

**Franklin Covey Co. (Q4 2024 Earnings)**  
**November 6, 2024**

Corporate Speakers

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

Participants

- Jeff Martin; ROTH Capital Partners; Analyst
- Unidentified Participant; Unknown; Analyst
- Samir Patel; Askeladden Capital; Analyst
- Dave Storms; Stonegate; Analyst
- Alex Paris; Barrington Research; Analyst

**PRESENTATION**

Operator^ Good day. And thank you for standing by. Welcome to the Q4 Franklin Covey Earnings Conference Call. (Operator Instructions)

Please be advised that today's conference is being recorded.

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

Derek Hatch^ Thanks, Mark. Hello, everyone, and thanks for joining us today.

We're glad to have the opportunity to talk with you today about our fourth quarter and fiscal year ended August 31, 2024. Participating on our call this afternoon are Paul Walker, our CEO; Steve Young, our CFO; Jennifer Colosimo, President of our Enterprise division; Sean Covey, President of our Education division; and other members of the executive team.

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

Forward-looking statements are based upon management's current expectations and are subject to various risks and uncertainties including but not limited to the ability of the company to grow revenues, 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 overall size of the 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 that 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, take it away.

Paul Walker^ Thank you, Derek. Welcome, everyone. It's great to be with you today. There are two things that I am excited to share during our time together.

First is the strength of the results we achieved in the fourth quarter and for the year, where fourth quarter revenue grew 8% and full year revenue was \$287.2 million compared to the \$284 million we'd expected.

Fourth quarter adjusted EBITDA grew 39%, and for the year, adjusted EBITDA was \$55.3 million versus the \$48.1 million that we achieved in fiscal '23. Cash flows from operating activities grew 69% for the year, and free cash flow grew 121% in the year. These results are a continued reflection of what we anticipated when we converted to a subscription business model nine years ago.

As shown on Slide 4, since our conversion, we've achieved significant growth in revenue, adjusted EBITDA and cash flow. The second thing I want to talk about today, and this is something I've been looking forward to talking with you about for some time now is that having substantially completed our transition to subscription and having made major investments in technology and content to solidify our position of leadership, we're now ready to make the necessary growth investments to shift our ongoing revenue growth from the mid-to-high single digits to consistent double-digit growth.

This increased growth will be driven by investments in two key areas.

First, further expansion of our penetration within existing clients. Even though we've already expanded our average revenue per client from \$39,000 to \$85,000 since our

conversion to subscription, within the vast majority of our clients, we remain only about 10% penetrated with lots of headroom for further expansion and growth. The second area of investment is in winning significantly increased numbers of new logos. Even though we've won thousands of logos, we're only scratching the surface of the potential within the large markets we serve.

Accordingly, I'm pleased to tell you that we're making approximately \$16 million of incremental net growth investments into the following areas, which you can also see reflected on Slide 5. The first of these areas is that we're adding client-facing sales and support roles to increase the penetration bandwidth of those client partners who will now be responsible solely for client expansion. The second area of investment is that we're providing significant additional marketing and closing resources to help those client partners who will now be focused solely on winning new logos. And the third area is that we're making investments into central sales leadership and sales operations functions including having hired a new Chief Revenue Officer. Her name is Holly Proctor, and establishing an expanded revenue operations function that's going to allow us to scale our sales force even more rapidly in the future.

We expect these investments to show impact in the back half of fiscal '25 and then to fundamentally shift our growth curve thereafter.

As shown in Slide 6, we expect reported revenue to grow approximately 4.5% or \$13 million in fiscal '25. You should note that this will be an investment year and where we expect a lot of the new invoiced revenue to end up on the balance sheet.

We then expect to begin a pattern of double-digit revenue growth as the impact of these growth investments accelerate our growth to 10% or around \$30 million in fiscal '26.

We then model accelerating growth to 12% or approximately \$40 million in fiscal '27 and then to 14% growth or approximately \$50 million in fiscal '28.

As also shown on Slide 6, we expect the impact of these investments to decrease adjusted EBITDA in fiscal '25 to a range of approximately \$40 million to \$44 million, which will then grow to \$48 million in fiscal '26 to approximately \$60 million in fiscal '27 and then to approximately \$75 million in fiscal '28. This is an exciting time for us. Having successfully converted to our technology-enabled subscription model and having made the significant investments in content and technology, which have further enhanced our strategic position, while at the same time continuing to grow adjusted EBITDA and cash flow, we're now ready to make the next jump forward, that of accelerating our growth.

I'd like to now turn some time over to Steve to talk about our Q4 and fiscal year results in a little bit more detail and also get into guidance.

Steve Young^ Thank you very much, Paul. I'm very excited about the results for our quarter and for the year that we just ended.

As you can see on Slide 7, in Q4, revenue came in at \$84.1 million, up 8% and stronger than expected. With that, FY '24 revenue for the year came in at \$287.2 million compared to the \$284 million, again, that we had expected.

In Q4, adjusted EBITDA was \$22.9 million, reflecting growth of 39% compared to the \$16.5 million last year.

For the full year FY '24, adjusted EBITDA came in at \$55.3 million, which was \$55.8 million in constant currency and was an increase of 15% or \$7.2 million compared to the \$48.1 million in adjusted EBITDA achieved last year, which itself was up from the \$42.2 million in FY '22. Cash flows from operating activities grew 72% or \$25.6 million during Q4 to \$60.3 million.

Free cash flow was \$48.9 million, reflecting growth of 121% or \$26.8 million.

In addition, the foundation for (inaudible) further growth is being established by the increase in our balance of deferred revenue, which increased 9% to \$107.9 million and will be recognized as revenue in the coming quarters.

We're really encouraged by the double-digit increase in our services booking rate in the fourth quarter in our North America business, and importantly, that the strong momentum has continued in this year's first quarter in both September and October.

Importantly, these increases in booking pace will translate to year-over-year increases in recognized services revenue in the coming quarters.

I'd like to now briefly provide some more detail on the factors underlying our performance in three key areas of the company, specifically our Enterprise business in North America, the Enterprise business internationally, both in our direct offices and international licensee operations, and our Education business.

I'll start with the Enterprise division results.

In FY '24, our Enterprise division generated \$208.8 million or 73% of the company's overall revenue, with the Education division generating \$73.5 million or 26% of the company's revenue. The Enterprise division's revenue grew 2% for the year and 8% for the quarter, whereas Education division grew 5% for the year and was flat for the fourth quarter.

Slide 8 shows our results in the Enterprise business in North America, which represents 75% of our Enterprise division revenue. Revenue in North America for FY '24 grew \$6.2 million or 4% to \$156.5 million, due to a very strong fourth quarter in which our revenues increased 17% to \$45.1 million.

Subscription revenue in North America for FY '24 was \$89.1 million, reflecting 4% growth over the prior year and was \$22.6 million in the fourth quarter, representing 3%

growth. The combination of subscription and subscription services revenue in North America was \$138.9 million for FY '24, reflecting 3% growth over the prior year and was \$36.7 million for the fourth quarter, representing 4% growth.

Our balance in billed deferred revenue was \$49.2 million, which is down 1%.

And our balance of unbilled deferred revenue is \$68.4 million, which is down 15% based upon the timing and signing of certain contracts that particularly impacted our balance of unbilled deferred revenue. The percentage of North America's All Access Pass contracted for multiyear periods increased to 56% from 54% and the percentage of our invoiced revenue represented by multiyear contracts remained consistent with last year at 59%.

As shown on Slide 9, revenue from our international direct operations, which account for approximately 16% of our total Enterprise division revenue was \$33.1 million, a decrease of \$2.1 million as a result of China's revenues decreasing \$2.5 million for the year due to challenging business conditions in China.

As shown on Slide 9, also, our international licensee revenue was \$11.2 million, a decrease of \$400,000 or 4% from the \$11.6 million last year. This decrease was primarily also due to economic challenges in certain countries.

Finally, as shown on Slide 10, revenue in our Education business grew 5% to \$73.5 million for the year, on top of the 13% growth in FY '23 and 26% growth in FY '22. Revenues for the fourth quarter were flat at \$24.1 million after being up 18% in the third quarter. Education invoiced amounts grew to \$81.4 million in FY '24, which represents 5% growth over the prior year. The invoiced amounts in Q4 decreased 2% or \$800,000 to \$44.4 million. Education subscription and subscription services revenue grew 3% to \$67 million during the year, on top of the 13% growth generated in FY '23 and the 29% growth generated in FY '22.

Education subscription and subscription services revenue for the quarter was \$22.6 million and flat to the prior year. Education's balance of deferred subscription revenue increased 19% or \$7.9 million to \$48.5 million, again, establishing a strong foundation for continued growth in future years.

Now a little bit of cash, cash flows and the balance sheet, as shown on Slide 11, our cash flows from operating activities for FY '24 increased 69% or \$24.5 million to \$60.3 million.

Our free cash flow, as I mentioned, increased 121% or \$26.8 million in FY '24 to \$48.9 million, particularly reflecting the increase in earnings and positive changes in working capital.

In FY '24, we invested \$30.7 million to purchase 776,000 shares.

Over the last three years, we have purchased 2,247,000 shares at a cost of over \$90 million.

We still have over \$111 million in total liquidity at the end of FY '24 including \$48.7 million in cash and \$62.5 million available under the revolving credit facility.

So the company remains in a strong position to continue to execute on our key objectives and return value to shareholders.

So after that financial information, now turning to guidance for FY '25.

We expect revenue in the range of \$295 million to \$305 million, reflecting that as sales growth accelerates in the back half of the year, a portion of that growth will go on the balance sheet as deferred revenue.

Reflecting on our significant growth investments for FY '25, we expect adjusted EBITDA in the range of \$40 million to \$44 million.

For the first quarter of FY '25, we expect revenue to be just over \$70 million and adjusted EBITDA to be approximately \$7.5 million to \$8.5 million, reflecting the Q1 impact of the \$16 million in incremental growth investments that we've talked about.

Now while it is, of course, challenging to forecast long-term results, we want to make sure that our investors and analysts understand our expectations and have the information you need to model our business and benchmark our progress going forward.

As such, we are providing revenue and adjusted EBITDA targets as we view them today for FY '26, FY '27 and FY '28.

As Paul said earlier, our revenue targets are that revenue will increase 10% or \$30 million to \$330 million in FY '26 and will increase approximately 12% or \$40 million to \$370 million in FY '27.

And as we model out further to FY '28, our target is revenue growth of almost 14% or approximately \$50 million to \$420 million.

Our adjusted EBITDA targets are that adjusted EBITDA will increase 14% to \$48 million in FY '26, and then increased 25% or \$12 million to \$60 million in FY '27. And again, as we model out the future, we target adjusted EBITDA growth of 25% again to \$15 million or \$75 million of adjusted EBITDA in FY '28.

So we're very excited about the steps we have taken and will be taking in FY '25 to position this great company for the next chapter of growth and returns.

So I'll now turn time back over to Paul.

Paul Walker^ Great. Thank you, Steve.

As we prepare to open the line for your questions, I thought I'd begin maybe jump in the queue first here and ask and answer one question, and then we'll open to your questions. And the question is really about the nature of the growth investments we're making, particularly those that will allow us to significantly expand our revenue within current clients as well as the investments that are key to our winning even more new logos. Thought I'd just provide just a little bit of additional color and context here that might be helpful.

Over the past 18 months, in our North America Enterprise business, we've been piloting efforts focused both on significantly increasing our penetration within existing accounts, while also winning a significantly greater number of new logos. And these efforts have confirmed two important things.

First, as it relates to increasing expansion within existing clients, we have a large number of client partners who are already very good at expanding existing clients, But we've been asking them to both expand existing accounts while also hunting for new accounts.

We've learned that if we put their full focus on expanding existing accounts and provide them with some additional implementation strategists and senior consultant resources, these client partners' already significant penetration of accounts can increase significantly and quite rapidly.

While, as noted, our average annual revenue per account has grown to more than \$85,000, many accounts have grown to be much, much larger.

The results of our pilot efforts on client expansion have been so encouraging that nine months ago, we formalized this -- piloted this Project Expand.

Second, as it relates to accelerating, winning new accounts, we've learned that by having a separate group of client partners whose entire focus is on winning new accounts or hunting, rather than having these client partners switch back and forth between hunting new accounts and then penetrating existing accounts. And if we provide these client partners with increased lead generation and closing support, we can significantly increase the number of new logos a hunting client partner can win. These new logos, of course, can then be assigned to the expand group of client partners who can then work to expand these new accounts to \$85,000 per year and then eventually beyond. Having seen the potential of this focused approach nine months ago, we organized and formalized this effort as Project Land.

So Project Expand and Project Land.

Over the past nine months, while still bringing in a strong fourth quarter, we have already organized our existing sales force of client partners into expanders and hunters.

We've added a significant number of sales leadership, sales operations and client-facing support resources needed for both the Expand and Land efforts, and we've added a number of dedicated new hunter client partners. The transition of our sales force into a dedicated Expand team and a dedicated Land team is the next piece of a puzzle we've been putting into place on our journey to become an even more rapidly growing organization.

If we step back in time, piece one was to convert to a subscription and subscription services business model.

This has driven tremendous growth in revenue, adjusted EBITDA and cash flow. Piece two was to significantly expand our content and technology capability to help us drive impact at scale and to help us scale much more effectively within clients and has expanded our lifetime customer value. And puzzle piece three is what we're putting in place right now.

It's the transformation of the way our direct sales force goes to market to drive accelerated revenue growth and adjusted EBITDA and cash flow growth. Thanks for letting me jump in line first and ask and answer a question.

And with that, we'd now like to ask Mark, the operator, if he'd open the line for your questions.

## QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) And our first question will come from Jeff Martin with ROTH Capital Partners.

Jeff Martin^ I apologize, I missed the majority of your prepared remarks. So if this is a redundant question, please forgive me.

But was just curious on the timing of the hiring. You announced in the press release, you've got a couple of executive hires in process or in the plan for fiscal '25. And then at what point will these new teams and this new sales strategy be fully in place?

Paul Walker^ Great. Great to talk to you today, Jeff.

So first of all, one of the hires that we announced today actually. Her name is Holly Procter. She is our new Chief Revenue Officer, and we actually hired Holly, in first part of June.

So she's been on board now through the fourth quarter and into the first couple of months of Q1. And then we've -- to your second question, as I just -- kind of just referred to a minute ago, this new organizational structure we've stood it up. And so we're off and running with our client partners, either as expanders or those client partners that are hunting now for new logos.

We've hired substantially all of -- the surround sound support roles, the sales leadership roles, et cetera, are now in place.

We -- once we got conviction that this was the right direction to go, we got after it and we're off and running.

Jeff Martin^ Great. And then how would you characterize the current environment in terms of decision-making, clients expanding passes, maybe taking it into other areas of the organization?

Paul Walker^ Great. I would say that as far as -- starting with kind of the macro environment, I would say the macro environment has been pretty steady now for the last (technical difficulty).

Sorry, Jeff, I'd say that the -- starting with the macro environment, it's been pretty steady now for -- it felt pretty steady for 18 months or so.

It's not what it was back in the 0 interest rate days coming out of COVID, but it's been pretty consistent, pretty steady and we've had success selling into that environment. Maybe just a slight bit of additional uncertainty the last few months as we've been running up to the election.

But now that's happened, I think that will decrease -- I suspect that will decrease some of the uncertainty there. And as far as that translating then into clients making decisions, what we continue to find and what I continue to find more and more as I'm out talking to other CEOs, in fact, I was in New York last week, met with a number of CEOs, the topics we're focused on, leadership, culture, execution, sales performance, these are the topics that are on people's minds.

I attended the World Business Forum a couple of weeks ago and most every speech that was given there was on how do organizations create high-performance cultures, cultures that are going to be resilient, that are going to be adaptable, change-ready to meet the demands of the day. And that's exactly where we're playing. Those are the solutions that we're building.

And so, expect that that will continue to bode well for us as we land new clients and seek to expand those clients that we have.

Operator^ And our next question will come from [Steven] with Northland Capital Markets.

Unidentified Participant^ I was wondering if you could give us the narrative on the 2% decline in subscription invoice for the quarter.

Paul Walker^ You bet. The 2% is in overall -- yes. So Steve, great question. So as far as the -- in the quarter, invoice subscription growth, we had a good quarter. It was down, the invoice growth was down slightly. Is that 2% company-wide?

Steve Young^ Company-wide.

Paul Walker^ Yes. So we mentioned that Education had a flattish quarter a minute ago. They were up 18% in Q3. Reported was up 18% in Q3, little flattish in Q4. And so, a lot of our growth came in the fourth quarter from the rebound in services.

We had a good services quarter and some growth in some non-subscription areas, and it was a good quarter on the invoice subscription side but not a big growth quarter. Nothing extremely noteworthy to report other than, yes, we were up 5% for the year, and Ed pulled forward a lot of theirs into Q3, as I mentioned.

Is that helpful, Steve?

Unidentified Participant^ Yes. That's very Helpful.

Operator^ And our next question will come from Samir Patel.

Samir Patel^ Yes. I'll start with kind of just a high-level observation, which is, I think it's interesting that you're making these investments to accelerate growth.

If you're talking about getting the kind of teens growth in the out years and you put that together with your EBITDA margin, you think about kind of the traditional rule of 40 in SaaS and those types of companies being valued at, say 5x revenues on average, and you look at where, obviously your stock is trading.

I mean I think turning this into a consistent high-growth subscription business is absolutely the right thing to do.

So excited about that. The two questions that I have are as follows.

The first is, sort of why now and why sort of a big bullet as opposed to your traditional strategy of kind of growing your sales force every year, adding heads, kind of why the big bullet approach? And then the second is, maybe you could compare and contrast so that we can get an idea as shareholders of kind of the ROIC you expect on this investment, right? What do you think your revenue growth rate would have been in the absence of these investments, right? Like where do you think your EBITDA and your long-term growth rate would kind of ended up without these? And obviously you kind of articulated where they are with these.

So how you think about kind of the return on that investment you're choosing to make in the sales force.

Paul Walker^ Great. Those were some wonderful questions. And so I'll answer some, and I'll have Steve help me with a couple of them as well.

As far as why now? I mentioned just a minute ago in the prepared remarks that we've foreseen this day actually for maybe a couple of years now.

We -- if you rewind the clock nine years ago, we fundamentally changed the business model of the company, turned it to a subscription business. You were there for that, the inception of that. And that was the absolute right thing to do for our customers and it turned out to be a great thing to do then, we think, for the company, for our shareholders. And it created a recurring revenue model. And at the time, the next piece we needed to put in place there was then as a subscription company to double down and increase the investments, which we did.

We -- at that -- shortly after we converted to subscription, we started to invest annually at 2x the rate into content and technology that we had invested in the old model. And that was important as a subscription business, both to make sure that we had enough content in the subscription, but also to create the technology to help to scale. And while those -- while the conversion to subscription was occurring and the increases into content and technology were occurring, we watched for a while and we recognized that we were going to reach a point where we would probably need to transform the way our sales force went to market.

In the early days, it wasn't a major challenge because the business was smaller, and we could ask the same salesperson to both spend a good portion of their time landing new business and the other portion of their time expanding the existing business. Kind of as a consequence of having done relatively well in growing this business to the size that it is now that's a lot to put on a salesperson.

We end up with kind of sub-optimized results on both the land side and the expand side because of the size of business now that we're asking people to look after and also to try to penetrate. And so, we've foreseen this coming.

We wanted to wait until we were kind of all the way through the transition and conversion to subscription.

We're now there. So that speaks a little bit to the timing of why now? As far as why fire the big bullet instead of the small bullet? We've been firing a series of small bullets.

We started -- I mentioned 18 months ago, we started to poke around here and have run a series of pilots and internal tests with different teams and watching and studying and refining the approach. And we feel quite good that -- of course, we could choose to take our time, but really, what we need to do to make this thing fully happen is to split the organization into two parts, those to expand these existing relationships where we think that average revenue per customer is \$85,000 today. could actually grow to be 2x that amount in the future.

And then an organization that's focused on hunting and really put the resources in place to make both of those organizations, the expanders and the hunters or the landers, give them everything they need to just get after this and really change the growth trajectory and growth curve of the company.

So we're -- we feel high conviction. We're ready to go. We've assembled a great team here of some existing incumbents who have been on the journey and some new faces that have been on this journey before and have scaled even more quickly than we have, and we brought them into the organization.

We're very excited about that, and we're ready to go.

In terms of how this compares to what the growth rate might have otherwise been? I would just say, looking back, our growth rate since the conversion to subscription, we've had some years where we've grown faster than others, but the compounded growth rate over the last eight or nine years has been around 5%, Steve, if I have that number right. And so of course, we would hope to inch that up and maybe that would move into the higher single digits.

But we -- as we modeled out here, we think this is moving to 10% and then to 12% and then to 14% in fairly quick time period here. And I think what we end up with is what you alluded to, which is a company that not only is also growing adjusted EBITDA and cash, but those adjusted EBITDA amounts and cash flow amounts are attached to a much faster-growing revenue company that ought to end up as something that's valued even more significantly than this great organization is today.

So Steve, I don't know if you would add any additional thoughts to that.

Steve Young^ No, Paul, just thinking the same thing. As you mentioned, we end up with two groups with leaders and organizations that support the group -- the new logo group and the expand group, our total organizations. And it's kind of like being straddled defense if the individual salespeople then have not made the full transition.

So it's a big transition that's really messy if you're in the middle of it. So we decided to get on with it and get it done.

Even though Samir, as you noted, in the past, these are kind of things we would do over time. This circumstance just didn't fit an ability to do that. And then, we looked at the growth rate that we've been achieving versus the size of the opportunity, anticipated that, that would change and it would be good, but we're just not comfortable that there's a match there. There should be a way to grow faster and this is a big part of that movement.

Samir Patel^ Okay. That makes a lot of sense to me.

As a follow-up, if I can sneak in one more. You had talked a couple of calls ago or maybe it was last call actually about the technology side, right, the Impact Platform and using things like AI to help customers kind of get more customized coaching, learning journeys, things like that. Maybe you can also describe as you're trying to increase the growth rate here, some of the technological side initiatives you have, maybe whether it's done to make onboarding easier, whether it's to make it easier for clients to get more out of the platform.

But I assume that's also going to be an input into achieving that higher growth rate.

I mean -- and again, kind of with that historical perspective of having come from 10 years ago, like you talked about, where you were literally these physical printed booklets, right, which is how you're going to market in many cases, selling these physical materials. So...

Paul Walker^ Yes. It actually is kind of remarkable to think back where the business was pre conversion to subscription. And really when we converted to subscription, Samir, we didn't have much of a technology orientation either. And so what's happened in the last nine years or so is not only subscription, but it's this really significant increase in our technology capabilities.

So to answer your question specifically, just a couple of thoughts.

90% of our clients have now successfully converted over to the Impact Platform. And in fact, we just did a buyer NPS survey, which we do routinely, and we have very high NPS. And that transition to the Impact Platform has been very good for our clients.

It's allowing them to deploy our solutions at greater scale without having to sacrifice the impact and the quality in terms of being able to change behavior. Typically, in the industry, if you want to go for scale, you've got to switch all the way to kind of an asynchronous on-demand, self-paced learning type solution, which, inherently, there's nothing wrong with that, but we're trying to be the partner to drive kind of collective action, collective language, getting everybody in the organization thinking and behaving in common ways with each other and as they approach work.

And so, the nature of what we're doing is not done by you sitting at your computer by yourself, but that's how most are trying to achieve scale. The Impact Platform for us allows us to leverage all of the delivery modalities from instructor-led, live online, blended learning, self-paced learning, micro push content so that we can actually not -- the clients don't have to sacrifice the impact that they're after, but we can help them achieve a lot more scale.

So that's really working well. We have added significant amounts of AI. So we now -- AI is in there in terms of its ability to recommend and begin to tailor what these implementation journeys look like for clients and for individual users. AI is also being used.

We've deployed the Franklin Covey AI coach. And so if somebody has -- we have professional coaching that we offer our clients, executive coaching, team-based coaching, but we also now have an AI coach that's your companion as you're working in there to master our content, but also on a daily basis as you're uncovering challenges and situations where you'd like to know the best of what Franklin Covey would recommend on that particular topic.

We're right now -- we have a cool pilot project going on in our execution business. where, as you know organizations, we teach in our four disciplines of execution methodology, we teach as part of the process that individuals make either daily or weekly commitments around activities that they can do that will drive leading indicators that will ladder up to the lagging indicators and wildly important goals that an organization is trying to achieve.

We now have millions and millions and millions of commitments that have been made and kept. And we know in our four disciplined software system, whether those commitments actually impacted the lagging results or not. And so AI now is being used to help people determine what would be the highest leveraged commitment or activity I could make or take this week that would be most predictive.

So we're excited about that, and just generally what's happening across the technology front. You'll note there that on that slide, I think it was Slide 5 or so that when we outlined the investments, even though we've doubled the annual amount we're spending on content and technology, we've even added just a little bit more to that in this set of investments to help us scale even more quickly.

Operator^ And our next question will come from Dave Storms with Stonegate.

Dave Storms^ Just want to kind of start with maybe more of a short-term question. Just trying to think about the cadence of the margin outlook for 2025.

Steve, guidance there points to a pretty significant step back in margins as you ramp this program.

Should we be thinking about the J-curve for this to maybe extend throughout all of 2025? Or do you anticipate Q1 being maybe a low watermark for the year?

Steve Young^ Yes. So the step -- thank you, Dave.

So the step down does relate to the incremental investment. And the incremental investment, a lot of that has been made, but isn't all included totally in the first quarter.

So it isn't exactly a J-curve this year.

It's a J-curve, if I understand that correctly, that the benefit will really start kicking in, in FY '26 and even in the latter part of FY '26 as the investments we make now are annualized.

So it isn't like a one time -- it isn't like an investment that we make like in content and we don't do it the next quarter. These are hiring people to be in a position long term. And so the incremental EBITDA that comes from that is from the extra revenue that's being generated. That extra revenue being generated is significantly slanted towards subscription revenue.

So it's first going on the balance sheet and then will be recorded to income over the following 12 months.

So as the hiring that we've made now and that we're making now and the ramping up that we're doing now the sales for that will ramp up, the invoices that we generate will ramp up through this year and go on the balance sheet and then be recognized next year, and then we'll really get into accelerated earnings.

Dave Storms^ My second question is just maybe could you help us understand what maybe the new life cycle of a client partner may be after this transition or through this transition? I know before there was talk around, it took five years for a client partner to really be fully ramped. Do you see a difference between the expanders versus hunters and how quickly they get up to speed? Anything of that nature would be very helpful.

Paul Walker^ Yes. Super insightful question. So we think we're going to bend -- we expect we're going to bend the ramp curve down significantly with this transition. And then, I'll give a little bit of context for why we believe that.

So not only have we been asking the same people to both land new clients and expand existing clients, but if you think about the motion and the set of responsibilities somebody has to not only be responsible for but become very good at; for the same person, it's gone from identifying potential target prospects to creating interest with those prospects, to closing business with those prospects, to successfully launching new logo customers into the All Access Pass and then to managing the ongoing relationship, the renewal and the expansion of those contracts. And so, that's quite a bit to become expert at and probably not best-in-class today in terms of how an organization -- the sales organization would be set up.

And so that has contributed to longer ramp, just the time it takes to become proficient in that.

In the future you'll -- and the future is today, now you're either responsible for existing accounts where you're attached to -- you have more, even more resource attached to you to help you manage and engage with those existing accounts to get at -- to not only help successfully implement the initial solution they purchased and are implementing, but to free you up as a salesperson on that expand side to spend more time prospecting into those existing accounts, to move us from our average 10% penetration today to something much, much greater than that. And so, that job, by nature, through focusing that group just on that set of actions and getting people to be specialized on that set of

actions, the job is vitally important, but it becomes a narrower job. And now everybody in the stack, as Steve mentioned, your boss is only thinking about that set of actions and their boss is only thinking about that set of actions. And everything that's -- your whole team is just thinking about, how do we expand these client relationships and retain them.

The same thing is true on the new logo side, where everybody in that organization is only thinking about how do we take all this lead flow, convert it more quickly, convert it more effectively, increase the average first year size of a new client because we're giving these people even more reps. And so that's a long answer to your short question that the ramp of client partners ought to go down. And we've seen that in our testing as well.

So we're excited for that to start to play out fully here in fiscal '25. Mark, do we have any other questions?

Operator^ Yes. Our next question, sorry, will come from Alex Paris with Barrington Research.

Alex Paris^ I got a couple, just kind of cleanup questions after listening to the other questions that have already been asked.

I'll start with this one. The new investment, \$16 million this year, it seems like very attractive returns on those investments based on your long-term targets. And I think, Steve, you just sort of said that a lot of that investment is in Q1 but not all in Q1.

I'm wondering how much is in Q1?

And then, will the rest be spread across the balance of the year or will it be really front -- first half loaded?

Steve Young^ Yes. The investment will be more front-end loaded. There will be continued investments, hiring people, et cetera, et cetera, throughout the year.

But it will be mostly front-end loaded. And there are \$2 million or \$3 million of the \$16 million recorded in the first quarter and a fair portion of the total \$16 million started in the first quarter.

Alex Paris^ I see what you're saying.

Steve Young^ So it's \$16 million of personnel and marketing and everything else. So that's all started in the first quarter.

We had incremental expenses that caused our adjusted EBITDA in the first quarter to be lower than it otherwise would have been by a couple of million dollars or so.

But then the full annualization of the investments will go into next year.

Alex Paris^ Okay. So -- but in terms of expense, \$2 million to \$3 million was in Q1. And then will that entire \$16 million be expended during fiscal 2025?

Steve Young^ The \$16 million is the 2025 portion of the investment. That's the amount recorded in the year.

Alex Paris^ Okay. So \$2 million to \$3 million in the first quarter. I guess we'd have to increase from there, right, in order to get to \$16 million, right? Then you got \$13 million, \$14 million more to spend over Q2, Q3 and Q4.

Steve Young^ Yes. Q2 will be a meaningful increase in the expense amount is when the biggest incremental change will take place in Q2.

Because we're hiring throughout Q1, and so we'll have -- so just the fact that we have a portion of those expenses in Q1 and then the full expense for some of the managers and salespeople and others that we've been talking about, we'll have the full impact in that in Q2.

We'll still have some increase in Q3 and in Q4, but the largest change in the amount of expense will be in Q2.

Alex Paris^ Helpful. Second question, I wanted to get an update on new launches. We've talked about it on previous calls.

I think earlier this year, it was Speed of Trust and the companion piece working at the Speed of Trust. More recently, navigating difficult conversations.

And then I think this fall, you had targeted a seven Habits 5.0 refresh.

It hasn't been done in nine years.

Have those all been launched and on schedule? And what's been the initial feedback or initial results?

Paul Walker^ Yes. Great question and great memory. The feedback has been great. Maybe Jen Colosimo is on the line and a lot of those impact the Enterprise division. Jen, do you want to share a little color on those 3?

Jennifer Colosimo^ Yes. Let's start with the seven Habits. So thrilled, and it launched last week. So as you mentioned, it's been nine years. We've got all new video, really applying the practices reimagined to today's workforce. Paul mentioned some of those in his comments.

Interpersonal skills being change ready, agile and many clients talking about innovation. We're thrilled. And again, it launched a week ago. So in terms of results, you'll have to hold that one in your memory and ask us next time.

In terms of trust, one of the things we're most lucky about really is that we have the best trust solution in the world. And frankly, it has grown every year. The new solution launched, both, as you mentioned, leading at the Speed of Trust and working at the Speed of Trust, and this topic comes up in everything as a key topic for organizations, building trust for so many ways. And our new solution has higher Net Promoter Scores.

We've superseded our previous booking pace.

We've mentioned our increase in booking pace in Q3 and especially Q4 continuing right now. And we are seeing a lot of people interested in Trust. And it relates partially to what Paul said about the platform as well.

We have so many multiple ways to deploy.

Our AI coach can give you Trust, coaching behavior as an individual and we're really driving collective behavior change.

So Trust, great results. We also had significantly larger attendees at marketing events last fiscal year than we had the year before.

I attribute a lot of that to what you mentioned, both navigating difficult conversations and leading and working at the Speed of Trust. And we've had significant marketing events leading up to and in the coming months related to the seven Habits.

Alex Paris^ Good. And I appreciate that additional color. Sounds like those investments are working as well. Last question on the Education division.

As I recall you had a large statewide implementation in the Q3, which pulled forward some revenue from Q4.

I'm wondering if you can quantify that pull forward, number one. Number two, can you quantify or at least give us some additional color on the expected impact of the end of the ESSER program? I know you have a large corporate sponsor that's expected to offset that to some degree going forward.

Michael Covey^ Yes. This is Sean -- yes, you want me to go ahead, Paul?

Paul Walker^ Yes, great.

Michael Covey^ Yes, great. Yes. So yes, we had a lot of fourth quarter revenue pull forward in the third quarter with a large state deal. And it was a couple of million dollars that we expected maybe would go into the fourth or into the third. And then the bulk of this is going to come over the next two years.

This was a multiyear deal with the state, and we've got more of these coming.

So we're really, really excited about that. And yes, so the ESSER money, the stimulus money from COVID officially ended at the end of September. And we're -- we feel fine about where we're at.

I think it will have some impact but not that much.

And I feel that way because, number one, we're already halfway through it at least, if not more, because people use the money. A lot of our clients use the money in the first couple of years when it was first given out. And so we've faced going back to these clients who said, "Oh, we used extra money to buy you in the first place, we're renewing now.

We're coming up with other money. So we've been able to ride through the impact of a lot of it already. And then in addition, we have -- we're getting really good at grants. We got \$1.5 million in grants last year. We think we can get \$3 million to \$5 million in grants this year.

We've got a department that's really good at it, and there's billions flooding the market right now in grants. And most of it we can connect with and have opportunities for.

So we help districts that are doing business with us write grants. And we feel like this is going to help replace any of the ESSER loss. And then as you mentioned, we also have a great partnership with a foundation devoted to building character in students, and they're funding hundreds of schools every year as well and that's going to continue for a long time.

So we're really bullish about the future because of the size of the deals we're getting.

We're moving out from single schools to districts and now to states who see the impact of what we're doing.

And our market penetration is still so low. We're only at 3%. So there's lots of room for growth.

We also -- just one more thing is, we do have a new solution for secondary, for high schools in particular, coming out in the spring. Been working on this for years.

We don't do a lot with high schools. Most of our business is with elementary and middle, and there's a lot of money in it in high school, a lot of need, and we're very excited about how this, we think will fuel a lot of growth the next two or three years.

Alex Paris^ That's great color, Sean. I appreciate it. And then, I guess I lied, I have one last question in terms of the guidance.

Overall company revenue in the fourth quarter was up 8%. And for the year, I don't have that number in front of me.

But you're guiding at the midpoint to about 4.5% revenue growth for fiscal 2025. And perhaps you addressed this previously but what do you attribute that to, the deceleration? Does it have anything to do with the investments, the economy, the end of the ESSER funds? What can you say about that?

Paul Walker^ Do you want me to take it? Yes. So Alex, so yes, we're guiding to the midpoint of about 4.5%, which is what you said. We grew a little over 2% this year.

So it's double the growth we had this year, which we don't feel good about that. But double the growth we had this year.

We did grow a little bit more in the fourth quarter. That was the services kind of coming back and then some of our non-subscription parts of the business that grew a little bit more rapidly in the fourth quarter.

I think as we look out to the future, a lot of what we're going to be doing here, the hiring we've done, the separation into this -- of this new sales force -- the new sales force deployment, we anticipate that that's going to put more subscription -- it's going to result in more subscription sales throughout the year with that amount ramping up as we get later in the year, which is going to put a lot of those sales out on the balance sheet, and therefore, they won't come in as reported revenue in the year. And so that's what -- that's primarily what's guiding to the 4.5%.

I think the actual output of what the machine is throwing off will be greater than that, but expect it to translate somewhere in that neighborhood.

Also built in there is just a little bit of just the disruption as we're transitioning over the last few weeks and in this first quarter here into this new structure.

So that's where the 4.5% comes from. Steve, I don't know if you'd add anything to that.

Steve Young^ No, same thing that -- same thing, Alex.

As we pointed out, we did had a really good fourth quarter and a lot of that was revenue recorded as delivered.

So as we also reported, the increase of our balance sheet at year-end wasn't that significant.

So as Paul said, we are building up the balance sheet from our new sales and a lot of the sales we had in the fourth quarter were the type of sales that were recorded in the fourth quarter. And so, the engine really is ramping up more than the change in revenue from 2% to a 4.5% would suggest.

Alex Paris^ And then the same thing on adjusted EBITDA, you're talking about \$16 million in incremental growth investments. There are moving parts, of course, but if I added \$16 million to the top end of that range of \$44 million, you're at \$60 million, which is roughly in line with expectation.

Is that the way to think about it?

Paul Walker^ That is the way to think about it, yes.

Alex Paris^ Okay. So in other words, without these investments, adjusted EBITDA would be pretty much in line with analyst expectations for fiscal 2025?

Paul Walker^ That's exactly how we see it.

Operator^ This now concludes our question and answer session. I would like to turn it back over to Paul Walker. Go ahead, Paul.

Paul Walker^ Thank you, Mark. Thanks, everybody, for joining today and for your great questions. And we're very excited about where we're headed and feel good about last year, and just want to, again, thank you for being on the journey with us and look forward to ongoing conversations. Have a great evening.

Operator^ Thank you, everyone, for your participation in today's conference call. This does conclude the program. You may now disconnect.