Franklin Covey (Q3 2026 Earnings)
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Corporate Speakers

- Boyd Roberts; Franklin Covey Co.; Head of Investor Relations
- Paul Walker; Franklin Covey Co.; Chief Executive Officer
- Jessica Betjemann; Franklin Covey Co.; Chief Financial Officer
- Sean Covey; Franklin Covey Co.; President
- Holly Procter; Franklin Covey Co.; President Enterprise Division

Participants

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

PRESENTATION

Operator^ Thank you for standing by. Welcome to the Franklin Covey Third Quarter 2026 Earnings Conference Call.

At this time all participants are in a listen-only mode. After the speaker's presentation there will be a question-and-answer session. (Operator Instructions)

As a reminder, today's program is being recorded.

And now I'd like to introduce your host for today's program, Boyd Roberts, Head of Investor Relations.

Please go ahead, sir.

Boyd Roberts^ Thank you. And good afternoon, everyone. Thank you for joining us today on Franklin Covey's Third Quarter 2026 Earnings Call.

We appreciate having the opportunity to connect with you.

Before we begin, please remember that today's remarks contain forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995 including without limitation statements that may predict, forecast, indicate or imply future results, performance or achievements and may contain words such as believe, anticipate, expect, estimate, project or words or phrases of similar meaning.

These statements reflect management's current judgment and analysis and are subject to a variety of risks and uncertainties that could cause actual results to differ materially from current expectations, including but not limited to risks relating to macroeconomic conditions, tariffs and other risk factors described in our most recent Form 10-K and other filings made with the SEC.

We undertake no obligation to update or revise any forward-looking statements except as required by law.

Now with that out of the way, I'd like to turn it over to Mr. Paul Walker, our Chief Executive Officer.

Paul Walker^ Thank you, Boyd. Good afternoon everyone. And thank you for joining us today.

It's great to be with you and have the opportunity to share results for the third quarter and provide an update on the business and our outlook for the remainder of the year.

There are two themes I'd like to address today. The first is that the company's strategic strength and resiliency continues to be reflected in the company's performance including in this year's third quarter results and in our expected results for the year.

Importantly, the impact of this strategic strength and resilience is also establishing the foundation for accelerated growth in fiscal '27.

The second theme is that the strategic importance of the opportunities and challenges we help our clients address, coupled with our focused investments in high-impact solutions and go-to-market activities, are further strengthening our strategic positioning and establishing the foundation for accelerated growth.

I'd like to briefly touch on each of these themes. Before I do, I want to address our full year guidance.

Q3 was our third consecutive quarter this year, finishing in line with our expectations, and the underlying business is performing as we expected.

We are revising our revenue guidance to allow for a timing shift in $2 million of previously invoiced services for which the delivery shifted from this year to next year for a contract in Enterprise North America, a $2 million new school contract with an existing and ongoing statewide education client, that received gubernatorial budget reductions that we expect to return next year, and the approximately $2 million impact at the challenging international environment due to ongoing geopolitical tensions.

Our new expectation is that revenue will be between $260 million and $267 million.

We are maintaining our prior adjusted EBITDA guidance within a narrower range of $28 million to $31 million.

I wanted to acknowledge this upfront, so it's not a distraction as I walk you through what's actually happening in the business and the many areas of strength we experienced in the third quarter.

So to our themes. The first theme, again, is that the company's strength and resiliency continue to be reflected in the company's performance including, importantly, Q3 being our third consecutive quarter, where we finished in line with our expectations and in our expected results for the year and this, even in the midst of a somewhat turbulent external environment. The importance of the challenges and opportunities we help organizations to address and the success of our solutions in addressing them is reflected by both: first, the high levels of retention, expansion and purchases of services we're achieving with existing clients; and second, our increasing revenue from winning new clients across both our enterprise and education businesses.

I'd like to briefly address how this strategic strength played out in both divisions.

In the Enterprise Division in North America, which accounts for approximately 80% of our total Enterprise Division revenue, invoiced amounts are up 6% year-to-date and were up 4% in the third quarter, growing for a third consecutive quarter. Revenue retention is up meaningfully year-to-date and was particularly strong in Q3. Driven by both further increases in client expansion and continued strong logo retention. The percent of subscription contracts whose term is for multiyear periods continue to be high at 59%, and the percent of our subscription revenue contracted for multiyear periods was 60%. Year-to-date, services booking pace at the end of Q3 was up more than 25% compared to the prior year and the amount of our services already sold and contracted year-to-date this year, which are scheduled for delivery in fiscal '27 is meaningfully higher than at this point last year.

Our balance of deferred revenue at the end of the third quarter was $58 million versus $49 million in the prior year or an increase of 18% compared to this time last year, establishing a strong foundation for growth and reported sales next year.

Reflecting this strong performance, our invoiced amounts and reported revenue for the third quarter in North America came in as we had expected and despite somewhat lower-than-expected revenue in Enterprise International which I mentioned previously again, primarily reflecting weakness in our direct office operations in China and some impact from the conflict in Iran on the economies of several of our international operations.

Our total enterprise reported and invoiced revenue for the quarter was in line with our expectations for the quarter and year-to-date. This underlying strength and momentum of our results, particularly in Enterprise North America is exactly what we designed the go-to-market transformation to produce.

We're achieving the traction we had expected, and we expect results in Enterprise North America for the year to be strong. Growth in invoiced amounts, coupled with significant services bookings already contracted for fiscal '27 delivery, gives us high confidence in the year ahead.

Turning to our Education Division.

Our school retention rate at both the district and school levels remains very strong year-to-date, and our subscription revenue was up 11% in the third quarter and is up 14% year-to-date. This, together with our significant subscription base, our pace of new school contracting and the size of our advanced services bookings, all provide us with confidence that the Education Division will finish the year strong.

As I indicated previously last quarter, we mentioned that we had won our third statewide commitment to Leader in Me with a southeastern state that has made a significant Leader in Me commitments in each of the last three years.

At the last minute, the governor held up the budget approval for health and human services and education line items, resulting in delayed funding for this year's allotment of new schools.

We believe funds will be restored in the next fiscal budget, and we're working directly with impacted schools to proceed with as many as possible in the interim. This creates up to $2 million of pressure on the education revenue this year.

However, what it does not reflect is any weakness in school and district demand for Leader in Me.

Our other two fully funded state commitments are on track for a strong year and our education business is expected to finish the year strong.

We continue to expect that our strong momentum to close the year, particularly in Enterprise North America with deferred revenue up 18% year-over-year is setting the stage for strong reported revenue growth in fiscal '27.

The second theme I'd like to touch on is that the strategic importance of the opportunities and challenges we help our clients address coupled with our focused investments in high-impact solutions and go-to-market activities, are strengthening our strategic position and are establishing the foundation for accelerated growth.

90 days ago, I spoke about three dynamics positioning Franklin Covey well in an AI-driven environment.

First, that AI is increasing the premium on human leadership and execution.

Second, that our model is built around behavior change and collective action tied to measurable outcomes, not simply content or software delivery.

And third, that we have significant room to grow within our existing client base. These convictions have only strengthened.

As AI creates extraordinary new possibilities, leaders are discovering that the path between AI investments and achieving meaningful results runs directly through the quality of their leaders,

cultures and execution systems. This is a behavior change and collective action challenge, and we see it not only with AI, but across the full range of leadership and performance challenges organizations face every day.

Our role is to help organizations strengthen the people side of execution, clarifying priorities, aligning teams, building capabilities and creating accountability systems that translate strategy into measurable results.

Having completed our go-to-market transformation in Enterprise North America, and having already seen continued progress in achieving the kinds of results we had expected, we're now importing those learnings into our international business. The model is working, and we are scaling it.

Fiscal '26 is one of our biggest solution launch years and we'll build on that momentum in fiscal '27, launching new solutions across leadership, execution and AI transformation, while embedding AI-enabled coaching and execution tools into our platforms to even further support behavior change and collective action.

With this foundation in place, we are well positioned for growth in fiscal '27 and beyond. The numbers support this confidence. Deferred revenue for the company is up 7% year-over-year to $96 million.

Services already contracted and scheduled for fiscal '27 delivery are meaningfully ahead of where they were at this point last year and subscription and contractually committed invoiced amounts grew 17% in the third quarter alone. The work we've done this year is translating directly into the revenue and adjusted EBITDA growth, we expect to report in fiscal '27.

I'd now like to turn the time to Jessi to go into more detail on our third quarter.

Jessica Betjemann^ Thanks, Paul. And good afternoon, everyone. Franklin Covey continued to see strong demand for our solutions in the third quarter.

We are pleased with our third quarter results, particularly in Enterprise North America. And despite an unexpected state funding challenge and education that Paul discussed, we reported growth in education for the quarter.

As we have stated previously fiscal 2026 is a year of execution where growth in invoiced amount is expected to set us up for accelerated reported growth in fiscal '27.

In my remarks today, I'll start by providing some details of our third quarter financial performance. Then I'll turn to our balance sheet and capital allocation priorities, and finally, I will provide additional context around our revised fiscal year 2026 financial guidance.

Total third quarter reported revenue was $67.8 million, revenue grew 1% over the prior year, with both the Enterprise and Education Divisions growing 2%. This was partially offset by the $0.5 million decline in corporate revenue, we have reported each quarter this year so far, as we

no longer recognize sublease revenue since exiting our previous headquarter campus in June of last year.

Foreign exchange rates had a $0.3 million favorable impact on our consolidated revenue in the quarter.

With the Enterprise and Education Divisions had invoiced amount growth this quarter of 1%, resulting in a 7% increase in consolidated deferred revenue at the end of the third quarter, establishing the foundation for accelerated growth in reported revenue in fiscal year '27.

A summary of our consolidated financial results is on slide 3 in the earnings presentation.

We are especially pleased that consolidated subscription and committed services invoiced amounts for the quarter was up 17% to $37 million, building upon the 12% growth we saw in the first half of the year, driven by the strong growth in Enterprise North America.

Consolidated subscription and subscription services revenue recognized for the third quarter of $57.5 million was relatively even with that achieved in last year's third quarter. The foundation for increased future growth remains solid and is evidenced by the 7% year-over-year increase in our consolidated deferred revenue balance of $96 million, which will be recognized as reported revenue in the coming quarters. The amount of unbilled deferred revenue contracted for the third quarter was $7.3 million, even with last year, with a total balance of $61.1 million, down 1% over the prior year. This $61.1 million will convert to invoiced amounts and deferred revenue in the future.

Gross margin for the third quarter was 73.9% compared to 76.5% in the prior year and decreased primarily due to increased delivery costs for services, a shift in mix of services delivered and products sold during the quarter and increased capitalized curriculum amortization expense.

Operating, selling, general and administrative expenses for the third quarter was $41.8 million, a level 5% lower than the $44 million in the prior year, reflecting reduced associate cost and other cost reduction efforts taken this year.

Adjusted EBITDA for the third quarter was $8.3 million, an increase of 14% or $1 million compared to last year's third quarter, reflecting revenue growth and the lower SG&A expenses I just mentioned.

Foreign exchange rates had an immaterial impact on our adjusted EBITDA in the quarter.

During the third quarter, we continued to streamline our business in certain areas of our operations.

We incurred $0.7 million of expense for this restructuring activity which consisted primarily of severance and related costs.

We recognized net income of $3.1 million, compared to a net loss of $1.4 million in the prior year, reflecting a $4 million decrease in restructuring costs, a $0.7 million decrease in share-based compensation expense and the lower operating SG&A expenses, I previously mentioned.

While we continue to execute on the long-term restructuring plan initiated in the second quarter of this year, our restructuring activities were significantly less than in the third quarter of the prior year.

Cash flows from operating activities for the first three quarters of fiscal '26 decreased 8% to $17.5 million, primarily due to lower operating income and unfavorable changes in working capital compared with the first three quarters of fiscal 2025.

Free cash flow for the third quarter was a negative $1 million compared with a positive $2.8 million of cash generated last year with higher operating income in the quarter, which was more than offset by unfavorable changes in working capital, largely due to a $10 million increase in deferred revenue over the prior year.

I'll turn now to a discussion of our business divisions.

For the third quarter of fiscal '26, our Enterprise Division generated 71% of the company's overall revenue with the Education Division generating 28% of the company's revenue. Third quarter Enterprise Division invoiced amount grew 1% to $46.5 million and subscription and committed services invoiced amount grew 18% to $27.8 million. Third quarter Enterprise Division reported revenue was $48.1 million, an amount 2% higher than the $47.3 million reported in the prior year.

As shown on slide 4, the North American segment invoiced amounts grew 4% this quarter to $36.7 million.

We are encouraged by the continued progress year-to-date and this quarter in invoiced amount which reflects positive momentum coming from our investment to transform our Enterprise North America go-to-market organization, and we expect this to translate into increased reported revenue in future quarters.

In the third quarter, approximately $6.6 million in invoiced amount was for contractually committed predefined services. And while we continue to recognize the revenue upon delivery, because these services have been contractually committed upfront, any on these days are guaranteed and will be recognized at the end of the contract term, if not delivered during the term.

On slide 10 in the appendix to our earnings presentation, our roll-forward analysis of deferred revenue includes both subscription and committed services amount with the timing of revenue recognition for committed services, depending on the delivery schedule of our clients.

The North America segment's reported revenue of $38 million accounted for 79% of our Enterprise Division sales in the third quarter of fiscal '26 and grew 3% over the prior year,

primarily due to higher services delivered including those that were contractually committed in prior periods.

Adjusted EBITDA for the North America segment increased $1.5 million to $7.7 million for the third quarter, compared with $6.2 million last year, primarily due to lower SG&A cost resulting from the restructuring activities in recent quarters.

Our balance of billed deferred revenue in North America was $58 million at the end of the third quarter, an increase of 18% from the prior year and unbilled deferred revenue was $56 million, a decrease of 1% from the prior year.

Importantly, the number of North America's All Access Passes contracted for a multiyear period continued to be high at 59% in the third quarter, and the contracted amount represented by multiyear contract was 60%.

As shown on slide 5, third quarter revenue from our Enterprise international segment, which is the combination of our international license revenue and our international direct office revenue was $10.1 million. This accounts for 21% of our total Enterprise Division revenue and represented a slight decline compared to the prior year's $10.2 million.

License revenue in the third quarter increased 3% over the prior year, but was offset by lower revenues in our China, Japan and United Kingdom direct offices.

Our offices in France and Australia, each grew compared with the third quarter of fiscal '25.

Our China operations continued to be adversely impacted by ongoing trade tensions and broader macroeconomic uncertainty. And excluding China, the international segment achieved growth compared to the prior year.

Adjusted EBITDA in the third quarter of fiscal '26 with international segment was $2.1 million, a 25% increase compared to $1.7 million in the prior year, driven by a reduction in SG&A expenses.

Turning now to our Education Division.

As shown on slide 6, revenue in the third quarter increased 2% to $19 million, driven primarily by an 11% increase in subscription revenue, partially offset by lower material sales associated with the statewide initiative that did not receive funding this year for new schools and also not holding any symposium events in the quarter compared to the prior year.

In the third quarter, we had 200 additional training and coaching days delivered compared to last year and 700 more year-to-date.

As Paul described, there was a southeastern statewide initiative to fund new schools, that we anticipated launching in the quarter that did not come through, because of the last minute gubernatorial budget cut, targeting health and human services and education services. The

financial impact of this budget cut reduced invoiced amount approximately $2 million. Net revenue, approximately $1 million and adjusted EBITDA approximately $1 million from our previous expectations this quarter.

This further impacts our fiscal year results by approximately $6 million in invoiced amount, $2 million in net revenue and $2 million in adjusted EBITDA compared to our previous expectations.

However, we continue to be in active discussions with individual schools, that would like to proceed with launching Leader in Me this year, even without the state funding, and that opportunity is included within the high end of our revised guidance range.

We believe that these education funds will be restored in the next state budget cycle which should support growth in our next fiscal year.

Despite the impact of the large statewide initiative budget cut, invoiced amount in the third quarter of $15.1 million, increased 1% from the prior year and subscription invoiced amount grew 14% to $9.3 million. Education subscription revenue increased 11% in the third quarter to $13.1 million, compared with $11.8 million in the prior year.

Adjusted EBITDA for the Education Division in the third quarter decreased $0.4 million to $1.7 million due to lower growth margin, primarily driven by the timing of fixed cost for coaching services and product mix and increased SG&A expenses primarily due to increased commission on previously deferred revenue and increased associate expenses. Education's balance of billed deferred revenue decreased 6% to $32.2 million, as a result of the strong increase in the number of days associated with Leader in Me subscriptions, that were delivered in the quarter.

With the unfortunate timing impact of the statewide initiative, we currently anticipate education invoiced amount slightly decline for the year, as growth in the fourth quarter will be lower than previously expected.

While net revenue should continue to grow, albeit at a lower rate than expected due to the 13% increase in deferred revenue last year and continued growth in subscription revenue and coaching days.

I would now like to spend a few minutes discussing our balance sheet and reiterating our capital allocation priorities.

We continue to pursue a balanced capital allocation strategy, focused on three primary areas that are aligned with our strategic goals.

First, maintaining adequate liquidity and flexibility.

Our total liquidity remains strong at over $74 million at the end of the third quarter with $12 million cash on hand, compared with the company's $62.5 million credit facility, which is fully available.

Second, investing for growth.

We will continue to invest in strategic opportunities to drive improved market positioning, accelerated profitable growth and financial value, such as our continued investments in product innovation, business transformation initiatives and opportunistic acquisitions when available.

And finally, continuing to return capital to shareholders as appropriate.

As a reminder, year-to-date, the company has purchased nearly 1.6 million shares of its stock for $28.1 million.

During the last 12 quarters, the company has used 120% of free cash flow to buy back shares.

We have a $50 million share repurchase authorization from the Board of Directors with $20 million remaining after the two 10b5-1 plans we had in place have been completed.

In the near term, we plan to rebuild the base of our cash on hand as we generate cash, and we'll evaluate opportunistic share buybacks in the future.

We remain committed to being disciplined steward of capital, while staying focused on driving long-term value creation.

Now turning to our revised guidance for fiscal 2026 as shown on slide 7.

As Paul walked through, I will -- and I will do again now, our revised revenue projections reflect a timing shift in $2 million of previously committed and invoiced services for which the delivery shifted from this year to next for a contract in Enterprise North America.

We also took into account the $2 million for new school contracts with a statewide education client, that received gubernatorial budget reductions that we expect to return next year, and approximately $2 million in lower year-to-date and forecasted revenue for Enterprise international due to ongoing geopolitical challenges. These factors combined with a disciplined view of the variability risks, that could occur as we close the year, let us to revise our revenue guidance range to $260 million to $267 million.

Despite the revision of our revenue projections, we have maintained our prior adjusted EBITDA guidance within a narrower range of $28 million to $31 million, reflecting the effectiveness of cost reduction measures implemented throughout the year.

With solid growth in invoiced amount for Enterprise North America this year and our transformation investments behind us, we believe the company will deliver a net revenue, EBITDA and free cash flow growth in fiscal '27 and thereafter grounded in strong client retention, continued demand for our services and the resilience of our business model, we remain fully committed to creating long-term value for our shareholders and clients.

Before I pass it back to Paul, I would like to thank the entire Franklin Covey team for their hard work and dedication to our business and providing unparalleled service to our clients.

Paul, I now turn it back to you.

Paul Walker^ Jessi, thanks for taking us through that. And we'd now like to invite the Operator to open the line for questions.

QUESTIONS AND ANSWERS

Operator^ Certainly. And our first question for today comes from the line of Alex Paris from Barrington Research.

Alexander Paris^ Got a couple of questions.

Starting with the macro environment.

In the first half, we noticed both positives and negatives better than a year ago. Clients have adjusted, feels a little bit more stable, but we've had a couple of issues on this call the timing shift for the large enterprise contract, the education gubernatorial budget cutback and the challenging international environment.

If you kind of peeled away the timing shift for the large enterprise client and the education reduction. Can you talk a little bit about the underlying strength of the various businesses?

Paul Walker^ Yes. Yes. You bet. Maybe just as I peel those two away for a second, maybe just to comment on those two really quickly.

So the large contract, this is a contract we actually won in Q1 of this year. And it's a combination of a very nice All Access Pass contract with a large number of services. And this is actually a three-year contract for us.

And the clients paid for all of your one and the majority of your two already, we've invoiced for that. And along with that is scheduling of a number of contracted committed services. And as the years move forward, they've delivered quite a few services against that contract and what we thought would be delivered. There is the balance of what we thought would be delivered here towards the end of this year, some of those are shifting into early next year and throughout next year.

And so, that's -- this is business we've won, business is contracted, largely business we've already invoiced for and paid for, and it's just the timing of when the client will deliver. And so, that's piece of enterprise.

So now to connect that to your question, we're not seeing really Enterprise North America a change right now on the larger environment. It's just isolated at the timing of the delivery of that one contract.

In education, I'd say it's a very similar story.

It was a bit of a surprise to us in the 11th hour that the funds which have been approved by the state legislature, when the governor went to sign off, he pulled a large amount of funds back and we were wrapped up in that.

We do expect that we'll get those back next year, and we're working with those schools to try to even get some number of them to begin with us here in the fourth quarter, because they're ready to go. They were waiting and ready to go as they kick off their new school year in August. And so those I wouldn't really connect to the environment at all, really. It's just isolated to two contracts.

Where we are seeing a little bit of environmental impact is in our international business. Certain of our license partners, our largest license partner for example is actually in the Middle East, they're in Dubai. And so, it's been a challenging situation for them there. That we expect to abate.

We don't -- we think that's more timing related to some of the geopolitical things that are going on and not necessarily a reflection of underlying strength of that business.

And then -- sorry, thanks, Jessi. And then China is -- that has continued to be a problem. And what we thought this year was we were kind of at the bottom, we're going to be a little lower than that this year in China. (Multiple speakers)

In the larger macro environment, it really hasn't changed at all. We're not seeing a change there from what we reported last quarter or the quarter before.

Alexander Paris^ Got you. And then let's talk a minute about the Education Division, because this fourth quarter is a big quarter for education.

So again, setting aside the large contract, the gubernatorial change. Maybe just get a little update on progress there in terms of net new schools and school retention and so on?

Paul Walker^ Yes. I've got Sean Covey here.

Sean, do you want to comment?

Sean Covey^ Sure. Yes.

So a few things about education. So we just talked about the deal that was delayed.

We had won this the last three years and expected this year, and we expect to come back.

But we feel really good about the fourth quarter and about the year as a whole, pushing that aside.

As Paul shared, we are working to get back some of these schools. We won't get all of them, but we can get a few of them back with their own funding mechanisms.

Our retention is very key, because we've got a lot of retention revenue. And it's running right now 1% to 2% higher than last year.

We already have really good school retention and -- so that's a really good sign of strength in the business.

Our new school growth, we expected it to be higher than last year with the Georgia deal.

Without it, we'll be and it's going to be harder to get there, it will be comparable to last year.

We're also finding great success with charter schools and after schools. These are adjacent markets. They're large. There's a lot of money behind them, and we're able to make up some ground with our after-school initiatives. They're helping a lot.

And then finally, I'd just state that we've got other state deals, two other state deals that are coming through. We've got large district deals. And sometimes these large district deals are as big, as state deals. And those are doing really well. And then also, what we offer is needed today more than ever before.

And in the world of AI, so much of what we do is going to be even more important teaching these leadership durable skills, initiative, collaboration, empathy, the things that we do and we continue to get great outcomes.

So we just came out with a new report that shows that Leader in Me helped significantly with chronic absenteeism which is a major issue right now in schools after COVID. And compared to other non-Leader in Me schools, we do far better. We do great with teacher turnover, reducing that with increased test scores.

So we've got really good solid outcomes that we continue to produce.

So we feel really good about the business generally, and we had this setback with the state that we expect to recover.

But I hope that gives you a little bit of color.

Alexander Paris^ No. That's really helpful. I appreciate it, Sean.

And before I yield the floor. I just wanted to talk a little bit about the Enterprise business, new logos versus retention there, win back rate and perhaps lost contracts? And maybe specifically, the government contracts that were lost because of DOGE last year.

Paul Walker^ I'll just maybe make a one quick comment, and then we've got Holly Procter here as well she can share a couple of thoughts.

So we had another good quarter in terms of retention. And this is our last quarter, we commented as well that the retention driven really by a lot of client expansion. And so maybe, Holly, do you want to talk about that and just generally any thought about the overall Enterprise Business?

Holly Procter^ Yes. Sure.

So a couple of thoughts, as Paul referenced, both strong retention and strong expansion in the Enterprise Business which was as you know a big part of our transformation effort, that we could both increase the retention effort and also drive additional and incremental expansion beyond our run rate. You specifically called out government, so I'll comment on that.

We have not yet seen our government business have an uptick post the large impact from DOGE.

So for many of it, we've remained flat from the bottom out of DOGE from Q1 of last year, but we see and we're hopeful that we can see impact on that once we get to the next two years.

Operator^ And our next question comes from the line of Dave Storms from Stonegate.

David Storms^ Just wanted to maybe start international.

I think, Paul, you mentioned in your prepared remarks that you're starting to move some of the go-to-market strategy over into international markets. Just curious as to if you have any early indications of how this is go and any expectations there? Could it maybe counteract some of the macro headwinds you're seeing? Anything like that?

Paul Walker^ Yes. Wonderful, Holly, do you want to take that one?

Holly Procter^ Yes. I'll comment on that.

So hi, Dave.

We will start our situation internationally in Europe. And so in Europe, our direct offices include the U.K., Ireland, Germany, Switzerland and Austria and France.

And so, our efforts will focus on those countries to begin. And the primary effort there will be around dividing the sales force into a similar hunter-farmer structure, where we focus on our new logo acquisition, have dedicated hunters that are focused on just acquiring net new customers. And then the same bet will play out in the post-sale effort, that we have a dedicated set of farmers that are attached to the retention effort and expansion effort of our current customer base in Europe.

So after we've successfully navigated that transition in Europe, we'll evaluate other geographies, but start in Europe, given that's our largest direct office.

Just to comment on timing. We will begin most of those efforts with a go-live date in Q1 and begin our execution in Q1 and plan to roll that out over next year.

David Storms^ Understood. That's really helpful. I appreciate that. And maybe if I could just linger internationally.

I know China has kind of been a for side for a couple of quarters now. Is there any thoughts around what could put that back on track or how many moves do you have left to make over there?

Paul Walker^ Yes. Great question. Yes.

We're looking at some options there, Dave and I have been this year. I think we see China is, obviously, a very large market.

You recall just stepping back we -- China was a license operation for us 10-plus years ago. We converted it to a direct operation just recognizing the size of that economy, the size of that country and for a few years, that looked like a really good decision. We grew rapidly on the top line and the bottom line. And then the last kind of coming out of COVID in the last number of years it has been much more challenging for us and there's been a drag on our overall growth. There's still a good opportunity for the business, I believe, in China, but we're just looking at a number of different options there on how to operate China in a way that would give it the best chance to grow, top line and bottom line.

And we'll share more as we kind of get through that process of evaluating different options.

David Storms^ Perfect. I appreciate you answering my questions and good luck for next quarter.

Paul Walker^ Thank you, Dave.

Operator^ And our next question comes from the line of Nehal Chokshi from Northland.

Nehal Chokshi^ Speaking to the strength of underlying metrics, is it fair to say that, on slide 10, the bottom line, the total additions to the balance sheet under the breakout of subscription and committed services is the best indicator with respect to that underlying strength that you're talking about here?

Jessica Betjemann^ Yes. That's right.

I mean, that's always a good indicator to look at what we're adding there for the subscription and contractually committed invoiced amounts, and we had very strong growth with Enterprise growing 18% this quarter and we're very pleased to know by that.

So, it's definitely a very good indicator, because that's just going to translate into the net revenue growth into next year.

Nehal Chokshi^ Okay. And yes, I do notice that for the second quarter in a row, the overall, what I'll call subscription invoice is up basically 16%, 17% year-over-year.

Jessica Betjemann^ Yes, 17%, double digits. Last quarter, we grew 16%, first quarter 5%.

So moving in the right direction. We're are pleased by that.

Nehal Chokshi^ Yes. Huge positive. And so, that's what's driving the continued confidence in the ongoing healthy buyback rate. Is that fair to say?

Jessica Betjemann^ Yes. So this quarter, to date -- right year-to-date, we purchased $20 million. You're talking about the share buybacks, and so yes, I mean, we definitely believe in the growth prospects in the future for the company and the strategy that we have to be able to deliver on that. And the invoiced amount this year, the growth that we have this year is going to translate to net revenue growth next year.

We -- through the restructuring we've been doing, we do believe that we'll have operating leverage, and we'll be able to have growth in EBITDA and free cash flow as well in 2027 and going beyond. So all underlying indicators for growth of the business.

Nehal Chokshi^ Okay. And could you give us a sense as to how much of this mid-teens growth that you're seeing is coming from the existing customers versus new customers?

Paul Walker^ I would say, Nehal, it's -- there's a pretty good split here between the two.

If you step back and Holly alluded to this earlier, when we undertook the go-to-market transformation in Enterprise North America a couple of years ago, there were a number of -- there were a few core bets or key bets underlying that.

One of them was, of course, that we could have a team dedicated to selling to new customers and that there, we could get not only growth in as the revenue would grow, not only come from subscription but from services, and we've really seen that play out. And that same -- the second bet was if we focused a team of people on our existing customer base and we could drive more expansion, better retention and more services there as well. And that services part of our business is an important strategic differentiator, and more and more of our clients are looking for that expertise from us as they're trying to navigate these complex problems.

And so stepping back, what we're seeing is not only are we now through the transition of the go-to-market. We're seeing that play out like we hoped it would, and we're seeing higher and higher attach rates of services and that -- so the growth is really coming from both sides, the new customers and the existing customers this year. And I wanted to just to build on something Jessi said just a second ago.

In addition to invoiced amounts growing this year, we're -- I mentioned this in my prepared remarks, we've got -- we're starting out next year with many more of these contracted services on the books to be delivered with our clients. And so, all of that with the visibility into next year,

more growth in reported revenue, adjusted EBITDA, that's shaping up like we expected that it would as we move through this year.

Nehal Chokshi^ Great. That's really helpful. And just to conceptualize the potential durability of this momentum that you're seeing in the underlying metrics here. Where would you say you are in terms of market share of your core markets that you're serving right now?

Paul Walker^ Fortunately and unfortunately, we're were underpenetrated.

I say fortunately and unfortunately, we would love to be more penetrated, and we're excited by the size of the markets that we serve and the opportunity that's there. And as we -- and so that was one of the reasons, frankly, for the go-to-market transformation was to say, "Hi, we've got -- we believe that the market needs, our clients need what we have to offer.

Of course, there's more that we want to build and we will build. And we believe that we can capture more and more of the potential that's out there and now these pieces are all coming together and we're seeing that begin to play out this year.

I don't want to get out over our skis. We're just beginning to see that play out and encouraged about what that means for the future.

Operator^ And our next question comes from the line of Jeff Martin from ROTH Capital Partners.

Jeff Martin^ I wanted to dive into kind of what you're seeing and hearing in terms of the sales environment. How do you feel that sales productivity was in the period? And is that productivity accelerating from the beginning of the year through Q3? Or are we in a sales environment where it's a little choppy still?

Paul Walker^ So as you know, our Enterprise division makes up about 70% of our business and Enterprise North America makes up about 80% of Enterprise.

So maybe I'll see a big part of that is Enterprise and Holly take that one.

Holly Procter^ Yes. Thank you, Jeff, for the question.

So a couple of things I'd just call out.

I'm generally pleased with the sales productivity, both the measures that we use to track our success. And then some of the signal that we've received.

So some examples of that would be we have invested in several ancillary functions that support the sales team today. That allows that the individual seller can carry more revenue than they've historically carried in the past. So dollars under management.

So per person productivity is up greater than it used to be in our old model. We've supported the sales team with ancillary teams.

So for example, we've added an SDR function. This is primarily a pipe gen function that produces meetings for the sales team.

The reason why I mentioned that is because when you think about sales productivity without an SDR function, we have -- it's been harder for us to onboard and ramp a net new hire.

So to be able to build a function where we can promote internally and build talent up through the org, that allows our ramp time to go way down.

So when you think about productivity, not just in year but in years to come, the functions that we've supported the sales team with have created our ability to onboard and ramp them in a much quicker timeline for us to put more dollars under management for each seller. And so we're really pleased with the progress we've seen.

Jeff Martin^ Great. And then Paul, just curious how you'd characterize the add-on services environment?

Paul Walker^ Yes. We've been very pleased. This has been quite a bright spot for us.

Our services booking rate. So, of course, the flow of services is we find new customers or we talk to existing customers. We identify new jobs we can help them with new initiatives we can attach to. And when we attach to those, it might drive more AAP subscription seats or it might drive more services or a combination of the two.

We then close business and the part that services related, we then contract for those and we begin to book those services and those bookings go on the calendar for future delivery. And the year-to-date through the third quarter, the bookings of services is up more than 25%. And so, it's been quite a significant growth rate for those services.

As I mentioned, while we're delivering those services right now in the year, for the year, we're also pleased with the amount of services that are actually being booked out ahead of next year and into next year. And that's also happening at a higher rate than it did at the same time last year.

So overall, we've been very pleased. I think what's driving that, Jeff, is back to the strategic nature of what we're trying to do. We're in there helping our clients trying to execute strategy right now in a very tumultuous environment for them.

We're in there trying to advise clients around change in transformation related to AI. We're in there working with clients where there's a lot going on and then need for high levels of trust and high levels of engagement are there.

And so, we're getting invited in by our clients to work with their senior leaders and they want our experts to come in and to deliver and consult and coach with them. And those are all the services that we provide. And so, the services as being really, I think, driven largely by the demand in the marketplace. And then it's coupled with an even more sophisticated sales force that we've been able to put together and their ability to go in and position, call hire and position more strategic integrated solutions.

Jessica Betjemann^ Yes. And just some data points around that, that I want to highlight, and we have this in the investor presentation, but in the Enterprise Division this quarter, you'll see in the chart, it looks as though -- it shows in there that we have 59% services attach rate, and that's compared to 60% a year ago.

But we noted in there that you have to take into account that one large IP deal that doesn't show up as a services attached to the subscription, because they're no longer a subscription client.

So we had $1.8 million of services for that large client this quarter. And so, when you normalize for that, we actually had 66% of the services attach rate relative to that 60%.

So you see the growth year-over-year in terms of the services attach rate.

Jeff Martin^ That's a great flag.

So the way I'm kind of understanding some of your messaging here is there's a lot of demand for leadership. There's a lot of demand, it sounds like for execution. Are those going to be your two largest content areas going forward, do you think?

Paul Walker^ I would say, categorically, yes.

I mean, I think if you think about the key -- we've talked in the past about our company and what we've been moving towards over many years is to not be a company who exists to impart knowledge or to just teach skills.

We're a partner to organizations helping them generate the collective action, necessary to execute their most important strategies.

We're on the human side of whatever strategic initiatives they're trying to accomplish. And when you think about what it takes then to execute strategy, the human part of that, it requires great leadership. It requires high-performing cultures, high trust cultures. It requires alignment.

It's one thing that come up with a strategy. It's a different thing to get everybody organized around that strategy, clear on their roles, able to work together in highly collaborative ways. And so, yes, it's leadership, it's trust, it's execution. Those areas are where we tend to find the collective action needs of our clients, and that's our sweet spot as an organization. That's what we do best.

And so, yes, that has been and will continue to be where we play in the future. And then we're excited about the places we can point that. We issued a press release not that long ago about the work we're doing in hospitals. And this is a quickly growing part of our business.

If you think about hospitals, this is a very human strategy set of issues where hospitals are trying to provide a really good patient experience that drives a lot of their economics.

But it turns out that patient experience is a function of what's happening with the nurses and the doctors in that hospital and how they work with patients. And that so goes your culture, so goes, how they're led, so go, how they're engaged, so go nursing turnover and retention rates and some of these things that are so closely connected to those patient outcomes.

So those are the types of problems and opportunities we help our clients with. And we have these great solutions to attach to those, and they do fall in some of those categories you just mentioned.

Jeff Martin^ Okay. And then one more if I could.

I know you're not establishing fiscal '27 guidance at the moment, but I'm just curious if there is a scenario where you could foresee growing high single digit to low double-digit revenue and with operating leverage and maybe a little bit of help on the margin -- on the gross margin side, adjusted EBITDA growth significantly outpaces that next year?

Jessica Betjemann^ So you're right. We're not going to be providing guidance right now for next year.

I mean, I will say that we -- with the growth that we've been having this year on invoiced amounts, we believe that that will translate to meaningful growth next year to net revenue with the -- just in terms of like the major investments behind us, that we had done last year with evolve and some of the restructuring and cost initiatives that we've taken into place, that's going to translate not only through the revenue flow-through, but EBITDA growth as well for next year.

So -- and those are some indicating points.

And then for the longer term, I mean we do believe that we'll be able to get to the higher level of growth amounts to the strategy that we're executing in the longer term.

Operator^ And our next question is a follow-up from the line of Alex Paris from Barrington Research.

Alexander Paris^ I just wanted to sneak this last one and we didn't really talk about it too much AI. You had said, Paul, in your prepared comments, this is one of the biggest years for new product solutions introductions.

In fiscal 2027, you expect leadership, execution and AI solution enhancement. I just thought maybe we can get a little bit of an update on what's going on with AI. I know you introduced AI sales coach for the four disciplines.

You launched a leading AI adoption. You launched working with AI.

What's the AI roadmap in other words?

Paul Walker^ Yes, great.

We have launched those solutions. Those are out in the market. We have seen a lot of interest and demand from our clients.

In fact, last quarter, I shared that we'd won a nice size deal to be the partner on AI transformation for a large technology company. That was in Q2.

In Q3, we actually expanded quite significantly our work with that client, as the early work that we were doing had been quite well received. And so, we're seeing increased demand on the AI front, we'll be launching in the fall -- in early in the fall.

The next set of modules to build on our leading AI transformation and working with AI. And then we are also making -- we're about to launch additional functionality within our AI coach. And so we -- there's -- on both the AI technology embedded in our solutions side, there's more to be done there, simulations, role play, how we can incorporate more of that, how our clients, how our customers are going to be able to get access to a lot of our content even embedded in some of their own internal AI systems and some of the tools they use like Slack and Microsoft Teams and things like that.

So we're embedding AI that way into our solutions. And then we're developing solutions on the AI readiness and AI change in transformation side to be the advisory and leadership support and partner to our clients there.

So like a lot of people, we're deep in the middle of that one.

Holly Procter^ I can add two things to that, Alex.

So the largest, most pervasive question that we get right now both from current customers and from net new clients is how do you want to equip my current leadership team to navigate the large-scale disruption they're facing right now? It is pervasive across almost every industry. And so -- and after they figure out how to equip their leaders, the very next obvious question is how do I equip our team? And they're thinking about that through the lens of AI fluency, right? How do I navigate and get every single member of the team ready to leverage AI at scale and they're looking for a partner to help them navigate that amount of disruption.

Alexander Paris^ Super helpful. And then the very last question is to kind of press you a little bit on fiscal 2027. Again, based on the press release, based on your prepared comments, it looks like

you're committed to revenue growth and then even faster adjusted EBITDA and free cash flow growth, because of restructuring actions and so on. Is that fair to say?

Jessica Betjemann^ Yes. That's what we believe and expect relative to this year. Yes.

Operator^ Thank you. This does conclude the question-and-answer session of today's program.

I'd like to hand the program back to Paul Walker for any further remarks.

Paul Walker^ Wonderful. Well thank you everyone, for tuning in today. Thanks for your great questions, and we appreciate you.

We hope everyone has -- if you're in the U.S., I hope you have a good 4th this weekend and look forward to connecting with you.

Have a great day.

Jessica Betjemann^ Thank you.

Operator^ Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program.

You may now disconnect. Good day.