is an operational measure that represents future billings under our non-cancelable subscription agreements that have not been invoiced and, accordingly are not recorded in our recognized revenue or deferred revenue.

## Non-GAAP financial information

A reconciliation of a non-GAAP financial measure, “Adjusted EBITDA,” to consolidated net income (loss), the most comparable GAAP financial measure is provided within this presentation. The Company defines Adjusted EBITDA as net income or loss from operations excluding the impact of interest expense, income tax expense, amortization, depreciation, stock-based compensation expense, restructuring charges, and certain other items such as adjustments to the fair value of contingent consideration liabilities resulting from the acquisition of businesses. The Company references this non-GAAP financial measure in its decision making because it provides supplemental information that facilitates consistent internal comparisons to the historical operating performance of prior periods and the Company believes it provides investors with greater transparency to evaluate operational activities and financial results. We are unable to provide a reconciliation of forward-looking estimates of non-GAAP Adjusted EBITDA to GAAP measures because certain information needed to make a reasonable forward-looking estimate is difficult to estimate and dependent on future events which may be uncertain or out of our control, including the amount of AAP contracts invoiced, the number of AAP contracts that are renewed, necessary costs to deliver our offerings such as unanticipated content development costs, and other potential variables. Accordingly, a reconciliation is not available without unreasonable effort.