

Franklin Covey Co. (Q4 2025 Earnings)
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Corporate Speakers

- Boyd Roberts; Franklin Covey Co.; Head of Investor Relations
- Paul Walker; Franklin Covey Co.; Chief Executive Officer & President
- Jessica Betjemann; Franklin Covey Co.; Chief Financial Officer
- Holly Procter; Franklin Covey Co.; Chief Revenue Officer
- Michael Covey; Franklin Covey Education; President

Participants

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

PRESENTATION

Operator^ Good day and thank you for standing by. Welcome to the Fourth Quarter 2025 Franklin Covey Earnings Conference Call.

At this time, all participants are in a listen-only mode. (Operator Instructions)

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

I would now like to hand the conference over to your speaker today Boyd Roberts, Head of Investor Relations.

Please go ahead.

Boyd Roberts^ Thank you. Hello, everyone.

Thank you for joining us today.

We appreciate having the opportunity to connect with you.

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

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

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

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

Paul Walker^ Thanks, Boyd. And good afternoon, everyone. And thank you for joining us.

It's great to be with you and to have the opportunity to share our results and an update on the business.

We're pleased with our momentum and that our fiscal '25 full year revenue and adjusted EBITDA results came in right in line with what we expected when we provided guidance in our Q3 call.

We're also pleased that while much of fiscal '25 was a period of transition and organizational transformation, beginning in the fourth quarter and as we turn to fiscal '26, we're now in a period of execution and a return to growth.

In a few minutes, Jessi will share more detail about our fiscal '25 results and our fiscal '26 guidance.

Before we go there, I just wanted to share a couple of thoughts with you.

And the first is that we're off to a strong start in the first quarter, particularly in our Enterprise North America business, where we're experiencing the acceleration in invoice growth we expected to see from investment in and implementation of our go-to-market sales transformation. A few points of evidence of this acceleration in Enterprise North America include we're having a strong contracting quarter in Q1 and expect to achieve strong growth in our invoiced amounts in the first quarter. A portion of this meaningful increase in invoiced amounts is being driven by strong new logo growth across the first two months of this Q1 of this new fiscal year, where the number of new logos sold and the associated revenue is pacing above prior year.

Similarly, our services booking pace through the first two months this year is off to a very strong start, with services booked in Enterprise North America up double digits over the prior year.

And this is an indication of the importance of the outcomes we're helping our clients achieve and is an important leading indicator of future reported revenue growth. This acceleration in North America, coupled with the fact that we anticipate our education business to have a strong year, indicates that we expect invoiced amounts for the company, which declined last year to return to meaningful growth in fiscal '26. A portion of this meaningful growth in invoiced amounts will

translate into reported revenue in fiscal '26 and an even greater portion will translate into even greater reported growth in fiscal '27, which will also flow through to strong growth in adjusted EBITDA and free cash flow. The objective of our investments in our go-to-market transformation was always to accelerate growth in revenue, adjusted EBITDA and free cash flow beyond the levels we'd achieved in our previous model. And this is still very much our objective.

While we took a step back in fiscal '25, primarily due to external factors we could not foresee at the time we made our investments, we're back on the road to growth and expect this to be reflected in our fiscal '26 results and even more so in fiscal '27.

Strategically, we're planning for something very clear and very important, to be the partner of choice for leaders pursuing breakthrough results, results that depend not only on great strategy, but also on how people work together to deliver it. Every organization faces these challenges, whether the goal is faster growth, integrating cultures after an acquisition, improving customer experience or transforming culture, success depends on institutionalizing the right behaviors and practices across leaders and teams.

We help leaders make the link between behavior and performance tangible, measurable and scalable. That's what drives breakthrough results.

This work doesn't get easier in uncertain times. It becomes more essential. AI is transforming how work gets done, but it also makes human capabilities, judgment, trust and collaboration more critical than ever. The ability of people to stay aligned, focused and accountable while working together with high trust and execution remains the ultimate differentiator.

Our role is to help organizations achieve their most important goals by strengthening collective behavior, raising the level and the consistency of how people lead, collaborate and execute and scaling what already works well in pockets across entire organizations.

As you can see shown on slide 4, in pursuit of this objective, we're focused on two key priorities. The first is to be the leader in combining world-class content, technology and services to deliver breakthrough impact for our clients.

And the second priority is to transform and accelerate our go-to-market approach to win more larger and more strategic new logos and to expand and retain existing ones.

I'd like to just take a couple of minutes here and go into each of these priorities in a little bit more detail.

First, as it relates to building world-class solutions, a few years ago, we asked what would it take to accelerate our ability to be the partner of choice for leaders pursuing breakthrough performance.

Our answer led to four key initiatives.

First, we sharpened our focus on helping organizations address mission-critical challenges.

As you can see shown on slide 5, the market in which we operate ranges from content providers to true performance partners.

Our strategic focus is on the latter, as a performance partner, the space where large-scale behavior change delivers measurable business results. That focus is reflected in flagship solutions like the four Disciplines of Execution, Helping Clients Succeed, the Leader in Me and our leadership suite of offerings.

Focused here, we see AI not as a threat, but as a very important enabler. Many of the largest companies in the world across a variety of industries who are themselves pouring millions, if not billions of dollars into building AI capabilities throughout their organizations are at the very same time turning to Franklin Covey every day to help them navigate the vital leader and people elements of alignment, trust, change and execution.

For example, we're currently partnering with one of the largest technology companies in the world, a leader in AI, who engaged us to work with one of the key teams in their organization to speed their progress in making sure they stay at the forefront of the AI race.

For this organization, speed will make all the difference.

And while they have the best AI engineering capability in the world, their speed is impacted by the level of trust, alignment and collaboration they're able to achieve.

These are among the very breakthrough behaviors Franklin Covey excels at helping leaders address, and we're partnering with those organizations to implement our speed of trust solution. Leading in the current environment is perhaps more difficult than it's ever been, and Franklin Covey is a trusted partner to leaders around the world. Last March, we held our first ever virtual Impact Conference, and we were pleased to have 20,000 people registered to attend. Building on the success of that first conference yesterday, we kicked off this year's Impact Conference and are pleased to have not 20,000, but 30,000 leaders and individuals joining for sessions throughout this week focused on disruption, trust, AI and leadership.

Second, we continue to invest in proven high-impact content and services.

Our trusted frameworks, like the seven Habits, the Speed of Trust, the four Disciplines of Execution, Leader in Me and a host of others continue to deliver measurable client outcomes.

Our average Net Promoter Scores are very high. And when I say very high, they're in the 70s and for some of our offerings in the 80s. These solutions have generated billions in cumulative revenue and immense value for our clients.

Third, we leverage technology to scale performance. Our impact platform integrates content, services and technology to deliver solutions globally in multiple languages and at every level.

We followed a similar model in education where Leader in Me now serves more than 8,000 schools worldwide.

Importantly, we're now embedding AI across all of our offerings, providing real-time coaching, feedback and reinforcement.

For example, in our Helping Clients Succeed sales transformation solution, AI now supports sales professionals with live deal coaching and objection handling to improve win rates.

We view the combination of our best-in-class content, our expert facilitation and coaching services and AI as a powerful combination of capabilities to help our clients accelerate leadership, culture and execution results.

And fourth, we rebuild our business model to support long-term client partnerships.

We created the All Access Pass and built a deep ecosystem of implementation strategists, consultants and coaches dedicated to lasting partner for life relationships. The second key priority, that I'll just talk about for a minute here, is that of transforming the way we go to market to win more strategic clients and to expand our work with existing ones.

Over the past three quarters, we completed this transformation, reorganizing our sales and client success teams around two clear goals: first, landing new strategic clients; and second, expanding relationships with those we already serve. This structure is now fully in place, and it's delivering strong early results across three areas.

The first area is around new client wins. New client growth is up both in volume and deal size with higher services attachment driven by clients who desire collective behavior change and a partnership with us to help them do that.

For example, in the fourth quarter, we won a new client. It's a global ingredient processing manufacturer. This resulted in approximately \$250,000 contract that's comprised of around \$50,000 in subscription revenue and \$200,000 in subscription services.

This client is partnering with us to equip their leaders to lead through a high degree of change and to drive performance during a period of rapid expansion for them in their business.

And they not only want access to our content and tools and frameworks, but to our expert coaches and facilitators as well to really drive and cement the behavior change that they're seeking to achieve. The second area and evidence of acceleration is around client retention and expansion. More clients are extending subscriptions, adding services and broadening their reach. Even in a more difficult environment where some clients have had to adjust over this past year, the overall size of their subscription, and we did lose a couple of clients we talked about last quarter including a couple of government contracts.

We continue to achieve the same high percentage of overall client retention that we've been able to achieve over many years, providing a very strong base for expansion both in terms of subscription seats and services this year into that existing client base.

And the third area is our subscription services attachment. I mentioned this briefly, but I'll just touch on it again. Despite tighter client budgets, enterprise services attachment overall was a strong 53% in fiscal '25. And as I mentioned a minute ago, it was an even stronger 56% in North America this last year.

And through the first two months of this year, as I mentioned, North America services bookings are up double digits year-over-year, which is a leading indicator of future services revenue.

While fiscal '25 results didn't turn out like we expected at the beginning of the year, due to DOGE related government slowdowns, midyear tariff uncertainty and short-term effects of our own transformation. The lead metrics are strong, and our momentum accelerated through year-end and continues into the first quarter of fiscal '26, setting us up for strong invoice growth in fiscal '26 that, as I mentioned, will lead to growth in fiscal '26 and even more reported growth in fiscal '27.

Shifting gears to Education.

We're pleased with the continued strength of our Education business. Despite a difficult and uncertain education environment this past year, where we saw the Department of Ed threaten closure and shrink in size and where large amounts of federal title dollars were initially available, then pulled back and then only restored very late in our fiscal year.

We're pleased that Education reported revenue growth for the year overall that our Education subscription revenue grew 13% in the fourth quarter and 10% for the full year, that our balance of deferred revenue increased 13%, establishing a strong foundation for accelerated growth in fiscal '26.

And that we were able to bring on 624 new schools and the school retention remained a very high 84%, which was equal to the year before, which we felt quite good about in the environment. Just a closing perspective here before I turn the time over to Jessi.

As we enter fiscal '26, I feel confident in both our progress and our direction. I'm pleased with the progress our teams are making, and I'm grateful for the clients who continue to trust us.

I'm confident that the strategy we've been pursuing will continue to create value in the years ahead.

I'd now like to turn the time over to Jessi, and she'll share more detail on our results in the fourth quarter and for the full year and also lay out our guidance for fiscal '26.

Jessica Betjemann^ Thanks, Paul. And good afternoon, everyone.

Franklin Covey continues to see healthy demand for our products and services in the fourth quarter despite the ongoing macroeconomic and industry headwinds. And as Paul discussed, the strategic investments we've undertaken to transform our go-to-market strategy are gaining traction.

As shown on slide 6, our fiscal year 2025 results were in line with our most recent guidance provided on our third quarter earnings call on both revenue and adjusted EBITDA.

Fiscal 2025 was a year of transition and transformation.

I'd like to take a step back and provide a reminder of the events that took place this year that impacted our financial performance.

At the beginning of the fiscal year, we laid out a strategic go-to-market transformation plan for the Enterprise North America segment, which required significant SG&A investment that would result in an approximate \$50 million decline in year-over-year EBITDA but enable significant future growth -- revenue growth starting back in the back half of the year and beyond.

As we implemented these growth investments, several unanticipated macroeconomic factors unfolded starting in January, including threatened or enacted tariffs that created significant business environment uncertainty for our clients, specific actions to cut U.S. federal government spending, ongoing geopolitical tensions and a general weakening of economic conditions, both domestically and internationally.

In response to the economic uncertainty, many of our current and prospective clients sought to reduce their spending to maintain their profitability, which led to delayed decision-making and decreased contract expansion.

The government's actions also disrupted the Department of Education and Title funds available to districts and schools across the country. All of the preceding events adversely impacted our business and financial results across both divisions for the fiscal year from our original expectations.

Despite these headwinds, however, we have retained the vast majority of our client base and now with the bulk of our transformation investments coming to completion and those efforts beginning to bear fruit, we expect fiscal 2026 to be a year of focused execution where our adjusted EBITDA, and more importantly, our free cash flow will return to growth this year and accelerate thereafter.

In my remarks today I'll start by providing some highlights for the fiscal year and walk through our fourth quarter financial performance. Then I'll turn to our balance sheet and capital allocation priorities. And finally, I will provide context around our fiscal year 2026 outlook. Franklin Covey generated total reported revenue of \$267.1 million or \$267.3 million in constant currency, which was within our guidance range.

Reflecting the macroeconomic factors I just summarized, revenue was down 7% from the prior year due to a 10% decline in the Enterprise Division, which was partially offset by a 1% increase in the Education Division. A summary of our consolidated financial results is on slide 7 in the earnings presentation.

As we expected and captured in the guidance we shared in the third quarter, total revenue for the fourth quarter of fiscal 2025 was down 15%.

Of this, revenue in the Enterprise Division was down approximately 22%, reflecting the government actions and macroeconomic environment.

In addition, there was a \$6.2 million IP contract with a large client in the fourth quarter of last year that did not repeat this year, although this client is still an ongoing client today.

The Education Division was flat in the fourth quarter compared with the prior year, reflecting disruption in the Department of Education and associated Title funds, which delayed new school purchases in the spring and early summer, which we expect to recapture in fiscal 2026. Consolidated subscription revenue recognized for the year was flat year-over-year at \$147.9 million.

Importantly, the foundation for increased future growth remains solid and is evidenced by the 3% year-over-year increase in our consolidated deferred revenue balance to \$111.7 million, which will be recognized as reported revenue in the coming quarters. Unbilled deferred revenue contracted for the year increased 7% to \$48.4 million, with the total balance declining 3% to \$72.8 million, reflecting the lower beginning balance at the start of the year. Gross margin for fiscal 2025 was 76.2% compared to 77% in fiscal year 2024.

This reflected increased product amortization costs and softened margins in our international direct offices due to lower sales. Gross margins for the fourth quarter were 75.5% compared to 78.1% in the prior year, as a result of lower margins in Enterprise North America from the recognition of the IP portion of the large contract last year that did not repeat in our non-subscription-related business, lower margins in the international direct office and also lower margins in Education as a result of shifts in product mix.

Operating, selling, general and administrative expenses for fiscal '25 were \$174.8 million compared with \$165.8 million in the prior year, reflecting the increased associate costs from the hiring of new sales and sales support personnel, marketing and product-related costs in connection with the rollout of the go-to-market transformation in our North America segment.

Offsetting these investments were the cost reductions we made in the third quarter, which resulted in \$7 million in SG&A savings for the year and an annualized run rate savings of \$8 million in fiscal year '26 that will be partially offset by normal investment levels this year. Adjusted EBITDA was \$28.8 million or \$29 million in constant currency, in line with our guidance of \$28 million to \$33 million.

In the fourth quarter, adjusted EBITDA was \$11.7 million compared to \$22.9 million in the previous year, reflecting the lower revenue, gross margin and higher SG&A expenses I previously mentioned. Cash flow from operating activities were \$29 million for the year compared to \$60.3 million in the previous year. The decrease was driven primarily by a \$20 million decrease in net income stemming from lower revenues, planned increases in spending to fuel the Enterprise North America go-to-market transformation, increased restructuring and headquarter moving costs as well as \$7 million in unfavorable changes in working capital including the impact of higher cash paid for taxes.

We also had a \$5 million increase in CapEx for building construction costs, and all of this resulted in free cash flow for the year of \$12.1 million compared to \$48.9 million generated in fiscal 2024.

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

For fiscal '25, our Enterprise Division generated 70% of the company's overall revenue with Education Division generating 28% of the company's revenue.

Fiscal '25 Enterprise Division revenue was \$188.1 million compared to \$208.1 million in the prior year.

As mentioned previously, Enterprise revenue was heavily affected by canceled U.S. federal government contracts, geopolitical trade tensions and as a result, ongoing macroeconomic uncertainty. The challenging business environment adversely impacted the value of new logo sales and expansion revenue, both domestically and internationally during the second half of the year.

As shown on slide 8, the North America segment revenue was \$147.6 million, a 10% decrease from the prior year. Fourth quarter Enterprise Division revenue was \$45.7 million, down 22% versus the prior year, with North America being down 24% compared to the prior year.

Our North America sales accounted for 79% of our Enterprise Division sales in fiscal year '25.

It is important to note that 60% of the Enterprise Division's decline for the year was driven by declines in direct office non-subscription and services revenue, and half of that was attributable to the \$6.2 million North America IP contract that I previously referenced. This is an indication that our core subscription-related business is still fundamentally strong, declining by 5% year-over-year, reflecting the macroeconomic factors previously discussed.

Adjusted EBITDA for the North America segment decreased to \$27.4 million for fiscal 2025 compared to \$46.6 million last year due to lower revenue and increased SG&A expenses tied to our planned go-to-market investments.

Our fourth quarter adjusted EBITDA in North America was \$7.6 million compared to \$16.2 million in the prior year, and again, mainly driven by the large IP deal recognized in the fourth quarter of the prior year.

Our balance of billed deferred subscription revenue in North America was \$46.7 million at the end of the fourth quarter, down 5% from the prior year and unbilled deferred revenue was \$67.6 million, down 1% compared to last year.

Importantly, the number of North America's All Access Passes contracted for multiyear periods increased to 57% in the fourth quarter, and the contracted amounts represented by multiyear contracts remained strong at 60%.

Turning to the international direct operations, as shown on slide 9, revenue for our international direct operations, which accounts for approximately 16% of our total Enterprise Division revenue in fiscal '25 was \$29.3 million, which is now -- which was down from \$33.3 million in the prior year as a result of our business in Asia and the U.K. decreasing due to challenging business conditions as a result of geopolitical and trade tensions. Revenue in the fourth quarter from these offices was \$7.4 million compared to \$8.8 million generated in the fourth quarter of the prior year.

Adjusted EBITDA for the international direct operations segment was a loss of \$0.4 million in fiscal '25 compared to a positive \$3.4 million generated in the prior year. This loss was primarily driven by the decreased revenue, whereby the segment was not able to absorb all of the cost allocations distributed to them.

Adjusted EBITDA in the fourth quarter was \$0.5 million, which was down from the \$1 million generated in the prior year.

Our international licensee revenue, which accounts for approximately 6% of our total Enterprise division revenue in fiscal '25 was \$11.1 million, down 3% compared to the prior year.

International licensee revenue for the fourth quarter was \$2.4 million, which was essentially flat with the previous year. Adjusted EBITDA for the international license segment was \$5.5 million for fiscal '25 and \$1 million for the fourth quarter, both slightly down compared with the prior year.

Turning now to our Education Division, as shown on slide 10.

Education Division revenue in fiscal '25 was \$74.6 million, which was 1% higher than the prior year as lower material sales were offset by increased coaching and consulting revenue. The lower material revenue was primarily due to a new statewide initiative in the second half of fiscal '24 that included a significant amount of training materials in the initial phases of the program. Revenue for the fourth quarter of this year was \$24.4 million, which was slightly higher than prior year. Education subscription revenue increased 10% in fiscal '25 to \$45.9 million. Combined subscription and subscription services revenue was \$69.4 million, up 4% versus the prior year.

Education subscription and subscription revenue in the fourth quarter was \$23.3 million, up 3% compared to the fourth quarter in the prior year. Adjusted EBITDA for the Education Division in

fiscal '25 decreased to \$8.2 million compared to \$9.8 million last year, reflecting increased SG&A for associate expenses. Adjusted EBITDA for the fourth quarter was \$6.2 million compared to \$7 million in the prior year. Education's balance of billed deferred subscription revenue increased 13% to \$54.6 million, establishing a strong foundation for continued growth in fiscal '26.

We are seeing good momentum in our Education Division, particularly in the number of large state and district level opportunities we are actively pursuing.

This pipeline strength, together with the base of more than 8,000 schools globally at the end of August, gives us confidence in the demand for the kind of outcomes our Leader in Me solution delivers.

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

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

First, maintaining adequate liquidity.

Our business continues to produce reliable cash flow and our liquidity remains strong at over \$94 million at the end of the fourth quarter with \$31.7 million cash on hand and no drawdowns on the company's \$62.5 million credit facility.

Second, investing for growth.

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

And finally, returning capital to shareholders as appropriate is our third priority. In the fourth quarter, we purchased approximately 168,000 shares in the open market at a cost of \$3.3 million. For the full year, we purchased approximately 791,000 shares in the open market at a cost of \$20.4 million.

On August 11, 2025, the Board of Directors approved a replenishment of the previous authorized plan to purchase up to \$50 million of common stock.

On August 14, we initiated a 10b5-1 plan to purchase \$10 million of our common stock. This plan was completed in the first quarter of fiscal '26.

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

Now turning to our financial outlook for fiscal '26.

The company's projections reflect the positive momentum we are seeing and expecting in both the Enterprise and Education Divisions, balanced with a disciplined view of the risks and opportunities ahead as we continue to execute in an uncertain macro environment.

We expect to achieve solid growth in invoiced amounts this year.

However, net reported revenue growth this year will be constrained in comparison, driven by the lower deferred revenue generated in fiscal '25 and the conversion lag of invoiced to reported revenue in the year as a portion of the invoiced growth will go onto the balance sheet as deferred revenue.

As shown in slide 11, we currently expect fiscal '26 revenue in the range of \$265 million to \$275 million.

We currently anticipate fiscal '26 adjusted EBITDA in the range of \$28 million to \$33 million, capturing the benefit of our cost reduction efforts including additional restructuring actions taken this quarter while maintaining flexibility to manage through continued macro uncertainty.

We expect both revenue and adjusted EBITDA to be weighted towards the back half of the year.

We anticipate approximately 45% to 50% of fiscal year revenue will be recognized in the first half, reflecting normal seasonality, especially in the Education Division and the timing of client delivery.

For adjusted EBITDA, we expect approximately 30% to 35% to be generated in the first half, with margin expansion expected as cost savings and operating leverage build through the back half of the year. Given the volatility we experienced in fiscal '25 and the continued challenging market environment, we would like to execute our strategic and operational plans in the current and upcoming near-term quarters before providing specific longer-term guidance.

However, while most of the projected strong growth in invoiced amounts this year will not translate to high reported revenue growth in fiscal year '26 itself, we anticipate this will result in meaningful top line growth in fiscal '27.

With the bulk of our transformation investments coming to completion and the expected increase in operating leverage, we believe the company will deliver strong EBITDA and free cash flow growth with improved margins and free cash flow conversion in fiscal '27 and thereafter.

We have strong conviction in our strategy and long-term plan, and we're confident in the company's ability to deliver sustainable growth.

Our optimism is grounded in strong client retention, expanding demand for leadership development and breakthrough organizational performance services across both Enterprise and Education Divisions, and the continued strength and resiliency of our business model.

As mentioned at the start of my remarks, we view fiscal '26 as a year of execution and the return to growth and fiscal '27 as a year of acceleration and compounding growth in revenue, adjusted EBITDA and free cash flow.

We remain fully committed to creating long-term value for our shareholders and clients.

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

Paul Walker^ Thanks, Jessi, for that review of the year and for laying out the guidance. Thanks all of you for joining today.

We'll now look forward to asking the operator to open the line and taking your questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) And our first question comes from Jeff Martin of ROTH Capital Partners.

Jeff Martin^ I apologize I was late on the call so some of these questions might be redundant to what you've already had in your prepared remarks.

But I was just curious if you could give us a sense of kind of how the decision-making environment has evolved the last several months here.

And then also an update on how your sales transformation has performed in the past quarter relative to expectations.

I'll just -- I'll cut it off there. I have a couple of more questions on top of that.

Paul Walker^ Okay. Great.

As far as the decision-making environment goes, I would characterize it this way.

I would say that we launched last year and at the time we talked at this time last year, we were kind of on the eve of the new administration. And after we got done reporting the year-end, the year before, we started to see then some of the uncertainty show up in the market as the new administration came in and started to enact some of the policies and decisions they made.

And that created a fair bit of turbulence during a good bulk of last fiscal year. We talked about that a lot. I won't go back and dwell on that.

But the reason I start there is to then kind of contrast that with where we are today.

I would say that we, having come through that period of turbulence and uncertainty, I think the team is doing a nice job of navigating that.

And while I'm not sitting here today saying that the environment is all of a sudden a lot more certain than it was, there's still uncertainty out there.

I think our -- we're dealing with that uncertainty better today than we were certainly November through April, May last year during that period there.

And so, I would say the environment is -- there's still uncertainty.

We're seeing, though, as it trickled down, our clients have kind of moved from a lot of uncertainty to, okay, we've got to keep moving our businesses forward.

We saw budgets start to free up and loosen up a little bit, and that's been reflected in, I think that's being reflected now, as we move to your second question, of how is the transformation going or the sales transformation going.

We're really seeing some of the evidence of both that us navigating the uncertainty and maybe a little bit more certainty in some of our clients' decision-making plus then just us now being three quarters into this transformation.

You might not have been on the beginning there, but just to quickly recap a couple of things I said.

We're seeing some strong indicators that we'll have a good, invoiced growth in the first quarter in Enterprise North America. Our new logos count and the size of new logos are up in the first two months here in September and October.

Our services booking pace is up quite significantly, double digits over what it was a year ago.

And so, we look at those things as evidence that we're starting to gain some traction here with the go-to-market transformation, and we're doing that in an environment that's not tremendously more certain, but I think for us, we're navigating that environment better than we were certainly back in the December, January, February, March-ish time period.

Jeff Martin^ Great. Then could you comment on the renewals?

Are clients renewing at similar size contracts? Are they contracting a little bit? Are they expanding? What's been your recent [experience]?

Paul Walker^ Yes, great question.

So I would start first with, when we look at renewals, we look at renewals on -- through two lenses.

One is the percentage of clients overall that we retain, which is a client count retention metric. And then we look at the revenue associated with those clients we're retaining.

One of the things we're pleased with is that the percentage of overall clients staying with us has remained very consistent and very steady.

So we've now been in the all Access Pass game for about 10 years and measuring client retention for 10 years now.

And while we don't -- we haven't disclosed that number specifically, I'll just tell you that the percentage rate we're achieving today and that we even -- we achieved throughout this last fiscal year amid all that uncertainty has remained quite consistent with where it was even in the heady years where interest rates were really low and the economy was quite different.

So we feel good about that, and we see that as an indicator of, hey, what we're doing with clients is important to them.

Now that doesn't mean that there haven't been some clients who, amid their own uncertainty this last year, didn't need to rescope the size of their pass.

And we did see on the margin, some clients that where they might have purchased for a larger population, brought that back down for a more discrete population for that moment in time. And so, that has been happening on one side.

On the other side, we're seeing some clients really meaningfully expand, very significantly.

And so net-net, as we went through fiscal '25, the client retention was about like it had always been. The revenue retention was a little bit lower in fiscal '25, and that's part of what contributed to the decline in invoiced amounts last year we talked about.

But we believe that our go-to-market focus, having a whole dedicated team of client partners who now only service those existing accounts and are in looking for expansion opportunities there that over time we expect to begin to see the expansion outweigh any of the contraction and that this will be -- the retention -- the overall revenue retention, revenue percentage we'll get back up into the historical rates we'd always be able to achieve.

Jeff Martin^ And then one more, if I could. Jessi, could you maybe give us a little bit of help with respect to what you're expecting revenue and EBITDA in Q1?

Jessica Betjemann^ Yes. So what I indicated was we're not giving specific guidance for Q1.

What I indicated was kind of first half, second half type of trajectory. So from a revenue perspective, around 40% to 50% of revenue will come in first half. And the EBITDA would be around 30% to 35% in the first half.

So it will be a little bit more back-end weighted in terms of first half of the year versus second half.

Operator^ And our next question comes from Nehal Chokshi of Northland Capital Markets.

Nehal Chokshi^ So I believe that you said this twice now but I just want to make sure I heard it correct, that invoice subscription bookings for North America Enterprise is up year-over-year for basically the first two months of the fiscal year.

Is that correct?

Jessica Betjemann^ Yes.

Paul Walker^ Yes. It is. Yes.

Nehal Chokshi^ Okay. That's fantastic.

And that is off of what was the growth rate in the year ago period that you guys were seeing of that metric?

Jessica Betjemann^ In the last -- I don't have that for the last two months.

Nehal Chokshi^ For the first two months?

Jessica Betjemann^ Of last year. I don't have that readily available.

Nehal Chokshi^ Okay. Or maybe just the fiscal first quarter of '25?

Jessica Betjemann^ For North America?

Nehal Chokshi^ Yes. Yes.

Jessica Betjemann^ So the invoiced -- I have -- for total Enterprise Division, the invoiced amounts for the fourth quarter.

Nehal Chokshi^ First quarter, last year.

Jessica Betjemann^ First quarter.

Paul Walker^ Well first quarter last year, Nehal?

Nehal Chokshi^ Correct.

Paul Walker^ Yes, first quarter last year.

Jessica Betjemann^ We'll have to come back to you on that. I don't have that readily available.

Nehal Chokshi^ Okay. All right.

Well, just the growth that you're seeing is obviously strong evidence that the investments you're making in the hunter and farmer go-to-market model is producing results.

Can you refresh us on what was working in the prior quarters? And what's been the incremental as far as working in terms of farmers versus hunters? And I know you call it differently, but sorry.

Paul Walker^ No. No. It's okay.

We totally understand what you're -- yes, the distinction there between hunters and farmers.

So I think just stepping back for a second, of course, just -- and I'll do this briefly.

But the reason for making the transition in the first place is that we've grown our subscription business nicely over the time we've had All Access Pass.

And we recognized for the last number of years that as nicely as we've grown that, there was a lot of potential in the market we weren't getting to, and there was a lot of potential inside the existing clients we had that we also were not getting to.

We recognize we were asking the same sales force to kind of do both to try to go after the potential in the market for net new customers and to expand inside their existing customers. That was the first reason.

The second reason to make the transition is consistent with what I shared is we've been on this journey now for a few years to move our overall business to being a more strategic outcomes partner to clients. And so, getting the right team in place that could sell at that level to those types of buyers.

And so, that was the original thesis and the original bet.

We feel good about that still today and we are beginning to see -- started to see the evidence of that last year show up in the pipelines, and we're now seeing the conversion of that pipeline beginning to happen as we -- specifically in gaining steam as we're moving into the first quarter, as I mentioned, we're seeing new logo wins up in the first two months. The services booking rates are up, right?

So what's happening is, Nehal, is as we move to a bit more of a strategic buyer focused on more strategic outcomes, not only are we winning logos, but the size of those initial clients are larger because we're attaching a greater amount of services to those new logo wins as well.

I think that's indicative of solving problems that are bigger, that are more strategic where clients value and those buyers, business leaders value not only our great content and tool frameworks, but also the expert services that we can provide those clients.

And the combination of those two things is rolling through. We're getting good conversion rates on that pipeline.

And so, for us now the key measures we're looking at are how do we continue to grow the pipeline of opportunities. Part of what we did is we made a bet last year on standing up a more robust SDR function, kind of a presales function. That's been -- we have now had that for a few quarters, and that's kicking in.

And so, everything -- we're just moving everything righter and tighter around executing the original strategy that we put in place, and we're seeing that begin to roll through.

Jessica Betjemann^ Nehal, just coming back to you.

I was able to track that number down for you. So the Enterprise Division because we don't report out invoiced amounts for North America, but the total Enterprise Division in Q1 of '25 was \$43.7 million.

Nehal Chokshi^ And that was up how much percent year-over-year in that year ago period?

Jessica Betjemann^ Well, it was 2025, right? So it was actually down year-over-year. 7% down from the prior year. Yes.

Nehal Chokshi^ Got it. Okay. Very good.

And so, what gives you confidence that this growth in invoice subscriptions you're seeing in the first two months isn't just simply a year ago easy compare then?

Paul Walker^ Holly Proctor's here, our President of Enterprise, you want to comment on that?

Holly Proctor^ Yes. Sure. The reason why there's confidence here, as you can imagine, we are students right now especially our large deals.

So when we see multi-million -- trillion dollar deals come in, we're students of not just how we want them, but what ingredients inside that deal did we not have in our prior model.

And so, as we study those deals, there are several things that are pointing to the win that we didn't have in our prior model, where we're confident we likely wouldn't have won that business before.

And so, I'll give you an example.

A large deal that we'll announce in Q1, multimillion dollar multiyear deal was a product of an RFP win. That RFP win was turned around in a handful of days based on systems that we've implemented as part of this structure.

We never would have been able to facilitate that type of engagement a year ago.

And so, as we study these large wins and we see the system starting to work and then more volume going into the system that brings a lot of confidence that this is a trend.

Operator^ And our next question comes from Alex Paris of Barrington Research.

Alexander Paris^ Nice finish to what was a really challenging year and nice green shoots of activity in the first two months of fiscal 2026.

I had a question about guidance also, and I appreciate the color about first half versus second half on both revenues and adjusted EBITDA.

But as I look over my historical model, that's kind of the way it always is. You get more revenue and more EBITDA in the second half of the year, typically looking back before the year just ended.

But what I also see that happens is between Q1 and Q2 there is a sequential decline in both. I'm wondering if this year, it might be flipped because you're claiming out of that transition.

In other words, the revenue that you expect in the first half, would you think that Q2 would be greater than Q1, which is history?

Jessica Betjemann^ No. I think it will follow more to what we've had in the past. And remember, when the kind of the time period of Q2, you're starting to get into a holiday time period and all that.

So you're going to have the normal seasonality that will come into play. So we still will have some of that.

Alexander Paris^ Okay. So not necessarily a decline in revenue -- sequential decline in revenue from Q1 to Q2. And the same thing for EBITDA.

Jessica Betjemann^ No. No. I'm saying there will be -- I mean we would still expect a slight decline in the revenue from Q1 to Q2, similar to prior years. That seasonality is still going to continue. Yes.

Alexander Paris^ Got you. I was suggesting would it be the opposite of that this year, but you're saying not.

Jessica Betjemann^ I'm saying, no. Yes.

Alexander Paris^ I appreciate that.

Paul Walker^ Alex, part of the reason for that just is that Q2 services with the holidays. There's just fewer services delivered during the -- with December being in the holiday period.

So that always kind of shows up a little bit in the Q1 to Q2.

Alexander Paris^ Great. And then just a follow-up question on the sales force transformation. Any updates in terms of the size of the sales force between hunters and farmers? I think the last note that I had is you had 44 hunters and around 65 farmers.

And then turnover, both voluntary and involuntary turnover in the new sales force. How is that working for you?

Paul Walker^ Yes. Great question. So the sales force is still very, very close, like very close to the size -- the numbers you just threw out there.

I think it's the same. We haven't had any turnover in the sales force.

Of course, we turned some of the sales force over last year as part of the transformation. But the folks that we have here and in place now we have that team.

I think that on a go-forward basis, where you'll see growth in the sales force in the periods to come will be on that, particularly on the new logo hunting side, where -- and as we continue to make investments on the marketing side to drive even greater leads of that sales force. That will be the factor that allows us to expand that hunting sales force.

And then there's good leverage on the farming side of the sales force as we throw those new accounts over the wall and have them service them through a combination of our client partners and our implementation or our client success team.

So same size as we've had, and we do expect we'll grow that.

And on Education, it's roughly the same size as well right now.

Alexander Paris^ Okay. Helpful.

And then since you brought it up Education, I was wondering if we can get a little bit more color on Education. We spent a lot of time on North American enterprise because that makes sense. It's a bigger business, and there's big changes happening on that side.

But on the Education side, it was a flat year and a flat quarter in terms of revenue and gross income, a decline in adjusted EBITDA in both periods. I get it, there's a lot of disruption in Education, reduction in force. How should we think about fiscal 2026 in Education?

I think the comps would be relatively easy, but whatever color you could offer, I'd appreciate.

Paul Walker^ Yes, Sean is here. Sean, do you want to share perspective?

Michael Covey^ Yes. Alex. Yes.

So looking at this year, we remain quite bullish about the year. Last year was hard because two things happened last year.

One is we had the ESER COVID relief funds expire, right, in September of '24. That hit us.

And then the Department of Education shenanigans of withdrawing Title funds and reinstating them kind of left a hangover effect, where a lot of schools were hesitant to buy, purchase. We probably had 100 to 150 schools that delay we might have got in otherwise.

Looking to this year, we feel good about the year and think we can get back into good solid growth like we have been doing for the last decade; for two reasons.

One is we have -- as you can see in the data, we've got lots of deferred revenue. That grew by 13% last year. It's going to help us.

We have that on our balance sheet. It's going to be recognized this year. We also have many large district and state opportunities. We mentioned that we had one big one last year. It will repeat.

So the pipeline of the bigger opportunities is really strong. Our funding partner that we've shared before remains in place.

This is a partner that helps with really hundreds of schools every year. That helps to drive demand. There's still a great need in the marketplace for what we offer.

It seems to be increasing all the time higher test scores since COVID, test scores have dropped a lot. Everybody wants to get them back up. We're good at that. Teacher retention is a big turnover problem right now in schools. We're good at that as well and then mental wellness that we address also.

And then finally, I think it's hard to predict the Department of Education and the Trump administration, what they're going to do, but it's likely to get better than last year. I don't see how it could get worse.

Of the Title dollars, which is where most -- where Title I is for low-income students, and that is what funds a lot of Leader in Me schools, at least in part. Most experts agree that that's not going to be touched and it's going to be safe.

Whether it goes to the states or remains at the federal level remains to be seen, but there's strong support for Title I dollar.

So all of that combined, all things considered, we feel good about the upcoming year and feel we can get back to some good solid growth.

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

David Storms^ You mentioned in your prepared remarks, Paul, how much AI you're starting to implement into your services.

I was hoping you could maybe spend a little more time there and maybe lay out kind of what inning you think we are in when it comes to implementing AI.

Paul Walker^ Innings for the world, innings for Franklin Covey? No, just teasing. Yes.

So I think, obviously, I think the whole world is still in very early innings on AI and trying to exactly predict where all this is going to go is -- but I wouldn't pretend to do that.

I will say that where the first, where we're focused and where we see real opportunity with AI is in two places, and then I'll get into a little bit more specifics. The two areas that we see AI as an important opportunity for Franklin Covey. The first is actually what AI is doing out there with our clients.

Increasingly, the deals we're winning and the existing clients we're partnering with, a common circumstance that they want help with is as the more they're implementing AI, the more it's shining a light on some of the human, people, leader, culture, collaboration, aligning people challenges. Those have always been hard parts of leadership, and they don't get easier with because you have AI.

And so, I think it's actually shining a light on many of the things that we are good at and have been good at for a long time.

So strategically, I think that's an opportunity for us is to really help and we are helping to be a partner in that set of circumstances and in that environment.

Second, we've always had what I would -- I think is really, really fantastic content. We talk about world-class content because it is.

One of the things we hear from our clients over and over again is that they value the quality of the content, the quality of the principles and frameworks and insights that it's just -- it's differential from others.

We also have always had really great -- we call it services, but really what that is, is people who are going in and doing facilitation and coaching and in some places, some consulting, and they're helping schools and organizations implement this powerful content in a way that really does change behavior, change performance and lead to better outcomes.

We've always had those two legs of the stool. AI is this really new unique third leg of the stool.

And we see it as a real accelerator to add to those other two legs because it's this wonderful technology that allows people who are trying to change behavior and leaders who are trying to move people, it allows for better visibility into that, better -- a new type of coaching, a new way to reinforce the principles we're teaching.

Our AI coach picks up where a human coach leaves off and is able to be there all the time with somebody helping and coaching them through specific situations and circumstances they find themselves in.

Our clients can trust that, that what's being coached is coming from this very trusted principle-based reservoir of content. We've trained our AI coach on all of our stuff and clients can really trust that.

And so for us, we view it as kind of this important third leg of the stool. And candidly, it wasn't a leg of the stool that was even available a few years ago. Nobody had come up with AI.

But now that it's here, we see it as this great third piece.

And so, as we think about, as I made the comments that we're investing in embedding AI into our solutions, it's kind of with that third leg of the stool in mind, how does it complement our great content and our great services that we already provide our clients, and we're seeing all kinds of ways to do that.

I just gave the one example earlier of the -- how it's helping with our -- Helping Clients Succeed sales performance solutions, where now not only being taught great content and learning how to use tools and not only having a great facilitator and coach personally, I've got an AI coach that's with me all the time who can give me real-time feedback on how that last sales call went, how I should position the product better next time?

How do I overcome this kind of common objection? How do I get prepared for this next upcoming sales call?

Those are the things that really make a difference. And for organizations, if they can improve that behavior by even a marginal amount, 5% or 10% across a large sales force, that trickles down to significantly more won revenue.

And so, that's just one example, and we're applying that across our leadership content, our four Disciplines of Execution solution.

We're excited to see how this can come into our Leader in Me offerings, as Sean and team are imagining what that looks like. So I would say innings-wise, we're in the early innings.

I think the world is still in the early innings, but we're quickly trying to advance into deeper into the game as quickly as we can.

David Storms^ Understood. That's great color.

One more for me, if I could. Just earlier in the year, there was the government cuts that could be pretty directly tied to some of your results, some of the headwinds that we've seen. Are you seeing anything of this magnitude from the current government shutdown?

Paul Walker^ No. We're not. When we reported at the end of Q1 last year, so in January, we outlined what the impact we expected to see last year at that time. We don't expect to see anything like that this year.

In fact, if anything, that might be -- we get to lap against that last year.

Of course, the government shutdown at the moment. But as that government opens back up, we expect that we'll continue to win some business with the government. And actually, on a comp basis, we get a chance to kind of comp against that last year.

That hopefully -- we expect that should work in our favor somewhat this year.

Operator^ I'm showing no further questions at this time.

I'd like to turn it back to Paul Walker for closing remarks.

Paul Walker^ Thanks, everyone, for joining today. Thanks for your great questions, as always.

We appreciate the lengths you go to understand the business. Hopefully, this came through today but we're pleased and optimistic about as we turn the page into fiscal '26 and what we're seeing happening on the invoice growth side that, that we expect that to trickle through this year into increased growth and really next year as those invoice amounts build up this year.

So we're looking forward to that and off to a good start. And just hope you all have a wonderful rest of your evening.

And again, thanks for being here today.

Operator^ This concludes today's conference call. Thank you for participating.

And you may now disconnect.