

Mossberg's Investor Digest

Best Idea Profile:

Franklin Covey Co. (NYSE:FC)

DESCRIPTION:

Franklin Covey is the leading skills training Company serving 75 percent of Fortune 500 companies. It also works with government-related clients, such as the U.S. Navy and state governments, and educational organizations from K-6 schools in the U.S. to schools in India. It provides specialized content, methodologies and tools to help organizations achieve and sustain superior operational and financial performance. It produces measurable and systematic results in areas including leadership, trust, productivity, sales performance and customer loyalty. Each of its seven practices is growing and so are the sales channels. Franklin Covey's billion dollar brands include "The 7 Habits of Highly Effective People," "The 4 Disciplines of Execution" and "The Speed of Trust."

Franklin Covey is based in Salt Lake City and employs 600 people.

KEY INVESTMENT CONSIDERATIONS:

Accelerating pipeline – The prospective business pipeline in the third quarter again exceeded that of the previous year's quarter. This indicates accelerating momentum and good revenue visibility. Over its history, Franklin Covey has worked with 90 percent of the Fortune 100 and thousands of small and mid-sized businesses, numerous government entities and educational institutions. However, the infrastructure is in place to support a much larger business with only minimal incremental costs.

Recurring revenue – Recurring revenue was 62% in fiscal 2011, compared with 53% in fiscal 2010. The company's goal is 75%. And penetration within the client base is accelerating. Revenue per client increased nearly 10% in the first half of fiscal 2012. Approximately 70% of the business is delivered electronically.

Geographic expansion – The Company increased international royalties by more than a third in fiscal 2011 and is on target to exceed that in 2012. The international licensee business has grown significantly and consistently over the past seven years. Much of the international growth reflects continued penetration in India, China, Singapore, and other emerging markets and is likely to continue through expansion in secondary markets, addition to the sales force and new content. Content is translated and delivered in 40 languages and in more than 140 countries and territories

Expanding EBITDA margin – Incremental sales growth has a significant impact on EBITDA and free cash flow. At 13% in fiscal 2011, EBITDA as a percent of revenues was three percentage points higher than the previous year. In the recently reported quarter, adjusted EBITDA margin was the "strongest third quarter ever," causing the company to revise its full-year EBITDA guidance upward.

Success in fragmented industry – One industry survey measured the U.S. training industry growth at 13% in 2010 with mostly small competitors. The self-help and training industry holds few barriers to entry. However, it is difficult for competitors to overcome the momentum and brand awareness of Franklin Covey. Its clients claim transformative results that impact sales, margins and retention. The company invests about 4% of revenue on content development annually, which is considerably more than its competitors.

VALUATION:

Stock repurchase support – Franklin Covey recently implemented a stock repurchase plan and started buying the stock in late July. The stock has shown good momentum since then. The July 16th death of the guru author and inspiration for much of the company's content, Stephen R. Covey, should not impact performance of the company.

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Investment Data (as of 7/27/12)

Recent Price	\$10.27
52-Week Range	\$6.25 - \$11.73
Fiscal Year End	August
Dividend	NA
Yield	NA
Shares Outstanding	17.8M
Average Trading Volume (3 mos)	39k
Market Capitalization	\$183 M
Cash	\$6M
Long Term Debt	\$33M
Enterprise Value (EV)	\$210M
Book Value Per Share	\$4.90
TTM Revenue	\$164M
P/ Revenue	1x
TTM EPS	\$0.40
P/ EPS	26x
TTM EBITDA	\$19M
EV/ EBITDA	11

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