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Q1 2022 Franklin Covey Co Earnings Call

EVENT DATE/TIME: JANUARY 06, 2022 / 10:00PM GMT

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PRESENTATION

Operator

Welcome to the Q1 2022 Franklin Covey Earnings Conference Call. My name is Adrienne, and I'll be your operator for today's call. (Operator Instructions) I'll now turn the call over to Derek Hatch. Derek Hatch, you may begin.

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

Thanks, Adrienne. Good afternoon, ladies and gentlemen, and Happy New Year. On behalf of Franklin Covey, it's my pleasure to welcome you to our earnings call this afternoon to discuss the first quarter of fiscal 2022.

Before we begin, I'd like to remind everybody that this presentation contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based upon management's current expectations that are subject to various risks and uncertainties, including, but not limited to, the ability of the company to stabilize and grow revenues; the acceptance of and renewal rates for our subscription offerings, including the All Access Pass and Leader in Me memberships; the duration and recovery from the COVID-19 pandemic; the ability of the company to hire productive sales 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 product; changes in the training and spending policies of the company's clients; and other factors identified and discussed in the company's most recent annual report on Form 10-K and other periodic reports filed with the Securities and Exchange Commission.

Many of these conditions are beyond our control or influence, any one of which may cause future results to differ materially from the company's current expectations; and there can be no assurance the company's actual future performance will meet management's expectations. These forward-looking statements are based on management's current expectations. 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, I would like to turn the time over to Mr. Paul Walker, our Chief Executive Officer. Paul?

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

Thank you, Derek. Good afternoon, everyone. I'm joined here also by Steve Young and Bob Whitman. We're happy to have the opportunity to talk with you today and we just -- we're grateful that you joined us.

We're very pleased to report that our first quarter results were very strong. As you can see shown in Slide 3, total revenue in the first quarter grew 27% or \$12.9 million to \$61.3 million. And for the latest 12-month period, revenue grew 26% or \$48.9 million to \$237.1 million. Adjusted EBITDA for the first quarter increased to \$9.9 million, an increase of \$6.2 million or 167% compared to the \$3.7 million of adjusted EBITDA in the first

(technical difficulty)

Operator

It's the operator.

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

Hello, operator?

Operator

[Stephanie's] line is not connected. Let me see if I can access her, 1 second.

It's the operator. I am going to (inaudible). I'll be right back.

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

If anyone on the line can hear me, this is Steve Young. [Stephanie] and the operator are working to reconnect Paul. So sorry for the delay.

Operator

We are getting the line back. One moment.

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

Hello? Steve and Bob, can you hear us?

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

Yes, I can hear you, Paul.

Robert A. Whitman *Franklin Covey Co. - Executive Chairman & Chairman of the Board*

Yes, Paul.

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

All right. Sorry, everyone, our phone line cut out in here. So we're on a different line. Let me -- we'll just pick right back up where we were. I'd like to -- why don't we start back on Slide 4 and talk about the strong growth on each key metric.

As you can see, as I mentioned there, in the first quarter, subscription revenue grew 31% or \$6.7 million to \$28.4 million. And for the latest 12 months, it grew 22% or \$19.1 million to \$106.2 million. As you can see, total subscription and subscription services revenue in the first quarter grew 32% or \$10.8 million to \$43.9 million; and for the latest 12 months, grew 31% or \$39.4 million to \$168 million.

And in the first quarter, the sum of billed and unbilled deferred revenue grew 24% or \$23.7 million to \$121.1 million. So the first point here is we really -- continue to be really pleased with the strong results we're achieving in our subscription business and in the company overall. Today, there are 4 key things that we'd like you to take away from our discussion, and I'll summarize these. They're shown on Slide 5, and then we'll go into a bit of depth on each.

The first is that our results in the first quarter, as we've just previewed, were exceptionally strong. This strength is reflected in every key P&L category, including revenue growth, gross margin improvements, adjusted EBITDA and also in cash flow. The second that we'll talk about today is that this strong performance was driven by the strength of our rapidly growing subscription business model. The third is that we expect the entire business to become increasingly subscription and subscription services over the coming years. And finally, we'll talk about point #4 that we're really excited about the size of the market opportunity before us. And we're doing a lot to ensure that we continue to execute on it at scale.

I'd now like to ask Steve Young to address takeaway #1, the strength of our first quarter and latest 12 months results. Steve?

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

Thank you, Paul, and it's nice to have you back. Nice to be with everyone today to report this good quarter and just give a little bit more in-depth look at the highlights that Paul mentioned.

As you can see on Slide 7, some of the key highlights for the quarter include the following: revenue, as mentioned in the first quarter grew 27% or \$12.9 million to \$61.3 million; and revenue for the latest 12-month period through the first quarter grew 26% or \$48.9 million to \$237.1 million, benefited partially from the fact that last year's first quarter was impacted by the pandemic.

This strong first quarter revenue growth was broad-based across both the Enterprise and Education divisions. In the Enterprise division, revenue grew 22% or \$8.8 million to \$48.1 million, reflecting both the strength of our performance in North America, where sales grew 22% and in our international direct offices where sales grew 27%.

Growth in both of these areas was driven by our strong subscription and subscription services sales, which increased 27% in the first quarter. The Education division also had a very strong first quarter, with revenue growing 56% or \$4.2 million. Our gross margin percentage in the quarter increased 240 basis points to 77.7% from 75.3% in last year's first quarter.

Gross margin percentages remain very strong across every operating unit with a significant portion of this first quarter increase in gross margin percentage resulting from the fact that we achieved more normalized margins in the Education division. This resulted from better absorption of certain fixed coaching costs compared to last year when schools were struggling to adapt to the pandemic environment and utilize fewer coaching days during the first and second quarters.

Our overall company gross margin percentage for the latest 12-month period increased 339 basis points to 77.7% also. Operating SG&A as a percentage of sales improved 200 -- or 612 basis points in the quarter to 61.5% of sales compared to 67.6% of sales in last year's first quarter and improved 409 basis points to 63.2% for the latest 12-month period.

As shown in Slide 8, adjusted EBITDA for the first quarter increased \$6.2 million or 167% to \$9.9 million compared to \$3.7 million in the first quarter of FY '21. This strong result also represents an increase of almost \$5 million compared to the pre-pandemic first quarter of FY '20. For the latest 12-month period, adjusted EBITDA increased \$21.1 million or 162% to \$34.2 million.

Finally, as shown in Slide 8, our cash flow and liquidity positions are also very strong. Our cash flows from operating activities remained very strong at more than \$10 million for the quarter. As shown in Slide 9, our free cash flow for Q1 of FY '22 is \$9.4 million versus \$10.4 million in Q1 of last year, both we think good strong numbers.

These strong cash flow metrics reflect an additional benefit of our subscription model, specifically that we invoice upfront and collect cash from these invoiced amounts even faster than we recognized all of the subscription revenue associated with these subscription contracts. As noted with the strong cash flow, we ended the quarter with \$66 million of total liquidity made up of \$51 million in cash plus \$15 million in credit facility remaining undrawn and available. So we're pleased with the result of the first quarter and the trailing 4 quarters.

So back to you, Paul.

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

Thank you, Steve. I'd just add that this strong performance reflects the continuation and acceleration of 3 key trends that we've discussed with you all in past quarters. As you can see on Slide 10, these trends are, first, that Enterprise division sales in North America continues to be very strong, driven by the growth in All Access Pass subscription and subscription services sales. In the first quarter, as you can see there, revenue in North America grew 22% or \$6 million to \$33.4 million. And for the latest 12-month period, Enterprise revenue in North America grew 23% or \$23.8 million to \$125.6 million, up from \$101.8 million last year.

Second, as you can see there in the middle column, sales in our international operations continue to strengthen. While pandemic-related

challenges continue in Japan and in certain licensee locations, resulting in our total international direct office and licensee revenue still being somewhat below those that we achieved in fiscal 2020's first quarter, we're pleased that overall revenue in our international direct offices in the first quarter grew 24% compared to the first quarter of fiscal 2021 and grew 36% for the latest 12-month period. In addition, the strong focus on All Access Pass in these international operations has resulted in significant increases in our balance of All Access Pass deferred revenue internationally, which is establishing a foundation for strong future international sales growth.

The third performance -- third, the performance and trends in our Education division have strengthened substantially. This strength is reflected in, one, the increase in the number of Leader in Me schools that have contracted to renew their Leader in Me membership to 706 schools in the first quarter of fiscal 2022, up from 560 in the first quarter of fiscal 2021; and second, the significant 80 school increase in the number of new Leader in Me schools contracted during the first quarter of fiscal 2022, where we added 129 new Leader in Me schools, up from 49 new schools in the first quarter of fiscal '21. This increase in new and retained schools, together with an increase in the number of coaching and training days delivered compared to last year's first quarter, drove strong performance in the Education division, where revenues grew \$4.2 million or 56% in the first quarter to \$11.7 million compared to \$7.5 million in the first quarter of fiscal 2021.

Adjusted EBITDA in the Education division in the first quarter increased \$2.5 million to \$200,000 compared to an adjusted EBITDA loss of \$2.3 million in last year's first quarter. The second takeaway, as you can see shown on Slide 11, that we'd like to talk about is that the strong performance was driven by the continued and accelerating strength of our rapidly growing subscription business model. As shown on Slide 12, our total subscription and subscription services sales grew 32% in the first quarter to \$43.9 million, an increase of \$10.8 million compared to \$33.2 million in subscription and subscription services revenue in the first quarter of fiscal 2021. For the latest 12 months through the first quarter, subscription and subscription services sales grew 31% or \$39.4 million to \$168 million.

The sum of our billed and unbilled deferred revenue also grew substantially in the first quarter, increasing 24% or \$23.7 million to \$121.1 million compared to \$97.4 million at the end of the first quarter of fiscal 2021. This large and rapidly growing balance of billed and unbilled deferred revenue provides significant stability of and visibility into our future revenue growth. The breakout between billed deferred and unbilled deferred revenue is also shown on Slide 12.

Our balance of deferred subscription revenue grew 19% or \$10.8 million to \$67.8 million in the first quarter compared to \$56.9 million last year's first quarter, and our unbilled deferred revenue grew 32% or \$12.9 million to \$53.4 million compared to a balance of \$40.5 million in last year's first quarter, reflecting the significant ongoing increase in the percent of our All Access Pass contracts and contract value now represented by multiyear contracts. As an example of that, in North America, at the end of our first quarter fiscal '22, 42% of All Access Pass contracts, representing 55% of total All Access Pass contract value were under multiyear contracts.

It's important to note that we achieved strong subscription and subscription services growth in both the Enterprise and Education division. As shown in Slide 13, in the Enterprise division, All Access Pass subscription and subscription services sales in the first quarter grew 27% or \$7.1 million to \$33.1 million compared to \$26 million in the first quarter of fiscal '21. And for the latest 12-month period through the first quarter, All Access Pass subscription and subscription services sales grew 29% or \$26.7 million to \$119.7 million compared to \$93 million for the same latest 12-month period last year. The number of All Access Pass new logos in North America in the first quarter remained strong. Our annual revenue retention continued to exceed 90%. And as I noted a minute ago, the sale of multiyear contracts also continued strong.

As shown on Slide 14, in the Education division, in the first quarter, Leader in Me subscription and subscription services sales grew 51% or \$3.6 million to \$10.8 million compared to \$7.1 million in the first quarter of fiscal '21. For the latest 12-month period through this year's first quarter, the subscription and subscription services sales in the Enterprise division grew 36% or \$12.7 million to \$48.3 million, up from \$35.6 million for the same latest 12-month period last year.

We feel great about our subscription business. As shown in Slide #15, the third takeaway that we'd like to discuss with you this afternoon is that we expect our entire business to become increasingly subscription and subscription services in the coming years. As shown in Slide 16, for the latest 12-month period through this year's first quarter, subscription and subscription services sales grew 31% to \$168 million, representing \$70.9 million of total latest 12-month sales of \$237.1 million.

Given this continued rapid growth, we expect our entire business to become increasingly subscription and subscription services over the coming years. For example, in North America, for the latest 12 months through this year's first quarter, All Access Pass subscription and subscription services accounted for 84% of sales, and this is expected to increase to approximately 90% of sales over the next 3 years.

As shown in Slide 17, All Access Pass subscription and subscription services sales represented only 13% or \$13.7 million of total sales in North America in 2016 when we first introduced All Access Pass. This dramatic sustained compounded growth since then has resulted in All Access Pass subscription and subscription service sales for the latest 12 months through this year's first quarter, growing to \$104.9 million in North America. With annual All Access Pass subscription and subscription services sales expected to continue to grow rapidly and with legacy sales in North America now at very low levels and expected to run off further, as I mentioned, we expect that All Access Pass subscription and subscription services sales to increase to approximately 90% of total North America Enterprise sales in the next -- over the next 3 years.

All Access Pass subscription and subscription and services sales are also expected to make up the vast majority of our sales in our international enterprise operations in the coming years. The growth and penetration of All Access Pass subscription and subscription services has also progressed rapidly in our English-speaking direct offices. As you can see there on the right side of Slide 17, from having no subscription sales at all in these offices just 5 years ago, All Access Pass subscription and subscription service sales for the latest 12-month period through this year's first quarter now account for 83% of total sales in the U.K. and 72% in Australia.

Both offices are well on their way towards the same 90% penetration we expect to achieve in North America. And as you know, our largest international direct offices in China and Japan, and both of them are in the relative early stages of conversion to All Access Pass that are making great progress. Having made the conversion in the U.S., Canada, U.K. and Australia, we're confident that China and Japan will also convert the vast majority of their revenue. And in fact, in fiscal '21, All Access Pass subscription and subscription services sales, a 1/3 of Japan's total sales just in the early days there for them. So we feel great about that progress.

Because of our compelling Leader in Me subscription model, more than 90% of sales in the Education division are, in fact, already subscription and subscription services. As this almost complete conversion to subscription and subscription services occurs, we expect virtually the entire company to be able to generate the same kind of strong growth in revenue, gross margins, revenue retention and customer impact that we've seen in our subscription business over the last 5 years.

The final takeaway that we'd like to talk about today, number four, is shown on Slide 18, is really about the market and the significant market opportunity that we serve. There are 4 reasons that we're excited about the market opportunity before us and that we have the ability to execute in those markets at scale.

First, the markets we target are very large, and they're growing rapidly. As you can see on Slide 19, our focus is on 3 primary markets: first, the enterprise learning market; second, the education market; and third is this market where business leaders themselves are investing to improve performance, and they're doing it out of their operating budgets.

The overall global enterprise learning space is about a \$381 billion market, and approximately \$99 billion of that is spent with external providers. This entire market is growing by approximately 3% or \$11 billion per year.

The second market you see, the education market, it's also very large. \$726 billion is spent annually just in the U.S. by K-12 schools. \$59 billion of that is spent on instructional resources and services that are beyond faculty salaries and benefits. And this market is growing at just over 2% or by about \$16 billion per year.

And then this third market where business leaders themselves are investing to improve performance, it makes up trillions of dollars in expenditures. And it's generally growing at least the pace of GDP, say, 3% or that would equate to hundreds of billions of dollars per year.

Each of these markets is highly fragmented. The largest players account for only approximately 1% to 2% of any of the markets. And we

believe that this plus strong growth in these markets provides a lot of headroom for us and the opportunity for us to significantly increase our market share.

The second thing that we're excited about is we're the leader and one of the most important and lucrative positions in each of these markets, specifically that of helping organizations achieve results that require the collective action of large numbers of leaders and individuals. As you can see shown in Slide 20, while lots of things, including providing people with useful information, helping them learn new skills, et cetera, they can add value to an organization, for an organization to move aggressively forward to achieving its most important objective, that requires collective action, getting everybody moving together and offering their collective best contributions toward the achievement of the organization's highest priorities.

And the third point, I think, to make here is that this helping organizations do that to achieve that kind of seismic collective action that's so important to them, that collected progress, that's where Franklin Covey is most excited and where we really shine. As indicated in Slide 21, we bring truly differentiated strength to helping organizations address challenges, the achievement of which requires sustained collective action.

Our differentiated strengths include the following: first, and this is represented in the top left, that green puzzle piece there, having some of the world's best content for addressing the big organizational opportunities and challenges. Our content is principle-based. It's durable. It's recognized as market leading. With our content, we've sold billions of dollars of solutions over time and built very strong, durable and growing purpose brands.

Our second strategic strength is our ability to offer clients tremendous flexibility in delivering our content and services through all modalities, on all devices, in almost any segment of time and in more than 21 languages worldwide. This capability has been further enhanced by selective acquisitions. We've talked on previous calls, for example, about the Strive platform, state-of-the-art behavior change platform that will create a powerful and seamless experience for end users as well as for those who deploy our solutions within their organizations.

Our third strength is our global reach. Our global sales and delivery network includes a direct sales force of more than 271 client partners across our direct offices, a number of which we expect to grow by at least net 30 each year and more than 60 licensee partners operating in more than 150 countries, allowing us to serve global clients with one of the largest global footprints in our industry and in truly unique ways.

And fourth, as you can see in the bottom right, our fourth strategic strength is our world-class thought leadership. A position of strategic strength, which includes our best-selling books, which we've sold more than \$50 million, a number we believe dwarfs that of any other player in our space.

Our weekly leadership podcast. We have a weekly leadership podcast called On Leadership, and it's now the world's most followed leadership podcast. Our team of best-selling thought leaders, these thought leaders speak in some of the most sought-after venues, including places like the World Business Forum and others. And we publish articles monthly. Increasingly, you can find Franklin Covey thought leadership in Forbes.com, Fast Company, Inc Magazine and dozens of other industry publications.

These strengths are the reason why even throughout the constantly changing pandemic environment, thousands of organizations and schools have purchased, expanded and renewed their All Access Pass and Leader in Me subscriptions and have purchased support services in Franklin Covey to help them achieve their most important objective. These strengths are also behind the fact that, as shown in Slide 22, and you've seen this before, the lifetime value of our customers continues to be both large and growing.

While we already have significant and differentiated strengths in each of those 4 key areas I talked about, again, as shown on Slide 23, we continue to make significant ongoing investments in each of these areas. These include creating new and expanded content and content areas, expanding our technology platforms and our delivery modality capabilities and the associated flexibility, growing our direct sales forces in our international licensee partner channels; and finally, creating new content and channels to continue to build our industry-leading thought leadership.

Given the large and growing and fragmented markets that we serve, the strength of our leadership positions in these markets and the continued investments we're making, we believe that we have a unique opportunity to cement our position as the leader in these targeted markets. So we're very excited both about the results and also just about what's happening with the subscription business and our ability to continue to add meaningful resources and pieces to that, that are showing up as differential and very helpful to our clients.

And so with that portion out of the way there, I'd like to now turn some time to Steve to discuss our outlook and our guidance.

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

Thank you, Paul. So let's have a look at our guidance. Our guidance for FY '22 is that we expect to generate adjusted EBITDA between \$34 million and \$36 million. The midpoint of this range would reflect an approximately 25% increase in adjusted EBITDA compared to the \$28 million achieved in FY '21. Underpinning this guidance are the expectations that are consistent primarily for what we had in the past, first, the recognition during FY '22 of a large portion of the \$67.8 million of deferred revenue currently on the balance sheet and the billing of a large portion of the \$53.4 million of unbilled deferred revenue, which has been contracted. This provides significant visibility into our revenue for the balance of the year.

Second, in addition to the recognition of deferred revenue, the factor, which is expected to have the greatest impact on FY '22 results, is also one in which we have high confidence. That is the strength of our All Access Pass and related sales.

Third, we expect that our revenue in Japan, China and among our licensees will continue to strengthen. The increase in All Access Pass sales, which we expect to achieve in these countries will, as you understand, result in a portion of the new sales revenue being added to the balance sheet as deferred revenue.

Fourth, in the Education division, we expect to continue to achieve strong retention of both schools and revenue among existing Leader in Me schools and expect to grow the number of new Leader in Me schools to a level even higher than we achieved last year.

So now Q2, in Q2, in the second quarter, we expect that adjusted EBITDA will be between \$5.8 million and \$6.8 million compared to \$5.1 million in the second quarter of FY '21. Obviously, we recognize that with our strong first quarter performance, our latest 12-month adjusted EBITDA of \$34.2 million would already put us within our full year guidance range even without any further year-over-year improvement in adjusted EBITDA for the rest of the year. Our expectation of achieving further year-over-year growth in adjusted EBITDA in Q2 would put us even higher in that range. Recognizing this, we will consider our guidance range when we report our physical Q2 quarter performance and make adjustments at that time.

So now with that guidance, let's look at our targets for the coming years. As shown in Slide 24, building on the \$34 million to \$36 million of adjusted EBITDA we expect to achieve this year and driven substantially by the expected continued growth of All Access Pass, our target to have adjusted EBITDA increase by around \$10 million per year thereafter to be around \$45 million in FY '23 and around \$55 million in FY '24. This represents an expected adjusted EBITDA compounded annual growth rate of approximately 25% per year over the coming years. These targets reflect achieving low double-digit revenue growth, and approximately 40% of that growth in revenue will flow through to increases in adjusted EBITDA and cash flow even after significant growth investments in marketing, our sales force, technology and expansion into some new content areas.

While dramatic changes in the world environment and other factors could impact our expectations, we want to share that these are our current targets. I also want to point out once again that only -- not only are these our targets, but when you read our proxy statement, you'll see that the executive team long-term incentive pay awards depend on achieving these strong multiyear growth targets.

So Paul, back to you.

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

Thank you, Steve. So we feel great about our momentum, and we look forward to reviewing and updating, as Steve mentioned, our guidance range at the end of our second quarter this year.

And with that, we'll now ask Adrienne to open up the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Marco Rodriguez with Stonegate Capital.

Marco Andres Rodriguez Stonegate Capital Markets, Inc., Research Division - Director of Research & Senior Research Analyst

I was wondering maybe you could talk a little bit more about the performance in the quarter. Obviously, really strong, well ahead of guidance. What were sort of the big surprises for you guys?

Paul S. Walker Franklin Covey Co. - President & CEO

Yes. It's a great question. So first of all, as it relates to EBITDA growth, and Steve mentioned this in his comments, we were benefited more -- maybe a bit more than we thought by the number of education coaching sessions that we were able to deliver in the first quarter. And so those coaches, there's a fixed cost component there, and we delivered a number of sessions as schools got back in, into session. And so that helped on the margin side, which flowed through to the bottom line. And so that was definitely positive.

But I think generally speaking, it's what we've been seeing. Revenue retention was great, new logos added was great. We had a great services quarter in the Enterprise division as well. In fact, it was record setting delivery of services to our All Access Pass clients in North America in the Enterprise division. So I think those are probably the 2 biggest things, was the amount of coaching we're able to deliver schools, services in Enterprise in the first quarter. Our clients are doing great with live online. And as we move to delivering more and more that way, we're just seeing that services continues to grow. I'd say those are probably the 2 or 3 points, Marco.

Marco Andres Rodriguez Stonegate Capital Markets, Inc., Research Division - Director of Research & Senior Research Analyst

Got it. Very helpful. And I know you touched on it or Steve touched on the guidance and you guys are obviously cognizant of (inaudible) the annual EBITDA guidance, what you've done Q1, what you're expecting for Q2 and you made some comments, which are helpful, but I'm just trying to kind of dive in maybe a little bit deeper, if you can kind of walk us through the decision-making process there to not update the guidance higher. Are there any sort of things that you are trying to be a little more conservative on? Anything that is maybe a bit more of an unknown today you had before the call?

Paul S. Walker Franklin Covey Co. - President & CEO

No. I think we've talked, as you can imagine, quite a bit about that -- this very topic and feel great about where the business is and where it's headed and just -- and made the decision that will -- we'll get through our second quarter, and then we'll come back and take a look at -- reconsider guidance and any revision around guidance. Nothing other than that. Just picking when we wanted to do that, picking the second quarter as the time we would do that. Steve, I don't know if you have any other thoughts you'd want to add to that.

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

No, Paul, the only thing I'd add is that, as you know, Marco, our fourth quarter is a very large quarter for adjusted EBITDA because of all the things that go on in that quarter in education and otherwise, and it gives us an opportunity to be closer to that very important quarter. I just have a little better visibility maybe into that quarter after another quarter goes by.

Marco Andres Rodriguez Stonegate Capital Markets, Inc., Research Division - Director of Research & Senior Research Analyst

Got it. Understood. And then if I could sneak one more in here. You discussed a little bit here in your prepared remarks the market opportunity that is present. And I know that you guys have always taken a great deal of investments or making a great deal of investments into your client partners and business development efforts.

I was wondering if maybe you can discuss any sort of initiative or additional investments that you might be making into your overall marketing efforts whether that's the additional client partners, your business development or online events. Anything here that we should be looking at for calendar year '22?

Paul S. Walker Franklin Covey Co. - President & CEO

Yes, that's a great question. That's a great question, Marco. And these are very large markets. So a couple of thoughts there. First, you'll recall we reported at the end of fiscal '21, so back in November, that we added 19 new client partners last year. We said we would add 20. We added 19. One came in after the end of the year. We felt great about that. We're going to add net 30 this year, and I think that's the number we're looking at.

How do we accelerate that? Maybe -- I don't know that we'll accelerate beyond 30 this year, but it wasn't that long ago that we were adding 5 or 6. And then it went to 10 or 12 and then 10 or 12 moved up to 20 and now 20 to 30, and I think 30 will move to 40 and so on. And so I think there will be more dollars invested there on -- in salespeople to more quickly penetrate and take advantage of the market opportunity before us. That speaks to the sales side of that.

On the marketing side, similar story. We're actually in the middle right now of -- we've been in the middle of a large branding project, new messaging, branding, preparing to get our word out there even more aggressively than we have, and we've been doing great with -- as we move to online events.

We've talked in the past about significantly more people, and that continues to be the case are being exposed to Franklin Covey into our content, into how we can help them. Quarter-by-quarter, those numbers continue to climb. And we put more into marketing. And I think there's an opportunity for us to do that as well. And that's part of the discussions that we're definitely having right now. We see great opportunity ahead of us and tons of headroom.

Operator

And our next question comes from Jeff Martin from ROTH Capital Partners.

Jeffrey Michael Martin ROTH Capital Partners, LLC, Research Division - Director of Research & Senior Research Analyst

Great to see the strong results in the quarter. Paul, I wanted to get an update on the Strive platform launch. I believe that was slated for beginning of this year. Is that -- do you have timing on that? And then also I want to understand what do you think the near-term and longer-term benefits are from that platform?

Paul S. Walker Franklin Covey Co. - President & CEO

Okay. Thanks, Jeff. So Strive is right on track. In fact, today -- earlier today at about 2:00, phase -- so Phase 1 was an initial group of pilot customers that we've been working with all through the fall and brought them onto the Strive platform. That's given us a chance to -- Strive was already a going concern. And so Strive was able to run their content on Strive. We needed to run Franklin Covey content. And so we did that throughout the fall and had tremendous feedback from our clients and saw not only high NPS and great usage scores but clients buying more services. And those pilot clients now are in discussions about them expanding the size of their path because of what Strive does for them.

Today, we moved into Phase 2, and Phase 2 is where we moved to a larger group of our client partners. And we kind of -- Phase 2 is really about how do we prepare to do this en masse. And so we're now kicking off what will be a couple of month period here where we go out to a larger group of customers and potential customers with a larger group of our salespeople to do the same thing we've just done in the pilot phase. And then Phase 3 will be the complete full launch a little bit later this year, where Strive will become the default platform for all of our clients.

So we're right where we wanted to be as we laid our project plan that the Strive team is doing great work. And to your second -- the second point of your question, just benefits that customers will see and therefore, how that might benefit our business. The primary benefit to a customer is that a Strive -- think of Strive -- I like to equate Strive to Peloton to a Peloton bike.

I have a Peloton. I like my Peloton. Prior to Peloton bikes, you could go buy a bicycle, put it in your basement. You could pull a TV over in front of you and go on YouTube and try to find an exercise instructor that you like, and you could get people on your smartphone and have a virtual experience with a cohort of people if you wanted to do that. And you can have metrics over on a white board on your wall. I mean you could do all of that, but it was a disconnected, not as seamless and not nearly as powerful as experience as Peloton is today,

where it's all integrated into one system and there's this great technology platform that powers the content, the cohort experience, the metrics, et cetera.

Strive has that organizing effect for us. It'll take all of our great content and allow us to provide cohort-based learning experience and over time, individual experiences where Strive will power them through those experiences but in a very interactive way. And it has all those pieces built into it that are critical to driving behavior change.

We don't want to just be in the business of having people watch content. That doesn't necessarily do much more than provide some ahas and insights. We need to take people, and not just individuals but entire teams and organizations all the way through to the point where their behavior has changed and it can be sustained. And so Strive is the tech platform, if you will, that will enable that for our clients.

Obviously, the benefit to us -- sorry, last point -- will be, a, it's an even more compelling value proposition that would help us on the win rate on new logos. It -- we believe it will lead to greater expansion as Strive takes some of the workload off of the learning and development administrator. There's a bit of a choke point sometimes there, where they're responsible for the masses and Strive will help -- the technology there will help them deploy in greater quantities and at larger scale. And then, of course -- so bigger populations. And then finally, we think we'll sell and we are seeing that we sell more services, delivery services and coaching services.

Jeffrey Michael Martin ROTH Capital Partners, LLC, Research Division - Director of Research & Senior Research Analyst

Great. Great. That's very helpful. I wanted to get a sense for hiring in the quarter of new client partners. And I ask the question from the perspective of trying to understand the sales and marketing expense. If there weren't a lot of hires in Q1, when are you expecting groups to be hired and in order to help us better model out SG&A for the balance of the year on a quarterly basis?

Paul S. Walker Franklin Covey Co. - President & CEO

No, that's a great question. So as I mentioned a minute ago, we hired 19 new last year. Q1 is never our large hiring quarter. It's the time, when we kick off the new year, we're deeply involved in those activities. So you can expect that the net 30 adds fairly evenly spread across Q2, Q3, Q4, maybe weighted a little bit more towards Q3 and Q4.

Jeffrey Michael Martin ROTH Capital Partners, LLC, Research Division - Director of Research & Senior Research Analyst

Okay. Great. And then last question. Could you parse out growth between new logos and past expansion. My understanding is new logos have been strong. And based on your commentary, it seems like they continue to be strong. But help us understand, kind of from a big picture standpoint, how much of the revenue growth is coming from past expansion and how much is coming from new logos?

Paul S. Walker Franklin Covey Co. - President & CEO

Yes. Another great question. So we commented in Education that new schools, which is also new logos for them, those were up substantially. And in the Enterprise division in North America, All Access Pass on a latest 12-month basis, new logos are up 23%. And so that -- and that continued in Q1. So new logos are making up a significant portion of the growth. And then obviously, the other 2 pieces of the growth that we see come from expansion of existing customers and that is happening as well.

Revenue retention is greater than 90%. And then, of course, we saw nice services growth in the first quarter as well. As I mentioned, it was a record services growth. So it really is -- the growth is coming from a nice spread across all 3 of those important metrics, new logo, expansion of existing All Access Pass seats and services growth with new logo being up 23% on a latest 12-month basis.

Operator

And the next question comes from Alexander Paris from Barrington Research.

Alexander Peter Paris Barrington Research Associates, Inc., Research Division - Director of Research and Education & Business Services Analyst

Sorry, guys. I was on mute. Thanks for taking my questions, many of which were asked and answered, but I have a couple of follow-ups. Given the strength of the first quarter on both revenues and adjusted EBITDA and the adjusted EBITDA driven in part by coaching and services and that sort of thing and then your guidance for second quarter adjusted EBITDA, which is a little bit below my estimate and

the consensus estimate, I'm wondering either it's quite likely that we were a little too aggressive on Q2. But did Q1 borrow from Q2 at all in terms of your thought process, pull forward?

Paul S. Walker Franklin Covey Co. - President & CEO

Yes. So in a word, no. And I'll ask Steve to chime in here as well. So our -- of course, you know this from Paul. Our business isn't -- it's not so much helpful to compare sequential quarters as it is year-over-year. And our second quarter tends to be our smaller adjusted EBITDA quarter.

And the primary reason for that is because we deliver fewer services. The second quarter happens to be -- is usually even a larger subscription quarter, subscription -- All Access Pass subscription quarter and a smaller services quarter because we have the holidays where we don't do -- our clients don't want services delivery during an extended period of time during the quarter. And so the quarters are a little bit different.

Q1 tends to have a lot of services, which, of course, we recognize that revenue at the time we deliver and a nice services -- or subscription quarter. Q2 tends to be a little bit lower services and a higher subscription quarter where that revenue goes on and we defer it over time. And so I think it's not a borrowing thing. It's just the timing of how these quarters come in, would be my response to that. Steve, would you add anything to that?

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

The only thing I'd add, Paul, is that there'll be a little bit of change at least in that guidance. We're anticipating a little bit of change in our SG&A, meaning we'll hire a few people here and there. I don't know exactly how travel will go based upon the new pandemic. Some additional investments and growth here and there but primarily related. So there will be a little impact of that compared to Q1, but the services is the main point.

Alexander Peter Paris Barrington Research Associates, Inc., Research Division - Director of Research and Education & Business Services Analyst

Got you. That's very helpful. So like you said, Steve, earlier to another question, the reason for waiting to Q2 is just to be a little bit closer to Q4, the all-important Q4?

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

Yes.

Alexander Peter Paris Barrington Research Associates, Inc., Research Division - Director of Research and Education & Business Services Analyst

Yes. All right. Makes sense. And then let me see. I guess the last question I'll ask is what are you seeing in terms of inflationary cost pressures and then your ability to pass it on? And as part of that question, I'm just wondering about strategy with regard to price increases on both AAP and Leader in Me.

Paul S. Walker Franklin Covey Co. - President & CEO

Yes. So we -- I think where we see inflationary pressures would be probably in some of our labor costs, attracting talent and talent into the organization. To your second question -- so we are seeing a bit of that.

To your second question, we have had a steady practice of annual price increases since the inception of All Access Pass. We'll continue that this year and had already planned to do something a little bit larger than we -- last year, we didn't do as much at all because we were in the middle of pandemic. We plan to do something a bit larger this year, not so much as a response to our costs going up, although there is a little bit of that but really because the value of the All Access Pass is taking another huge leap forward with the addition of Strive and with some of the content that we have added recently and we'll be adding this year. And so we think there's an opportunity to do that, and we plan to do that. Similarly, in Education, Sean, do you want to comment on price increase strategy in Education?

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

Yes, sure. It's very similar to what we're doing in the Enterprise. We've got a strategy of incremental 3% to 5% price increases each year. We did last year undergo a rather significant increase in services, our prices for services because we -- our coaching force is very good and very valuable, and we're finding the market could bear it, so we did that. But we -- so that's the plan, is just ongoing 3% to 5% increases over the foreseeable future.

And like manner to the All Access Pass, we keep adding really valuable new content pieces and go -- it's like new rides in the theme park, some really valuable ones that we think will give us pricing leverage in the future. For example, we're adding a new curriculum. We are generally about whole school, social, emotional learning that we're going to add a new component, a curriculum component, which we don't have right now, which will be, I think, a substantial upgrade, which I think will help support price increases next year and for many years to come.

Alexander Peter Paris Barrington Research Associates, Inc., Research Division - Director of Research and Education & Business Services Analyst

Great. That's helpful. And then I guess the very last and related question. Obviously, labor costs are up across the board within the economy, both for existing people as well as trying to bring new people into the organization. Any changes on compensation philosophy with regard to client partners for example?

Paul S. Walker Franklin Covey Co. - President & CEO

So the -- we are finding -- and we will -- we are finding that we have to pay a little bit more to get some of the client partners that we want with the experience that we need. But I think we have very competitive compensation plans. It's a great model for our client partners, are building a large bank of recurring revenue, and that's very attractive to them. That, coupled with the investments that we're making in the business right now to make the All Access Pass so valuable, it's -- we're really pleased with the client partners that we're hiring.

We just had Sales Academy with the new crew yesterday, and it's a great group, very talented people. So we're confident that we continue to get great people, constantly look at what we need to do on the compensation side to make sure we remain competitive.

Operator

And this concludes our question-answer session. I'll turn the call back over to Paul Walker for final remarks.

Paul S. Walker Franklin Covey Co. - President & CEO

Thanks, Adrienne. Bob, you've been with us here today. Is there any final thoughts you'd like to share before I wrap up the call?

Robert A. Whitman Franklin Covey Co. - Executive Chairman & Chairman of the Board

Well, I'd just say, Paul, first of all, great report, and we're grateful for the support of all of our shareholders. Maybe I'd just note that, as you look at this report and the ongoing strength of the business, recognize that 6 years ago when we made the decision to transition the company's business to -- model to subscription, we expected, first, it would allow us to significantly increase our importance to our customers that, that would be reflected in the significant increase in the lifetime value of our customers. Second, it would allow us to increase both the scale, durability and visibility of our revenue; third, that it would drive increases in our gross margins, profitability and cash flow; and finally, that it would really allow us to unleash the collective passion, capabilities and dedication to our clients and our people.

And I'm just thrilled to say that in this report, you can see that each of those things is happening. And really, my [confidence] to just say that led by you, Paul and Jen and Sean and Steve, all of our leaders throughout the world, our great teams and our tremendous associates that I think we're really positioned to not only continue to achieve these objectives to accelerate them. So thanks for the chance to reflect on that. But it's, I think, a really exciting time for the company and feel like we've got a big -- a lot of big summits ahead of us that we're well on the way to. Thanks.

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

Yes. Thanks, Bob. I could not agree more. So thanks, everybody, for joining today. We appreciate you, and have a great rest of your evening.

Operator

Thank you, ladies and gentlemen. This concludes today's conference call. Thank you for participating. You may now disconnect.

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