

Fedcap Group

Fiscal Year 2022 First Half Financial and
Programmatic Results

Thursday, May 12, 2022, 11:00 A.M. Eastern

CORPORATE PARTICIPANTS

Christine McMahon – *Chief Executive Officer*

Carol Khoury – *Chief Financial Officer*

PRESENTATION

Operator

Good day and welcome to the release of the Fedcap Group's Fiscal Year 2022 First Half Financial and Programmatic Results. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star (*) key followed by zero (0). Please note that the slides on your screen are user controlled. You may use the arrows at the bottom of your screen to move through the presentation.

After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star (*) then one (1), or while 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 would like to turn the conference over to Ms. Christine McMahon. Please go ahead.

Christine McMahon

Thank you, Nick. Before we begin, I want to offer a special thanks to Advisory Partners, our INR partners, for their ongoing work in preparing this release. Their Not-For-Profit division has guided our releases for the past seven years, and I want to thank them very much. I am joined this morning by our CFO, Carol Khoury and we both thank all of you on the line for your interest in our organization and for participating in this morning's call. For those of you following, we began releasing our financial and programmatic results in 2015. We have continued this practice twice each year, releasing at the mid-year and year-end. This is in keeping with our philosophy of "*the more you know about us, the better off we are.*" We will continue to expand our transparency and governance efforts to all stakeholders. Our commitment to transparent governance structures, codes of ethics, codes of values and public reporting, such as these releases, along with our combined metrics, is long-standing.

It is also worth mentioning that we have a commitment to clear and inclusive metrics within our environment and communities, from important land and water use to clean energy, throughout our footprint. We are tracking to important environmental metrics and have begun to provide some here today. Our aim is to continue to add similar substance to our biannual reports. These targeted impacts are strengthened not just by our combined group, but by our suppliers and partners as well.

In total, the strength and dedication of our boards of directors, our staff, our donors, our government funders, and our strategic partnerships drive the many accomplishments reported in today's call.

Four areas of practice drive our work; education, workforce development, health, and economic development. We operate through 21 not-for-profit subsidiary companies across the USA, Canada and the UK, and with over 10,000 staff, strategic partner agencies, supply chain partners, and donors, we have tremendous capability across our footprint, including Ontario, Canada, UK and the 22 U.S. states where we operate. We are committed to providing responsible solutions that positively impact the lives of people with barriers to economic well-being and the environments where they live.

On slide two are some key takeaways. Our first half continues with strong operating performance, both within our existing contracts and our ramp-up of new contracts and acquisitions. We served an additional 30,000 people over this period last year, our contract deliverables performance is consistently in the high 90s, and our combined expertise and qualifications along with targeted value-added services in several important areas are very much in line with the needs of our funding agencies and consumers. We have continued to expand our international activities including a very recent expansion in Halton, Ontario which I will cover later in the presentation.

Our technology, both as infrastructure and as a service has kept pace with our growth. We continue to make important investments, and our many strategic partners, including Huron, Oracle and Salesforce, just to name a few, along with our remarkable and dedicated staff, ensure that we are not just keeping up but also driving innovation and good customer experiences across our platform.

On slide three, above-average outcomes are driving growth across 300 contracts, and we continue to replicate and leverage demonstrated successes across an expanded footprint. Thanks to our staff and many top-tier partners, we are achieving over 96% of our performance measures; from the number of students graduating each year to our employment, retention and wage results, we are ensuring economic wellbeing for all those we serve. Our commitment to well-established program models across our platform ensure sustainable outcomes for our clients. We are committed to models of care to advance not only short-term outcomes, but also long-term sustained outcomes, with clear measures of economic well-being, in particular for those who struggle and want a different economic future, but face enormous barriers to education and employment. Our work provides top-tier services, but we also impact the communities and systems that affect those with barriers.

On slide four, you can see that our increased revenue is driven by organic growth and acquisitions. We added over \$48 million in executed contracts the first half. This is a slight increase from the first half of last year where we reported over \$32 million executed contracts. This brings our total contract value to roughly \$1.5 billion across our 300 contracts. Our work for international clients accounted for approximately 30% of first half revenues, which total close to \$175 million. This does not include a strategic win in Canada, which I will reference later and report more fully as part of our year-end results in December. Our pipeline outlook is strong, with over \$427 million of opportunity, of which 68% is new business—a very strong and optimistic outlook for new business development.

Most important is that our pipeline is very much mission aligned. Our focus on services centered on sustained economic well-being and strong environmental focus. Continued growth is expected across our four practice areas, and emerging areas embedded throughout our platform include innovative deployment models of education, green energy and technology training, to name just a few.

On slide five, higher education and training are central to our success. Even nontraditional onramps toward increasing levels of education is essential to those who have had significant and at times structural barriers to education. Planning is well underway for expansion in several key areas alongside a new strategic partner, Paul Smith's College, which we will talk more about during our full year-end results in December. This planning continues to align our work across Apex and Civic Hall. Later this year, we hope to cut ribbon on a new 80,000-square-foot digital training center in New York City with possibilities for replication. This joint effort will also address the reskilling and upskilling of workers who may lose their job due to automation, with

355,000 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 transforming economy and job landscape. Again, with the help of Paul Smith's College, we were able to add a focus on environmental sciences and green energy and a host of innovative deployment strategies designed to affect the long-term wage and wealth outlook for those who have historically been left out. This is an exciting partnership and very exciting work. You will want to follow this evolving partnership over the next six months.

On slide six is a deeper dive into our Single Stop Platform, created by noted economist Michael Weinstein. Since its inception in 2007, Single Stop has served as a springboard for long-term financial stability. This first half Single Stop served over 25,000 people, making over \$88 million in funding available to them. This is slightly higher than what we will be expecting for second half due to the first half tax season.

I think it is quite notable that of the 25,000 served this first half, 10,000 were college students across 50 colleges. This service has helped them meet their basic needs to support staying in school. Expanded functionality and eligibility was added to the Single Stop platform including screening for Pell Grant eligibility. New states were added to the platform. Single Stop has doubled the size of its community resources database with the efforts continuing throughout 2022 and into 2023. We will continue making needed advances within the platform such as closed-loop referrals, API integrations, self-service dashboards, expanded benefits and additional states. This is a highly impactful top-tier service for those individuals it reaches.

On slide seven, just a quick overview on our international growth. We are so proud to be trusted partners and playing our part in supporting governments across UK and in Ontario, Canada to reduce unemployment and make a true difference in the lives of individuals, families and their communities. Our work in Canada and the UK over the last few years continues to expand, again most recently in Canada, which again I will speak about in a few minutes, but without exceptions, this work is a true collaboration of ground-breaking government innovation, a dedicated Fedcap staff and an extraordinary group of community partners, all working together to ensure success, sustainable work and economic well-being.

This first quarter, we are very excited to report that we have also responded to an RFP in Ireland, which focuses on individuals unemployed in the Dublin area. I am hoping to put my Irish passport to good use this coming year. With this opportunity in Ireland, we are partnering with a local Irish partner, Skills Team, an organization with a very strong track record delivering high quality employability and skills services.

In slide eight, I just want to review some metrics in connection with our areas of focus. On slide nine, our workforce practice operates across our entire footprint. It is led by exceptional and talented staff. We placed roughly 10,600 people in jobs this first half. This is a significant increase over this period last year. We have a slight dip in retention in the first half but we project this will smooth out over the second half.

On slide 10, our commitment to higher education is an essential part of our poverty fighting work. The median income of those with no high school diploma is \$22,000 and with only a high school diploma \$41,000, as compared to those with a two or four-year degree who have median incomes over \$76,000. This impact carries over, not only into lifelong wages, but lifelong wealth. By comparison, children in the child welfare system, a group we have talked about many times and is a particular focus of ours, graduate high school at significantly lower levels than the average population, and while 20% go to college, up considerably from a decade ago, it is still

far below the average for high school graduates. Only 3% of children in this population are estimated to graduate. Access to high quality education remains a significant barrier to economic well-being for so many.

Graduation rates for our educational practice area remain strong across all our adult educational platforms—over 77% compared to the national average of around 60%. Additionally, we served over 2,000 children ages 0-8, carefully tracking developmental outcomes by state average. We continued to exceed state averages overall by as much as 10%, and 93% of those we served are returning to regular kindergartens, which is well above state averages.

With our high school programs, over 60% of those graduating are advancing to higher levels of education, and the remainder at a 100% rate transitioning to competitive employment. Additionally, we continue to roll out an important parenting education initiative across all of our programs. This work promises to affect generational poverty, as some of our participants and children experience these highly supported areas of our work.

On slide 11, supports aim at an array of important determinants of well-being that are embedded in all our programs. The results are powerful. We served over 3,800 veterans and their families with critical education, employment, housing and basic needs. This is up from last year at this time. Almost 23,000 people with COVID received wellness services from our group. In New York City, our outreach served over 730,000 in communities most impacted by COVID. We are very, very proud of that work. A relatively new and promising initiative is underway to secure savings accounts for each individual walking through our door. In New York City, ReServe reached over 730,000 in communities most impacted by COVID. We're very proud of that work.

On slide 12, economic development, we are thrilled to report that we added over 158 jobs, up from 140 added jobs in the same period last year. This unit has created almost 1,800 jobs in total with an average wage over \$40,000. We work with a committed and reliable supply chain, and we continue to expand our reach. This year, we have successfully added a strong focus on building a green energy workforce.

On slide 14, a few more details on our international work. We are delighted to be a trusted partner with Department of Work and Pensions (DWP) and with the Scottish Government along with a remarkable group of community-based providers. In England, we have implemented the DWP's flagship Restart Scheme, serving those people who have become long-term unemployed.

Fedcap is currently top of the DWP league table in March for achieving sustainable outcomes for our customers. We are also number one in the DWP league table for job starts over this past quarter. We are very, very proud. I do want to say we could not achieve these numbers without our delivery partners, Palladium, Get Set, Whitehead-Ross, Portsmouth City Council and others. Our UK team is sophisticated and hardworking, and we look forward to continued growth in partnership with the government to reduce unemployment across England and Scotland, making a difference in the lives of individuals, families and their communities.

On slide 15, we continue to excel in the deployment of our service systems manager contracts supporting approximately 7,000 people in the region of Ontario. We are fully operational and leading in most areas of focus. We placed 2,800 people in jobs this first half with wages averaging well above \$18/hour and retention rates are holding at 89% for 30-day placements. This work too is in partnership with the government, The Ministry of Labor, Training and Skills

Development, along with the Ministry of Children and a brilliant network of community and social service agencies who provide transformative leadership in the employment services arena. This combined network is a most impressive group. We achieved a very good engagement volume this first half, but even more importantly, we exceeded volumes for most every inclusion group including indigenous people and persons with disabilities. We continue to exceed the contract expectations in each area. I am pleased to announce an award in Halton, Ontario. This win is a \$12.8 million annual contract serving over 55,000 for a total contract value of \$38 million. This borders the Hamilton-Niagara catchment area on the northeast side. This work in Ontario is driven by a remarkable and collaborative group of community providers, and the model is sure to have lasting impacts.

I would now like to turn the presentation over to Carol Khoury, our CFO, who will review some additional financial metrics. Carol?

Carol Khoury

Thanks, Chris. Good morning, everyone and thanks for joining. Please turn to slide 17. We are pleased to report on the Fedcap Group's strong financial results for the first six months of FY 2022 ending March 31, 2022. The gross revenues for the period were \$174.9 million and 14.4% greater than the same period in FY 2021. The Fedcap Group's interim revenues quarter-to-year-to-date have grown in average of 7.3% annually since FY 2018 in a manner that is both diversified and primarily organic. The mix of revenues and period growth reflects our commitment to use the best available technology and fully utilize our infrastructure to maximize our reach to more individuals in need. Our continued investment in new and advanced programs across an ever expanding domestic and international footprint will ensure our ability to reach and improve the lives of more individuals with maximum sustainability.

On slide 18, we take a look at Fedcap's March 31, 2022, balance sheet, which shows an across the board improvement in all related metrics including liquidity, leverage and net assets. This was achieved with continued growth in operations and profitability as well as the forgiveness of federally funded payroll protection loans incurred in FY 2022. Liquidity in the form of cash and marketable securities reached \$50.2 million, an historic high for The Fedcap Group. It represents a \$16.5 million increase from the prior period. Fedcap's March 31, 2022, leverage defined as total liabilities to total net assets was 2.56:1. This is an improvement from the same period in FY 2021 that ended with leverage of 2.79:1. We believe our improved liquidity and leverage will allow for additional strategic capital investments as well as infrastructure development that will cycle into continued operating success.

Slide 19 provides a quick overview of the remaining operating and balance sheet metrics that collectively represent our overall financial condition. Our sustainability is measured in our operating margins, and we achieved an operating margin of approximately 1% for the first six months of FY 2022. Our operating efficiencies are measured by our personnel costs and program expense ratios, and we achieved ratios of 52% and 88% respectively. This represents an improvement from the same period last year and used the best practices to manage costs and expenses without sacrificing service and client outcomes. Our balance sheet metrics for the period ending March 31, 2022, demonstrates our ability to operate with sufficient liquidity evidenced by average DSOs of 59 days and healthy current ratio of 2.2:1. Our cash available for debt service for the first six months of FY 2022 is 2.29 times greater than the contracted amount of debt service payments.

Please turn to slide 20. We end our financial presentation with a look at the evolution of our mix of program revenues over a 12-year period from FY 2010 through to our projected revenues for

FY 2022. In FY 2020, economic development revenues were \$65.1 million or 93% of total operating revenues. They are projected to be 31% for FY 2022 and total operating revenues however will be \$117.8 million. The addition of workforce development and education programs during this period not only reduced the risk of concentrated revenues but also improved Fedcap's reputation as a social services provider and innovator.

In summary, our fiscal year 2022, six months interim operating performance and measurably strong financial position gives us the ability to take advantage of future growth opportunities as we expand and continue to diversify our services to provide a pathway to independence for those we serve.

I will turn it back to Chris.

Christine McMahon

Thank you, Carol, and as Carol's report details, we are focused on our sustained financial health, continuation of innovation and measured impact. Projects to address the enormous workforce training and education and support needs over the next few years are underway. We are poised to deploy new education, training and workforce models along with public health services and supports in response to the long-term consequences of this post-COVID crisis era, but also address the issues facing those who have had long-term and structural barriers to economic well-being, education and good quality jobs. We shall continue to leverage qualifications and capabilities across the whole spectrum of our shared practice to ensure that we are good citizens of our planet. We will continue to maintain a large and involved stakeholder community and most notably continue to attract extraordinary leaders, board members, senior management as well as significant staff strength and expertise throughout the organization.

On slide 23, as you can see, we are very optimistic about our future, we are well positioned to deploy and scale, delivering effective and cost-effective solutions. Our platform is built precisely to address the emerging needs anticipated over this post-COVID period. Leaders across our practices, workforce development, education, health, and economic development, are all supported by a highly effective corporate services division and strong and reliable supply chain. We benefit from key strategic community partners, and we are all focused on one thing, sustained economic well-being. Our organization-wide commitment to sustainability, remaining relevant through resource innovation and measured impact, is solidly embedded in our culture.

We will now turn it back over to the monitor for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. We will now begin the question-and-answer session. If you would like to ask a question, you may press star (*) then one (1) on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question please press star (*) and then two (2). At this time, we will pause momentarily to assemble the roster.

First question comes from Tony St. Leger, USI Insurance Services LLC. Please go ahead.

Tony St. Leger

Thank you and good morning, Christine and Carol. What a great report! The work you guys are doing is fabulous and the results are just outstanding. Congratulations and continued successes to Fedcap. My question is, what challenges do you anticipate keeping up with the emerging needs in the communities that you serve?

Christine McMahon

Charlie thanks. We think a lot about emerging needs, and I would say there are two areas of focus for us in this regard. One; I believe a continued challenge is for capital. We have got to be positioned financially. I think Carol and her team, and our entire leadership team is focused on true financial sustainability, and we expect continued headwinds to access capital and investments. We are hoping to secure the attention of donor invested capital, those interested in helping us achieve our goals, but that certainly is going to be a significant challenge, and of course the front window risk management is front and center for us. We are looking out into the future, short term, near term, long term and I think this post-COVID environment has definitely created a lot more unknowns than known typically where we are balanced in what we know and what we don't know, but I think this post-COVID environment has kicked up a notch in identifying, the level and percentage of unknowns that we need to be looking out for. The good news is our staff is exceptional in terms of that front window analysis, and in being able to pivot rapidly to meet those needs in the community.

Thanks for the question, Tony.

Operator

Thank you. Again, if you have a question, please press star (*) then one (1).

Next question comes from Joanna Schaffer of Marsh. Please go ahead.

Joanna Schaffer

Thank you so much. Good morning, Christine and Carol. Great job and I almost fell off my chair when you said you have a billion dollars in contracts, congratulations. You have a very high win rate in re-competes at 99%. Is this competitive? In this competitive marketplace, what do you attribute this high rate to?

Carol Khoury

So, I will take that Chris because it gives me an opportunity to talk about our staff. I would say our high re-compete success rate is directly related to the quality of our staff and delivery partners. They are innovative and dedicated, and hold themselves accountable to their own top-tier metrics in the delivery of services. We are constantly looking for the best technology and in the final analysis, our reputation for highly effective and efficient performance counts for something. We rely on interactions with customers and the data that comes out of that to teach us about customer experience and as we learn from this data, we refine our practices so that we can continuously improve. We have a contract deliverable rate as Chris said of 96% and I believe our funders recognize this and appreciate that we go over and above to ensure the best outcomes for those we serve.

Joanna Schaffer

Thank you, that is fantastic.

Operator

Thank you. Next question will come from Ana Arnal of Oracle. Please go ahead.

Ana Arnal

Congratulations, incredible results, I mean, Fedcap has a crystal-clear understanding of equity and impact, so I am super happy about seeing how Fedcap continues to deliver incredible results. My question is around customer-centric, according to *Forbes* and *Harvard Business Review*, having a customer-centric company is a new competitive battleground. How are you leveraging technology to understand the customer experience and ensuring that the Fedcap Group is customer-centric?

Christine McMahon

Thanks Ana. As you know, and as I have mentioned many times during this report, first and foremost our technology partners are second to none. These partners that I mentioned, Oracle, Salesforce and our implementation partners Huron, these are top-tier innovators in the area of customer-centric technology and so of course that plays a big role in our capability to compete in these areas. I would also say that there is a staff touchpoint for this customer experience and staff from across our footprint, every door you open, independent of what country or what project we are running, our staff and partner agencies are dedicating themselves to a great customer experience. It is palpable when you walk through our doors. It is really led by an amazing group of leaders across our platform that drive customer focused aspirational results for each and every person who walks through our door independent of what their situation is.

Finally, the third area, in addition to technology supporting our infrastructure, a real focus for us over the past 3-4 years has been delivering technology as a service. I mentioned Single Stop. That's one of several products we have designed to assist individuals achieve economic well-being. Single Stop is our flagship example. An enormous amount of energy and intellect is put into making sure that customer experience is solid from the moment they sign on to the last effort and perhaps even following up after the fact. I would say that the area in which we have the most work to do is to establish systems for individuals that we have touched to keep in touch with us over many years to follow. So that is an area where I would see additional focus in the coming years. That is very important for us.

Thanks, Ana, for the question.

Ana Arnal

Thank you very much. That's amazing to hear. Thank you.

Operator

Thank you and our next question comes from Andrea Kantor, Webster Bank. Please go ahead.

Andrea Kantor

Thank you and congratulations Christine and Carol, great results and even more importantly great impact. I am always intrigued by the ways that Single Stop helps to draw down government resources and I am wondering if you plan to expand Single Stop nationally, and if so how you plan to do that?

Christine McMahon

Thanks Andrea. As you can imagine Single Stop is an amazing poverty fighting tool. It has longstanding results since 2007 and this will continue for the foreseeable future. It is a game changing piece of technology that can be deployed just about anywhere. I mentioned earlier in the presentation, we are quite certain that an expansion in college and university environments should continue. It has been incredibly effective in increasing persistence rates along the continuum of education. I would like to see Single Stop across all areas of education, from

preschools to Head Start programs, throughout the educational arena where individuals are struggling financially, because we know this affects the education success that ties directly into long term economic wellbeing. So certainly, we expect to see Single Stop expanded throughout the education platform. In addition, we hope to see Single Stop kiosks in public locations such as pharmacies, banks, and grocery stores. That's the vision--expanding both the Single Stop technology itself and the locations where it can be accessed by individuals. It is a very powerful and innovative piece of software. The Single Stop development team is extraordinary and innovative and I would say watch carefully as this will take off over the next 12-24 months.

Andrea Kantor

Thank you. Looking forward to hearing that.

Operator

Thank you. Next question will come from Scott Zelinski, Huron Consulting. Please go ahead.

Scott Zelinski

Thank you. Hi Christine and Carol. I will echo the other comments about amazing, amazing success for you guys, and I will say especially in the environment we have had for the last couple of years, which leads to my question. Given the great resignation that certainly we are all feeling, and every industry is feeling, are you as The Fedcap Group having difficulty recruiting or retaining quality staff and if so, how are you addressing it?

Christine McMahon

Thanks Scott. I don't think you can open a paper or listen to the news anymore without hearing about the great resignation, and we are no exception. I would say that in my career, the ability to recruit has never been this difficult. We continue to push innovative ideas out there around attracting high-quality staff. Because our work is so fulfilling and rewarding, I think it gives us a slight upper hand. Our teams are out there advancing services and products that truly change the life trajectories of individuals in need, and I think that is one of the best recruitment and retention tools we have. Our leadership is extraordinary and mission-aligned, and so once we recruit them we are able to keep them. But certainly you are right, recruitment and retention are very difficult, and I think we may see this for the next half as well. Obviously, recruiting and retaining staff for us is essential. I might also add that in areas where we acquired organizations, some of our most innovative staff we have come with these organizations. We aim to keep all the staff that we have, and continue to allow them to grow and achieve great things in their careers. That's the secret to retention in my mind.

Operator

Thank you. At this time, we have no further questions. So this will conclude our question-and-answer session. Now I would like to turn the call back over to Christine McMahon for closing remarks. Please go ahead.

CONCLUSION

Christine McMahon

Thank you. On slide 25 are some closing thoughts. The public health crisis certainly took all our attention for the past three years. We were lucky to have a solid business continuity plan which anticipated both this post-crisis period and the long term. I want to also say on behalf of our group, how grateful I am to our board members, donors, funders, a highly effective supply chain and of course our staff, all of whom pivot regularly to meet whatever challenges emerge. In closing, Fedcap is grounded in a belief that a sense of purpose, well-being and dignity for all

people can be achieved through equal access to higher education and work. It is through a highly effective collaboration with businesses, donors, funders and other community partners that we are able to create opportunities for those who may face challenges to accessing quality education and employment. Our approach is threefold--to inspire individuals to believe that the possibility of a better life is within their reach, to promote the rigorous exchange of ideas that advance the continuous effectiveness of our own work, and perhaps the most important, it is our duty to change our own hearts and minds about what is possible for all people despite barriers or perceived limitations.

I thank all of you for your attention and continued support. See you in December for our full year remarks.

Operator

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