



# **Investor Update**

*Second Quarter of Fiscal Year 2017*

# Forward-Looking Statements / Non-GAAP

This presentation contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based upon management's current expectations and are subject to various risks and uncertainties including, but not limited to: The ability of the Company to stabilize and grow revenues; The acceptance of, and renewal rates for the All Access Pass; The ability of the Company to hire productive sales professionals; General economic conditions; Competition in the Company's targeted marketplace; Market acceptance of new products or services and marketing strategies; Changes in the Company's market share; Changes in the size the overall market for the Company's products; Changes in the training and spending policies of the Company's clients, and other factors identified and discussed in the Company's most recent Annual Report on Form 10-K and other periodic reports filed with the Securities and Exchange Commission. Many of these conditions are beyond our control or influence, any one of which may cause future results to differ materially from the Company's current expectations, and there can be no assurance the Company's actual future performance will meet management's expectations. These forward-looking statements are based on management's current expectations and we undertake no obligation to update or revise these forward-looking statements to reflect events or circumstances after the date of today's presentation, except as required by law.

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

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

# Four Questions

1. How is the All Access Pass going?
2. How are the factors which could drive increased lifetime value of your customers tracking?
3. When do you expect the success of All Access Pass to translate into growth for the U.S. Direct Offices and for the overall business?
4. How do you expect to utilize our excess cash and credit line capacity?

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# Fiscal 2016 All Access Pass Results

|  | <i>Fiscal 2016</i> |                    |                    |                    |                    |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| <i>All Access Pass</i>   | <i>1st Quarter</i> | <i>2nd Quarter</i> | <i>3rd Quarter</i> | <i>4th Quarter</i> | <i>Fiscal 2016</i> |
| Total Invoiced Pass Amounts  | 375,000            | 3,075,000          | 5,800,000          | 12,225,000         | 21,475,000         |
| AAP Services and Materials   | -                  | -                  | 225,000            | 1,500,000          | 1,725,000          |
| <b>Total Invoiced Amounts</b>  | <b>375,000</b>     | <b>3,075,000</b>   | <b>6,025,000</b>   | <b>13,725,000</b>  | <b>23,200,000</b>  |
| <br>   |                    |                    |                    |                    |                    |
| <b>Percent of AAP Invoiced Amounts to Total Revenue of locations selling AAP</b> | <b>2%</b>          | <b>14%</b>         | <b>26%</b>         | <b>47%</b>         | <b>24%</b>         |

Selected and unaudited financial information.

Reference Financial Note, Slide 14.

# Comparative All Access Pass Results: FY17 vs FY16

|  | Fiscal 2017        |                    |                   |                              |
|--|--------------------|--------------------|-------------------|------------------------------|
| <i>All Access Pass</i>   | <i>1st Quarter</i> | <i>2nd Quarter</i> | <i>YTD</i>        | <i>AAP Inception to Date</i> |
| Total Invoiced Pass Amounts  | 4,975,000          | 7,800,000          | 12,775,000        | 34,250,000                   |
| AAP Services and Materials   | 2,075,000          | 3,450,000          | 5,525,000         | 7,250,000                    |
| <b>Total Invoiced Amounts</b>  | <b>7,050,000</b>   | <b>11,250,000</b>  | <b>18,300,000</b> | <b>41,500,000</b>            |
| <br>   |                    |                    |                   |                              |
| <b>Percent of AAP Invoiced Amounts to Total Revenue of locations selling AAP</b> | <b>41%</b>         | <b>56%</b>         | <b>49%</b>        | <b>31%</b>                   |

|  | Fiscal 2016        |                    |                  |
|--|--------------------|--------------------|------------------|
| <i>All Access Pass</i>   | <i>1st Quarter</i> | <i>2nd Quarter</i> | <i>YTD</i>       |
| Total Invoiced Pass Amounts  | 375,000            | 3,075,000          | 3,450,000        |
| AAP Services and Materials   | -                  | -                  | -                |
| <b>Total Invoiced Amounts</b>  | <b>375,000</b>     | <b>3,075,000</b>   | <b>3,450,000</b> |
| <br>   |                    |                    |                  |
| <b>Percent of AAP Invoiced Amounts to Total Revenue of locations selling AAP</b> | <b>2%</b>          | <b>14%</b>         | <b>8%</b>        |

|  | Change             |                    |                   |
|--|--------------------|--------------------|-------------------|
| <i>All Access Pass</i>   | <i>1st Quarter</i> | <i>2nd Quarter</i> | <i>YTD</i>        |
| Total Invoiced Pass Amounts  | 4,600,000          | 4,725,000          | 9,325,000         |
| AAP Services and Materials   | 2,075,000          | 3,450,000          | 5,525,000         |
| <b>Total Invoiced Amounts</b>  | <b>6,675,000</b>   | <b>8,175,000</b>   | <b>14,850,000</b> |
| <br>   |                    |                    |                   |
| <b>Percent of AAP Invoiced Amounts to Total Revenue of locations selling AAP</b> | <b>39%</b>         | <b>42%</b>         | <b>41%</b>        |

Selected and unaudited financial information.

Reference Financial Note, Slide 14.

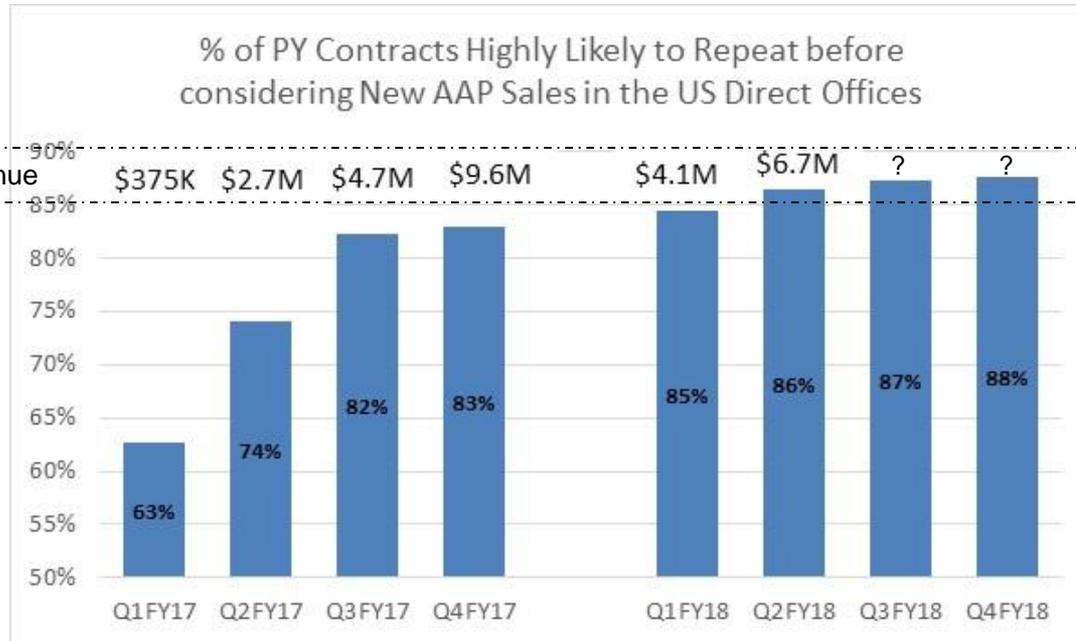
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# Percentage of Prior Year Invoiced Amounts Retained, Prior to New All Access Pass Amounts Invoiced in U.S. Direct Offices



Selected and unaudited financial information.

Reference Financial Note, Slide 14.

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# Selected AAP Related Financial Information

|  | <b>Q2 FY16</b>   | <b>YTD Q2 FY16</b> | <b>Fiscal 2016</b> | <b>Q2 FY17</b>   | <b>YTD Q2 FY17</b> | <b>Inception to Date</b> |
|--|------------------|--------------------|--------------------|------------------|--------------------|--------------------------|
| Amount of AAP Revenue Recognized<br>for the Period Ended | 2,000,000        | 1,750,000          | 14,225,000         | 3,875,000        | 6,275,000          | 20,500,000               |
| AAP Services and Materials                               | -                | -                  | 1,725,000          | 3,450,000        | 5,525,000          | 7,250,000                |
| Total  | <u>2,000,000</u> | <u>1,750,000</u>   | <u>15,950,000</u>  | <u>7,325,000</u> | <u>11,800,000</u>  | <u>27,750,000</u>        |
| Unearned Revenue as of the Period<br>Ended               | 100,000          | 1,200,000          | 7,250,000          | 13,750,000       | 13,750,000         | 13,750,000               |

Selected and unaudited financial information.

Reference Financial Note, Slide 14.

# U.S. Direct Offices Selected Financial Information

## 2nd Quarter Results in the U.S. Directed Offices

### **2nd Qtr Fiscal 2016**

|                                     |                 |
|-------------------------------------|-----------------|
| 2nd Qtr FY16 Revenue Recognized     | \$ 18.30        |
| Increase in Unearned Revenue*       | 1.10            |
| 2nd Quarter FY 2016 Amount Invoiced | <b>\$ 19.40</b> |

### **2nd Qtr Fiscal 2017**

|  |                 |
|--|-----------------|
| Increase in AAP Contracts Invoiced     | 4.00            |
| Decrease in Onsite Program Revenue     | (1.30)          |
| Decrease in Facilitator Revenue        | (3.20)          |
| Increase in all Other Revenue Channels | 0.90            |
| 2nd Quarter FY 2017 Amount Invoiced    | <b>\$ 19.80</b> |
| Increase in Deferred Revenue*          | <u>(3.80)</u>   |
| 2nd Quarter FY 2017 Revenue Recognized | \$ 16.00        |

\*The vast majority of the Increase in Unearned Revenue relates to AAP

Selected and unaudited financial information.

Reference Financial Note, Slide 14.

# Second Quarter Results in the U.S. Direct Offices

| 2nd Quarter                      |              |   |                                  |   |              |
|----------------------------------|--------------|---|----------------------------------|---|--------------|
| Selected Information for FY 2016 |              |   | Selected Information for FY 2017 |   |              |
| Amount Invoiced \$44.8           |              |   | Amount Invoiced \$44.3           |   |              |
| Amounts Reported                 |              | ↓ | Amounts Deferred                 | ↓ |              |
|                                  |              |   | Net (Decrease) in Deferred       |   |              |
| Revenue                          | \$ 45.3      |   | Subscription Revenue             |   | (0.5)        |
| Gross Profit                     | 29.9         |   |                                  |   |              |
| Gross Profit Percentage          | 65.9%        |   | Increase in Deferred Revenue     |   |              |
|                                  |              |   | Related Prepaid Expenses         |   | 0.1          |
| Adjusted SG&A                    | 25.4         |   |                                  |   |              |
|                                  |              |   | <b>Embedded Adj. EBITDA</b>      |   |              |
| <b>Adjusted EBITDA</b>           | <b>4.4</b>   |   | <b>Contribution Created</b>      |   | <b>(0.4)</b> |
|                                  |              |   |                                  |   |              |
| Amounts Reported                 |              | ↓ | Amounts Deferred                 | ↓ |              |
|                                  |              |   | Net Increase in Deferred         |   |              |
| Revenue                          | \$ 42.2      |   | Subscription Revenue             |   | 2.1          |
| Gross Profit                     | 28.0         |   |                                  |   |              |
| Gross Profit Percentage          | 66.4%        |   | Increase in Deferred Revenue     |   |              |
|                                  |              |   | Related Prepaid Expenses         |   | (0.3)        |
| Adjusted SG&A                    | 28.4         |   |                                  |   |              |
|                                  |              |   | <b>Embedded Adj. EBITDA</b>      |   |              |
| <b>Adjusted EBITDA</b>           | <b>(0.4)</b> |   | <b>Contribution Created</b>      |   | <b>1.8</b>   |

FY17 includes 200K FX Adjusted EBITDA benefit.

Selected and unaudited financial information.

Reference Financial Note, Slide 14.

# Financial Note

- Amount Invoiced or the Amount of Contracts Invoiced represents the amount of invoices generated in a period of time. For All Access Pass agreements, the Company invoices the customer and generates a receivable when a binding agreement has been signed and the customer agrees to take possession of an invoice and to pay that invoice within the Company's normal payment terms. At times, the customer may wish to be invoiced prior to the commencement of the services.
- By definition, the Amount Invoiced equals the amount of Revenue recorded plus the change in Unearned Revenue.

# Other Information

## Other Income Statement Information:

- Depreciation: \$3.7M in FY2016, expected to total approximately \$3.9M in FY2017.
- Amortization: \$3.3M in FY2016, expected to total approximately \$2.9M in FY2017.
- Net Interest and Discount: \$1.9M in FY2016, expected to total \$2.2M in FY2017.
- Share-based Compensation, Impaired Assets, Restructuring, ERP Implementation, Accrued Earnout and Other, totaling: \$6.1M in FY2016; Share-Based Compensation, ERP Implementation, Contract Termination, Earnout Adjustments, Restructuring and Other, expected to total approximately \$7.0M in FY2017.
- Effective Tax Rate: 41% in FY2016. As pre-tax income becomes a very small amount, the effective tax rate for the year is impossible to accurately predict.

## Other Information:

- Capital Expenditures: \$4.0M in FY2016, expected to total approximately \$5.4M (including new ERP system) in FY2017.
- Capitalized Curriculum: \$2.2M in FY2016, expected to total approximately \$8.0M in FY2017, reflecting localization of AAP content, AAP, content development and Education content development.
- Share Count: 13,813K shares outstanding as of February 28, 2017. The Company's share count may increase due to the vesting of share-based awards, and decrease due to the company buying back shares under its authorized share buy-back program.

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