



# Investor Update

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 of the overall market for the Company's products; Changes in the training and spending policies of the Company's clients, and other factors identified and discussed in the Company's most recent Annual Report on Form 10-K and other periodic reports filed with the Securities and Exchange Commission. Many of these conditions are beyond our control or influence, any one of which may cause future results to differ materially from the Company's current expectations, and there can be no assurance the Company's actual future performance will meet management's expectations. These forward-looking statements are based on management's current expectations and we undertake no obligation to update or revise these forward-looking statements to reflect events or circumstances after the date of today's presentation, except as required by law.

The Securities and Exchange Commission's Regulation G applies to any public disclosure or release of material information that includes a non-GAAP financial measure. In the event of such a disclosure or release, Regulation G requires: (i) the presentation of the most directly comparable financial measure calculated and presented in accordance with GAAP and (ii) a reconciliation of the differences between the non-GAAP financial measure presented and the most directly comparable financial measure calculated and presented in accordance with GAAP. The required presentations and reconciliations are contained herein and can be found at our website at [www.franklincovey.com](http://www.franklincovey.com).

FranklinCovey uses the non-GAAP financial measure "earnings before interest, taxes, depreciation and amortization" ("EBITDA") to assess the operating results and effectiveness of the Company's ongoing training and consulting business. In addition, the Company also uses the non-GAAP financial measure "Adjusted EBITDA" as a representation of the Company's operating performance. Adjusted EBITDA is defined as pre-tax net income (loss), plus depreciation and amortization, net interest income (expense), and special charges, such as the gain on the sale of the Japan Products division in Fiscal 2010, restructuring costs, and asset impairment changes. The Company finds these non-GAAP financial measures to be useful when evaluating its operating and financial performance. These non-GAAP financial measures may not be comparable to similar measures used by other companies and should not be used as a substitute for revenue, net income (loss) or other GAAP operating measures.

We have crossed  
the bridge.



# Five Drivers of Future Growth

**1** | All Access Pass drives high lifetime customer value

**2** | Leadership in the most valuable segment in performance improvement

**3** | Aggressive expansion of our sales force

**4** | High flow-through to EBITDA and Cash Flow

**5** | Investing Cash Flow at high rates of return, returning balance to shareholders



# Enterprise Division Met or Exceeded all Fiscal 2018 Expectations

**+17%**

Increase in Enterprise's  
FY 2018 net sales

**+72%**

All access pass  
and related sales

**+37%**

Increase  
in paid subscribers

**+38%**

Deferred revenue  
(billed, unbilled) growth

**>90%**

Annual revenue  
retention

**+32%**

Average population  
expansion

**+31%**

Average length of  
contract renewal

**+44%**

Attachment rate  
for services

\*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.

# Enterprise Division FY18 Financial Summary

(in millions)

Financial Summary	Actual	PY	Change	%
<b>Net Sales</b>	<b>\$159.1</b>	<b>\$135.9</b>	<b>23.2</b>	<b>17.2%</b>
Cost of Sales	41.0	43.7	(2.7)	(6.3%)
<b>Gross Profit</b>	<b>118.2</b>	<b>92.2</b>	<b>26.0</b>	<b>28.2%</b>
Gross Margin %	74.3%	67.8%		643 bps
Operating SG&A	97.3	81.5	15.8	19.4%
<b>Adjusted EBITDA</b>	<b>\$20.9</b>	<b>\$10.7</b>	<b>10.2</b>	<b>96%</b>

## Key Points

- Revenue grew 17.2%
- Amounts invoiced grew 9.8%
- Gross Margin increased 643 bps
- Adjusted EBITDA increased \$10.2M (+96%)
- SG&A is up due to investments in growth and should not increase at the same rate in FY19

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

# Education Division FY18 Financial Summary

(in millions)

Financial Summary	Actual	PY	Change	%
<b>Net Sales</b>	<b>\$45.3</b>	<b>\$44.1</b>	<b>1.2</b>	<b>2.6%</b>
Cost of Sales	16.6	16.2	0.4	2.5%
<b>Gross Profit</b>	<b>28.7</b>	<b>27.9</b>	<b>0.7</b>	<b>2.6%</b>
Gross Margin %	63.3%	63.3%		0 bps
Operating SG&A	25.0	20.7	4.3	20.9%
<b>Adjusted EBITDA</b>	<b>\$3.6</b>	<b>\$7.2</b>	<b>(3.6)</b>	



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

# Corporate FY18 Financial Summary

(in millions)

Financial Summary	Actual	PY	Change	%
<b>Net Sales</b>	<b>\$209.8</b>	<b>\$185.3</b>	<b>24.5</b>	<b>13.2%</b>
Cost of Sales	61.5	62.6	1.1	1.8%
<b>Gross Profit</b>	<b>148.3</b>	<b>122.7</b>	<b>25.6</b>	<b>20.9%</b>
Gross Margin %	70.7%	66.2%		448 bps
Operating SG&A	136.3	115.0	21.4	18.7%
<b>Adjusted EBITDA</b>	<b>11.9</b>	<b>7.7</b>	<b>4.3</b>	<b>56%</b>
Other SG&A	4.8	9.2	(4.3)	(47.1)
<b>EBITDA</b>	<b>\$7.1</b>	<b>\$(1.5)</b>	<b>8.6</b>	
Depreciation	5.2	3.9	1.3	33.0%
Amortization	5.4	3.5	1.8	51.7%
<b>Operating Income</b>	<b>(3.4)</b>	<b>(8.9)</b>	<b>5.5</b>	

## Key Points

- Total company revenue growth of 13.2%
- Gross Margin is up 448 bps to 70.7%
- SG&A increased due to investments in growth and should increase at the same rate in FY19

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

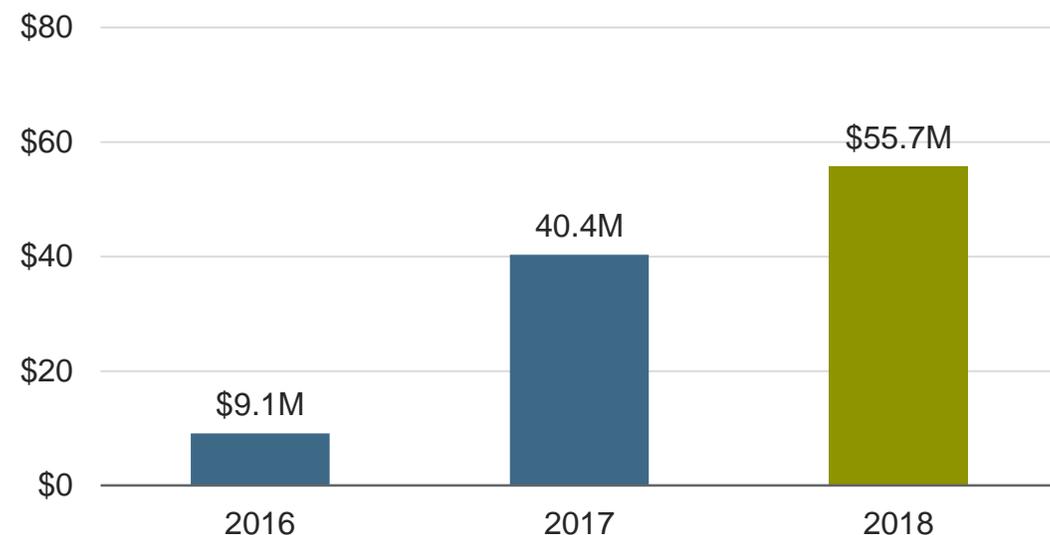
# All Access Pass Lifetime Customer Value



# Increased Visibility and Predictability of Future Revenue

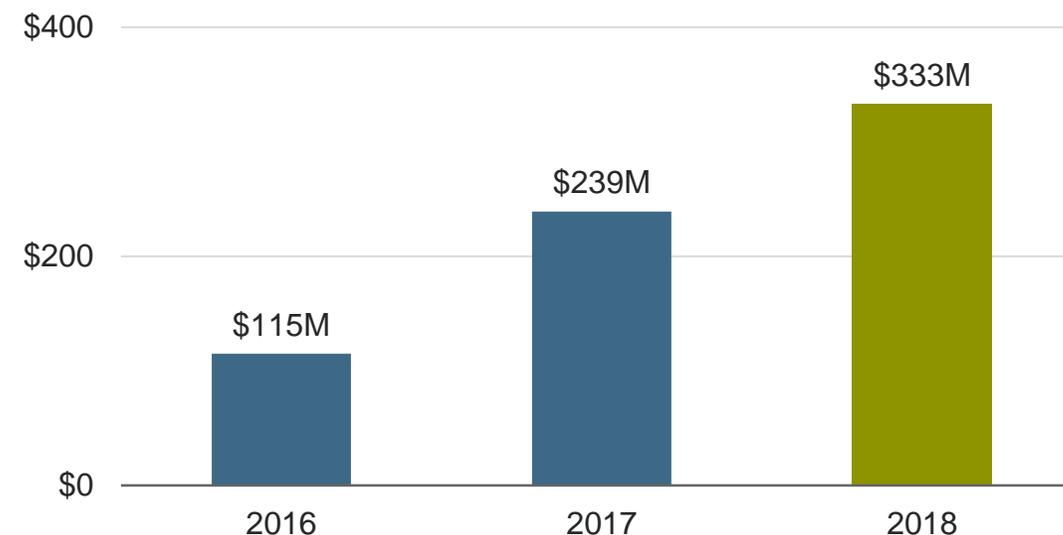
## Deferred Revenue (Billed and Unbilled) in Enterprise Division

In \$Millions



## Total NPV of Future All Access Pass Revenue

In \$Millions



**>\$220k** Average NPV of future revenues from a single average AAP contract

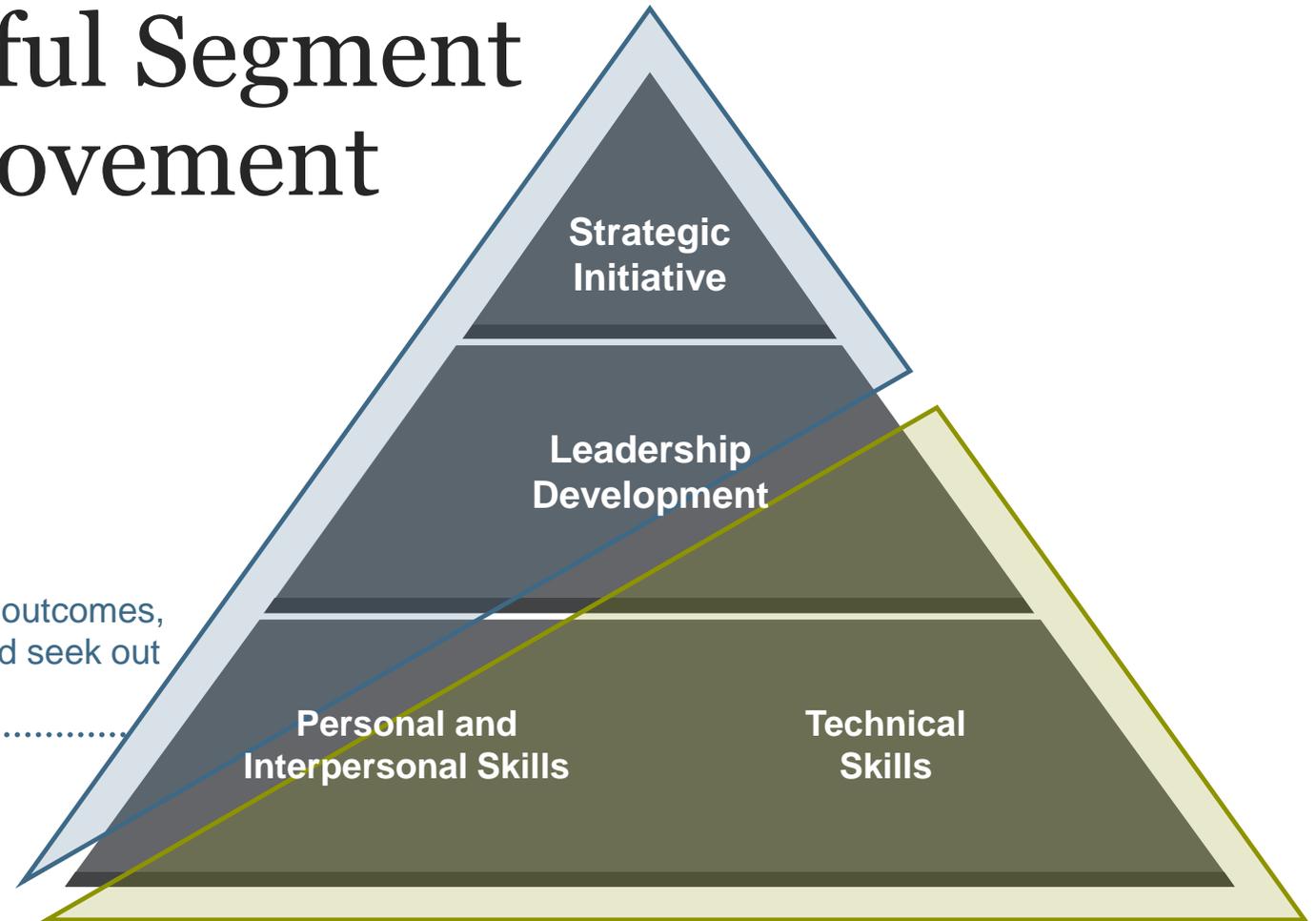
Note: Deferred Revenue (billed and unbilled) is a Non-GAAP operational measure. Deferred Revenue (billed) represents the amount of non-cancellable subscription contracts that have been invoiced to our customers and is considered in our Deferred Revenue account on our Balance Sheet. Deferred Revenue (unbilled) 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.

# Leadership in the Most Valued, Impactful Segment of Performance Improvement

We help organizations improve engagement, discipline, culture and execution for measurable business outcomes



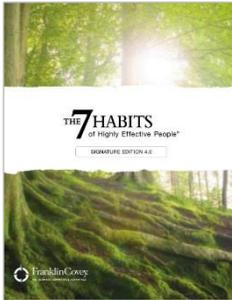
Customers value outcomes, have budgets, and seek out premium content



# The Highest Quality, Most Trusted Content

1

Leadership



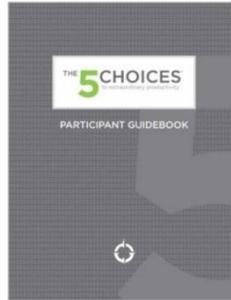
2

Execution



3

Productivity



4

Trust



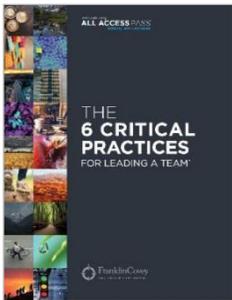
5

Sales performance



6

Leadership



7

Leadership



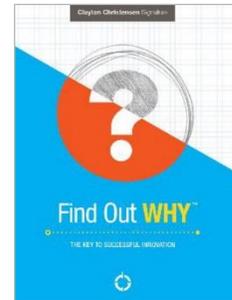
8

Customer loyalty



9

Innovation



10

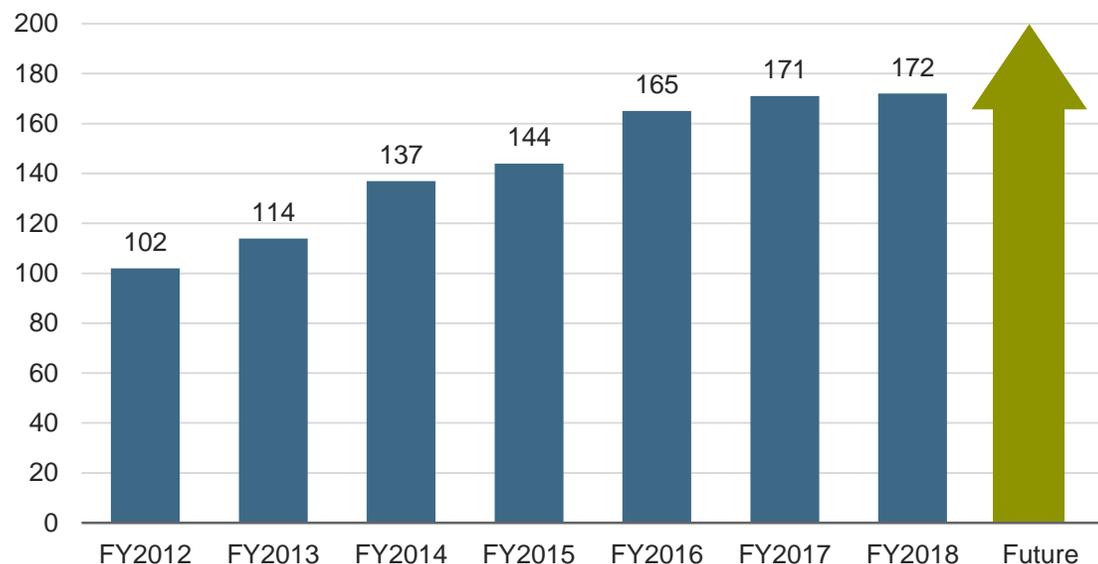
Education



- ✓ 16 languages
- ✓ Desirable delivery modalities
- ✓ Implementation services
- ✓ Coaching and delivery services
- ✓ Best solutions for institutionalized behavioral change

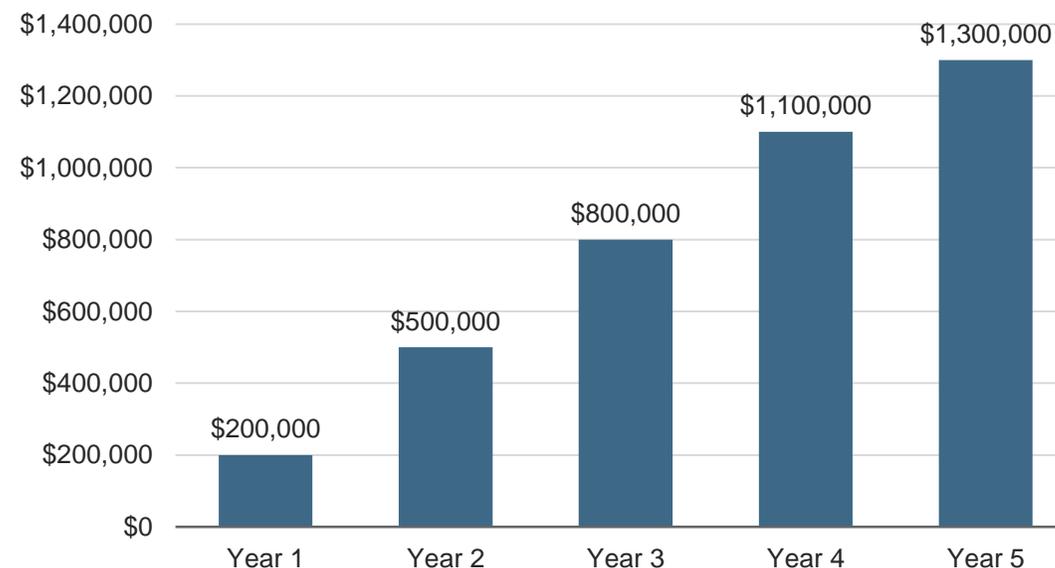
# Unit Expansion Economics for Growth

## Client Partner Additions – Enterprise Division



## Client Partner Ramp Execution

In \$Millions



Time to break even  
on investment in  
a new client partner

# 1 Year

# Market Opportunity for Expansion: Enterprise



**55,000**  
Companies in U.S. target market

**11,000**  
Assigned accounts

**4,000**  
Active customers

**7,000**  
Assigned, but not yet customers

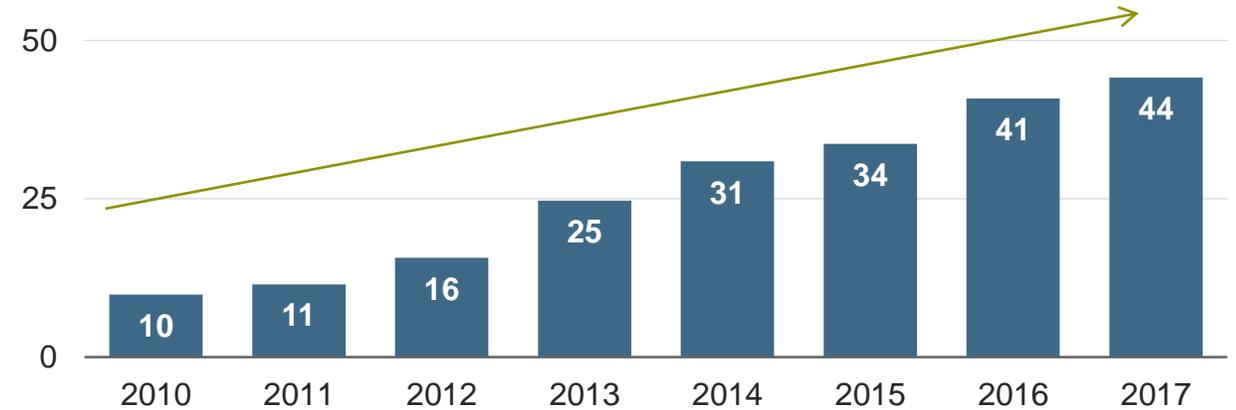
**44,000**  
Unassigned accounts

1 icon = 1,000 Employees

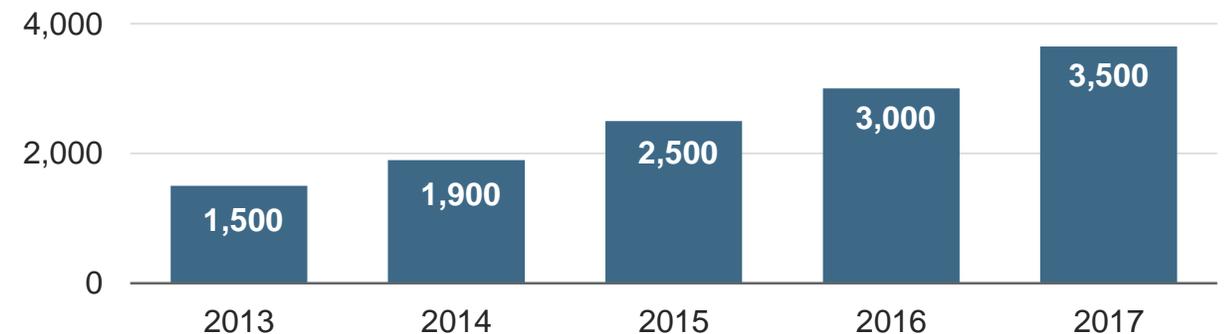
# Education Offers Similar Growth Drivers

	Enterprise	Education
High initial sales price	✓	✓
High revenue retention rate	✓	✓
High add-on sales	✓	✓
High strategic relevance to customers	✓	✓
Attractive unit expansion economics	✓	✓
High flow-through of incremental sales to EBITDA	✓	✓

### FranklinCovey Education Revenue



### Number of Leader in Me Schools



# Market Opportunity for Expansion: Education



1 icon = 1,000 Employees

**150,000**  
K-12 Schools in US and Canada

**47,000**  
Assigned schools

**2,700**  
Active schools

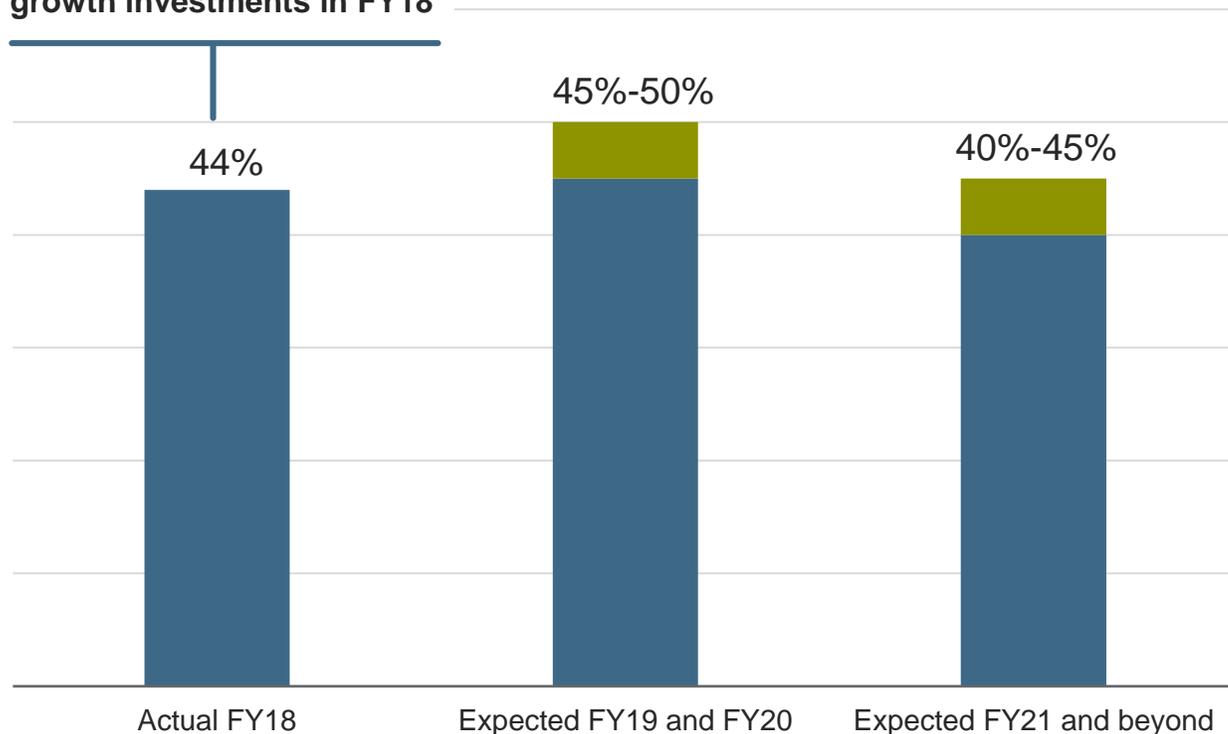
**44,300**  
Assigned, but not yet customers

**103,000**  
Unassigned schools

# Factors Behind Expected High Flow-Through to EBITDA and Cash Flow

## Flow-through to Adjusted EBITDA at 7%-9% revenue growth:

Despite \$10M incremental growth investments in FY18



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

High recurring, high margin economics



Highly variable incremental selling costs



Lower incremental growth investments to sustain model





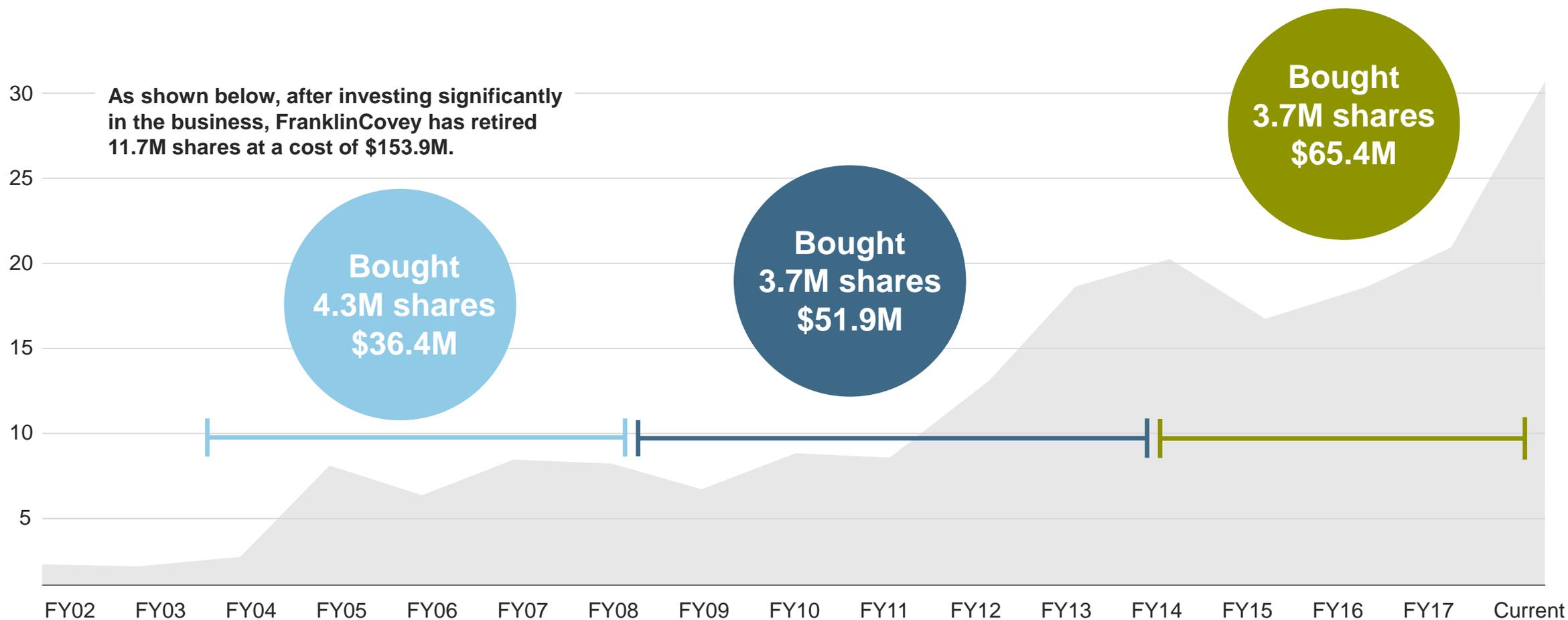
**2021**  
**Reported Adj EBITDA: \$35-40M**  
**+ ▲ Deferred Revenue: \$47-52M**  
**Net Cash Generated: \$35-40M**

**2019**  
**Reported Adj EBITDA: \$18-22M**  
**+ ▲ Deferred Revenue: \$30-34M**  
**Net Cash Generated: \$18-22M**

**2018**  
**Reported Adj EBITDA: \$11.9M**  
**+ ▲ Deferred Revenue: \$23.3M**  
**Net Cash Generated: \$15.0M**

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

# Expected Use of Excess Net Cash



Closing price on 9/21/2018 for FC was \$23.70.

# Guidance

## FY2019

Reported Adjusted  
EBITDA

**\$18M - \$22M**

51% - 85%

Reported Adjusted EBITDA + ▲  
Deferred Revenue

**\$30M - \$34M**

29% - 46%

Net Cash Generated

**\$18M - \$22M**

20% - 47%

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

Thank you for  
joining us on  
this journey.





FranklinCovey®

THE ULTIMATE COMPETITIVE ADVANTAGE

# Appendix

# Other Information

## Other Income Statement Information:

- Depreciation: \$5.2M in FY2018, expected to total approximately \$7.0M in FY2019.
- Amortization: \$5.4M in FY2018, expected to total approximately \$5.0M in FY2019.
- Net Interest and Discount: \$2.2M in FY2018, expected to total approximately \$2.6M in FY2019.
- Share-based Compensation, Impaired Assets, Restructuring, ERP Implementation, Accrued Earnout and Other: totaling \$4.7M in FY2018; Share-Based Compensation, Impaired Assets, ERP Implementation, Earned Adjustments and Other, expected to total approximately \$7.0M in FY2019.
- Effective Tax Rate: Our normalized effective tax rate is expected to be 26% to 28% in FY19 before effect of permanent book/tax differences (undetermined) and benefit of re-measuring deferred taxes. Therefore, the tax rate could be a significantly different percentage, and we are not projecting an FY19 effective rate.

## Other Information:

- Capital Expenditures: \$6.5M in FY2018, expected to total approximately \$5.5M to \$6.5M in FY2019.
- Capitalized Curriculum excluding acquired content: \$3.0M in FY2018, expected to total approximately \$5.5M to \$6.0M in FY2019, reflecting localization of AAP content, AAP content development, and Education content development.
- Share Count: 13,918K shares outstanding as of October 31, 2018. The Company's share count may increase due to the vesting of share-based awards and purchased by Employees under our Employee Stock Purchase Plan and decrease due to the company buying back shares under its authorized share buy-back program.
- Number of salespersons: 218 on August 31, 2017, 214 on August 31, 2018, expected to be 234 on August 31, 2019.
- Impact of FX in 2018: increase to Sales \$1.3M, change to Adjusted EBITDA \$0M (net zero impact).

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

# Net Cash Generated (as defined below)

(in thousands)

	FY16	FY17	FY18
<b>Reported Adjusted EBITDA</b>	<b>\$ 26,894</b>	<b>\$ 7,699</b>	<b>\$ 11,878</b>
Adjustments			
Change in Deferred Sales <small>(related to subscription sales)</small>	8,619	20,772	11,405
Costs deferred with Deferred Sales	(1,118)	(3,544)	(1,348)
Amortization of capitalized development	3,865	3,745	5,280
Purchases of property and equipment	(3,993)	(7,187)	(6,528)
Capitalized curriculum development costs	(2,236)	(6,466)	(2,998)
Cash paid for interest	(2,231)	(2,314)	(2,655)
<b>Net Cash Generated</b>	<b>29,800</b>	<b>12,705</b>	<b>15,034</b>
Reconciliation to GAAP Measure			
Changes in assets and liabilities <small>(excluding deferred sales)</small>	164	(1,761)	(5,995)
Purchases of property and equipment	3,993	7,187	6,528
Capitalized curriculum development costs	2,236	6,466	2,998
Cash paid for interest	2,231	2,314	2,655
Other cash expenses and other items	(5,759)	(9,554)	(4,359)
<b>Net cash provided by operating activities</b>	<b>\$ 32,665</b>	<b>\$ 17,357</b>	<b>\$ 16,861</b>

Notes:

- We expect Net Cash Generated in FY2019 to fall within the range of \$18 million to \$22 million.
- Net Cash Generated is a measure used by management to monitor the amount of available cash generated by the operations of the company. Net Cash Generated includes the items listed above and excludes other cash activities shown on the Consolidated Statements of Cash Flows, such as cash paid for taxes, acquisitions, changes in working capital, other SG&A, and payments on term notes and financing obligations.
- Please refer to the Appendix for the definition of Adjusted EBITDA and for the reconciliation of Adjusted EBITDA to Net Income.

# Enterprise Division – Contracts Signed

(unaudited) (in millions)

	Q4				FY 2018			
	FY18	FY17	Change	%	FY18	FY17	Change	%
Net Sales (as reported)	\$ 45,405	\$ 39,094	\$ 6,311	16.1%	\$ 159,116	\$ 135,880	\$ 23,236	17.1%
Change in Deferred Revenue	4,604	5,543	(939)		7,253	15,657*	(8,404)	
Invoiced Amounts	50,009	44,637	5,372	12.0%	166,369	151,537	14,832	9.8%
Change in Unbilled Deferred Revenue	9,429	15,017	(5,588)		7,000	14,667	(7,667)	
Total Contracts Signed	\$ 59,438	\$ 59,654	\$ (216)	-0.4%	\$ 173,369	\$ 166,204	\$ 7,165	4.3%

Notes:

\*In FY2017, the Change in Deferred Revenue was a larger amount than the FY2018 amount, due primarily to a change in the percentage of AAP sales that is deferred.

- Please compare this information to the Segment Information footnote in Form 10-K (sum of Direct Offices and Licensees).
- Please refer to Definitions in the Appendix for the definition of Deferred Revenue and Unbilled Deferred Revenue.
- Please refer to Contracted Revenue - Q4 and FY2018, for the reconciliation of this information to company totals.

# Education Division – Contracts Signed

(unaudited) (in millions)

	Q4				FY 2018			
	FY18	FY17	Change	%	FY18	FY17	Change	%
Net Sales (as reported)	\$ 17,854	\$ 18,935	\$ (1,081)	-5.7%	\$ 45,272	\$ 44,122	\$ 1,150	2.6%
Change in Deferred Revenue	9,319	7,021	2,298		4,125	5,118	(993)	
Invoiced Amounts	27,173	25,956	1,217	4.7%	49,397	49,240	157	0.3%
Change in Unbilled Deferred Revenue	203	100	103		164	451	(287)	
Total Contracts Signed	\$ 27,376	\$ 26,056	\$ 1,320	5.1%	\$ 49,561	\$ 49,691	\$ (130)	-0.3%

Notes:

- Please compare this information to the Segment Information footnote in Form 10-K (sum of Direct Offices and Licensees).
- Please refer to Definitions in the Appendix for the definition of Deferred Revenue and Unbilled Deferred Revenue.
- Please refer to Contracted Revenue - Q4 and FY2018, for the reconciliation of this information to company totals.

# FranklinCovey— Contracts Signed

(unaudited) (in millions)

## Current Quarter - Q4

	<u>Enterprise Division</u>				<u>Education Division</u>				<u>Corporate</u>			<u>Total Company</u>			
	FY18	FY17	Change	%	FY18	FY17	Change	%	FY18	FY17	Change	FY18	FY17	Change	%
Sales	45.4	39.1	6.3	16%	17.9	18.9	(1.0)	-6%	1.6	1.5	0.1	64.8	59.5	5.3	9%
Change in Deferred Revenue	4.6	5.5	(0.9)	-17%	9.3	7.0	2.3	33%	-	-	-	13.9	12.5	1.4	11%
Invoiced Amounts	50.0	44.6	5.4	12%	27.2	25.9	1.3	5%	1.6	1.5	0.1	78.7	72.0	6.7	9%
Change in Unbilled Deferred Revenue	9.4	15.0	(5.6)	-37%	0.2	0.1	0.1	103%	-	-	-	9.6	15.1	(5.5)	-36%
Total Contracts Signed	59.4	59.6	(0.2)	0%	27.4	26.0	1.4	-	1.6	1.5	0.1	88.3	87.1	1.2	1%

## FY2018

	<u>Enterprise Division</u>				<u>Education Division</u>				<u>Corporate</u>			<u>Total Company</u>			
	FY18	FY17	Change	%	FY18	FY17	Change	%	FY18	FY17	Change	FY18	FY17	Change	%
Sales	159.1	135.9	23.2	17%	45.3	44.1	1.2	3%	5.4	5.3	0.1	209.8	185.3	24.5	13%
Change in Deferred Revenue	7.3	15.6	(8.3)	-53%	4.1	5.1	(1.0)	-19%	-	-	-	11.4	20.8	(9.4)	-45%
Invoiced Amounts	166.4	151.5	14.9	10%	49.4	49.2	0.2	0%	5.4	5.3	0.1	221.2	206.0	15.1	7%
Change in Unbilled Deferred Revenue	7.0	14.7	(7.7)	-52%	0.2	0.5	(0.3)	-64%	-	-	-	7.2	15.1	(8.0)	-53%
Total Contracts Signed	173.4	166.2	7.2	4%	49.6	49.7	(0.1)	-	5.4	5.3	0.1	228.3	221.1	7.2	3%

Notes:

- Please compare this information to the Segment Information footnote in Form 10-K.
- Please refer to Definitions in the Appendix for the definition of Deferred Revenue and Unbilled Deferred Revenue.
- Please refer to Contracted Revenue - Q4 and FY2018, for the reconciliation of this information to company totals.
- 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.

# Division Adjusted EBITDA Summary Q4 & FY18

(unaudited) (in millions)

<u>Current Quarter</u>	<u>Enterprise Division</u>				<u>Education Division</u>				<u>Corporate</u>			<u>Total Company</u>			
	FY18	FY17	Chang	%	FY18	FY17	Chang	%	FY18	FY17	Chang	FY18	FY17	Chang	%
Sales	45.4	39.1	6.3	16%	17.9	18.9	(1.1)	-6%	1.6	1.5	0.1	64.8	59.5	5.3	9%
Cost of Sales	10.7	11.2	(0.5)	-4%	5.3	5.6	(0.3)	-6%	1.0	0.7	0.4	17.1	17.5	(0.5)	-3%
Gross Profit	34.7	27.9	6.8	24%	12.6	13.3	(0.7)	-5%	0.5	0.8	(0.3)	47.8	42.0	5.8	14%
GM%	76.4%	71.3%	5.1%		70.3%	70.2%	0.2%		33.1%	54.6%	-21.5%	73.7%	70.5%	3.1%	
Segment SG&A	25.5	22.2	3.3	15%	6.7	6.1	0.6	9%	4.2	2.7	1.5	36.4	31.1	5.3	17%
Adjusted EBITDA	9.1	5.6	3.5	62%	5.9	7.2	(1.3)	-	(3.7)	(1.9)	(1.8)	11.4	10.9	0.5	-

<u>FY2018</u>	<u>Enterprise Division</u>				<u>Education Division</u>				<u>Corporate</u>			<u>Total Company</u>			
	FY18	FY17	Chang	%	FY18	FY17	Chang	%	FY18	FY17	Chang	FY18	FY17	Chang	%
Sales	159.1	135.9	23.2	17%	45.3	44.1	1.2	3%	5.4	5.3	0.1	209.8	185.3	24.5	13%
Cost of Sales	40.9	43.7	(2.8)	-6%	16.6	16.2	0.4	3%	3.9	2.7	1.2	61.5	62.6	(1.1)	-2%
Gross Profit	118.2	92.2	26.0	28%	28.7	27.9	0.8	3%	1.5	2.6	(1.1)	148.3	122.7	25.6	21%
GM%	74.3%	67.8%	6.4%		63.3%	63.3%	0.0%		27.3%	48.9%	-21.6%	70.7%	66.2%	4.5%	
Segment SG&A	97.3	81.5	15.8	19%	25.1	20.7	4.4	21%	14.1	12.7	1.3	136.4	115.0	21.4	19%
Adjusted EBITDA	20.9	10.7	10.2	96%	3.6	7.2	(3.6)	-	(12.6)	(10.2)	(2.4)	11.9	7.7	4.2	-

Notes:

- Please compare this information to Segment Information in Form 10-K.
- Please see the Segment Information footnote in Form 10-K for the reconciliation of Adjusted EBITDA to Net Income.

# Sales Information

(in thousands)

	FY16 Information					FY17 Information					FY18 Information				
	Q1	Q2	Q3	Q4	Yr Total	Q1	Q2	Q3	Q4	Yr Total	Q1	Q2	Q3	Q4	YTD Total
<b>Sales</b>															
Reported Net Sales	45,218	45,269	44,738	64,830	200,055	39,787	42,196	43,751	59,522	185,256	47,932	46,549	50,461	64,818	209,760
Change in Deferred Sales (B)	(1,329)	(485)	2,125	8,309	8,620	702	2,069	5,442	12,562	20,775	(5,193)	211	2,461	13,925	11,404
Invoiced Amount	43,889	44,784	46,863	73,139	208,675	40,489	44,265	49,193	72,084	206,031	42,739	46,760	52,922	78,743	221,164
<b>Balance Sheet</b>															
<b>Roll-Forward of Deferred Sales</b>															
Beginning Balance (deferred sales)	6,844	5,492	4,978	7,154	6,844	15,460	16,096	18,185	23,618	15,460	36,397	31,429	32,067	34,521	36,397
Subscription Sales (A)	755	1,593	4,686	11,763	18,797	6,306	8,710	13,785	23,026	51,827	7,882	13,941	17,324	30,563	69,710
Amounts Recorded to Revenue	(2,084)	(2,078)	(2,561)	(3,454)	(10,177)	(5,604)	(6,641)	(8,343)	(10,464)	(31,052)	(13,075)	(13,730)	(14,863)	(16,638)	(58,306)
Change in Deferred Sales (B)	(1,329)	(485)	2,125	8,309	8,620	702	2,069	5,442	12,562	20,775	(5,193)	211	2,461	13,925	11,404
FX and Other Changes	(23)	(29)	51	(3)	(4)	(66)	20	(9)	217	162	225	427	(7)	(14)	631
Ending Balance (deferred sales)	5,492	4,978	7,154	15,460	15,460	16,096	18,185	23,618	36,397	36,397	31,429	32,067	34,521	48,432	
Other Deferred Revenue (Deposits)	4,661	5,592	5,966	5,387	5,387	4,186	2,933	5,664	5,012	5,012	3,821	4,069	4,669	4,471	4,471
Balance Sheet Deferred Revenue	10,153	10,570	13,120	20,847	20,847	20,282	21,118	29,282	41,409	41,409	35,250	36,136	39,190	52,903	52,903
<b>Unbilled Deferred Contracts</b>															
Beginning Balance (off balance sheet)	988	3,150	3,150	3,150	988	2,378	1,978	1,728	2,479	2,378	17,151	16,255	15,463	15,067	17,151
New Unbilled Contracts	2,400	-	-	328	2,728	-	-	751	15,600	16,351	1,863	2,149	2,766	13,437	20,215
Amounts Invoiced	(238)	-	-	(1,100)	(1,338)	(400)	(250)	-	(928)	(1,578)	(2,759)	(2,941)	(3,162)	(4,009)	(12,871)
Ending Balance (off balance sheet)	3,150	3,150	3,150	2,378	2,378	1,978	1,728	2,479	17,151	17,151	16,255	15,463	15,067	24,495	24,495
<b>Breakout of Deferred Sales (above)</b>															
<b>Subscription Sales (Balance Sheet)</b>															
AAP Subscriptions	383	3,077	5,806	12,217	21,483	4,969	7,801	9,189	12,616	34,575	6,822	13,409	11,667	16,895	48,793
Education Memberships	599	222	2,203	6,278	9,302	652	226	4,130	9,766	14,774	893	159	4,978	13,142	19,172
Other Subscriptions and Adjustments	37	211	94	25	367	685	683	466	644	2,478	167	373	679	526	1,745
Effect in FY16 of partial deferral	(264)	(1,917)	(3,417)	(6,757)	(12,355)	-	-	-	-	-	-	-	-	-	-
Total Additions to balance sheet (A)	755	1,593	4,686	11,763	18,797	6,306	8,710	13,785	23,026	51,827	7,882	13,941	17,324	30,563	69,710

Notes:

- Invoiced Amounts represent the amount billed (invoiced) in the period. The Invoiced Amount is equal to Reported Net Sales, plus the associated change in Deferred Subscription Sales on the balance sheet (adjusted for FX). AAP Subscriptions, Education Memberships, and Other Invoiced Subscriptions are all Invoiced Amounts. Unbilled portions of multi-year agreements are not included.
- The Difference between Change in Deferred Sales, which is added to Reported Net Sales to equal the Invoiced Amount, and the Change in Deferred Sales on the balance sheet is adjustments for FX, acquisitions and other.
- Certain historical amounts have been adjusted by immaterial amounts to conform with the current presentation - including the acquired Jhana Deferred Revenue.
- Deferred Revenue is primarily a current liability. However, a small portion long-term and recorded as a part of Other Liabilities.

# Reconciliation of Net Income (Loss) to Adj EBITDA

(in thousands and unaudited)

	Quarter Ended		Fiscal Year Ended	
	August 31, 2018	August 31, 2017	August 31, 2018	August 31, 2017
Reconciliation of net income (loss) to Adjusted EBITDA:				
Net income (loss)	\$ 1,779	\$ 4,659	\$ (5,887)	\$ (7,172)
Adjustments:				
Interest expense, net	527	479	2,154	2,029
Income tax expense (benefit)	5,295	2,336	367	(3,737)
Amortization	1,251	1,261	5,368	3,538
Depreciation	1,615	1,136	5,161	3,879
Stock-based compensation	665	(329)	2,846	3,658
Costs to exit Japan publishing business	-	315	-	2,107
Restructuring costs	-	147	-	1,482
Contract termination costs	-	-	-	1,500
Increase (reduction) to contingent earnout liability	224	-	1,014	(1,936)
ERP implementation costs	-	484	855	1,404
Business acquisition costs	-	417	-	442
China start-up costs	-	-	-	505
Adjusted EBITDA	<u>\$ 11,356</u>	<u>\$ 10,905</u>	<u>\$ 11,878</u>	<u>\$ 7,699</u>
Adjusted EBITDA margin	17.5%	18.3%	5.7%	4.2%

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

# Additional Financial Information

(in thousands and unaudited)

	Quarter Ended		Fiscal Year Ended	
	August 31, 2018	August 31, 2017	August 31, 2018	August 31, 2017
<b>Sales by Division/Segment:</b>				
Enterprise Division:				
Direct offices	\$ 42,088	\$ 35,714	\$ 145,890	\$ 122,309
International licensees	3,317	3,381	13,226	13,571
	<u>45,405</u>	<u>39,095</u>	<u>159,116</u>	<u>135,880</u>
Education Division	17,854	18,935	45,272	44,122
Corporate and other	1,559	1,493	5,370	5,254
	<u>19,413</u>	<u>20,428</u>	<u>50,642</u>	<u>49,376</u>
<b>Consolidated</b>	<u>\$ 64,818</u>	<u>\$ 59,523</u>	<u>\$ 209,758</u>	<u>\$ 185,256</u>
<b>Gross Profit by Division/Segment:</b>				
Enterprise Division:				
Direct offices	\$ 32,254	\$ 25,276	\$ 108,140	\$ 81,700
International licensees	2,430	2,604	10,031	10,483
	<u>34,684</u>	<u>27,880</u>	<u>118,171</u>	<u>92,183</u>
Education Division	12,560	13,290	28,654	27,916
Corporate and other	517	818	1,464	2,568
	<u>13,077</u>	<u>14,108</u>	<u>30,118</u>	<u>30,484</u>
<b>Consolidated</b>	<u>\$ 47,761</u>	<u>\$ 41,988</u>	<u>\$ 148,289</u>	<u>\$ 122,667</u>
<b>Adjusted EBITDA by Division/Segment:</b>				
Enterprise Division:				
Direct offices	\$ 8,308	\$ 3,829	\$ 15,773	\$ 4,242
International licensees	835	1,808	5,087	6,415
	<u>9,143</u>	<u>5,637</u>	<u>20,860</u>	<u>10,657</u>
Education Division	5,878	7,176	3,606	7,195
Corporate and other	(3,665)	(1,908)	(12,588)	(10,153)
	<u>2,213</u>	<u>5,268</u>	<u>(8,982)</u>	<u>(2,958)</u>
<b>Consolidated</b>	<u>\$ 11,356</u>	<u>\$ 10,905</u>	<u>\$ 11,878</u>	<u>\$ 7,699</u>

# Condensed Consolidated Balance Sheets

(in thousands and unaudited)

	August 31, 2018	August 31, 2017		August 31, 2018	August 31, 2017
<u>Assets</u>			<u>Liabilities and Shareholders' Equity</u>		
Current assets:			Current liabilities:		
Cash	\$ 10,153	\$ 8,924	Current portion of term notes payable	\$ 10,313	\$ 6,250
Accounts receivable, less allowance for doubtful accounts of \$3,555 and \$2,310	71,914	66,343	Current portion of financing obligation	2,092	1,868
Inventories	3,160	3,353	Accounts payable	9,790	9,119
Income taxes receivable	179	259	Deferred revenue	51,888	40,772
Prepaid expenses and other current assets	14,757	12,956	Accrued liabilities	20,761	22,617
Total current assets	<u>100,163</u>	<u>91,835</u>	Total current liabilities	<u>94,844</u>	<u>80,626</u>
Property and equipment, net	21,401	19,730	Line of credit	11,337	4,377
Intangible assets, net	51,934	57,294	Term notes payable, less current portion	2,500	12,813
Goodwill	24,220	24,220	Financing obligation, less current portion	18,983	21,075
Deferred income tax assets	3,222	1,647	Other liabilities	5,501	5,742
Other long-term assets	12,935	16,005	Deferred income tax liabilities	210	1,033
	<u>\$ 213,875</u>	<u>\$ 210,731</u>	Total liabilities	<u>133,375</u>	<u>125,666</u>
			Shareholders' equity:		
			Common stock	1,353	1,353
			Additional paid-in capital	211,280	212,484
			Retained earnings	63,569	69,456
			Accumulated other comprehensive income	341	667
			Treasury stock at cost, 13,159 and 13,414 shares	(196,043)	(198,895)
			Total shareholders' equity	<u>80,500</u>	<u>85,065</u>
				<u>\$ 213,875</u>	<u>\$ 210,731</u>

# Condensed Consolidated Statements of Operations

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

	Quarter Ended		Fiscal Year Ended	
	August 31, 2018	August 31, 2017	August 31, 2018	August 31, 2017
Net sales	\$ 64,818	\$ 59,523	\$ 209,758	\$ 185,256
Cost of sales	17,057	17,535	61,469	62,589
Gross profit	47,761	41,988	148,289	122,667
Selling, general, and administrative	37,294	31,970	141,126	121,148
Restructuring costs	-	147	-	1,482
Contract termination costs	-	-	-	1,500
Depreciation	1,615	1,136	5,161	3,879
Amortization	1,251	1,261	5,368	3,538
<b>Income (loss) from operations</b>	<b>7,601</b>	<b>7,474</b>	<b>(3,366)</b>	<b>(8,880)</b>
Interest expense, net	(527)	(479)	(2,154)	(2,029)
<b>Income (loss) before income taxes</b>	<b>7,074</b>	<b>6,995</b>	<b>(5,520)</b>	<b>(10,909)</b>
Income tax benefit (provision)	(5,295)	(2,336)	(367)	3,737
<b>Net Income (loss)</b>	<b>\$ 1,779</b>	<b>\$ 4,659</b>	<b>\$ (5,887)</b>	<b>\$ (7,172)</b>
Net income (loss) per common share:				
Basic	\$ 0.13	\$ 0.34	\$ (0.43)	\$ (0.52)
Diluted	0.13	0.33	(0.43)	(0.52)
Weighted average common shares:				
Basic	13,906	13,824	13,849	13,819
Diluted	14,114	13,983	13,849	13,819
Other data:				
Adjusted EBITDA <sup>(1)</sup>	\$ 11,356	\$ 10,905	\$ 11,878	\$ 7,699

(1) The term Adjusted EBITDA (earnings before interest, income taxes, depreciation, amortization, stock-based compensation, and certain other items) is a non-GAAP financial measure that the Company believes is useful to investors in evaluating its results. For a reconciliation of this non-GAAP measure to the most comparable GAAP equivalent, refer to the Reconciliation of Net Loss to Adjusted EBITDA as shown below.

# Direct Office Revenue

(in thousands and unaudited)

For the Year Ended	FY17	FY18	Change	Percent
All Access Pass*	14,961	32,094	17,133	115%
Onsites	34,083	31,272	(2,811)	-8%
Facilitator	17,250	15,828	(1,422)	-8%
Other	7,287	5,620	(1,666)	-23%
Total US/Canada	73,581	84,815	11,234	15%
International Direct Offices	31,618	36,502	4,884	15%
Government Services	9,728	13,780	4,053	42%
Other Offices	7,381	10,792	3,411	46%
Total Direct Office	122,309	145,890	23,581	19%

Notes:

- This does not include AAP that was sold in Government Services, Australia and The U.K.
- Higher Education in the Education practice also had a small amount of AAP sales.
- Total AAP revenue recognized was \$40.3M in FY18 compared to \$18.5M in FY17

# Definitions

- “Deferred Revenue” primarily consists of billings or payments received in advance of revenue recognition from subscription services and is recognized as the revenue recognition criteria are met. The Company generally invoices customers in annual installments upon execution of a contract. The deferred revenue balance is influenced by several factors, including seasonality, the compounding effects of renewals, contract duration, invoice timing and contract size. When Management refers to Deferred Revenue or the change in Deferred Revenue it is primarily referring to the subscription related portion and not the customer deposits and other portions.
- “Unbilled Deferred Revenue” is an operational measure that represents future billings under our non-cancelable subscription agreements that have not been invoiced and, accordingly are not recorded in our recognized revenue or deferred revenue.
- “Operating SG&A” is non-GAAP financial measure. It generally excludes stock-based compensation, changes to contingent earn-out liability and unusual or one-time charges. See the Reconciliation of Net Income or Loss to Adjusted EBITDA in additional financial information.

# Definitions

- “Adjusted EBITDA” (earnings before interest, income taxes, depreciation, amortization, stock-based compensation, and certain other items) is a non-GAAP financial measure that the Company believes is useful to investors in evaluating its results. A reconciliation of “Adjusted EBITDA,” to consolidated net income (loss), the most comparable GAAP financial measure is provided within this presentation. The Company references this non-GAAP financial measure in its decision making because it provides supplemental information that facilitates consistent internal comparisons to the historical operating performance of prior periods and the Company believes it provides investors with greater transparency to evaluate operational activities and financial results. We are unable to provide a reconciliation of forward-looking estimates of non-GAAP Adjusted EBITDA to GAAP measures because certain information needed to make a reasonable forward-looking estimate is difficult to estimate and dependent on future events which may be uncertain or out of our control, including the amount of AAP contracts invoiced, the number of AAP contracts that are renewed, necessary costs to deliver our offerings such as unanticipated content development costs, and other potential variables. Accordingly, a reconciliation is not available without unreasonable effort.
- “Invoiced Amounts” is the sum of reported Net Sales plus the change in Deferred Revenue reported on the balance sheet (a portion of which is recorded as a current liability and a portion as a long-term liability and represents the amount of billings during the period).
- “Contracts Signed” is the sum of Invoiced Amounts plus the Change in Unbilled Deferred Revenue (not recorded on the balance sheet) and, as the term reflects represents, the total amount of contracts with customers that were entered into during the period.