

Franklin Covey Co.(Q3 2024 Earnings)
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Corporate Speakers

- Derek Hatch; Franklin Covey Co.; Corporate Controller
- Paul Walker; Franklin Covey Co.; chief Executive Officer
- Stephen Young; Franklin Covey Co.; Chief Financial Officer
- Michael Covey; Franklin Covey Co.; President of Education Division
- Jennifer Colosimo; Franklin Covey Co.; president of Enterprise Division

Participants

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

PRESENTATION

Operator^ Good day. Thank you for standing by. Welcome to the Q3 2024 Franklin Covey Earnings Conference Call. (Operator Instructions)

Please be advised that today's conference is being recorded. (Operator Instructions)

I would now like to hand the conference over to your speaker today Derek Hatch, Corporate Controller.

Derek Hatch^ Hello, everyone. Thanks so much for joining us.

We're glad to have the opportunity to talk with you today. Participating on our call this afternoon are Paul Walker, our Chief Executive Officer; Steve Young, our Chief Financial Officer; Jennifer Colosimo, President of our Enterprise Division; and Sean Covey, President of our Education Division.

Before we get started, I would like to remind everybody that this presentation contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements are based upon management's current expectations and are subject to various risks and uncertainties including but not limited to: the ability of the company to grow revenue; the acceptance of and renewal rates of our subscription offerings including the All Access Pass and Leader in Me memberships; the ability of the company to hire productive sales and other client-facing professionals; general economic conditions; competition in the company's targeted marketplace; market acceptance of new offerings or services and marketing strategies; changes in the company's market share; changes in the size of the overall market for the

company's products; changes in the training and spending policies of the company's clients; and other factors identified and discussed in the company's most recent annual report on Form 10-K and other periodic reports filed with the Securities and Exchange Commission.

Many of these conditions are beyond our control or influence, any one of which may cause future results to differ materially from the company's current expectations, and there can be no assurance the company's actual future performance will meet management's expectations.

These forward-looking statements are based 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.

With that out of the way we'd like to turn the time over to Mr. Paul Walker, our Chief Executive Officer.

Paul Walker^ Thank you, Derek. Welcome, everyone. It's great to be with you today.

We're pleased with our results for the third quarter where revenue, adjusted EBITDA, and free cash flow were all stronger than expected, and where importantly several of our key leading growth indicators strengthened.

Specifically, I'd like to point out, as shown on slide 4, revenue came in at \$73.4 million versus the \$72.2 million we'd expected.

Adjusted EBITDA came in at \$13.9 million, versus the expected range of between \$12 million and \$13 million. And free cash flow was \$30.6 million through the third quarter versus \$15.6 million through the third quarter of last year. This strength was broad-based across both the Enterprise and Education divisions.

Additionally, the foundation for accelerated future growth is being established by our 9% increase in our balance of billed and unbilled deferred revenue which increased to \$153.2 million, and which will be recognized in the coming quarters, as well as by our increased services booking rate which will flow through to revenue in the coming quarters.

In addressing our performance for the quarter and our outlook for the future, I'd like to address four key drivers that continue to accelerate the growth and value of Franklin Covey's business.

Each of these drivers were particularly evident in the third quarter's performance.

As you can see shown on slide 5, the first driver of growth and value is the mission-critical nature of the opportunities and challenges we help organizations and schools address and the strength of our solutions in addressing them, both of which are reflected in the continued resiliency in our business. A recent June 11th Bloomberg article reported that, "Businesses are holding off on capital expenditures and reducing costs." Despite an uncertain and challenging environment, Franklin Covey's business continues to be strong and highly resilient.

In the Enterprise division in North America, as we'll describe in more detail in a moment, we achieved our highest ever All Access Pass logo retention percentage for a third quarter, our highest ever absolute revenue retention, and one of our highest revenue retention percentages for any third quarter.

In the Education division, the number of new and retained schools is pacing well ahead of last year through the third quarter.

This continued strength and resiliency reflects two things: first, the importance of the opportunities and challenges we're helping organizations and schools address; and second, the broadly recognized strength and efficacy of our solutions in addressing them.

I'd like to just say a couple of additional points about each of these.

First, as to the importance of what we're doing to help our clients. The types of challenges and opportunities we help organizations achieve are not just nice to have. They're truly mission critical.

For organizations, achieving extraordinary strategic or business outcomes almost always requires building winning cultures, achieving extraordinary execution, earning the highest levels of customer loyalty, and building leaders who can unleash the collective power of their people. Underpinning each of these outcomes is the need for the most impactful behaviors and actions of people at scale throughout an organization. Achieving such large-scale collective action is not just nice to have, it's mission critical.

Second, as to the tremendous strength and efficacy of Franklin Covey's solutions in helping organizations successfully address these opportunities and challenges, Franklin Covey's solutions combine best-in-class content, with high leverage tools, and coaching and measurement, all of which is available across any delivery modality. The power of our solutions helps Franklin Covey earn the right to be partners for life with our clients.

The second driver I'd like to talk briefly about is the strength of our leading indicators of future growth, which were also strong in the third quarter. Three key leading indicators of our future growth include: growth in the amount of our deferred revenue, which directly reflects growth in our contracted and invoiced revenue that will be recognized over the next 12 months; growth in the amount of unbilled deferred revenue, which represents increases in the dollar volume of multiyear contracts, which establishes a strong foundation for growth even beyond 12 months; and growth in the amount of services booked in the quarter for future delivery. Each of these key lead indicators of future growth was strong in the third quarter.

As you can see shown in slide 6, our balance of deferred revenue increased 15% to \$83.8 million in the quarter, reflecting growth in revenue amounts contracted and invoiced in the quarter.

Our balance of unbilled deferred revenue increased 2% to \$69.4 million during the third quarter, reflecting an increase in the dollar volume of multiyear contracts, which typically flows into revenue over the ensuing 18 to 30 months.

Additionally, I would also add that as we expected, in the third quarter, our services booking pace accelerated meaningfully, and the accelerated pace has continued through the month of June. The third driver of growth and value is the strength of our business model.

Our business model is designed to achieve high levels of recurring revenue with strong gross margins, with operating SG&A as a percent of revenue that declines with scale, and with very little working capital required since the invoiced revenue is billed and collected before the revenue is recognized. The combination of these factors result in a high flowthrough of increases in revenue to increases in both adjusted EBITDA and free cash flow.

For example, for the latest 12-month period ended May of fiscal 2020, revenue at the time was \$214.6 million and adjusted EBITDA was \$18.8 million.

This compares with revenue and adjusted EBITDA through the latest 12 months through this year's third quarter, where revenue had grown during that period to \$281 million, and adjusted EBITDA to \$48.8 million. With revenue growth of 31% during that period, adjusted EBITDA grew an even more rapid 160%. This pattern of strong flowthrough continued in this year's third quarter, where revenue grew \$1.9 million, or 3%, and adjusted EBITDA grew \$2 million, or 17%. The final of these four drivers I'd like to talk about today is that we've been able to invest our free cash flow and excess cash in the business at high rates of return, with the balance being returned to shareholders in the form of significant stock repurchases.

In fiscal 2024, our return on net tangible assets from investments in the business continued to be remarkably high.

As shown on slide 7, year-to-date, we've returned \$25.8 million to shareholders through purchasing 649,000 shares including returning \$7.4 million through purchases of 188,000 shares in the third quarter. We've invested \$61.4 million to repurchase shares over the last two years.

Our Board also approved the new \$50 million stock repurchase authorization to put ourselves in a position to continue to opportunistically return capital to shareholders through continued stock repurchases.

Additionally, we continue to make significant progress in each of the three growth projects I described in detail last quarter, Project Penetrate, Project Speed to Ramp, and Project Impact.

We're encouraged with what we see in terms of these projects driving future accelerated growth.

I'm pleased with the progress we're making.

I'm pleased about our outlook for growth and what we're doing to become even more important to our clients.

I'd like to now turn time to Steve to share details about our specific Q3 results and discuss guidance. After Steve concludes, we'll open the line and look forward to answering your questions.

Steve?

Stephen Young^ Thank you, Paul.

I would like to briefly provide a little more detail on the factors underlying our performance, focusing on the overall company result and then on the results in three key areas of our company, specifically our Enterprise division in North America, the Enterprise business internationally, and our Education business.

As shown on slide 8, third quarter revenue was \$73.4 million, 3% higher than the \$71.4 million generated in last year's third quarter. Year-to-date revenue was \$203.1 million, or slightly higher than the \$202.6 million in the prior year. And for the latest 12 months, revenue was \$281.1 million, compared to the \$281.4 million in the prior year.

third quarter adjusted EBITDA was \$13.9 million, compared to \$11.9 million achieved last year. Year-to-date adjusted EBITDA was \$32.3 million, compared to \$31.6 million last year. And for the latest 12 months, adjusted EBITDA was \$48.8 million, compared to \$44.9 million last year.

As shown on slide 9, results in our Enterprise business in North America continued to be strong in the third quarter. Revenue in North America, which accounts for about 73% of total Enterprise division revenue, was \$39 million in the third quarter, which is flat with the \$39.1 million recorded in the prior year.

Year-to-date revenue and the latest 12 months revenues were also essentially flat versus last year, after FY23 recorded large increases over the same period in FY22.

Subscription revenue in North America was \$22 million, reflecting growth of 3% in the quarter, with \$66.5 million year-to-date, which is up 5%, and \$88.5 million in the latest 12 months, which is also up 5%. The combination of subscription and subscription services revenue in North America was \$35.9 million in the third quarter, representing 3% growth. This revenue was \$102.2 million year-to-date, which is up 2%, and was \$137.3 million latest 12 months, which is up 3%.

Our balance in deferred revenue, billed and unbilled in North America, continued to be strong, growing to \$111.6 million in the quarter, which is up 3%, on top of the 19% growth achieved in last year's third quarter, establishing, as Paul talked about, a strong foundation for next year's growth.

And the percent of North America's All Access Passes contracted for multiyear periods increased to 55% from 50% in the third quarter last year.

The percentage of invoiced revenue represented by multiyear contracts increased to 60% from 57% in the third quarter last year.

As shown on slide 10, revenue from our international direct operations, which accounts for approximately 17% of total Enterprise division revenue, was \$8.5 million in the third quarter, which was down 7%. This decrease is more than 100% attributable to the geopolitical issues related to China, as every other international direct operation grew revenues over the prior year. Year-to-date revenue from these offices was \$24.4 million, which is down 5%, and the latest 12 months revenue was \$33.9 million, down 2%.

As also shown on slide 10, our international licensee partner revenue was \$2.7 million in the third quarter, a decrease of 5%, with year-to-date revenue of \$8.8 million, down 2%, and the latest 12 months revenue of \$11.4 million, which is flat to the prior year.

Finally, as shown on slide 11, revenue in our Education business, which accounts for approximately 25% of total company revenue, grew to \$20.1 million in the third quarter, on top of 18% growth achieved last year. Year-to-date revenue grew to \$49.4 million, up 8%, and revenue grew for the latest 12-month period was \$73.5 million, up 5%, on top of 21% growth in the previous year. Education amounts invoiced grew to \$18.9 million in the third quarter, up 16% from the third quarter a year ago. Year-to-date amounts achieved were \$37 million, up 16%, and for the latest 12 months grew 13% to \$82.3 million.

Education subscription and subscription services revenue grew to \$18.2 million in the third quarter, up 13%, on top of 19% growth in last year's third quarter. Year-to-date revenue grew to \$44.3 million, up 6%, on top of the 24% in year-to-date growth achieved through last year's third quarter, and for the latest 12 months Education revenue was \$67.3 million, which is up 3%, on top of the 21% growth achieved in the same latest 12 months last year. Education's balance of deferred subscription revenue, billed and unbilled, increased to \$28.9 million, or growth of 42% in the third quarter.

Now a little bit about cash flows and balance sheet.

As shown on slide 12, our cash flows from operating activities for the nine months ended May 31, 2024, was \$38.4 million, an increase of \$12.5 million, or 48%, compared to \$25.9 million for the prior year.

Our free cash flow for the first three quarters increased \$15 million, or 96%, to \$30.6 million, compared to the \$15.6 million for the prior year, reflecting the changes in the elements of working capital were very favorable through Q3 of this year, compared with the prior year, particularly reflecting changes in accounts receivable, accounts payable, accrued liabilities, and deferred revenue.

For the third quarter, free cash flow was \$5.8 million, compared to \$12.3 million in the prior year, reflecting also changes in working capital this quarter.

As Paul mentioned, in the first three quarters of FY24, we invested \$25.8 million to purchase 649,000 shares, and over the past four quarters, we invested \$31.7 million to purchase 774,000 shares.

We ended the quarter with nearly \$100 million of total liquidity including \$36.3 million in cash and \$62.5 million available under the revolving credit facility, even after investing the \$25.8 million in stock repurchases year-to-date. Compared to Q3 of FY23, the sum of billed and unbilled deferred subscription revenue increased to \$153.2 million, giving us increased visibility into future revenue results.

The deferred subscription revenue increased 15% to \$83.8 million, while the unbilled deferred revenue increased 2% to \$69.4 million. Adjusted EBITDA for the third quarter, as we said, was \$13.9 million, representing 17% growth over the prior year.

Now a little bit about guidance.

In our second quarter earnings call we communicated that we expected full year revenue to be approximately \$284 million in constant currency, after absorbing what we expected at the time to be \$700,000 of unfavorable FX for the year, with Q3 revenue expected to be approximately \$72 million, and fourth quarter revenue to be approximately \$83 million.

We still expect full year revenue to be approximately \$284 million in constant currency for the year.

With Q3 revenue of \$73.4 million would make Q4 revenue approximately \$80.5 million, primarily reflecting a modest shift forward from fourth quarter to third quarter in the Education division related to the earlier-than-anticipated launch of a large statewide contract.

In our second quarter earnings call we also communicated that we expected full year adjusted EBITDA to be within our original range of between \$54.5 million and \$58 million in constant currency, and to be at the low end of that range, excluding approximately \$500,000 of negative FX impact. This result would represent approximately 13% year-over-year growth, and today we are reaffirming that guidance.

We feel good about the building revenue momentum and lead indicators we see and expect a continuation of these trends into FY25 and beyond.

So Paul, back to you.

Paul Walker^ Thanks, Steve, for taking us through that.

I feel incredibly good about the renewing growth momentum in the business and the progress we're making on a number of important strategic and operational fronts, and just want to express my gratitude to each of you and also to each of our associates around the world here for the great work they're doing.

With that, we'd now like to ask the operator to open the line for your questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question comes from Alex Paris with Barrington Research.

Alexander Paris^ Congratulations on the better-than-expected third quarter results.

So I got a couple of questions. The first one relates to the Education Division, and then I have a couple of cats and dogs to follow up on.

So Education division, this is the season, this is the big time of the year for Education, and I feel good about your prepared comment. New and retained schools pacing well but you got a pretty tough comp.

I think the fourth quarter last year, or the full year last year, was a record 791 new schools, also on strong retention. How do you feel about that hurdle for fiscal 2024?

Paul Walker^ Yes. I'll just say Alex, I was going to say let's hear from the man who has to start in the Super Bowl here in the fourth quarter, Sean Covey.

Michael Covey^ Yes. So we feel good about it.

We're ahead so far on new schools substantially. Last year, we had a record 791.

We believe we're going to beat that again this year, and we had good retention.

And we've always had good retention, and we feel like it's solid and ahead of last year at this point.

We also have probably the best pipeline I've ever seen since I've been here.

So we've got a lot of big opportunities coming in. Most of the decisions are made.

Schools are looking and talking with us all year.

Most of the decisions are made in July and August because a lot of the budgets for K-12 districts renew in July.

So a lot of the decisions are made, but we feel really good about it.

Our focus has been on selling to districts. That's going better than ever. They're bigger.

They're stickier. You get more schools all at once.

We think we'll add about 170 new district partnerships this year on top of the 200 to 230 or so we had last year.

Over half of our new schools coming on are coming from districts.

So all the signs are really good.

You don't know until it happens, but in terms of all the leading indicators, pipeline, new schools to date, retention to date, also the funding environment is really positive for us right now because of community support, foundation support, grants that we're winning, so that's been really good.

So everything is leaning into our favor to have a really solid and positive growth fourth quarter.

Alexander Paris^ Great. I was going to follow up too on the ESSER funds.

I think we all know that the ESSER funds are ending in September, although business contracted prior to September can be spent through January, as I understand it.

What impact do you think that will have on your business?

I know you've got the big foundation that's going to offset some of that, but maybe just some perspective on ESSER funds.

What impact does that have on fiscal '23, fiscal '24, and what's your thoughts about going forward?

Michael Covey^ Yes. So in general, we think ESSER is going to have some impact. How much, we're not quite sure, but all things considered, we feel good about going right through it. Maybe the most encouraging thing is that we've already been facing ESSER all year because a lot of these schools use their ESSER funds and districts early on, they're coming up for renewal, they don't have ESSER funds anymore because they've used them all, and they're renewing and staying with us.

So it's like we're halfway through it already, even though officially it ends at the end of our fiscal year and up through, like you said, through the calendar year.

It's like we're halfway through it, and we're growing right through it right now.

So I'm not ignoring it won't have some impact, but we're expecting to grow right through it, and primarily because we have so much other funding. Title I grants, we use them all the time, and we've got this big foundation, which is multimillions of dollars and hundreds of schools that will be funded through the foundation.

We have a lot of other community initiatives, and that's really helpful.

Alexander Paris^ That big foundation, you said multimillion dollars.

Obviously, they're going to fund 100 schools in total over time or 100 schools in this year.

Michael Covey^ I said hundreds of schools. They give so much per student.

So it's like an accelerator, which is good because if we go to a district, we say hey, we've got a funding partner that can help you get going.

It accelerates. People come on faster, and they come on bigger, knowing they've got support, but they have to have some skin in the game too.

So the foundation doesn't cover everything.

It usually covers about a third of their costs, but it helps tremendously.

It makes them feel like, hey, there's somebody out here that believes in this and is going to support me, help me get started, get off the ground.

So that's been a really positive thing.

Since the beginning, we've had probably about 30% to 40% of our schools have been supported by some KIND OF community business, chamber of commerce, foundation initiative.

So our solution is really powerful, and because of that, it attracts likeminded entities that are wanting to support character development in kids.

So that's been a steady thing, and we think it'll help us tremendously get through a COVID bump or the ESSER from the COVID impact. Does that help?

Alexander Paris^ Yes, absolutely. A quick one on restructuring costs. You talked about it on the third quarter. You said, I think we're at \$3 million year-to-date. Are we done with restructuring, or will there be a further charge in the fourth quarter?

It looks like the number of CPs came down as you had forecast. Actually, a little less than you forecast. You said maybe 24 more would come out.

It looked like 20 came out, if I have that right.

Stephen Young^ So Alex, the impact that we reported in Q2 and Q3 were from the same initiative, and we don't anticipate any additional restructuring charges in Q4.

Alexander Paris^ Okay. Then last question, this is also for you, Steve. Help me and your investors understand this. This has been a nagging point for me.

I should probably understand it, so that's why I'm asking. Deferred revenue is up 15%.

Unbilled deferred was up 1% or so.

In total, it was up 8.7% to \$153.2 million, but when I scroll down to the balance sheet, deferred subscription revenue is down 16% from \$95 million to \$80 million.

Obviously, that's not the whole number, and perhaps applies just to subscription, doesn't include services or training days, but how do you explain that?

Stephen Young^ The balance sheet is Q3 versus year-end versus the prior year. Does that make sense, Alex?

So we're talking about --

Alexander Paris^ Yes. It's not year-over-year, it's just year-to-date, yes.

Stephen Young^ Yes. We're comparing different periods in one calculation versus the other calculation.

Alexander Paris^ So if I looked at Q3 '23 versus Q3 '24?

Stephen Young^ Then the number should make sense.

Alexander Paris^ Okay. Good, helpful.

I'll take a look at it and make sure I understand, and if I have any further questions, I'll do it on a follow-up.

But thank you very much, and again, congrats on the quarter.

Stephen Young^ Thanks for asking that, Alex, because those are the things that are confusing, so it's good to clarify those when they're in people's minds.

Operator^ Our next question comes from Nehal Chokshi with Northland Capital Markets.

Nehal Chokshi^ So you list unbilled deferred revenue year-to-year growth of 2%, deferred revenue growth of 15%.

I presume that the deferred revenue growth is a much better indicator of your short-term billings than the unbilled, because that's probably more representative of a flattening and adoption of multiyear agreements.

Is that correct?

Stephen Young^ Yes. The unbilled deferred comes from the multiyear agreements, and by its very nature is more lumpy quarter-to-quarter and period-to-period than the deferred, and the

deferred is normally billed one year at a time, and many of those are 1-year contracts, or the annual billing of a multiyear contract, so yes, I think the way you described it is exactly right.

Nehal Chokshi^ Okay. That metric undoubtedly represents an acceleration from the prior three quarters, and that is the primary reason why you guys feel very good about the signal of accelerating growth on subscription revenue.

Is that correct?

Stephen Young^ Yes. So just as you said, the portion of the unbilled deferred, we know that when that's going to be billed, and as soon as we invoice, we know the pattern that that's going to come in to recorded revenue.

Nehal Chokshi^ Okay. Great.

What are your thoughts on free cash flow for fiscal fourth quarter, especially given what was, I think a pretty solid free cash flow number for fiscal 3Q?

Stephen Young^ Well we don't actually have a guidance for the cash flow in the fourth quarter, but we do expect to end up the year with a very good cash flow number, a good percentage of adjusted EBITDA.

We just haven't given guidance on exactly what that is, but we expect to have a good free cash flow year.

Nehal Chokshi^ So year to date, you're trending at above 100% EBITDA conversion to free cash flow. That should not continue into fiscal 4Q, basically?

Stephen Young^ Yes. I think that 100% stretch over time is a higher percentage than what we would expect just in normal circumstances.

We've normally been looking at like -- well as you'll notice, Nehal, from looking quarter to quarter, that percentage is sometimes down around 40% and sometimes up like 150% of adjusted EBITDA, so it's very volatile as a comparison to adjusted EBITDA.

But we look overall for it to be like 70%, 75% of adjusted EBITDA, with this year being an abnormally high year so far for several reasons. Working capital's gone in our favor for the three quarters, and we've also had some fairly good prepayments on contracts.

So yes, the 100% is all real.

It's just a number that, again will probably overall, looking year to year, be more like 70% to 75% of adjusted EBITDA as a balance of free cash flow.

Operator^ Our next question comes from Dave Storms with Stonegate.

David Storms^ Just want to start, there's a lot of talk about lead-in indicators, and I'm hoping we could focus in on the sales cycle and how closing times are trending. Maybe if you could give us a sense of how closing times are trending between renewals and then also any new logos, and maybe a sense of what that looks like.

Paul Walker^ Sure. Yes, great question.

So I would say that, generally speaking, there are two very different motions, right?

What it takes to get a new opportunity through the prospecting funnel into our deal progression cycle and to get that closed. There's a cadence for that.

That can take anywhere from, sometimes it's as fast as a month, and sometimes, on average, that takes a number of months, usually for somebody to go from first interest to closing that first-time contract with us.

On the renewal side, fortunately, these are clients who have been using successfully our solutions.

We can see that renewal in the pipeline. That renewal's in the pipeline the moment they sign the contract, and we're expecting that that's going to convert one year later from that contract.

So I think that the real answer to your question that I think would be most helpful is that, generally speaking, we're not seeing any more elongation right now in either of those than we've seen in the last few quarters.

In fact, I would say if anything, it's maybe getting a little bit better out there, just the environment. Certainly not materially worse in any way maybe a little bit better for us as we come to the end of the year here.

I think that's probably more of the question you're getting at.

David Storms^ Then just looking at the North American market for the Enterprise division. Nice growth year over year. Any sense of what's driving that outside of some of the stuff you've laid out at the top, the drivers of growth and value?

Is there any feeling of, if that's pent-up demand coming to fruition or anything else that may be leading that charge?

Paul Walker^ Yes. Again, good question.

I'd point to two things, and we've talked about these the last few calls as well. I made a reference to this in my comments earlier. One, in the third quarter, we had quite strong retention.

And so, one of the indicators of the durability of the business, the subscription business, is the retention of both of logos of the actual clients themselves, but also the subscription revenue.

The third quarter was very strong. It was among our highwater quarters for a third quarter going back over quite a number of years.

So we were encouraged by that. That's a pattern we've seen strengthening.

It was strong in Q3. It was also strong in Q2, strong in Q1.

So coming out of last year, Q2, Q3 time period where those retention percentages weren't quite as strong as we'd historically been accustomed to, it's been a strengthening quarter by quarter up to this most recent third quarter where it was the strongest it had been in quite some time.

So that's one leading indicator that we saw. The other would be our services.

So we talked last quarter quite a bit about the services attach rate and the booking of services.

We mentioned that we expected those services, both the delivered services and the booking of new services that will be delivered in the future, to both strengthen and they did meaningfully in the third quarter.

In fact, they are continuing to strengthen through the month of June.

So those two things combined contributed to improving results and accelerating growth in the third quarter.

David Storms^ Then just one more, if I could. Thinking about the international markets, I know Steve, you mentioned that any weakness there was entirely due to the Chinese market.

I know the Chinese market has given you fits and starts over the last several quarters. Any outlook there on maybe a finger in the wind what we should expect going forward?

Paul Walker^ As far as what's going forward, we're hoping for a little bit better growth there in China.

I think our team's doing great work. There's some headwinds we face in China.

In fact, Jenn, do you want to just give a quick comment on China?

I know that's something you spent a lot of time on.

Jennifer Colosimo^ Yes, of course.

So we are hoping, frankly, as a training and education organization in that space, there are just geopolitical challenges for our Chinese citizen teams. They are all Chinese citizens. They're working really hard and doing well.

But in our particular space, who they are seeing, or frankly, us even being an American company, is currently a challenge.

Then, of course China has their own economic challenges taking place.

So I wouldn't venture a guess Dave, as to whether or not that improves.

Operator^ Our next question comes from Jeff Martin with ROTH Capital Partners.

Jeff Martin^ I was curious if you could give us an update on new content and content refresh this year.

I know you had a lot of activity going on.

We're seeing some revenue uplift associated with that.

Paul Walker^ Yes, great. So this is a big year for us.

We launched two substantial offerings earlier this year. The Speed of Trust refresh, and with that, the new companion offering around working at the Speed of Trust, which is our step away from just addressing trust for leaders, but also extending that content down to individual contributor associates and companies. That's going well.

We're pleased with what we're seeing there, particularly the broader adoption of trust now that we have this Working at the Speed of Trust companion offering.

We launched, a few months ago, Navigating Difficult Conversations.

It's a module on just what it sounds like, how to navigate and have difficult conversations. That's also gaining traction.

We're pleased with what we're seeing now.

That's a first in a category for us, the first of a few things we intend to do to strengthen and round out a more fulsome communication category of offerings. That's at the next top of the list of things our clients would like to see from us. Then, of course we're right in the middle right now of getting ready to launch this fall the seven Habits. This will be the 5.0 edition of the seven Habits.

It's been, gosh, nine-ish years or so since we refreshed and updated seven Habits last time, that always drives a big cycle for us.

We're very excited about that coming this fall. Then, in addition to that, there's been a lot on the technology side. The Impact platform continues to get more and more powerful and more valuable to our clients including AI capability that's now quite infused into that and AI coaching capability as well that's built into the platform to help support learners as they're participating in

IMPACT journeys and also post-Impact journey as a performance-enhancing support coach, if you will.

Jeff Martin^ (Inaudible) all this year (inaudible).

Paul Walker^ Jeff, I think I lost you there for a minute. Will you start that question over?

Jeff Martin^ Yes. Sorry. It's a little windy where I am.

I was just curious if you're seeing any uplift in the backup of fiscal '24 as a result of those launches or relaunches, and if you expect that to have more prominent impact next year.

Paul Walker^ Yes. The short answer to the first part is, yes.

I think that's part of what's helping drive an increase in services and certainly what's helping drive an increase in the overall net revenue retention as clients are expanding to take advantage of these solutions.

Then, to the second part of your question, yes, I think the real, even more growth will happen next fiscal year. When we launch a new product, you can imagine, it's another product inside this already powerful All Access Pass subscription offering.

Many clients are in the middle of an Impact journey and the new product needs to work its way either into that Impact journey or usually what will happen is it works its way into the next Impact journey that their participants are going to go on with us.

So there's typically a bit of a lag. It can take six to really up to 12 months before we start to see the full impact of a new product launch.

As clients become aware of the new solution, our client partners have a chance and our implementation strategists have a chance to go in and then plan and plot out what the usage will look like for that then to really start to show up in the lagging results around revenue and retention, things like that.

So early indicator is positive, and I think the real action for a couple of these solutions we've launched this year will be felt in fiscal '25.

Jeff Martin^ Yes. Okay.

Then you've referred pretty consistently throughout the year about the challenging economic environment. Just curious if you're noticing any sentiment shift among clients in your conversations on either a new logo basis or renewal basis in terms of their propensity to either spend more on these programs or whether they're still in cautious mode.

Paul Walker^ So I would say that the sentiment, if anything, is neutral to maybe a little bit more positive.

It's not worse sentiment is how I would characterize that.

I think people have their budgets now where we understand what they are, they understand what they are, and our client partners and salespeople are doing a great job out there working with clients and hopeful that that continues.

If anything, the sentiment maybe even increases a little bit more, but who knows.

But right now I'd say it's neutral to maybe even a little bit better.

Jeff Martin^ Okay. Then you may -- I apologize if this is a redundant question, but since for client partners, investment in new sales growth from client partners in fiscal '25 and beyond.

Paul Walker^ Yes, great question.

So and Alex picked up on this a little bit too, we actually added back four net new client partners in the quarter.

So we've gone down by 24 at the end of last quarter, and then it went back up by four.

So I think we're at 269 at the end of Q3. Last quarter, I laid out in quite a bit of detail three important growth accelerating projects.

Project Impact, which is around content and making sure we continue to field the best set of solutions to drive our 10-year product roadmap and vision, and then projects Speed to Ramp and Project Penetrate, which are about getting at this very large addressable but not yet fully addressed by us, market that's out there.

So a lot of work's being done in our sales org right now on how do we accelerate, enhance our go-to-market motion.

So more client partner hiring in fiscal '25, certainly than going backward in fiscal '24.

We're right now in the middle of modeling that out, and we'll be able to give a good update as we kick off the new year exactly what that looks like.

I would just say here we are today with a field-facing force of around 450 people between our client partners, our implementation strategists, and our coaches. It's the largest we've ever had.

We look at the addressable opportunity out there, and we look at companies like Gartner.

We, of course, love to be Gartner in a lot of ways, but we look at companies like Gartner and say wait a minute, we're selling to very similar audiences, senior leaders inside companies of all sizes.

We have a powerful subscription offering, we add services to that, and the solutions we're selling are really important, and our client organizations need access to these solutions. Gartner's got 5,500 people in their sales organization.

And so, I'm quite excited about the headroom to grow this and the work that's being done right now to get in and really map that out in an even more aggressive way than we have in the past. And look forward to talking more about that as we get ready to kick off fiscal '25.

Operator^ I would now like to turn the call back over to Paul Walker^ for any closing remarks.

Paul Walker^ Wonderful. Well thanks, Josh. Thanks, everybody, for joining today. It was great to be with you.

We appreciate all that you do to follow the company and understand the company, and for your great questions.

And hope you have a wonderful rest of your day and rest of your week.

Operator^ Thank you. This concludes the conference. Thank you for your participation.

You may now disconnect.