

Fedcap Group

Fiscal Year 2021 Year-End Financial and
Programmatic Results

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CORPORATE PARTICIPANTS

Christine McMahon - *Chief Executive Officer*

Carol Khoury - *Chief Financial Officer*

PRESENTATION

Operator

Good day. And welcome to the Fedcap Group's fiscal year 2021 year-end financial and programmatic results. All participants will be in listen-only mode. Should you need assistance, please signal the conference specialist by pressing the “*” key followed by “0.” After today's presentation, there will be an opportunity to ask questions.

To ask a question, you may press “*” then “1.” For those listening to the webcast, you may submit questions throughout the event by clicking on the words on your screen. Please note that this event is being recorded. On today's presentation we have with us Christine McMahon, Chief Executive Officer, and Carol Khoury, Chief Financial Officer. At this time, I'd like to turn the conference over to Christine McMahon. Please go ahead.

Christine McMahon

Thank you, Anthony. And a special thanks to Advisory Partners for their ongoing partnerships in preparing these releases. As mentioned, I'm joined by our CFO, Carol Khoury. We both thank all of you on the line for your interest in our organization and for participating in these calls. This completes our sixth year of releasing our financial results. Starting in 2015, we began releasing our results at mid-year and year-end. Before we begin, special thanks to our staff, board, and also the thousands of partners across the U.S., Ontario, Canada, and the UK.

The strength and dedication of this combined group can be seen in the overall results in today's presentation. We also want to thank the over 10,000 employers and partner agencies who continue to create opportunities for people with barriers to economic well-being. This past year was marked by extraordinary execution. 2021 ended with strong operating performance both within our existing contracts, as well as our wrap up of new contracts and acquisitions, both of which I'll cover in today's presentation.

We launched a school for young adults with autism who are exiting high school, with a focus on jobs and long-term economic achievement. We continued expansion in our international activities, having successfully launched what I would consider groundbreaking work in both Canada and in the UK. These are successful models of care geared toward people who are unemployed, and we are privileged to be partners of both of these efforts.

We successfully completed an acquisition of Civic Hall, a U.S. based engagement platform geared for public good through technology. This funding will fuel, at least in part, innovative models of care across many areas of our work like child wellness, education, workforce, economic development, and the many supports needed for long-term success, as measured by long term economic well-being. I'll provide more detail in this morning's presentation.

On slide two are key takeaways for 2021. We ended with strong results led by top tier performance and continued development of strategic acquisitions. Our growth is aligned with our mission and market demand. And we've positioned the combined organization to meet post-pandemic challenges.

On slide four, we see our four practice areas: education, workforce, economic development, occupational health, all performed as planned. We're continuing to see a balancing of this critical combination of work.

We saw growth in education and workforce, stable growth in economic development, and continued planned reductions in occupational health while pivoting to an overall public health agenda. We expect our growth to continue in the future. Our single focus across all areas is economic well-being for those with barriers. Our commitment is to deploying successful models of care to advance not only short-term outcomes, but against long term sustained measures of economic well-being, in particular for those people seeking a different economic future that includes competitive work with opportunities for growth, but face enormous barriers to education and employment. This group includes children exiting foster care in the child welfare system, adults with intellectual disabilities, and people exiting the criminal justice system. We're focused also on innovative models of care for children 0-8, and a serious commitment to parent education and financial literacy, building the skills needed to ensure that their children can grow up with equal opportunity for success.

On slide five, we are performing well across 253 agency wide contracts, achieving performance deliverables at over 96%. We continue to replicate and leverage demonstrated success across an expanding footprint that operates in four countries and 22 U.S. states.

We added \$64 million in executed contracts, bringing our total contract value to \$1.3 billion. On slide six, we see increased revenue driven by both organic and acquisition growth. In 2021, total growth is up over the last year by about 23%, or \$64 million. Organic growth is comprising \$41 million, or 65% of that total growth. We are back up to pre-COVID revenue levels. Of note, the organic growth is made up of 125 contracts, of which 66 are new business.

We are very, very happy with our win rates, for we compete at 99% with a win rate of 36% for new bids. Our pipeline outlook is strong, with over \$130 million in annual opportunities. Most important is that our pipeline is very much mission-aligned, with a focus on enhancing sustained economic well-being.

On slide six, I mentioned acquisition revenue represents 35% of our year over year revenue growth primarily due to a full year of APEX and a new acquisition of Civic Hall. Recall we acquired APEX, a large technical training school in New York City with approximately \$20 million in revenue. It serves 1,200 students annually, with graduation and job placement rates well above the national standard. Notably, we are planning a significant expansion in several key areas within APEX, including technology and green energy, both in line with market demand and also a key objective to address wage gaps within specific populations.

Civic Hall is an innovative engagement and collaboration platform founded in 2015 by Andrew Rasiej, a serial entrepreneur in New York City, with an aim to advance civil and social innovation. Civic Hall represents large and small businesses, state and local governments, foundations and individuals to create a technology-focused ecosystem and workspace. These partners collaborate formally and informally throughout the physical and digital environment to advance solutions to society's most pressing barriers to economic well-being.

This year, we hope to launch an innovative digital training center, a project leveraging both APEX and Civic Hall, in an estimated 80,000-square-foot space that is equipped to train as many as 3,000 students each year. Our joint effort will also address reskilling and upskilling of workers whose jobs will be lost to automation. We estimate there are about 350,000 jobs in the New York City tech ecosystem, half of which require high tech skills.

We are committed to supplying a trained workforce to meet the demand of our changing economy and job landscape. These acquisitions are exciting, and very much in line with our

overall strategy and goals. They significantly upgrade capability within our education practice, ensuring high quality training and access to wealth paying employment.

Beginning on slide eight, I'm going to walk through our impact performance in key areas. On slide eight, our workforce practice, which operates across our entire footprint, is led by an exceptional and talented staff. This past year, we placed roughly 13,000 people in jobs, with 32% at wages well above minimum. This is back to pre-COVID levels, and our retention rates continue to climb each year as well—a very important milestone.

Closing the wage gap for various groups in our society is a major driver for improving the standard of living opportunities for our customers. On slide nine, you can see our education practice, which spans early education through adult education. We're focused on access to high quality education, persistence, and completion rates, and to the degree to which it leads to higher wage employment. Our early education efforts serving children zero to eight are performing well, meeting or exceeding state standards for developmental progress.

Noteworthy, or slightly higher than usual, almost 5,000 children were in need of emergency or support needs in the form of food or clothing. We continue to roll out an important parent education initiative across all of our programs. This work promises to affect the long term but also generational poverty experienced by some of our participants.

On slide 10, we're continuing with education and we're very, very pleased to announce the launch of the Greenleaf Community Center in Austin, Texas. The program will serve young adults leaving high school with a focus on employment. We're carefully watching the outcomes of this project and, if successful, we hope to expand it into other geographic areas. Within our technical training, graduation rates remain strong, over 78% compared to the national average of 59%. APEX has an exemplary history of exceeding the graduation rate standards. In conjunction with the job, access to and completion of higher education remains a very important tool in the wage and wealth gap reduction.

Single Stop served almost 10,000 college students across 56 locations this past year, in addition to drawing down a total of \$70 million across all settings, including colleges. These students also were connected to grants or scholarships for education assistance, and can be connected to mental health services, connected to pharmacy assistance and free medication programs. Students were also enrolled in health insurance through Single Stop. And finally, earlier this year, we forged a strategic partnership with a higher education facility. We will hear more about that and its effects on our overall results during our next release call.

On slide 11, we're thrilled to report that we added 268 jobs this past year within Total Facilities Management businesses. We're strengthening our green energy offering, which is a high priority of the Biden administration. This unit has created approximately 1,600 jobs in total with average wages of over \$40,000. We work with a committed supply chain to succeed in these businesses. And the results for people with barriers to economic well-being have been extraordinary. For over 40 years, Steve Coons, this division's leader, with 30+ years at Fedcap, and his team, performed at a level nothing short of heroic throughout the pandemic.

On slide 12, our occupational health practice reflects the support work that ensures our economic well-being progress is not only short-term but sustained. It reflects an array of important determinants of well-being. And they're embedded in all of our programs. Those results are powerful.

We assisted almost 24,000 people access federal financial support of some kind through Single Stop. These are key supports that ensure sustained employment and education. We served over 13,000 veterans and their families through our Dixon Center with critical employment, housing, and basic needs among the services delivered. Over 40,000 people engaged in wellness services within Fedcap that include behavioral and physical health care, and treatment for substance use disorders, with a focus on retaining and sustaining employment.

And a relatively new and promising initiative underway, financial literacy, specifically ensuring savings accounts for individuals walking through any door. In 2021, we saw a shift in focus to public health with the addition of \$1 million in contracting this past year. Our total public health expansion for 2021 reached \$3 million with an outlook of \$5 million for 2022. This is mission-aligned demand for our services, and we're thrilled to be pivoting into this area.

Moving to international highlights on slide 14, we have strong UK growth. We're pleased to report a successful and growing delivery network across the UK, working in true partnership with both the Scottish government and the Department for Work and Pensions to tackle unemployment, and support those with significant and often structural barriers to economic well-being. Our partnership with the Scottish government seeks to deliver dignity and respect, fairness and equality, in their work agenda. This groundbreaking effort is focused throughout the south of Scotland, up to Aberdeenshire.

In England, we continue to expand the Department for Work and Pensions' flagship COVID recovery program, ReStart. The design of this model by the department is very effective. Unemployment rates are continuing to drive downward. All in all, this model has been a big success. We're proud to be trusted partners and play our part in supporting the government to reduce unemployment across England and Scotland, making a difference to the lives of individuals and families in their communities.

On slide 15, in Canada, a team of 41 organizations covering 1,600 kilometers is driving tailored support, reaching almost 16,000 people last year. The results are quite remarkable. Our network, including leadership of the municipalities and over 2,800 employers, have assisted over 3,700 people to gain employment in the past 11 months. During the height of the pandemic, 46% of the people served through this project disclosed a disability. I want to especially thank and recognize the service provider community for all they do in the communities across the catchment area to get people to work. And, in particular, as the federal benefit landscape shifts, these providers certainly answered the call. And I just say keep up the enormously beneficial work.

On slide 17, we see our expansion into the cloud-based, on-demand software of SAS. It's positioned for continued growth. We successfully entered the web-based licensing and delivery model market with the launch of FedcapCARES case management system, a participant-focused web solution that provides a suite of tools to engage with program staff, allowing independent search for new employment, or upload requested documentation, among others.

This year, we successfully expanded our FedcapCARES case management system globally in Canada and the United Kingdom, featuring heavy data integration with our government funded systems. We also achieved ISO 2700 certification in information security management systems from the prestigious British Standards Institution, BSI, for both our proprietary software products, Single Stop and FedcapCARES. We will continue to innovate and drive new features to our proprietary software platforms throughout the year following an agile software engineering process.

On slide 18, a little on Single Stop, founded by Michael Weinstein, a notable economist, Single Stop has served over 2.1 million households and the number continues to grow. This has drawn down almost \$7 billion in benefits, creating a springboard for long-term financial stability. In 2021, Single Stop served 25,000 people alone, driving down almost \$70 million in critically needed resources. As mentioned previously, Single Stop is also changing college persistence rates, working within 56 campus locations and reaching almost 10,000 college students.

We have made major investments in modernizing our technology, investing over \$2.4 million to expand functionality and eligibility. We also added live help desk features and have game changing advances planned for the future as in launching key assists in grocery stores, pharmacies, college cafeterias, banks, and more.

In slide 19, over the next year, we are tracking carefully the U.S. government agenda and funding priorities, and will be guided by our overall mission serving those with barriers to economic well-being. We will continue to build a mission-aligned pipeline with a focus on education, workforce economic development, including sustained COVID recovery, and a pivot to public health across our occupational health practice.

We're adding a concentration, as previously mentioned, of clean energy and technology to our training and education platforms, also aligned with the Biden's administration's agenda. To begin with slide 21, I'd like to turn the presentation over to Carol Khoury, our CFO, who will review additional financial metrics.

Carol Khoury

Thanks, Chris. Good morning, everyone, and thanks for joining. I am pleased to report on the Fedcap Group's strong financial results for the year ended September 30, 2021. Revenue growth significantly outpaced the prior year, representing our staff's ability to efficiently deliver an array of services to more individuals in need across an expanded domestic and international footprint. And we continue to invest in technology and infrastructure upgrades to ensure that Fedcap is positioned to continue on its growth trajectory. Please turn to slide 21.

Fedcap has achieved the five-year compound annual growth rate of 8.1% for the fiscal years 2016 to 2021, driven by a combination of organic and acquisition growth. Based on our current composition, we expect to be able to continue to achieve a high single digit growth rate through 2025 with additional acquisitions and the potential to win more large contracts, providing upside to that growth rate. Our fiscal year 2021 revenue of \$337 million compared to \$273 million in the prior year is a year over year increase of 23% and reflects the material contract win in the UK, a ramp up of Canada operations, and a full year of APEX operations since its acquisition in the last month of the prior year.

The next slide, slide 22, shows our balance sheet highlight. Cash investments were \$49.3 million at year end 2021, up from \$34.2 million in the prior year. The year over year increase is due in part to the receipt of \$3 million in federal funded loans as part of the Payroll Protection Plan, as well as significantly improved collections and increased efficiencies. We ended the year with total assets at \$210 million, 39% in fixed assets, a total asset increase of 9.6% from the prior year. Our long-term debt is at \$109 million inclusive of \$10 million that represents federal government funded PPP loans. We are confident that a substantial portion of these loans will be forgiven, which will reduce our long-term liability by \$10 million in fiscal year 2022.

In early fiscal 2021, we refinanced our line of credit and a portion of our long-term debt. We increased our line to \$42.5 million from \$26 million in the prior year. Importantly, our expanded line of credit provides us with the resources to pursue growth opportunities we see on the horizon in a post-COVID environment. These include increased demand for our Facilities Management Services, the material expansion of our international workforce contracts, and an expansion of our education and training offerings to include technology and clean energy.

Moving ahead to slide 23. Our operating margin was 1.47%, or \$4.9 million, on revenue of \$337 million for the year, compared with \$409,000 in fiscal 2020. Expenses for the year ended 2021 were \$332 million, of which direct expenses continued to represent 88%. Personnel cost ratio of 52% is 11% lower than in the prior year mainly due to the service provider model of our Canada contract. Debt service coverage ratio was 2.15, more than double our required ratio of 1.

Our average DSO (PH) is at 69 days, a 12% improvement in collections. On slide 24, our final financial slide relates to our revenue diversification. And as part of our risk mitigation strategy, it has been to diversify our revenues. And from 2010 to 2021, we moved from 93% of our revenues coming from economic development to a more balanced portfolio where economic development now represents 36% of revenues, workforce development also accounted for 36%, and education and occupational health and other representing 18% and 10%, respectively.

In summary, the Fedcap Group ended fiscal 2021 in a strong financial position that gives us the ability to take advantage of future growth opportunities as we expand and diversify our services to provide a pathway to independence to those we serve. Now I'll turn it back to Chris.

Christine McMahon

Thank you, Carol. And as Carol reported details, we are focused on our sustained financial health, being relevant in terms of our continuation of innovation, and of course, our mission impact. On slide 26, we are pleased, in general, with our 2021 year in progress. We're very optimistic about the future. We're positioning for effective and cost-efficient solutions. Our organizational structure is built precisely to address the emerging needs over this post-pandemic environment. Leaders across our practice, workforce development education, occupational health, and economic development, supported by solid support system, including strong and strategic community partners and a reliable supply chain, are also focused on one thing, sustained economic well-being.

We are in discussions with funders to address the enormous workforce training and education needs expected over the next few years. We're deploying new education and public health service models designed to address the short and long term consequences of this current crisis, but to also change the reality for those who have had a long term and structural barrier to economic well-being. I'd now like to open it up for questions, Anthony. So back to you.

QUESTION AND ANSWER

Operator

We will now begin the question-and-answer session. To ask a question you may press "*" then "1" on your telephone keypad. If you're using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press "*" then "2." At this time, we'll pause momentarily to assemble our roster. Our first question comes from Joanne Shaffer with Marsh (PH). You may go ahead.

Joanne Shaffer

Thank you very much. And Chris and Carol, congratulations on your continued success helping people overcome challenges to their economic well-being. Terrific presentation. In following Fedcap over the years, I've seen you make significant investments in internal technology. Have you continued to make these investments? And post-COVID, do you anticipate any shifts in your strategy?

Christine McMahon

Thanks, Joanne. We are always monitoring and continuing to modernize our internal technology, and as mentioned in the presentation, moving into even external technology platforms. We have relied heavily on some extraordinary partners, Oracle, Salesforce, Huron, and certainly our own in-house development teams.

And so, yes, we will continue to make foundational strides and foundational investments with sophisticated proven technology design, really, state of the art partnerships with these large groups. The intended focus, by the way, to clean up our process and workflows so that we can focus more on strategy analytics. And of course, most importantly, we're really trying to advance our technology in ways that allow us to focus more on the lives of those we're serving. Thanks for the question. And technology is certainly a high priority for us in the foreseeable future.

Joanne Shaffer

Thank you.

Operator

Our next question comes from Rochelle Powell with Prager and Company. You may go ahead.

Rochelle Powell

Christine, just wow. You continue to touch so many lives. And even during, you know, these challenging times, you and all of the people at Fedcap do it with such grace. So thank you very much for continuing to do what you do. So question. You mentioned a couple of times the federal pandemic funding, in particular, PPP funding, and that clearly has bolstered a lot of not for profits throughout the country during the pandemic. As we believe there will be reduction in this type of pandemic funding, how are you preparing Fedcap for that eventuality?

Christine McMahon

Well, thanks for the question, Rochelle. And really, throughout COVID, certainly, Carol and her team, were very conscientious about the overall financial stability, both short term and long term. And frankly, we had our eye on post-COVID environment from the start. As you heard from Carol's report, we took a very, very conservative position on the PPP dollars, really reflecting it as debt till the very end with still some remaining.

So we utilized these funds, truly to fill the unprecedented shortfalls during the COVID but without binding ourselves to a steady state revenue expectations and reductions that were needed for overall sustained financial well-being. So we will continue to work on our long-term financial stability. We are very confident that we're emerging with a conservative and rational growth plan and expense management plans. And that was very important to us from the very, very beginning. Thanks for that question, Rochelle.

Rochelle Powell

Thank you. Thank you, Chris.

Operator

Our next question comes from Tony St. Leger with USI Insurance Services. You may go ahead.

Tony St. Leger

Thank you. Good morning, Chris and Carol. What a great presentation. And what terrific results. Fedcap continues to amaze me with all the great things that you do for everybody out there in the community. And happy holidays to everybody. We read a lot about supply chain issues throughout our country. And I'm wondering are you being impacted by that at all? And if you are, what are the some of the things that you're doing to help compensate for, perhaps, some of those shortfalls?

Christine McMahon

Thanks, Tony, for that question. And the short answer is we are most certainly affected, as all businesses no doubt are, with supply chain issues. And we feel them throughout the organization. We have also taken an opportunity to measure the strength of our supply chain. And in fact, it's precisely these times that you measure the strength of that system. We have really come through in terms of the assessment of our partner level suppliers and vendors. They were remarkably strong, even when they themselves were experiencing their own serious issues around supply.

Our partner level suppliers and vendors, we all, I would say, performed above average in all sectors of our work from partner organizations who are delivering actual on the ground services, to technology, to facilities management, a range of suppliers, all sectors. And in fact, as we move to this post-COVID environment, we are specifically looking at enhancements to our partners and our supply chain relationships. And we expect to see some additional contracting and some additional beefing up our supply chain with existing suppliers. So it was a very, very helpful experience to truly evaluate the strength of that partnership group. Thanks for that question, Tony.

Tony St. Leger

Thank you.

Operator

Our next question comes from Dan Froehlich with D.A. Davidson. You may go ahead.

Dan Froehlich

Thank you. Carolyn, Chris, great presentation. I really enjoyed it. There was some reference to post pandemic world. And I know we're all hoping for that. My questions are how has Fedcap prepared for a post-pandemic period? Are there material shifts in your plan, Chris, strategy? Do you see a revenue mix shifting? And lastly, are there new capabilities that you're going to need in this post pandemic world?

Christine McMahon

Thanks, Dan. And I agree, our fingers are crossed for this post pandemic period. But we find that the evaluation at the beginning of COVID, in terms of our focus on the end, is really going to help us sort of with this long-range stability for our organization. And what that translates into is stable services for those whose lives we're trying to affect. So it's very important to us that we keep a very long view on a lot of these issues, even these emerging catastrophic things like the pandemic.

As we think about the post pandemic needs, ironically, they are quite mission aligned. We've assessed our role in post pandemic environment. And our core mission and core values remain

strong and in high demand. We've been building the capability and service model to address long-standing and often structural barriers to wage and wealth gaps. Well, the pandemic has not changed much. In fact, it's worsened some of those issues. So this is really quite a continuation of our work. Looking more toward, can we fine tune our models post pandemic? Can we scale at the pace needed?

As for a shift, really, we are, with certainty, looking toward an expansion of public health services. I think we've mentioned that a couple times today. And that's going to be an emerging and growing focus of ours. And we continue to strengthen the capabilities in the philanthropic arena. In terms of succeeding in all of our goals, we realized we have to significantly engage in the philanthropic pursuits at a higher level. And so that's the second area, in addition to public health services, a second area where our organization has to focus on building capabilities. And it has to be a high priority for us, both large scale foundation and/or individual donor relations will be an emerging priority for us. Thanks, Dan, for that question.

Dan Froehlich

Thank you.

Operator

This concludes our question-and-answer session. I'd like to turn the conference back over to Christine McMahon for any closing remarks.

CONCLUSION

Christine McMahon

Thank you. Thank you, Anthony. And thank all of you on this call. Just on slide 28, in short, we're going to continue to enhance and leverage qualifications and capabilities across our entire spectrum of our shared practice areas, continue on our proven track record, maintain large and involve stakeholder communities, and most notably, continuing to attract extraordinary leaders, board members, senior management, as well as significant staff strength and expertise throughout all of our organizations.

Looking ahead, we're very well positioned for this continued growth in this post-COVID environment. On slide 29, I want to also say just how grateful I am, again, for our combined group of board members, highly effective supply chain, funders, donors, and of course, our dedicated staff. We benefit from this strong engagement among all of these stakeholder groups. I'd like to thank you for your attention this morning. And this concludes our presentation.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.