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Q2 2022 Franklin Covey Co Earnings Call

EVENT DATE/TIME: MARCH 30, 2022 / 9:00PM GMT

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PRESENTATION

Operator

Welcome to the Q2 2022 Franklin Covey Earnings Conference Call. My name is Adrienne, and I'll be your operator for today's call. (Operator Instructions)

I'll now turn the call over to Derek Hatch. Derek, you may begin.

Derek Hatch *Franklin Covey Co. - Corporate Controller of Central Services - Finance*

Thanks, Adrienne. Hello, everyone. On behalf of Franklin Covey, I would like to welcome you to our earnings call to discuss our second quarter fiscal 2022 financial results.

Before we begin, I would just 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 stabilize and grow revenues, the acceptance of and renewal rates of our subscription offerings, including the All Access Pass and Leader in Me memberships; the duration and recovery from the COVID-19 pandemic; the ability of the company to hire sales 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. 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.

I think that gets longer every time I read it. With that out of the way, I'd like to turn the time over to Mr. Paul Walker, our Chief Executive Officer. Paul?

Paul S. Walker *Franklin Covey Co. - President & CEO*

Thank you, Derek, and hello, everyone. We're happy to have the opportunity to talk with you today and we thank you for joining us. I'm joined by Bob, Steve and the team, and we also have Jen Colosimo and Sean Covey on the line as well.

We're really pleased with our -- both our second quarter and year-to-date results. As you can see on Slide 4, subscription and subscription services revenue grew 31% in the second quarter and 32% year-to-date. This drove overall company revenue growth of 18% in the second quarter and 22% year-to-date. Our balance of deferred revenue, billed and unbilled, grew 24%. Our gross margin percent reached 77.9% for the quarter and increased 41 basis points compared to last year's second quarter and an increase of 140 basis points to

77.8% year-to-date.

Operating SG&A as a percent of sales improved 316 basis points for the quarter, going from 66.9% to 63.7%, and improved 468 basis points year-to-date, going from 67.3% to 62.6%. This combination of strong revenue growth and increasing gross margin percentage and declining operating SG&A as a percent of sales drove a 35% flow-through of incremental revenue to adjusted EBITDA in the second quarter, and a 43% flow-through year-to-date.

As a result, adjusted EBITDA for the second quarter increased 57% to \$8 million and increased 103% to \$18 million year-to-date, and net cash flow from operating activities year-to-date increased \$23.2 million -- increased to \$23.2 million. I'd now like to step back and provide the context and insights on some of the key factors which are driving these results.

Our focus and unique expertise is in helping organizations achieve results that require the collective action of large numbers of leaders and individuals. As indicated in Column 1 of Slide #5, on the left side there, there are many in our industry who provide libraries of information. And these can prove to be a useful resource to a company's employees. Similarly, as indicated in the center column, many others offer libraries of content that provide clients' employees the opportunity to develop life and job skills to help them advance in their careers.

At Franklin Covey, however, our focus is not just on providing our clients with useful information or providing content to help people learn skills that can help them advance in their careers, although I think it's important to note that both are available in the All Access Pass. Rather, Franklin Covey has organized and focused our entire organization on helping clients achieve results that require large-scale change in behavior.

We help our clients address challenges and successfully pursue opportunities, which, as indicated in that third column on the right, require unleashing the collective power of the entire organization. These opportunities and challenges include things like moving a key metrics, such as customer satisfaction or sales performance, or measurably increasing the engagement and commitment of employees or developing leaders who can unleash the capabilities of their people to achieve extraordinary results.

Said differently, we're their partner of choice for organizations when winning is a team sport. We've always been viewed as best-in-class at helping organizations achieve these kinds of high-impact results. And when we made the decision to convert to a subscription business model just over 6 years ago, we already had a number of significant strengths going for us. These included things such as, over the prior 5 years, we'd achieved significant growth in revenue and adjusted EBITDA. We've created some of the world's most impactful and best-selling content. We had invested significantly in technology-based delivery capabilities.

We had a large and growing sales force. We had a lot of loyal customers, and we have a tremendous culture. However, despite our successes, we knew that our customers had a much broader range of important opportunities and challenges that are at the time, one-off solution-by-solution go-to-market approach was allowing us to help them address. To become the true partner of choice for our clients and to help them address their most important opportunities and challenges, we decided we would need to change our business model and the way in which we engage with our clients and, in turn, them with us.

To do this, we created our powerful All Access Pass subscription offering. We've reviewed the value prop for that on previous calls, so I won't do it here today. But for your information, Slides 23 and 24 in the appendix have a detailed overview of the All Access Pass value proposition. By combining the All Access Pass' compelling value proposition and subscription business model with the power of our best-in-class solutions, we expected that we can become a unique kind of company, a company that, as shown in Slide 6, would achieve 3 things.

First, that we would occupy the position as most trusted in the industry. Second, that we would earn extraordinarily high levels of client loyalty and commitment, translating into high and growing client lifetime value. And third, that we would generate extremely strong and accelerating top-tier financial results. Very few companies become recognized as a leader in their chosen market or earn the top-tier loyalty of their customers. Fewer still achieve and maintain top-tier financial results.

We believe that by combining All Access Pass' compelling value proposition and subscription model with our already significant strategic strengths and our new investments in content, technology and in our teams, we could become a unique kind of company, a company that, as indicated, could simultaneously and consistently achieve all 3 of these objectives.

I'd like to provide a bit of commentary on each objective and how our original assumptions and expectations are playing out. First, as illustrated on Slide 7, as to our progress on objective #1, that is cementing our position as the most trusted leadership company. We're pleased that over the past several years, we have expanded our solutions to include new blockbuster offerings, addressing some of the organization's most impactful challenges and opportunities. We've expanded our micro learning and reinforcement offerings through the acquisition of Jhana, established through our acquisition of Strive, a state-of-the-art learning delivery platform to generate measurable behavior change at scale.

We've published numerous new best-selling books, which expanded market awareness of our solutions and have added them to our more than 50 million books sold worldwide, and we initiated a brand refresh and a new brand launch. In fact, many of you will notice our new brand reflected in our presentation here today. You'll recall that we indicated in the fourth quarter of last year that we were making significant investments into branding and positioning the company even more clearly and powerfully in the market. I'm pleased to report that these efforts are being received exceptionally well, and we are focused on getting the word out to new potential clients like never before.

Second, as illustrated on Slide #8, as to our progress on objective #2, that of earning extraordinary levels of client loyalty and commitment. We're pleased that, as expected, our customer lifetime value is both high and increasing. As shown in Slide 9, in our U.S. Canada business, which makes up 71% of total Enterprise Division sales, our average All Access Pass contract value has grown from \$31,000 in fiscal 2016 to \$46,000 at the end of this year's second quarter.

Our annual revenue retention rate has exceeded 90% every quarter since the inception of All Access Pass. Our All Access Pass subscription services revenue has increased as a percent of All Access Pass subscription sales from 15% in fiscal 2016 to 57% for the latest 12 months, while also achieving year-over-year subscription service retention revenue rates of greater than 90%. This reflects the importance of the opportunities we're helping our clients address and their commitment to achieving them. And finally, our gross margin percent has increased steadily, increasing to 77.9% in this year's second quarter, reflecting our pricing power and SaaS-enabled business model.

Third as illustrated in Slide 10, as to the progress on objective #3, that of generating extremely strong and accelerating top-tier financial results. We expected that our combination of best-in-class solutions and extremely high customer loyalty and commitment would establish a powerful flywheel of factors that would drive strong and accelerating increases in financial performance.

A flywheel that is shown in Slide 11 would do the following: would drive very strong growth in subscription and subscription services, which in turn would also increase sales growth across the company overall; second, generate large amounts of durable recurring revenue, which would establish high levels of revenue predictability and visibility; third, this flywheel would establish a compelling business model, a model that would generate significant revenue growth while at the same time driving both increases in gross margin percentage and reductions in SG&A as a percent of sales with the result that a significant percentage of incremental revenue would flow through to increases in adjusted EBITDA and cash flow; and that this would, fourth, achieve accelerated growth in adjusted EBITDA and cash flow, which would in turn allow us to, point #5, make ongoing investments in the business, which will allow us to further accelerate the velocity of this virtuous cycle while also returning capital to shareholders.

We're really pleased that each of these expected results is becoming a reality and that the power of our flywheel of performance and results is accelerating more and more quickly. For a minute here, I'd like to provide additional detail on each of these. First, we expected to achieve strong growth in All Access Pass subscriptions and subscription services, and we're pleased that we have. We expected that this would, in turn, drive substantial increases in overall company revenue growth, and this is happening.

As shown in Slide 12, from inception of the All Access Pass in 2016 -- fiscal 2016, total All Access Pass subscription and subscription services revenue has grown from \$13.7 million to \$126.9 million for the latest 12 months ended this year's second quarter. This strong

growth continued in this year's Q2 and year-to-date periods, with All Access Pass subscription and subscription services revenue growing 29% to \$32 million in the second quarter and 28% to \$65.2 million year-to-date.

As expected, this strong growth in All Access Pass subscription and subscription services revenue has also driven strong increases in total overall company revenue. While we've said that we expect to achieve overall revenue growth in the low double digits, total company revenue grew 18% in the second quarter and 22% year-to-date. This was driven by stronger-than-expected All Access Pass subscription and subscription services revenue growth. And we also benefited from comparison to last year's second quarter and year-to-date periods that were still somewhat affected by COVID.

Second, we also expected that our strong subscription sales will generate large amounts of durable recurring revenue, creating significant predictability and visibility into the future, and we're pleased that it is. As shown on Slide 13, as noted, our subscription revenue retention has remained above 90% in every year and in every quarter since the introduction of All Access Pass. Our subscription revenue retention rate remained above 90% again for the second quarter and latest 12-month periods. And our multiyear contract value as a percent of total All Access Pass contract value has continued to increase, growing from 37% in fiscal 2019 to 57% at the end of this year's second quarter.

The significantly increasing visibility into -- and predictability of our future revenue is further indicated in Slide 14. Our balance of deferred revenue, billed and unbilled, has grown from only \$17.8 million in fiscal 2016 to \$119.3 million at the end of this year second quarter. In the second quarter, our balance of deferred revenue grew to \$70.4 million, an increase of 20% compared to the same period last year, and our balance of unbilled deferred revenue grew 31% to \$49 million. Our balance of billed and unbilled deferred revenue as a percent of prior 12-month sales has also increased steadily and significantly, increasing from 39% in fiscal 2019 to 49% for the latest 12 months ended this year's second quarter. The increasing percentage of revenue represented by our deferred revenue balance provides significantly increasing predictability of and visibility into future revenue growth.

Third, the third element of the flywheel. We expected the economics of our subscription model to create a compelling business model, and we're pleased that this is occurring. As shown on Slide 15, we've achieved strong and increasing gross margins. In the second quarter, our gross margin percent increased to 77.9%, an increase of 41 basis points compared to last year's second quarter, and our gross margin increased 194 basis points to 77.7% for the latest 12-month period. At the same time that our gross margin percent has increased, our operating SG&A sales percentage has also improved. With a 316 basis point improvement in Q2 to 63.7% compared to last year's second quarter and a 544 basis point improvement to \$62.6 million for the latest 12-month period.

This is reflective of the fact that our lifetime customer value far exceeds our cost of acquiring a new customer. And this has resulted in a high flow-through of incremental revenue to incremental adjusted EBITDA. In the second quarter, the flow-through of incremental revenue to incremental adjusted EBITDA was 35% and for the latest 12 months, this flow-through was 37%. We expect the continued strong growth in subscription revenue, together with the continued high flow-through of that revenue to adjusted EBITDA, will result in our adjusted EBITDA to sales margin increasing from 15% for the latest 12-month period to approximately 20% over the next couple of years or so.

The fourth element of the flywheel is that we expected this to drive accelerated growth in adjusted EBITDA and cash flow, and we're pleased with this achievement. As shown in Slide 16, in this year's second quarter, adjusted EBITDA increased 57% to \$8 million compared to \$5.1 million in adjusted EBITDA in last year's second quarter. Year-to-date through the second quarter, adjusted EBITDA increased 103% to \$18 million compared to adjusted EBITDA of \$8.8 million for the same period last year. And for the latest 12 months, adjusted EBITDA increased \$23 million or 163% to \$37.1 million compared to \$14.1 million for the same period last year.

And as shown on Slide 17, our net cash flows provided by operating activities increased to \$23.2 million at the end of this year's second quarter. We ended the second quarter with \$76.1 million in liquidity comprised of \$61.1 million in cash and with our \$15 million revolving credit line fully undrawn and available. We have no net debt.

Fifth and finally, as it relates to the flywheel. As illustrated in Slide 18, we've consistently invested a portion of our cash flow and strong liquidity to make a series of tuck-in acquisitions, acquisitions like Strive and Jhana that have established a strong technology-based

delivery platform and increased our micro learning capabilities. We've also utilized our excess liquidity to return capital to shareholders by repurchasing and retiring more than 6 million shares net over the years. We expect to continue to utilize our excess liquidity to create value in these same ways.

We're thrilled that our Education Division, with its strong Leader in Me subscription offering in more than 3,100 schools in the U.S. and Canada and more than 5,000 schools now worldwide, is also achieving greater than 90% Leader in Me subscription revenue retention while at the same time benefiting from a flywheel of factors very similar to those we've just outlined, which is driving strong increases in its financial performance.

In conclusion, in the year since our introduction of All Access Pass, our position of leadership in the market has strengthened even further and our subscription flywheel has proven to be increasingly strong and powerful. And as exciting as the past 6 years have been since we began All Access Pass, we're even more excited about what lies ahead. As we continue to invest in world-class solutions, technology and the teams to help our clients win, we expect virtually all of our sales to become subscription and subscription services within the next 3 years or so.

And as we previously noted, we expect to be a unique company, a company which, as a reminder, as shown on Slide 19, will achieve 3 really important objectives: first, that we'll further strengthen and expand our position of leadership as the most trusted leadership company; second, that we'll earn extraordinary levels of client loyalty and commitment; and third, that we'll generate extremely strong and accelerating financial results driven by the powerful flywheel of factors we've just discussed.

I think it's important to note is this nearly complete transition to subscription and subscription services occurs, we expect revenue growth, which not that long ago, were in the high single digits, to move into the low double digits, especially as we move out of the pandemic around the world and then into the mid-teens and eventually we think onwards towards 20%. We look forward to having you with us as investors and partners in this exciting next phase of our growth, and we're grateful that you're here today.

And with that, I'd like to turn the time over to Steve Young to provide an update on guidance and our outlook.

Stephen D. Young *Franklin Covey Co. - CFO & Corporate Secretary*

Thank you, Paul, and good afternoon, everyone. I'm pleased to be with you today, talk a little bit about our guidance and our targets.

So in our initial guidance for FY '22 in November, we said that we expected to generate adjusted EBITDA for the year of between \$34 million and \$36 million. With our strong year-to-date performance through the first half of this year, we're pleased that our adjusted EBITDA of \$37.1 million for the last 12-month period is already above the high end of that original guidance range. As a result, we are raising our full year guidance range, our new guidance, which you can see on Slide 20, is that we expect adjusted EBITDA for FY '22 to be between \$38 million and \$39 million.

The midpoint of this new range will reflect an approximately 38% increase in adjusted EBITDA in FY '22 compared to the \$28 million of adjusted EBITDA achieved last year. For factors that underpin our guidance are: first, the expected recognition during the balance of FY '22 of a meaningful portion of the \$70.4 million of deferred revenue currently on the balance sheet and the billing of a significant portion of the \$39 million of unbilled deferred revenue, which is primarily related to multiyear contracts.

This deferred revenue provides significant visibility into our revenue for the balance of this year and beyond. Second, in addition to the recognition of our deferred revenue, the factor which is expected to have the greatest impact on our FY '22 results is also the one in which we have high confidence, that is the continued strength of the All Access Pass subscription and subscription services sales.

Third, over the past year, we achieved growth in the contracted All Access Pass subscription and subscription services sales in both China and Japan. The All Access Pass sales, which we achieved in these countries, will result in a portion of the sales not being recognized immediately, but rather being added to the balance sheet as deferred revenue. Additionally, despite these offices progress over the past years, we expect that China's continued lockdown of certain cities and parts of the country related to the pandemic and Japan's slower-than-expected rebound will result in lower than originally expected sales in China and Japan during the back half of this year.

For context, in FY '21, China accounted for approximately 5% of total sales and Japan accounted for approximately 4% of total sales. So then fourth factor, in Education, we expect to continue to achieve strong retention of both schools and revenue among existing Leader in Me schools and we also expect to grow our number of new Leader in Me schools to a level even higher than we achieved in our strong FY '21.

Now a little bit about Q3. In the third quarter, we expect that adjusted EBITDA will be between \$8.6 million and \$9.6 million compared to the very strong \$8.6 million in the third quarter last year, which, as you might recall, was up more than \$5 million compared to the \$3.1 million in the pre-pandemic third quarter of FY '19. This third quarter strength reflects strong growth in North America and our English-speaking direct offices in U.K. and Australia, and in Education, partially offset by the expected impact of a combination of a few things.

Number one is the pandemic-related challenges in China and Japan that we just talked about. And also, we just talked about the fact that some of the contracted revenue in these countries will result from sales of the All Access Pass, a large portion of which will go onto the balance sheet as deferred revenue this year, which will benefit future periods more than it does the current year. Third, war-related factors in our licensee offices in Eastern Europe, which is small, but it's still small but -- smaller, but it's still an impact. And four, some increases in growth investments in the third quarter. While the fourth quarter could also be impacted by these same factors, we expect that the tremendous ongoing strength of the All Access Pass in U.S., Canada and the expected strength of Education Division will result in strong results in the fourth quarter and beyond.

So your guidance, quarterly guidance now targets for FY '23 and FY '24 as shown in Slide 21. You'll recall, at the end of the first quarter, we increased our original targets of achieving \$40 million in adjusted EBITDA in '23 and \$50 million of adjusted EBITDA in '24. We increased those targets by \$5 million to our new targets, which were discussed as achieving \$45 million of adjusted EBITDA in '23 and \$55 million in FY '24. Given our strong year-to-date performance, we still feel good about these increased targets. As always, we will update our targets when we give our first quarter and full year guidance in November.

So while dramatic changes in the world environment and other factors could impact our expectations, as we've seen in the last couple of years, we want to share that these are current targets and expectations. I also want to remind everyone again, as you look at our proxy, you'll see that the executive team's LTIP awards depend on achieving these strong multiyear goals. So, Paul?

Paul S. Walker Franklin Covey Co. - President & CEO

Thank you, Steve. Again, we are grateful you're here today. We feel great about our momentum, and we look forward to accelerating growth. And with that, Adrienne, we'd like to turn to you and to open up the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Alex Paris from Barrington Research.

Alexander Peter Paris Barrington Research Associates, Inc., Research Division - Director of Research and Education & Business Services Analyst

Congratulations on the beat and raise. So I'll start first with guidance. Nice increase to the guidance. No surprise, given where you stood at the end of the first quarter, but great to see anyway. And just to kind of go over the moving parts. The comps are tougher in the third and fourth quarters, obviously, as COVID begin to wane and those quarters a year ago were less impacted. But you have planned investments also in the second half, including hiring new CPs. So that's where I wanted to start. Where do we stand with CP hiring year-to-date and what are your plans for the third and fourth quarters in that regard?

Paul S. Walker Franklin Covey Co. - President & CEO

Yes. Great question. And you're right, in terms of increased growth investments for us, they are around client partner hiring, some things we can do to get marketing going even greater to help drive more -- even more new logos and then in content. But specifically, as it

relates to client partners, as you know, this is a very important metric for us and a key driver of growth. And so we're -- we do the bulk of our hiring in the second quarter. We are geared up and ramped up to do that.

For a bit of context in the year prior to the pandemic, we added 31 new client partners that year. That was a new kind of high watermark for us. And our plan has been to continue with that. When the pandemic hit, we hired 9 in the first couple of months of that next year, and then we were -- the pandemic was upon us, and we paused that. And then we came out last year and said we would hire 20. We actually hired 19 in the year. One came in right after we hired the 20 there. And we've said we're back on our plan now to hire 30.

Year-to-date, we're down -- I think we're down just a few, 8, which isn't uncommon for us in the first part of the year. And recognizing the environment we're in, we've more than doubled the size of our recruiting team in the last couple of months. We've added a whole new -- so in addition to more than twice the number of recruiters, we've also added a sourcing team to help us source great candidates out there. And the team is now full tilt to bring in as many as we can and to get to that target of hiring 30 new client partners this year.

Alexander Peter Paris Barrington Research Associates, Inc., Research Division - Director of Research and Education & Business Services Analyst

Would you think it would be 15 and 15 or would it be a fewer number in Q3 and a greater number in Q4?

Paul S. Walker Franklin Covey Co. - President & CEO

I mean, roughly that, but probably the way it ends up working out is probably like 10 and 20. It probably skews a little bit to Q4. Not quite evenly split.

Alexander Peter Paris Barrington Research Associates, Inc., Research Division - Director of Research and Education & Business Services Analyst

Okay. Good. And then you also mentioned other growth investments, including sales support personnel. How should we think about sales support personnel? What's the ratio of incremental sales support personnel to CPs?

Paul S. Walker Franklin Covey Co. - President & CEO

If I said that, I misspoke. But I -- the other 2 areas of investment would be in marketing to get our message out further to go and land more new logos with even more new clients, that would be one area. And then the third area would be investments -- continued investments in content and technology as we bring Strive to market. So if you think about our investments, it's really those 3 areas. It's client partner growth and -- hiring and growth. It's getting the word out even more than we have in the past because we see such a compelling opportunity to -- for growth. We're still very underpenetrated in this massive market and then to make sure the solution is as amazing as possible for our clients.

Alexander Peter Paris Barrington Research Associates, Inc., Research Division - Director of Research and Education & Business Services Analyst

Got you. And then Steve, with regard to the outlook in the out years, fiscal '23 and fiscal '24, I appreciate that you raised those targets earlier this year to \$45 million and \$55 million, respectively. But I wonder if those targets are still conservative given your expectations for -- your increased expectations for fiscal '22?

Stephen D. Young Franklin Covey Co. - CFO & Corporate Secretary

Well, I think achieving \$45 million and then \$55 million, I think that would be a really good result, Alex. I think going up \$10 million between '23 and '24, I think those would be good results. We're still very bullish on those years. We just want to see how this -- as you know, our fourth quarter is always a big quarter. I want to see how the rest of this year comes out. And every year, update our targets at the beginning of the year based upon the best information we have at that time. So as we said, we're still excited about being able to hit those numbers, but I wouldn't want to increase them or change them until we see how this year turns out, see how our new logos are coming in, and our investments and all of those things that we'll know in November after we have our fourth quarter results.

Alexander Peter Paris Barrington Research Associates, Inc., Research Division - Director of Research and Education & Business Services Analyst

So once we have the fourth quarter result, we'll expect formal adjusted EBITDA guidance for fiscal '23 and then a revision of the outlook for fiscal '24 and maybe fiscal '25 at that point? In terms of target?

Stephen D. Young Franklin Covey Co. - CFO & Corporate Secretary

A good way to say it. Real guidance for FY '23, a revised outlook for '24 and maybe some talk about '25.

Alexander Peter Paris Barrington Research Associates, Inc., Research Division - Director of Research and Education & Business Services Analyst

Okay. Fair enough. And then, Steve, what did you say that the incremental contribution margin was on revenue to adjusted EBITDA in the second quarter and year-to-date?

Stephen D. Young Franklin Covey Co. - CFO & Corporate Secretary

We just said it was 37% -- 35%. So it's about 35%, Alex. And of course, the flow-through is impacted by the gross margin, which we think will hold in there at a good gross margin. And then the SG&A, having the increases that Paul talked about, salespeople, content development, marketing all to have what we still think is a decent flow through, especially in the short-term remainder of this year and even into next year of, say, 30% to 40%, about in the middle of that right now.

Alexander Peter Paris Barrington Research Associates, Inc., Research Division - Director of Research and Education & Business Services Analyst

Got you. Okay. Perfect. Congratulations on the quarter.

Operator

And our next question comes from Jeff Martin from ROTH Capital Partners.

Jeffrey Michael Martin ROTH Capital Partners, LLC, Research Division - Director of Research & Senior Research Analyst

I was wondering if you could give us an update on the planned rollout of Strive. I know that an exciting proposition for you, should increase lifetime value to the customer base with the automated capabilities of it. But where are we at in terms of getting it ready to launch here?

Paul S. Walker Franklin Covey Co. - President & CEO

Yes. Great question. Thanks for asking that. We are very excited. Just as a reminder, we think -- we expect that Strive will help us expand in 3 ways. One, because it will allow learners to more easily access our content and for us to be able to help guide them through impact journeys that will more measurably change behavior. We think that we'll -- it will lead to All Access Pass expansion. We've talked in calls in the past about while we do a nice job landing and expanding, there's still a lot of headroom to expand just within our existing clients and Strive should help on that side of things.

The second thing Strive will do is it will make it easier for our clients to deploy our content where they're using a Franklin Covey delivery consultant to deliver training and/or to provide coaching. That will all happen via this tech platform. And so that should lead to a continued expansion in services, where today, it's 57% of every dollar of subscription. We think that has room to continue to grow as well in the services side.

And then third, it's just -- it's a really cool platform and technology. And so showing that to new customers, we think, will help us on the new logo win rate as well. So to the question you asked, where are we? We're in a great spot. We had intended -- we have intended to launch towards the end of this year. We actually did a pilot launch starting back in December. That went very well. We got some great feedback. We've put all of our content now onto it. So it's all been converted for Strive to be powered by Strive, and we're doing now what we call a limited launch going out to a decent percentage of our sales force and our clients and working to move them over on to Strive. That effort is happening in May and June.

And then we're ready right as we kick off our new fiscal year to launch and turn it on for all of our clients. So we're right where we want to be. We feel great about it. We're getting great feedback from those clients to have. I think we've -- or actually the Strive team that we brought over is still actually selling the original Strive product out there to customers, and they're winning deals like crazy that we then convert over to All Access Pass. So it's all systems go. We feel really good about it.

Jeffrey Michael Martin *ROTH Capital Partners, LLC, Research Division - Director of Research & Senior Research Analyst*

Great. Look forward to seeing the platform launch here. Could you go into a little bit more with respect to the investments in marketing and content development? What particular initiatives are in place under those 2 steps up in investment?

Paul S. Walker *Franklin Covey Co. - President & CEO*

Yes. Great. Thanks. So we throughout the back half of last year and heavily during our fourth quarter and into the first quarter of this year, we first worked on rebranding the company. And that would both look and feel, if you go to our website, it's different now. And so part of it is the activation of that refresh brand. That's got to flow through all of our properties, all of our materials, all of our websites around the world, et cetera. And as exciting as that will be to get the look and feel more modern, more fresh, a little maybe more tech-focused, the real action will be in how we get our clarified messaging around who we are and our real value prop, how we help clients.

We're just scratching the surface in terms of making sure that everybody who really ought to know that message does know that message. Here, we were on the call again the other day with a potential client, and they got done and they said, "Oh my gosh, I had no idea this is what Franklin Covey was doing. Like you got to help people understand this." And we said so -- that's an -- more and more effort to do that. And we think, again, we're just scratching the surface really. We saw a nice new logo growth in the second quarter, but we think there's a lot of room to expand that.

And so marketing is really getting the word out, better PR. We don't do big advertising -- we don't go out and buy media and things like that, we don't need to do that. But it's making sure that people who are the movers and shakers in our particular industry, Chief Learning Officer, Head of Learning and Development, that they are very clear about who we are and what our value prop is. On the new content side, this flywheel is moving and we brought a number of new things to market this year. We launched a change management offering. That's been received exceptionally well. We launched that back in the fall.

We're bringing new solutions to market to continue on with our unconscious bias suite of offerings. That's done really, really well for us. We have 3 new modules coming there. We're refreshing our 4 disciplines of execution content, our project management content. We are moving in -- as we come through the end of this year and moving into next year with time to go back and refresh things like the 7 Habits and the Speed of Trust. So we have a very aggressive content road map. And reimagining some of those historic blockbuster solutions for the use case clients have in 2022 and beyond and getting them formatted for Strive.

So a lot going on in the content front we feel great about. Our content is well received by our clients. We get very high NPS scores. And so we're excited. We're also considering a couple of new categories that maybe won't go into here, but a couple of new categories of offerings that would add substantially to the All Access Pass in the coming years and help us expand client relationships.

Jeffrey Michael Martin *ROTH Capital Partners, LLC, Research Division - Director of Research & Senior Research Analyst*

Okay. Great. One more, if I could. On the service attach rate to All Access Pass, I was curious if running in the high 50s now, I think that's higher than what most people thought it would ever be. What's the sustainability of that? And what's really been driving that to the level that it is?

Paul S. Walker *Franklin Covey Co. - President & CEO*

Yes. Great question. We have some of our locations around the world where they were heavy services -- their business model was heavy on services in the past. They actually have a one-to-one services attach rate. So for every \$1 of subscription, they do \$1 of services. We have one of our licensee partners that it's more than 1:1. So we think there's still room for services to grow. What drives that is a couple of things. One, the nature of the problems we're helping clients solve. Oftentimes, they want us to help them solve those.

So if we're coming in and engaging a group of more senior leaders, that L&D person who might be comfortable and happy to roll out to first level leaders in the organization, they want a trusted Franklin Covey consultant to come in and work at the higher levels in the company. Or if we're taking on topics around some sensitive culture issues that are important to be addressed at the executive level, they're looking for our folks to come in, who've been there done that many, many times and who can challenge and push appropriately.

Another thing that's driving that is actually, I think we're benefiting from -- frankly, from the pandemic in this area, where services sales dropped off significantly in the first quarter or 2 of the pandemic because they were all booked as live in person. And our clients, even though we had the capability to do live online, our clients weren't ready, and so they just kind of froze and canceled. As we've converted our clients to live online, we've seen services increase, and I think that's a function of the fact that you used to have to go away and clear your schedule for a day or 2 to go to training. And now you can fit 90-minute live online modules into the scenes of your workday and your work week.

And organizations who are working remote or hybrid, they need ways to convene groups of people together to keep that team interaction high and to keep the culture of their team intact. And so as live online, I think, is here to stay, I think that has been a real boon to our services business. And of course, clients also are asking us to start coming back in, in person, and we have that as well that our whole business used to be built on that. And so we get to benefit from both sides of that as a kind of a happy -- not that anything about the pandemic was happy, I don't want to say that, but it kind of is as an outcome of what happened with the pandemic.

Operator

The next question comes from Marco Rodriguez from Stonegate Capital Markets.

Marco Andres Rodriguez Stonegate Capital Markets, Inc., Research Division - Director of Research & Senior Research Analyst

Just wondering if maybe you could talk a little bit about the cash build up on the balance sheet. I know you've obviously discussed some additional investments you're making during the back half of this year. Can you maybe just talk a little bit more about what you're thinking about with that cash, because it's -- that are pretty substantially high level in comparison to historically?

Paul S. Walker Franklin Covey Co. - President & CEO

Steve, you want to take that one?

Stephen D. Young Franklin Covey Co. - CFO & Corporate Secretary

Yes, it is. It's a good problem to have, Marco. So our view of using cash and our alternative uses of cash is very similar to what it's been in the past, Marco. And that is the alternatives that we have are similar to what we've talked about before. One is growing the -- having the cash to grow the business, to make the investments we need to make. And we clearly have enough cash, and we generate enough cash to do the things Paul is talking about, develop the content, add the client partners, do all of those things that would allow us to grow. And I think that's our first priority, and we clearly have enough cash to do that and we generate enough cash to do that.

So then we're looking at alternative uses of cash, and that would automatically include acquisitions and buying back shares. So as you know and as Paul mentioned, we've had a net decrease in our shares outstanding of 6 million over the years we've been here. So we've shown a willingness to buy back shares and an understanding of the value of buying back shares. We also understand in this -- we understand that acquisitions like the slide that Paul showed, those acquisitions have been very beneficial to us. And we'll keep looking for acquisitions that we -- that would either bolt in or give us a better platform or some way accelerate our revenue, bring in some revenue.

So we'll continue to look at acquisitions and might well have in the future since we have that cash that we have now, a combination of where we do some acquisition work and we do some buyback, repurchasing of shares. And then we don't think it's all bad to have some cash on the balance sheet. So Marco, I think we're looking at it very similar to where we've looked at it in the past. And we're very conscientiously trying to look at what the best use of that cash would be.

Marco Andres Rodriguez Stonegate Capital Markets, Inc., Research Division - Director of Research & Senior Research Analyst

Got it. Yes, very well understood. Has -- just under curiosity, do you have any like onetime distributions ever come up as far as use of that cash?

Stephen D. Young Franklin Covey Co. - CFO & Corporate Secretary

Well, we've done a couple of tender offers if that's what you are talking about, repurchases. We haven't had any dividend type of distributions, but we've done, as you know, over the years while we've been here, a couple of tender offers and then have done a lot of open market repurchases.

Marco Andres Rodriguez Stonegate Capital Markets, Inc., Research Division - Director of Research & Senior Research Analyst

Got it. And then I was wondering if you could then also circle back around just on the client partners, I believe it was in the last call or maybe it was the prior call. We were talking about there's a potential or you're thinking about different ways in which you can maybe accelerate the amount of client partners that you can bring in per year. I'm wondering if there's been any updates in regard to that, if there's been any other thought processes around that, that we can maybe see a spike in the client partner hiring after this fiscal year and beyond?

Paul S. Walker Franklin Covey Co. - President & CEO

Yes. That's a great question. You can imagine, that topic is an important topic, something we talk about a lot. How do we ramp the existing ones more quickly and how do we create a system where we can bring people on more effectively. And so I think the short answer is yes. I think over time, you could expect to see that what used to be, hey, let's organize at 10 a year and we kind of got to where we were able to add 20. We added 31 right before the pandemic hit. We were fortunate to add 20 last year. We're working at 30 this year. That's kind of the new floor and then we build from there.

To answer your question about what does it take. So for us, it's finding the talent. It's making sure we have the management and coaching infrastructure internally to support increasing new hires and kind of a sales enablement function. So that's what we're working to build out. We know what we have is -- we have the right product and we have the right market, and it's a really exciting market. And so I think we're -- our plans are consistent with kind of what your ask is there and we'll be prepared to talk more about that as we get into the beginning of next year when Steve updates targets.

Operator

And our next question comes from Samir Patel, Askeladden Capital.

Samir Patel Askeladden Capital Management LLC - Founder & Portfolio Manager

Congrats on a great quarter. So the first thing I wanted to talk about was, you mentioned, Paul, almost offhand. I'm surprised it hasn't gotten any attention yet. But you mentioned that your long-term revenue growth targets are increasing from that kind of high single-digit level towards, you said, teens in the near term and then towards 15% or 20% in the longer term. I mean, obviously, you have that momentum in your business now. I know that's something we've talked about, why not grow faster?

Maybe you could spend a little time, just open ended question, maybe you could flesh out why you aren't being more, I guess, aggressive sort of about making that a public target of phase 1 and to grow the company 15% to 20% a year.

Paul S. Walker Franklin Covey Co. - President & CEO

Yes. It's a great question.

Samir Patel Askeladden Capital Management LLC - Founder & Portfolio Manager

You're already doing that, right? I mean, I recognize that there -- I recognize there's some benefit right now because you're kind of rebounding from COVID and Leader in Me and all that, but...

Paul S. Walker Franklin Covey Co. - President & CEO

Yes. Yes, I think that's -- maybe 2 things I would respond to there. First, is kind of just -- and you know this, but I'll just to say it again, what's happening in the business is Franklin Covey is this \$250 million, \$260 million company that prior to the invention of the All Access Pass was kind of a mid- to high single-digit grower. And what's been happening over the last 6 years is there's this powerful SaaS-like business that's exploding inside the company. And that's both All Access Pass and our Leader in Me subscription business. And those are growing very, very rapidly.

And as they grow to become eventually substantially all of our revenues, that just naturally should drag the growth rate of the company higher. In the short run -- and so we believe that will happen, we see that happening, you see that happening. In the short run, there are some things that are still holding that growth down just a little bit. One, Steve talked about is just we have some parts of the world that haven't yet fully converted to subscription. And as they do, those sales go out on the balance sheet. And so that mutes the growth for a period of time until they're all the way over like we are in North America.

Second, we still are feeling some pandemic-related impacts in China and in Japan. China is dealing with the pandemic right now. Japan is kind of still dealing with the aftermath of the pandemic, a little bit slow to come around. And so we've got a couple of those things that are just holding it down a bit, which is where you're seeing big year-over-year comps in the first half of the year and then not quite as much growth in the second half of the year, although we feel great about the growth rates we are putting out. But I think, generally speaking, what you're alluding to is what we see will happen over time. And as we move through this year and think about how we want to position and what we want to say publicly about that next year, well, we're talking about the very same thing you're asking.

Samir Patel Askeladden Capital Management LLC - Founder & Portfolio Manager

Okay. That makes sense. I mean it's just -- I know you guys always stand that guidance, but it's starting to get a little sort of ridiculous at this point with the momentum you have in your business. And I'm not talking about -- I'm not even talking about 22%, because I understand the pandemic impacts. I'm just saying like \$45 million of EBITDA for next year seems like a pretty easy hurdle unless you guys are planning to invest substantially in ramping up growth and you're kind of not targeting either anyway. So that was question one.

Question two, to go back to, I think Marco asked you about the cash and it'll be a little more explicit. I mean you guys are going to be at negative 3x net debt to EBITDA by the end of this year, which is not anywhere close to an optimized balance sheet for a business with highly recurring revenue, very predictable. Why -- and I'm all for -- as a big shareholder, I'm all for having cash on the balance sheet, but it does seem like a lot. I mean, I guess, Paul, why not commit to something more like a programmatic return of capital, right? Like as opposed to just letting cash. Historically, you've kind of done a lot of tenders. Why not be just more of like, hey, we're going to devote 20%, 30% of annual free cash flow to share repurchases. We're going to have a dividend of 15%, 20% of free cash flow and then the remaining 50% we're going to keep for funding potential M&A. Like why not -- and I know those are the fake numbers, but why not commit to that sort of programmatic approach that I think a lot of companies have?

Paul S. Walker Franklin Covey Co. - President & CEO

I'll give a short answer, then Steve. I think that's a great recommendation and this is this -- what to do with cash because we know we are generating, and we expect to generate a lot of cash in the future and how quickly do we think the growth rate will continue to tick up are 2 important topics. And I think your recommendation there is fine recommendations. It's good. Steve, what would you add on cash?

Stephen D. Young Franklin Covey Co. - CFO & Corporate Secretary

Agreed, Samir, to have a more formalized and discussed plan that we could let the Street know what we're thinking on those specific targets. When we get conclusions drawn, just exactly what you're saying, how much of free cash flow are we going to spend on this and on that, I think, is a really good recommendation and something that we're looking at and that we will do.

Samir Patel Askeladden Capital Management LLC - Founder & Portfolio Manager

Okay. That makes sense. And then I guess the final question, going a little bit deeper on the client partners. Obviously, a very tough environment for talent right now. Maybe could you just talk in a little bit more depth about various -- you mentioned hiring a couple of

additional recruiters. Maybe you could just go in a little bit more depth about why you think Franklin Covey can attract talent? I mean I know we've talked about the sales compensation model being very attractive. But I guess I'm a little -- I know it's not atypical, but I guess I'm a little surprised that you're kind of down 8 CPs at this point?

Paul S. Walker Franklin Covey Co. - President & CEO

Yes. Yes. To put that in context, at the same point last year, we were down, I think, 5. And so that's not uncommon, just the seasonality of it. But to your larger question, we've actually more than doubled the size of the recruiting team. So it's a pretty meaningful add in terms of number of recruiters that are out there. I think the reason we believe that we can win in that space is, one, we're doing something that we think is quite unique in the industry. And we're -- what we're building and what we're assembling is working. It's very attractive for our clients. And if you're a salesperson, that's the kind of thing you want to go and sell, something that -- we have the sterling brand and reputation. We have -- we enjoy very, very high levels of client loyalty and retention.

And the way we've set up our sales structure is that our salespeople -- they win when they sell new logos and they win as they retain those logos. And so from a compensation standpoint, that's attractive. But I think we're putting a lot into making the overall offering as great as it can be and as indispensable as it can be for clients. And so many of those that were winning are coming from -- actually in recent times here coming from other Ed -- SaaS EdTech companies, who haven't been able to grow revenue and EBITDA at the same time and are having to cut back on things like customer acquisition expenses and things like that, and they're coming and say, "Hey, wow, Franklin Covey looks, this is where I want to come work." Our culture is fantastic as well. And so we think we have a very compelling kind of total rewards plus culture value prop for new salespeople and are really focused on that.

Samir Patel Askeladden Capital Management LLC - Founder & Portfolio Manager

No, I appreciate that. Okay. Yes, I mean my final comment is just like, look, operationally, you guys are doing absolutely phenomenally, right? I don't think that anyone could criticize what you're doing. But from a stock valuation perspective, obviously, when -- just on an intrinsic DCF basis, it's worth \$70, \$80, \$90 a share. And don't forget about comps, right, where Edtechcomps trade. So just keep working on taking care of that part of it, too, and I think everything will be great.

Operator

And this concludes the question-and-answer session. I'll now turn the call back over to Paul Walker for final remarks.

Paul S. Walker Franklin Covey Co. - President & CEO

Well, thanks, everyone, for joining today. Thanks for your great questions, and thanks for your continued interest and support. We really appreciate you and hope you have a wonderful rest of your day and your week.

Operator

Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.

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