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Q4 2023 Franklin Covey Co Earnings Call

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## CORPORATE PARTICIPANTS

**Derek Hatch** *Franklin Covey Co. - Corporate Controller of Central Services - Finance*  
**Michael Sean Merrill Covey** *Franklin Covey Co. - President of Franklin Covey Education*  
**Paul S. Walker** *Franklin Covey Co. - President, CEO & Director*  
**Stephen D. Young** *Franklin Covey Co. - CFO & Corporate Secretary*

## CONFERENCE CALL PARTICIPANTS

**David Joseph Storms** *Stonegate Capital Markets, Inc., Research Division - Director of Research*  
**Jeffrey Michael Martin** *ROTH MKM Partners, LLC, Research Division - Co-Director of Research & Senior Research Analyst*

## PRESENTATION

### Operator

Good day, and thank you for standing by. Welcome to the Q4 2023 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. Please go ahead.

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### **Derek Hatch** *Franklin Covey Co. - Corporate Controller of Central Services - Finance*

Thank you. Good afternoon, everyone. On behalf of Franklin Covey, it's my pleasure to welcome you to our earnings call for the fourth quarter and full fiscal year of 2023.

Before we begin today's presentation, we'd like to remind everyone about forward-looking statements, and 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 for our subscription offerings, including the All Access Pass and Leader in Me memberships, the ability of the company to hire productive sales and other client-facing professionals, general economic conditions, competition in the company's targeted marketplace; market acceptance of new offerings or services and marketing strategies; changes in the company's market share, changes in the size of the overall market for the company's products, changes in the training and spending policies of the company's clients and other factors identified and discussed in the company's most recent annual report on Form 10-K and other periodic reports filed with the Securities and Exchange Commission. Many of these conditions are beyond our control or influence, any one of which may cause future results to differ materially from the company's current expectations, and there can be no assurance that the company's actual future performance will meet management's expectations. These forward-looking statements are based on management's current expectations, and we undertake no obligation to update or revise these forward-looking statements to reflect events or circumstances after the date of today's presentation, except as required by law.

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

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### **Paul S. Walker** *Franklin Covey Co. - President, CEO & Director*

Thank you, Derek. Hello, everyone. Thanks so much for joining us today. We're glad to have the chance to talk with you, and we want to let you know how much we appreciate each of you. Joining me on the call today are 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. We're also happy to have our Chairman, Bob Whitman on with us today as well.

I'd like to start out by saying how pleased we are with our results for the fourth quarter and the full fiscal year 2023. As shown on Slide 4, some highlights include the following: revenue grew to \$280.5 million, a level of \$55 million or 25% higher than our pre-pandemic revenue high of \$225.4 million in fiscal 2019. Adjusted EBITDA increased significantly to \$48.1 million or \$49.5 million in constant currency. This exceeded the high-end of our guidance range of between \$47 million and \$49 million in constant currency and represented a \$27.5 million or 133% growth in adjusted EBITDA over our pre-pandemic high of \$20.6 million in fiscal '19. Our subscription and subscription services sales reached \$222.8 million, growth of almost \$100 million or 80% compared to our pre-pandemic high of \$124.1 million in fiscal '19. And our balance of billed and unbilled deferred revenue increased 22% or \$33 million to

\$186.4 million. Our balance of billed deferred revenue increased 13% to \$99 million in fiscal '23. This significant growth in deferred revenue further elevates the trajectory, predictability and visibility into future revenue growth.

As shown on Slide 5, in our Education business, an all-time high of 791 new schools in the U.S. and Canada became Leader in Me schools, bringing the whole number of Leader in Me schools in the U.S. and Canada to more than 3,500 and the total worldwide to more than 6,000 schools. And finally, after making significant growth investments in the business, we used a portion of our excess liquidity to return \$35.6 million to shareholders by repurchasing 885,000 shares during the year. In addition, over the past 8 quarters, we've returned \$59.4 million to shareholders in the form of share repurchases.

Moving up a level. These results reflect the tremendous power of our continued focus on 3 fundamental priorities that have continued to drive our efforts and our results over the years. You can see these reflected in Slide 6. The first of these priorities is strategic. It's to be the partner of choice for our clients in addressing the challenges that really matter to them. The second is to be able to accomplish that first priority while also having a strong and profitable business model. And the third is to reinvest our profits and cash flow at high rates of return to create additional value. We're really pleased to have achieved strong progress on each of these fundamental priorities in the fourth quarter and throughout fiscal 2023 as a whole.

To accomplish our first priority of being the partner of choice for our clients and addressing the challenges that really matter to them, we've organized the entire company around helping clients successfully address those mission-critical opportunities and challenges, challenges that require the collective action of their people. Our first priority is to be so effective at accomplishing this that our clients become clients for life as many of them already have. Having highly committed and loyal clients translates into a number of powerful outcomes, including those shown on Slide 7. These include outcomes such as consistently winning new logos or clients. Having subscription and subscription services revenue continue to increase as a percent of total company revenue, retaining substantially all of our subscription revenue, increasing our average subscription contract size, increasing the percent of logos under multiyear contracts, continuing to have clients purchase a considerable number of services to help them achieve their performance breakthroughs and achieving a high and growing lifetime customer value.

As you can see on Slide 8, we're pleased to have achieved strong results in each of these key outcomes, and I'd like to share a few points of detail related to a few of these. First, as to winning new logos. In fiscal '23, our sales to new logos were the highest in company history. Sales of All Access Passes to new logos in the Enterprise Division grew 9% to the highest amount in any year since the conversion to All Access Pass 8 years ago. And as I mentioned previously, a record 791 new schools became Leader in Me schools in our Education Division.

Second, we're achieving elevated levels of revenue retention. Our revenue retention levels were high in the fourth quarter and for the year. In the Enterprise Division in North America, in the fourth quarter, our All Access Pass subscription revenue retention levels returned to their high historic levels of greater than 90%. In the Education Division, we continued to achieve high levels of school retention.

Third, an increasing percent of clients entered into multiyear contracts. And as shown on Slide 9, the percentage of our All Access Pass clients entering into multiyear contracts increased further from its already high levels. In fiscal '23, 54% of All Access Pass clients entered into multiyear contracts of at least 2 years, up from 45% at the end of fiscal '22. Importantly, an even higher 58% of All Access Pass subscription revenue is now under multiyear contracts of at least 2 years, up from 53% at the end of fiscal '22. And why is this? It's because of the value these clients are receiving from a long-term partnership with Franklin Covey. These long-term contracts provide a tremendous foundation for both the predictability and acceleration of future revenue growth.

The fourth thing I'd point to is that our deferred revenue billed and unbilled grew very rapidly. Our balance of billed and unbilled deferred revenue increased 22% or \$33 million to \$186.4 million, and our balance of billed deferred revenue increased 13% to \$99 million in the year. It is -- it's quite remarkable to think back a few years ago when we had virtually no deferred revenue. And when the total revenues of the company were less than the deferred revenue we have today. This significant growth in deferred revenue further elevates the trajectory, predictability and visibility into future revenue growth.

Fifth, we're achieving strong growth in our average client spend. Our average All Access Pass subscription and subscription services

revenue per client has also increased significantly over the years, growing from an average of approximately \$20,000 per client when we launched All Access Pass 8 years ago to \$77,000 at the end of fiscal '22. This average spend increased further to \$83,000 or by 8% per client in fiscal '23.

The sixth point I would make is that we're achieving strong overall revenue growth. In fiscal '23, our total revenue grew \$17.7 million to \$280.5 million, establishing this record revenue level was noteworthy for several reasons. First, it represented growth of more than \$55.2 million or 25% compared to our pre-pandemic high mark -- revenue high mark of \$225.4 million in fiscal '19. This growth was on top of a record high \$38.7 million of revenue growth achieved in fiscal '22. The magnitude of which benefited from comping to a pandemic-impacted period in fiscal '21.

Importantly, as shown in the bottom row of Slide 10, on a rolling 2-year basis to normalize for fiscal '22's pandemic benefited comparison, our revenue grew \$56.4 million or 25%, which is compounded at about 12% per year. This \$56.4 million of growth exceeded that of all but one other 2-year period since our business model conversion, which was that of '21 to '22, another pandemic comp period. And we're pleased to have achieved this strong revenue growth in both the Enterprise and Education Divisions.

As shown on Slide 11, the Enterprise Division's full year revenue of \$205.7 million was its highest ever representing growth of \$69.8 million or 51% since our conversion to a subscription model in 2017. And with the exception of additional \$1 million in FX impact in the back half of the year, Enterprise revenue came in essentially as we expected. This result represented a growth of \$11.3 million or 5.8% for the year. Importantly, this is on top of an extremely strong \$25.8 million or 15% pandemic compared growth in fiscal '22. The Enterprise Division's 2-year growth of \$37 million or 22% represented a strong annual compound growth rate of 10.4%.

The Education Division also achieved its highest revenue year ever with revenue increasing \$7.9 million or 13% to \$69.7 million, representing growth of \$25.6 million or 58% since 2017. I'd like to just maybe pause and step back for a second and thank our wonderful associates in our Education Division. It wasn't that long ago when they first launched Leader in Me that the entire revenue in the division was just over \$3 million. As expected, Education also had its best year ever in terms of winning new schools with 791 new schools becoming Leader in Me schools.

The only factor not meeting expectations was that because of the extremely high number of new schools added in the year, a portion of these new schools signed up a month or so later than normal. As a result, the services and materials that would normally have been delivered in the fourth quarter relating to these new schools were not able to be fully delivered in the fourth quarter. Largely as a result of this and also reflecting the approximately \$1 million of FX impact in the last 2 quarters in the Enterprise Division, our total company revenue of \$280.5 million, though, a record high, came in 1.2% or \$3.5 million lower than the \$284 million we had expected when we updated our forecast in our second quarter report. We expect to shift the Education Division materials and deliver the onboarding services for these new schools during fiscal '24.

And finally, we achieved even stronger growth in subscription and subscription services revenue. As shown on Slide 12, subscription and subscription services revenue grew \$20.7 million in fiscal '23. Importantly, on a 2-year basis to normalize for last year's pandemic benefited comp, subscription and subscription services revenue growth was \$65.6 million, representing annual compounded growth of 19%. We're pleased to have achieved these strong results in each of these key outcomes. As I mentioned earlier, our second priority is to be able to accomplish our first priority, while also having a strong and profitable business model, a business model that results in a significant percentage of our growth in revenue flowing through to increases in adjusted EBITDA and cash flow.

As shown on Slide 13, the continued strength of our business model is reflected in the following general outcomes: first, achieving strong gross margins, second, having a cost of acquiring a customer that is less than the revenue generated even in the first year of a subscription contract; third, having operating SG&A decrease as a percent of sales; and fourth, continuing to grow our adjusted EBITDA, which significantly increases free cash flow.

As shown on Slide 14, we're pleased that each of these key outcomes again remained strong in the fourth quarter and for fiscal '23. Specifically, as shown on Slide 15, gross margin percent remained a strong 76.1% even after absorbing increased client reimbursed travel related to increases in on-site delivery, which flows into revenue, but without any profit attached. Operating SG&A as a percent of

revenue improved a further 179 basis points to 59% in fiscal '23, even as our revenue increased. We're achieving strong growth in adjusted EBITDA with adjusted EBITDA increasing to \$48.1 million or \$49.5 million in constant currency, a level above the highest end of our guidance range, and adjusted EBITDA margin continued to increase, reaching 17.1% for the year, an improvement of 100 basis points.

As to our third priority, we want to reinvest our profits and cash flow at high rates of return to create even more value. As indicated on Slide 16, successfully achieving this priority is reflected by the following outcomes: first, investing capital in the business at high rates of return; and second, returning substantial amounts of excess cash to shareholders in the form of stock buybacks. As shown on Slide 17, as I mentioned a minute ago, we're pleased to have met each of these key outcomes again in fiscal '23. In fiscal '23, our return on net tangible assets from investments in the business continue to be high. And as you can see on Slide 18, we returned \$35.6 million to shareholders through purchasing 885,000 shares, including returning \$5.9 million through the purchase of 125,000 shares in the fourth quarter. And we've invested \$59.4 million to repurchase shares over the last 2 years.

We're pleased to see the continued progress on these 3 priorities in fiscal '23 and how the combination of these has really become a powerful flywheel. I'd like to briefly share how we see this powerful flywheel accelerating in the coming quarters and years. First, we want to become even more important and trusted to a growing number of clients and schools. To accomplish this, we've accelerated our focus in 3 key areas: first, ensuring that we maintain and expand our position of leadership in having what is truly the best-in-class content and solutions to help our clients and schools address their biggest challenges and opportunities.

Second, we want to utilize technology, including AI, to expand our reach and impact. And third, we want to significantly expand the number and capabilities of our client partners and client engagement teams. By focusing our efforts on these 3 areas, we expect, as illustrated on Slide 19, to be able to do the following: to accelerate the number of new logos and schools that we acquire; further increase both our already very high levels of revenue retention and client retention; and expand both the size of our average subscription contract and its average duration, thereby significantly growing our already large and expanding lifetime customer value.

I'd like to spend just a minute or 2 on each of these and what we -- and give a little bit more context for what we're doing to advance in each of these 3 areas. First, to be our clients' partner of choice for addressing the challenges that really matter to them, our content and technology are and must continue to be world-class in delivering collective behavior change and measurable outcomes. Over the past 2 years, we've made significant investments in content and technology and are pleased that fiscal '24 will be one of our biggest launch years ever.

Two of our biggest blockbuster solutions, the Speed of Trust and the 7 Habits of highly effective people have been completely reimaged and refreshed, and both have been designed intentionally to better help our clients scale these solutions throughout their organizations, leading to even more widespread collective behavior change and the opportunity for increased All Access Pass penetration and expansion. Additionally, we're launching our first ever solution to help leaders and individual contributors to have difficult high-value conversations, a solution to which our clients have been asking us for quite some time. We've also completely revamped our sales performance solutions, and we'll launch that a little bit later this fall.

We continue to build powerful new technology capabilities into our platform, including enabling the future use of AI to make it easy for our clients to launch, manager -- launch, manage and measure Franklin Covey solutions at scale across their organizations. A similar set of product and technology additions to our Leader in Me solutions are also being incorporated and launched this year to help schools and districts address the needs of pre-K students and K-12 students as well as faculty and staff development. We could not be more pleased with the quality and expected to impact these new and reimaged solutions will have on our clients, and we're just getting started. Over the next couple of years, we'll continue to make very meaningful and strategic additions to the All Access Pass and Leader in Me solutions.

Second, since the launch of our subscription business in fiscal '16, we've significantly grown 3 important client-facing roles. We've increased the net number of client partners or salespeople by approximately 70% from 180 to 303. And at the same time, we've launched and grown 2 new roles, implementation strategist and Leader in Me coaches, which, over time, we've increased from essentially 0 to 150. Having significantly grown the number of client partners over the past few years, in fiscal '23, we chose to prioritize their ramp and development while accelerating the growth of the newer roles of implementation strategist and Leader in Me coach. As a result, today,

we have a client-facing field organization that is not only the largest in our company's history, but one that is among the largest in our industry. Each of these roles is critical to driving new client subscriptions, retention, expansion and the sale of subscription services.

As we move into fiscal '24, consistent with what we said at the end of our third quarter, we'll not only continue to focus on the development of our existing people, but we will also grow the net new number of professionals in these important roles by adding approximately 40 new people by fiscal year-end. The combination of these factors are investment in building best-in-class solutions to must-win games and the development and growth of our sales and client-facing roles gives us tremendous confidence in our ability to generate significant future revenue growth.

Our second area of increased focus is to even further strengthen our business model. As just noted, our focus on becoming an even more important partner to our clients and schools is expected to drive accelerated revenue growth. Our business model focuses on ensuring that a sizable portion of these expected increases in revenues flow through to increases in adjusted EBITDA and cash flow.

As shown in Slide 20, key areas of our business model focus are: first, on ensuring that the tremendous impact our solutions deliver for clients earns us the kind of pricing power that allows us to maintain and even expand our strong gross margins. Second, that the expanding lifetime value of our customers allows us to continue to maintain or reduce our SG&A as a percent of sales. And third, that the resulting high flow-through of revenue to adjusted EBITDA will increase our adjusted EBITDA margin to 20% in the coming years.

And finally, our third area of increased focus is to reinvest the significant amount of cash flow we expect to generate to create even more value for shareholders. We expect that the successful execution of our business plan will generate significant amounts of free cash flow over the next few years. This free cash flow, together with nearly \$40 million of cash we have on our balance sheet, should in the coming years enable us to generate more than \$150 million or around \$11 per share to invest to drive organic and inorganic growth or to return to shareholders. This provides the prospect of shareholders earning a tremendous cash on cash return on their investment. At the same time, the value of that investment continues to accelerate.

Advancing these priorities places us in a special category of companies. As shown in Slide 21, we're becoming a company that is consistently and simultaneously strengthening and expanding our strategic moat in the most important and lucrative space in our chosen markets, generating high rates of growth in adjusted EBITDA and free cash flow and generating outsized cash on cash and long-term returns for our shareholders by investing that cash to create additional value.

I'd like to now turn some time over to Steve to discuss our results for the fourth quarter and the year in a little bit more detail and also to review our guidance. Steve?

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**Stephen D. Young *Franklin Covey Co. - CFO & Corporate Secretary***

Thank you, Paul, and good afternoon, everyone. It's nice to be with you. I would like to briefly provide more detail on the factors underlying the strong performance, focusing on results in the key areas of our company, specifically our Enterprise business in North America, the Enterprise business internationally in both our direct offices and our international licensee partner operations, and our Education business, which is primarily in North America.

As shown on Slide 22, results in our Enterprise business in North America continued to be strong. Reported sales in North America, which account for 73% of total Enterprise Division sales, grew 6% in FY '23 on top of 19% pandemic comp accelerated sales growth in FY '22. For the fourth quarter of FY '23, sales decreased 2% after growing 17% in last year's record fourth quarter. We are pleased with the 26% growth we have achieved in the Enterprise business in North America over the past 2 years. The first year of which, as Paul noted, benefited from comping to the prior year COVID impacted results.

As noted, we expect the beginning in Q2 of FY '24 year-over-year comparisons will become easier. Subscription and subscription services sales in North America grew 8% for FY '23 on top of the 26% growth achieved in the pandemic [compated] FY '22, resulting in 2-year growth of 37%. We are pleased with the growth rates we have achieved in the Enterprise business in North America. Our balance of deferred sales billed and unbilled in North America grew 18% compared to last year's fourth quarter balance, establishing a sturdy base for next year's growth and the percent of North America's All Access Pass client agreements that were for multiyear periods increased to

54% from 45% in FY '22. The percentage of invoice sales represented by multiyear contracts, as Paul said, increased to 58% in FY '23, up from 53% last year.

As shown in Slide 23, revenue from our international operations, which account for approximately 17% of our total Enterprise Division revenue, increased \$1.9 million or 6% in the year and grew 8% in the fourth quarter. The annual and quarterly growth were both primarily driven by improved results in China. Also in Slide 23, our international licensee partner sales grew 10% for the year and the quarter. We're pleased with these results, particularly considering the adverse impact of FX in a challenging geopolitical environment.

Finally, the results in our Education business, which accounts for about 25% of the total company, grew 13% for the year, but decreased 2% from the record level achieved in the fourth quarter of FY '22, which, as we mentioned earlier, both that we had a record number of schools and that not all the revenue from those schools that we normally get made it into the fourth quarter. As shown on Slide 24, education subscription and subscription services sales growth was strong, increasing 13% for the year, but decreasing 3% for the fourth quarter. Education's balance of deferred subscription sales billed and unbilled increased 24% in the year. And year-over-year retention of Leader in Me schools remain extremely high and nearly 85% for FY '23.

As shown on Slide 25, our cash flows from operating activities was \$35.7 million for the year. Consistent with our expectation that cash flows would strengthen in the back half of this fiscal year, our back half cash flows were more than double those achieved in the first half. As you recall, mid-last year, we noted that this year's cash flows would be lower than the past couple of years, primarily reflecting a decrease in accrued liabilities and accounts payable and an increase in accounts receivable from increased sales. We expect cash flows from operating activities to increase significantly in FY '24. We also expect our free cash flow to increase significantly in FY '24.

Finally, even after investing \$59.4 million of excess liquidity for stock purchases in the last 2 years, including \$35.6 million in FY '23, we ended the fourth quarter with more than \$100 million in liquidity, including the \$38.2 million in cash and with our full \$62.5 million revolving credit facility undrawn. So we're pleased with the performance in our divisions.

Now for guidance. Franklin Covey's financial strategy is to consistently grow revenue, and at the same time, experience a high flow-through of that increased revenue to adjusted EBITDA on cash. Our guidance is consistent with that strategy. Shown on Slide 26, the company's reported adjusted EBITDA of \$48.1 million in FY '23 is an increase of 14% over last year and the highest amount ever for this business. As Paul noted, this record result reflects growth of \$27.5 million or 133% compared to our pre-pandemic FY '19 result of \$20.6 million. We expect future financial results to continue to show significant increases each year.

Guidance for next year, FY '24, shown on Slide 27, is that adjusted EBITDA will increase by 17% approximately over the FY '23 high watermark to between \$54.5 million and \$58 million. We are pleased that considering constant currency fluctuations of \$1.5 million due to FX, this guidance is actually a bit higher than we have been talking about in past quarters. Our adjusted EBITDA target for FY '25 of \$66 million represents an additional increase of 17% over FY '24. And again, considering constant currency, also represents a bit better growth trajectory than we've been talking about for some time. In FY '26, we expected the adjusted EBITDA to be well into the \$70-plus million range.

Our guidance considers, among other factors, the following: current world economic and business conditions, considers continued recovery of the business in China, Japan and certain licensees, considers a revenue growth rate of at least high single digit and is in constant currency. This full year guidance is particularly strong considering that we expect first quarter sales and adjusted EBITDA to perhaps be slightly less than last year. Our first quarter guidance is that adjusted EBITDA will be between \$8.5 million and \$9.5 million, strong but still lower than last year's record \$11.5 million. This reflects primarily that our service revenues, while still our second highest dollar amount ever, will be lower than last year's record first quarter.

This last year's first quarter, we had a record AAP subscription services quarter in North America of more than \$12 million, reflecting a 61% attachment rate, reflecting a handful of clients who are in their launch phase, and therefore, purchased extra services, 2 of which made up a significant portion of this difference. This compares to a normal attachment rate in the mid-50s, which we expect to exceed this year. This guidance obviously signals that we expect the sales growth rate compared to last year to accelerate throughout this year, reversing the quarterly growth rate trend of FY '23, which, as noticed, was up against pandemic impacted comps. While many economic

and other factors could impact these expectations, we're very excited about our financial future.

Now back to Paul.

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**Paul S. Walker *Franklin Covey Co. - President, CEO & Director***

Thank you, Steve. Before we transition to the Q&A portion of our call, I thought I would begin by addressing a question that some of you have previously indicated an interest in. And that is this. How are we thinking about growth generally and particularly in the current environment? I thought I'd provide you with a little bit of color about what we're seeing right now and why we're bullish about our ability to continue to grow meaningfully in fiscal '24 and beyond.

I'll start by saying how incredibly grateful I am for our talented associates and partners all over the world for their tremendous efforts to build our rapidly growing subscription business. As you recall, in fiscal '20, our revenue was \$195 million, and our EBITDA was \$14 million. As we shared today since then, revenue has not only returned to our pre-pandemic high of \$224 million, but has grown by nearly \$90 million, well past the pre-pandemic high to more than \$280 million. At the same time, adjusted EBITDA has grown by more than \$34 million from \$14 million to \$48.1 million. Additionally, over the past 2 years, we've grown revenue by \$56 million or a little over 12% compounded per year. We feel particularly good about this growth and the strength of our growth engine going forward and are grateful to our clients for trusting us to be their partner through both good and challenging times.

As to our thinking about our future growth from here, there are a number of factors that give us confidence related to future revenue growth and upside. I'd like to share 5 of these factors, and then we'll open up to Q&A. First, we've chosen to focus on the most lucrative and defensible space in our industry. As you know, we've chosen to focus our entire organization on solving must-win challenges with best-in-class solutions. These challenges and solutions include, among others, equipping leaders with the mindsets, skill sets and tool sets to generate breakthrough results, instilling habits of personal and interpersonal effectiveness in individuals all across organizations, creating high trust and inclusive cultures and generating collective action and execution on the organization's most important goals. While others are competing with vast libraries of increasingly undifferentiated content, we're doubling down on the development of solutions and technologies to truly drive collective action, behavior change and breakthrough results.

The second factor I would point to is that a significant portion of our growth will come from our balance sheet. Our deferred subscription revenue, billed and unbilled, grew by 22% or \$33 million in FY '23 to \$186.4 million, and all of this deferred revenue will, with certainty, convert to revenue.

The third factor is that we have a lot of embedded growth in our current and future sales force. We have more than 60 new client partners and another 60 or more implementation strategists and Leader in Me coaches in key client-facing roles than we had just a few years ago. Each of these people are still only partially through their ramp to full revenue potential, representing more than \$100 million of future revenue growth already in our field system as these people reach ramp maturity. Additionally, we'll add approximately 40 new people to these ranks this year, representing tens of millions of dollars of additional revenue over the course of the next 5 years as this year's fiscal '24 cohort ramps and matures.

The fourth factor is that we're investing, as I mentioned earlier, in new content and technology to help us penetrate and expand our powerful solutions within more organizations and schools all over the world. And finally, the fifth factor is that we retain substantially all of our subscription revenue. This creates a very strong foundation upon which to build and add new growth.

As Steve mentioned and I'll reiterate, we continue to feel incredibly good about the results from fiscal '23 and also good about and have a high level of confidence about the durability and our growth expectations of our All Access Pass and Leader in Me subscription business in the months, quarters and years to come.

With that, we'd now like to ask, Sean, the operator, to open the lines and we'll take some of your questions.

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**QUESTIONS AND ANSWERS**

**Operator**

(Operator Instructions) Our first question comes from the line of Alex Paris with Barrington Research.

**Paul S. Walker Franklin Covey Co. - President, CEO & Director**

Hi, Alex. Alex are you there? No. Alex might be trying to come off mute. Sean, should we pick up the next one?

**Operator**

Yes, please stand by. I will move forward to the next question.

**Paul S. Walker Franklin Covey Co. - President, CEO & Director**

Okay. Great.

**Operator**

Our next question comes from Jeff Martin with ROTH MKM.

**Jeffrey Michael Martin ROTH MKM Partners, LLC, Research Division - Co-Director of Research & Senior Research Analyst**

Paul, I wanted to get a --

**Paul S. Walker Franklin Covey Co. - President, CEO & Director**

Hi, Jeff. Good.

**Jeffrey Michael Martin ROTH MKM Partners, LLC, Research Division - Co-Director of Research & Senior Research Analyst**

I missed the first 20 minutes of the call, so if some of these questions are redundant, and I apologize. I wanted to get a sense of kind of trends in the service attachment rate in Q4. I didn't catch that. What was the percentage specifically in Q4? I think you gave it for the full year. And are there things positively or negatively impacting that? I know you mentioned Q1 is a tough comp, but just kind of broadly speaking, given the current environment, are you seeing any impact on the attach rate?

**Paul S. Walker Franklin Covey Co. - President, CEO & Director**

In Q4? Yes. So the attach rate in Q4 was quite good. So we talked about being kind of at a mid-50s average historically. In Q4, it was -- the attach rate was 60%. So it was one of our stronger attach quarters. And again, that's kind of what we're thinking this year will look like that it'll be like Q4 was like most of last year was. I think our attach rate for the year was around 59% for the year. So kind of right in that. It's kind of moved over time. You'll recall back when we started, we were talking about attach rates that were in the 30%, and it's kind of kept inching up over time.

**Jeffrey Michael Martin ROTH MKM Partners, LLC, Research Division - Co-Director of Research & Senior Research Analyst**

Got it. And then in terms of sales conversion, what kind of trends are you noticing today relative to when the economy was a bit stronger perhaps? And with the client partners that you brought on in Q4, what kind of time line should we expect before those start contributing to a reacceleration of growth here?

**Paul S. Walker Franklin Covey Co. - President, CEO & Director**

Yes. Great question. So one thing we did mention in the first part of the call that you might not have been on for, we were quite pleased. Fiscal '23 was our best year for new logo adds, both in the Enterprise Division All Access Pass new clients and in the Education Division new Leader in Me school that we've had since we converted to a subscription -- to the subscription business. And so in the environment that we're in, we're really pleased to have our best year ever in acquiring new logos. So that's one thing I would point to that we mentioned earlier.

As it relates to the new client partners that we've added, we feel great about the people that we've added, they're right in the middle of their ramp right now. And we've added -- I think we mentioned maybe in our second quarter call, we talked about the expanded resources that we've added there to ensure the ongoing continued successful ramp of client partners. And one of the things we pointed to in our third quarter call, you'll recall, is that as we -- so not only did we have the historic ramp rates that went \$200,000 in somebody's

first year of net new revenue to \$500,000 to \$800,000 to \$1.1 million and then \$1.3 million by year 5, as we've tracked these cohorts now in our new subscription model through the years beyond year 5, we're now seeing these cohorts are moving up towards \$2 million.

And so what used to be a revenue story that went from \$200,000 in the first year to \$1.3 million and then might have grown by a couple of points each year thereafter, we're now seeing these cohorts continue to mature because these client partners are retaining the vast majority of their subscription revenue and they start with that the next year and they can build upon it.

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**Jeffrey Michael Martin ROTH MKM Partners, LLC, Research Division - Co-Director of Research & Senior Research Analyst**

Great. And then last question for me. You're adding 40 client partners and related integration specialists in fiscal '24. What kind of time line should we expect that to ramp? And I asked the question because modeling that from an SG&A standpoint does have an impact.

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**Paul S. Walker Franklin Covey Co. - President, CEO & Director**

Sure. Yes, I think -- so they'll be a little bit more evenly spread throughout the year this year, but they will still be towards -- they won't be all at the very, very end, they'll be kind of midway through the year, back half of the year, knowing that we just added a significant number in the back half of this last year that we're ramping right now. So I would model it towards the middle and back half of the year.

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**Jeffrey Michael Martin ROTH MKM Partners, LLC, Research Division - Co-Director of Research & Senior Research Analyst**

Great.

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**Paul S. Walker Franklin Covey Co. - President, CEO & Director**

Yes. Thanks, Jeff.

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**Operator**

(Operator Instructions) Our next question comes from Dave Storms with Stonegate Capital Markets.

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**David Joseph Storms Stonegate Capital Markets, Inc., Research Division - Director of Research**

Great. Love to hear. Sorry, I just wanted to kind of start with the Education business. Great to see that you added too many schools. Curious as to what you're seeing as you onboard more schools. Are you still able to generate the same amount of revenues per school or district? And do you see any inflection point as to when maybe that environment gets a little more challenging?

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**Paul S. Walker Franklin Covey Co. - President, CEO & Director**

Great. I'll ask Sean Covey to share a couple of thoughts there. Sean, do you want to take those on?

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**Michael Sean Merrill Covey Franklin Covey Co. - President of Franklin Covey Education**

Yes. Sure. Yes. So we added 791 new schools this year, which is the best we've done, and we expect to do more next year. We also -- one of the reasons this is happening, our school growth, new school growth is because we're really focusing on districts. This last year, we brought on 147 new districts compared to 65 the year before, and we expect that number to increase substantially this year as well. And so when you bring on districts, you usually bring them on in clumps. Sometimes the districts are small. They have 3 or 4 schools. Sometimes they're huge with 50 to 100 schools. And so we feel like the opportunity for new schools being brought on over the next several years is really good.

I think that -- so the district focus is one reason why -- another reason why is because we're getting really good client outcomes and word of mouth spreads fast. This year, we just landed our second state-sponsored contract. We did one last year. We have several more in the hopper right now where the states are learning about what's happening inside of some of their bigger districts and they're coming in to help sponsor schools and get behind them to get -- to accelerate growth. That's helping a lot. The funding environment is very positive right now. I think the #1 reason why is because we have a large foundation.

If you look at our historical number of Leader in Me schools, 6,000 or so, about 1/3 of them have been sponsored by companies, by organizations, by foundations and other partners. They don't pay for all of it. They pay for a good chunk to help the schools get started. And so we have -- as I shared before, we have a partnership with a large foundation that's committed to sponsoring literally thousands of schools over the next decade to help Leader in Me get going in these schools and districts. ESSER funding is still around for another year.

It expires at the end of this year. We do have a lot of multiyear contracts in place that will help us through the coming years. I think we'll see some impact from that next year, but we primarily get funding from Title I and Title II dollars that is not going away and will always be there.

But yes, I think for the foreseeable future, we see ongoing increased growth in the number of new schools we bring on each year in the U.S. and Canada. And again, there will be some maybe funding impact next year from the ESSER funds expiring that we don't think -- we still think we'll grow the following year. And those are the primary reasons why I think it's going well. Does that answer your question, Dave?

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**David Joseph Storms *Stonegate Capital Markets, Inc., Research Division - Director of Research***

That's great color, incredibly helpful. And then just one more for me, if I could. You mentioned inorganic growth being potential avenue with your anticipated cash generation over this next, several years, hopefully. Is there anything you're seeing in the market that is attractive? Or how are you kind of thinking about your capital allocation right now?

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**Paul S. Walker *Franklin Covey Co. - President, CEO & Director***

I'll speak to the growth side and then maybe Steve could talk about any other capital allocation points you'd like to make. So first, we have been and continue, and as we reported, we expect to generate significant amounts of cash. We are and we expect that we will. And so what to do with that cash is a great question. The order of priority for us would be to first invest that back in the business in the form of organic growth. And we think that there's a tremendous opportunity to continue to drive organic growth in our business. We -- while we're doing great, we had a record number of new logos in new schools last year. There are still, fortunately, a significant number of organizations out there and schools and districts that would benefit from what we have.

And we just -- we think in some ways, we're just -- as far as we've come, we're still just getting started with the impact that we could have as we grow our sales force, we help them ramp more effectively. We put money into marketing. We put money into content. We build solutions like those we're launching this year that are built to really scale up and down across organizations to get at the large -- we've talked in the past about client penetration that while we're thrilled that average revenue per client increased again this year from \$77,000 to \$83,000, that's still a fraction of the revenue that we believe is available just inside our average current client today. And so we're thinking about that as we build solutions, as we ramp these Leader in Me coaches and these implementation strategists, it's with the clear visibility in our minds that we can expand significantly within our current client organizations, and there are a lot of clients for us to add. So that's first use of cash is to invest in those areas of growth that we can see that are, what we call, organic.

Second, there are some interesting and I think going to be some interesting inorganic opportunities for us to explore as we get bigger, as we continued our focus on really differentiating our solutions around having this best-in-class content. There are -- maybe I won't get into the exact specifics today just to not get that out there. But there are some areas where we think, hey, there are some adjacent -- very near and adjacent opportunities that would either add capability or might add additional customers and revenue, while we're building those same things ourselves quickly. And then, of course, after having done those first 2 priorities, we have, over the past many years, returned a lot of cash to shareholders in the form of share repurchase.

Steve, I don't know if you want to say anything about that?

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**Stephen D. Young *Franklin Covey Co. - CFO & Corporate Secretary***

No. I mean, we do think that we'll be able to allocate enough resource to run the business and to pursue current opportunities to do some more tuck-in type acquisitions. And as long as the acquisitions that we might do are tuck-in type and not transformative larger than we expect to also have available cash, we don't mind having a little bit on the balance sheet and some unused liquidity, but we also see the value as shown in the last couple of years of repurchasing company stock. And I think that's a good opportunity to increase value for shareholders also.

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**Paul S. Walker *Franklin Covey Co. - President, CEO & Director***

Thanks, Steve. Thanks, Dave.

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**Operator**

(Operator Instructions) I am showing no further questions at this time. I'd now like to turn it back to Paul Walker for closing remarks.

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**Paul S. Walker Franklin Covey Co. - President, CEO & Director**

Thanks, Sean. Well, just again, thank you for joining us today. Thanks for continuing to partner with us. We appreciate you and appreciate the great length that you go to understand our story and for the advice and thoughts you have. We hope you have a great rest of your evening and a great week ahead. Thanks.

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**Operator**

This does conclude the program. You may now disconnect.

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