

The Fedcap Group

Fiscal Year 2022 Full Year Financial and  
Programmatic Results Call

December 8, 2022 at 11:00 a.m. Eastern

**CORPORATE PARTICIPANTS**

**Christine McMahon** – *President and 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 Full Year Financial and Programmatic Results. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you must be dialed in by phone. When the Q&A portion of the session begins, you will be prompted to press star then one to join the queue. Please note that this event is being recorded and 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.

On today's presentation, we have The Fedcap Group's President and CEO Christine McMahon, and Carol Khoury, Chief Financial Officer.

At this time, I would like to turn the conference over to Christine McMahon. Please go ahead.

### **Christine McMahon**

Thank you, Cole. And a special thanks to Advisory Partners, for their ongoing partnership in preparing this release. As Cole mentioned, I'm joined by our CFO Carol Khoury, and we both thank all of you on the line for your interest in our organization.

This completes our seventh year of releasing our programmatic and financial results. We started in 2015, and each year we have released our results at the mid-year and year-end. And I also want to make a special thanks before we begin to our board and over 3,500 staff and the hundreds of service providers across the US, Ontario, Canada and the UK. The strength and dedication of this combined group can be seen throughout today's presentation. I also want to thank the over 10,000 employer partners, and our many state and local government partners, and our donors alike. We could not create this type of impact without you.

On slide 2, I'll just review some of the takeaways for 2022. I first want to point out that 24,000 people moved into the workforce this past year. This is a significant jump over the previous year. We had a significant financial growth as well, up almost 9% over prior year, ending the year reaching 325,000 people and revenues of \$360 million.

We executed \$119 million in total contracts and \$19 million of that was new work. This brings our total contract value to close to \$1.3 billion. Our win rates remain strong; 99% win rate for re-compete contracts and 25% when seeking new business.

We also showed strong operation performance, both within our existing contracts as well as our ramp up of new contracts and acquisitions such as Civic Hall and Power 52, which is an industry certified clean energy training program. We've continued to replicate and leverage demonstrated success across an expanding footprint. Our total operating volume is 70% domestic US and 30% international across Canada and the UK.

On slide 3, we continue to perform top tier levels across 300 contracts. We're leveraging evidence-based tools wherever possible, such as our parent education platform. With over 40 years of long-term data behind it, we've continued to build our strength and diligence in terms of corporate infrastructure, governance and transparency, such as these calls.

On slide 5, we continue to strengthen and add new resources to build out our education practice. Our aim is to create accessible pathways to high quality education for all, but in particular those that have barriers to higher education. The data is clear: economic stability is achieved when people have access to higher levels of education. In this past year, we executed our lease in New York City at Union Square, officially launching Civic Hall's new home. Construction is under way to build possibly the largest digital skills training facility in the nation. The 85,000-square-foot space will also include community collaboration spaces, and a world-class event center. We expect to reach 3,000 students a year at steady state.

And in addition to our internal team led by Civic Hall and includes Apex, Paul Smith's College and Single Stop, this project has two very important external partners: RAL, a New York City based developer who delivered a world-class space achieving even the highest levels of environmental considerations; and New York City's Economic Development Corporation, a vital city agency, all with the goal of expanding high quality supports and services within the local community, but also providing training and high demand job opportunities to those with structural barriers to economic stability. And with our education partners, among them as I mentioned Paul Smith's College, Single Stop and Apex, we will also address the reskilling and upskilling of workers whose jobs will soon be lost to automation.

With 355,000 jobs in the New York City tech ecosystem alone, we are committed through this project to delivering a trained workforce to meet the demands of our transforming economy. Our partnership with Paul Smith's College continues to expand, and combined with Apex and Fedcap, we're driving critical pathways to higher education in high-demand fields such as clean energy, renewable energy, environment, forestry, and including urban forestry, hospitality, technology, home automation, just to name a few.

We also launched this past year a very strategic joint venture between Fedcap and a Canadian-based company, UP 360, to advance a virtual reality training platform in line with customer demands. We expect to deploy this platform internally throughout our education and training curriculums, but as well to external customers. We're targeting cutting edge projects within, as I mentioned, the clean energy, climate and environmental space. I mentioned above urban forestry, solar energy technicians; these are just to name a few of the many examples where our joint venture and virtual reality platform will be utilized.

Our overall goal in education is to increase access to high quality education while addressing persistence, completion rates, and the degree to which our work leads not only to higher wage employment, but also addresses the significant wealth gaps among targeted groups.

On slide 6, we're focused on the specific education impact this past year. Note, our education practice spans early intervention all the way through adult education. With our early education efforts, where we serve children zero to eight, we are performing well. We serve close to 2,300 children, meeting or exceeding the state standards for developmental progress. 100% of our students moved onto regular education. 100% of our high school students graduated last year with 92% moving on to post high school education and close to 40% of that 92% moved on to higher education.

Over 2,000 students graduated from Apex, our trade school, in high growth sectors. Graduation rates at Apex are strong and have a 76% employment success rate.

Notable are the wages which range from first year graduates with no experience at \$44,000 to an average of \$82,000 within three years after graduation, most with quality benefits, including retirement. We continue to roll out an important parent education initiative across all our programs. This work promises to affect near term goals, but also generational barriers.

On slide 7, expansion of our Single Stop platform in particular, served 87,000 individuals and drove access to almost \$375 million in benefits. These benefits have averaged over \$13,000 per household. Over that 87,000, 22,000 were college students across 50 college campuses. We have seen an increase in retention and graduation rates across the board. This is directly connected to the Single Stop platform, and at least two external studies have confirmed these results.

This coming year, we expect this resource to be deployed across our entire education practice, including Civic Hall at 14 St., Paul Smith's College. We continue to expand and develop the screening tool with additional benefits across more and more geography.

On slide 8, our workforce development impact is very strong. Our workforce practice operates across our entire footprint. It's led by an exceptional and talented staff. I mentioned we placed roughly 24,000 people into workforce across a variety of high growth sectors. Our retention rates and wages are holding steady. We are closing the gap that persists in society. It's a major driver for both our education and workforce practice, improving near term standards of living with opportunities but also long-term economic resources such as retirement savings; all high priority.

In addition, we were awarded two important projects this past year; a \$4 million Pathway to Home program. It's a grant from the US Department of Labor to provide training and employment services to adults reentering the workforce following incarceration. And a new \$500,000 contract in Maine to launch Veterans Forward, a program providing veterans, service members and their families emergency support and job training.

On slide 9, our health practice reflects the support work that ensures economic stability is sustained. It reflects services that address an array of important determinants of wellbeing for individuals, but also rapid community response in targeted communities where significant health risks persist and are linked to overall economic well-being, specifically access to education and employment. We assisted over 43,000 people this past year, providing access to services including prevention, health care, behavioral health, housing, all services are targeted to ensure retention in work and academic settings.

Teamed up with Single Stop, our health practice team continues to deploy important community resources in direct response to emergencies, such as COVID, monkeypox and the like. And finally, we received multiple contracts in New York City totaling \$10 million to specifically address longer term COVID issues in the neighborhoods most adversely impacted. Specific services there included care coordination, vaccine referral appointments, community education events, continuing the distribution of COVID materials, including PPE, testing kits, and health information in general. But most notable, we made over 1,800 referrals for employment within those communities.

We also served 15,000 veterans and their families with critical health, employment, housing and other basic needs.

On slide 10, our economic development practice has continued to make important advances. We're thrilled to report that last year we added 156 full time jobs with an average starting salary of \$42,000. And as important, access to critically important retirement saving programs.

We have some impressive numbers here and our partners at Mutual of America are critical to this effort. They also assist us in delivering high quality financial literacy. Within our total facilities management business, we are strengthening our green energy and workplace automation offering both high priorities for the current Administration. And finally, we are thrilled to have received a federal technical assistance grant of \$125,000 to establish a CDFI we hope will be launched within this next coming year.

And now some international highlights. On slide 12, Fedcap UK has strong growth and we're pleased to report successful and growing delivery network across the entire UK. Revenue has grown to \$47 million, up from \$23 (million) and our outlook is very strong. Over 12,000 people were placed in jobs this past year with very good retention rates.

We remain a trusted partner of both the Scottish Government and the Department for Work and Pensions. Together, we're tackling unemployment and health supports to those with significant and often structural barriers to economic well-being. Our partnership with the Scottish Government in the delivery of their Dignity and Respect, Fairness and Equity in Work Agenda is groundbreaking work. We're focused throughout the south of Scotland all the way up to Aberdeenshire.

Also, as part of our work in Scotland, we're working with 200 displaced Ukrainian citizens with the goal of support but also work.

In England, we continue to expand the Department for Work and Pensions flagship Restart program, and I'm so pleased to announce that the Fedcap's Customer Success Center in UK was crowned Team of the Year Hidden Heroes at the highly prestigious Employability Award ceremony which was sponsored by the Employment Related Support Association. Congratulations to our extraordinary team across the UK.

On slide 13, our work in Canada continues with strong impact results. This past year, we added a new catchment area in the Halton Region, which will begin in 2023. The contract is \$12.8 million and we are very excited to be in the planning phase of that work. We anticipate going live starting in April.

I would like to personally welcome the team, the service providers from Halton, we are thrilled to be working with this highly talented team of people and the organizations they represent as the Employment Services transformation makes its way throughout the entire province. Welcome aboard to all those.

In Hamilton Niagara region where we were awarded and ramped up a \$65 million annual contract to serve as the administrative lead for another amazing team of 37 organizations covering almost 3000 kilometers, they continued to drive tailored support. They reached almost 26,000 people last year, and 84% of the clients have completed employment plans and 78% working.

And also on slide 13, there's a chart on the left which reflects one of the many performance objectives. This one includes ensuring specific numbers of people with six inclusion groups have access. This is to ensure that we're reaching all groups of the service area. As you can see in green, we are significantly outperforming the required targets in each of these six groups. I want to congratulate that team of people.

And I want to thank all the service providers across our network for all they do in the communities in each of these catchment areas to get people into work, and in particular, those that need our help the most.

Now, I'd like to turn the presentation over to Carol Khoury, our CFO, who will review additional financial metrics.

**Carol Khoury**

Thank you, Chris. Good morning, everyone and thanks for joining.

Please bring your attention to slide 15. We are very pleased to report on the Fedcap Group's strong 2022 financial results for the year ending September 30, 2022. Fedcap's 2022 financial performance is notable as evidenced by continued growth in core operating revenue, bottom line profitability, and an ever stronger balance sheet.

Our gross revenue for the period was \$359.7 million or 8.8% greater than the same period in fiscal year '21. The Fedcap Group's FY22 revenue growth exceeded our five-year compound annual growth rate of 6.8% in a manner that is both diversified and not entirely organic. The net year-over-year growth reflects the successful expansion of our international operations and domestic workforce development programs. It represents the Fedcap Group's commitment to develop and execute needed programs that maximize our skills, talents and infrastructure. Fedcap's ability to reach and improve the lives of an increasing number of people and families with maximum sustainability, now and in the future, will rely on our infrastructure, technologies, and strategic geographic locations.

Please turn to 16. Fedcap's Fiscal Year 2022 Balance Sheet strengthened considerably. The improvement is due to our consistent profitability and the steady reduction of our funded debt. Let me share some of our strong balance sheet metrics.

Our total liquidity increased to \$60.6 million and in FY22, the highest in Fedcap's history. This is up from \$53.9 (million) at the end of 2021. The improved liquidity translates into a record 62-days cash for the year, and up from 57 days in 2021.

Our working capital is steady at \$51.6 million and is more than double the outstanding balance on our line of credit as of September 30. Finally, Fedcap's funded long term debt to unrestricted liquidity ratio in 2022 decreased to 1.35 times from 1.58 times in FY 2021.

Now, let's look at slide 17. Our efforts to increase liquidity and reduce leverage will allow for additional strategic investments and infrastructure development that will become the next generation of operating success. Slide 17 is an overview of the remaining financial metrics that we believe are representative of our financial condition. 2022 total expenses amounted to \$354.3 million, up only 7% from the prior period. This matches the growth and total revenue for the year and is notable considering the inflationary pressures in the last half of FY 2022.

Fiscal year 2022's managed growth in revenues and expenses resulted in a positive change in net assets of \$5.3 million comparable to prior year. Our fiscal year 2022 operating profit margin of 1.5% is nearly unchanged from 2021, and we expect to maintain this level of profitability in '23 as our cost management process and pricing methodology will counter any further on anticipated inflationary pressures. Our 2022 debt service coverage ratio was 2.71, up from 2.15 in the prior year.

Please turn to slide 18. We end our financial presentation with a look at the 12-year evolution of our mix of program revenues from 2010 to 2022. In 2010, economic development revenues were \$65.1 million or 93% of total operating revenues. Now, 12 years later, economic development and workforce are equally approximately 70% of total revenues with education, health and other another 30%.

The growth in domestic and foreign workforce development programs during fiscal 2022 continues to minimize any systematic risk that comes from a concentration in revenue and maximizes Fedcap's reputation as a dedicated and innovative service provider. To summarize, Fedcap's 2022 financial performance will allow greater institutional flexibility when taking on future growth opportunities. It is this flexibility that allows us to expand and diversify services to provide a pathway to independence to those we serve.

Thanks. I'll turn it back to Chris.

**Christine McMahon**

Thank you, Carol. Our outlook 2023 and beyond remains strong. We expect continued growth, our current

pipeline is at \$229 million, with approximately 85% of that new work. At present, the pipeline is consistent with operations as 70% domestic and 30% international. We continue to benefit from a strong win rate. Most important is that our pipeline is mission aligned, spanning education, workforce, health and economic development, all in service to sustained economic well-being. Over the next year, we're focused on meeting the enormous workforce demand through a continuum of training and education innovations, deploying new recruitment, enrollment and retention models designed to enhance access to higher education for those with a history of structural barriers to higher education in particular.

We will continue adding new curriculum for high demand areas as well as the deployment models such as micro credentialing and our VR platform. Leaders across our practice are supported by a solid system of strong and strategic community partnerships, and a very reliable and dedicated supply chain. We're all focused on one thing – sustained economic well-being while also strengthening the systems affecting people and the communities where they live.

I'd now like to open it up for questions.

## **QUESTION AND ANSWERS**

### **Operator**

Thank you. We will now begin the question and answer session. To ask a question, you may press star then one 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 star then two. And at this time, we'll pause momentarily to assemble the roster.

Our first question today comes from Allison St. Hill with Alpha Business Solutions. Please go ahead.

### **Allison St. Hill**

Good afternoon, Christine. This is Allison with Alpha Business Solutions. We have been extremely proud to be partnered with Fedcap and amazed by all the work that Fedcap has been doing over the years. What areas do you see changing in the higher education space and how are you planning to attract more nontraditional students?

### **Christine McMahon**

Thanks for the question. Thanks so much for the question. Really the nexus for a group focused on economic well-being for underserved communities like us, and a high quality college say like Paul Smith's College, is tied to our mission. So we're trying to create pathways for economic well-being and, of course, higher education is critical to that mission.

Education, attaining college credentials, it remains really the number one indicator for achieving economic and social mobility. That is a reliable statistic. We expect that will continue well into the future. The problem is, not everyone has access. We need more pathways. For example, 70% of all new jobs need a post-secondary credential. So we're focused on those who get left behind. The bottom 5% income earners are less likely to go to any college and graduate versus the wealthiest that do.

So in too many communities, our thinking is that people don't think of themselves as college material and they get left behind. This partnership is really already paying dividends. People who would not otherwise see themselves as college material are in fact transitioning to college and in high demand and high salary industries. So they're attaining both industry credentials, college credit, and so this model allows us to build capacity in communities where their citizens are left behind, but it also creates driving and needed enrollment for colleges like Paul Smith's College. This allows colleges to focus on its essential mission of educating students. And we believe in Paul Smith's College, their mission, but also their value as a

vital part of the Adirondack economy.

So, in the end, this is about staying relevant. All sectors have to stay relevant, including higher ed. And really, that's what all successful colleges do, they stay relevant. We need for colleges to open up access, to adapt, to use new technologies, like our virtual reality, going into those communities that are left behind becoming more flexible. That's what they do. So nothing is written in stone in terms of success for colleges; they constantly innovate. Paul Smith's College is no stranger to innovation. That is a team of staff and faculty that are second to none, in our opinion. Their programs, environment, climate and forestry, hospitality, and the many others are extremely important and in high demand and relevant.

So we see the changes in our model as applied and working in partnership with Paul Smith's College to be the kind of change that will emerge across higher ed, in particular for those who want to remain successful. Thanks for the question, Allison.

**Operator**

And our next question will come from John Vega with Huron. Please go ahead.

**John Vega**

Hi, Chris, thank you so much for doing this call and the reached impact of Fedcap continues to be impressive. Thank you for sharing all this. I wanted to ask about CDFI, and the initial grant you got there to establish it. Could you talk a little bit more about this? What are the expansion plans with that? And how do you see this connecting to the mission of the organization?

**Carol Khoury**

I'll take that question. Thank you. We are really excited to have received this award. It's going to help us in planning and the launching of our own CDFI, a community development financial institution. And they're designed to provide investment, such as low-cost loans or equity and technical assistance, specifically in low-income communities. And so developing our own CDFI fits squarely within our strategy of building, not only increased wages, but also bridging the wealth gaps that so many of our constituents face.

And we intend to focus on people with real barriers to capital, gender and race, chief among them, and in low-income communities. And these are key components of economic stability and our overarching mission. Thanks for that.

**Operator**

And our next question will come from Mike Turpin with USI. Please go ahead.

**Mike Turpin**

Hi, everybody, Chris, and Carol, thanks for the presentation today. I'm just continually amazed at the growth and also the diversification as you guys tackle the entire continuum. It's extraordinary.

I got two questions. They're kind of disparate, so I'm going to just try to push them in both if I can, and maybe give you a chance to respond to both. First one is, can you talk a little bit about the labor markets heading into 2023? We've got some potential for a mild recession, there's a lot of discussion about shifts in attitude of employers where labor market was let's take on all comers to a different kind of shift. So I'd love to hear a little bit more about that.

And then in concert with that, if you could elaborate a little bit more about the VR training platform concept. It's really exciting, but I'd like to maybe hear a little bit more about the ultimate goals of that as a platform to be able to expand your reach.



**Christine McMahon**

Thanks for the question, Mike. They are related in a lot of ways. First, to the outlook of the employment. From our perspective, and for the constituents that we are concerned with, the employment outlook is good and here's why. We are preparing those individuals who have often been left out completely. And so this is an opportunity to target those communities and those individuals who have not had high access to high quality training and education, and armed with high quality training and education, we see these individuals as still as really entering almost with a new set of lenses around what is their range of possibilities, in particular in these high demand areas. And despite the sort of recession talk, the jobs continue to outnumber the people seeking. There's been so much written about the sort of exit in terms of the workforce, I think this creates a real opportunity for those individuals, if they can find access to the right kind of training and education, which we hope to deliver.

And the virtual reality platform is central to those objectives. So, for example, one of the areas we intend to address with our virtual reality platform is simply being able to expose high school students who are constantly told, "college isn't for everyone," a phrase I'd like to eliminate from our vocabulary, and really expose these students to a range of possibilities. And through virtual reality, we're able to bring many, many, many high demand sectors directly into high schools. This is going to have a big impact in our minds, and in particular fuel their interest and excitement, and their belief that they too can pursue all levels of education that should be available to them.

And, of course, the other end of that application is in high demand areas from a training standpoint. So when you think about employer-based training, in particular, the ability to shorten training levels in person, given today's sort of environment and the technology available, we're hoping to use the virtual reality platform to address employer-based needs, which again span from shortening and leading up employer training, credentialing and alike. So the two go hand in hand, Mike, and thanks for the question.

**Mike Turpin**

Thank you.

**Operator**

And our next question will come from Joanna Schaffer with Marsh. Please go ahead.

**Joanna Schaffer**

Thank you so much. Good afternoon, everyone. And Christine and Carol, congratulations on yet another amazing year and serving so many people and helping them move forward in their lives.

I had a quick question. I heard you mention that the balance today is 70% domestic, 30% international, both in operations and pipeline. Did I hear that correctly? And do you see that ratio staying the same in the future?

**Christine McMahon**

Yes. Thanks, Joanna, thanks for the question. So first, you are correct. Both our operations, current operations and our pipeline are balanced with 70% domestic and 30% international. So yes, you did hear that correctly.

In terms of forward-looking, first of all, I want to point out that it's our intention to import innovations from across Canada and the UK into the US. So we are benefiting from some of the unique models across our footprint, including those out in Canada and across the UK in terms of interesting advances and innovations that can help us build out and expand here in the US. And given the relevance of our work, I think it's equally plausible, and we see inching more to a 50/50 balance over the next few years. So I will not be surprised if our future looks more 50/50 in terms of opportunities across the international

marketplace.

**Joanna Schaffer**

Thank you.

**Operator**

And our next question will come from David Trasatti with Oracle. Please go ahead.

**David Trasatti**

Christina and Carol, how are you today? First of all, I want to say thank you, my wife and I had the pleasure of attending the gala this year and celebrating the success of Fedcap. It always marks the beginning of the holiday season for us.

My question is around Civic Hall. That is a tremendously ambitious and potentially very impactful project. Do you see this being something that you might consider replicating in other parts of the country?

**Christine McMahon**

Actually, that's a very important consideration for the model that is launching at Civic Hall. So not only do we see it replicating – and again, it's a very unique partnership. We've got a high quality higher education in Paul Smith's College; we've got a trade school level partner in APEX; we've got Single Stop – so these bolted together under the Civic Hall model where we will be providing high demand technical training in a variety of technologies, in a variety of high demand technology space combined with this opportunity to have access to Civic Hall members, who includes some of the brightest, the biggest and the most innovative members in the technology space, this is a trifecta. This is an amazing opportunity. And by all means, we not only see this expanding, replicating with the right resources, this will replicate in many locations across the US. But in addition to that, combining with our UK and Canada partners, we see this has having even international reach.

So thank you for the question and thanks for attending our gala.

**CONCLUSION**

**Operator**

And this will conclude our question and answer session. I'd like to turn the conference back over to Christine McMahon for any closing remarks.

**Christine McMahon**

So thank you. As you can see, our fiscal year programs and finances, they are all aligned with our strategy. In short, we're going to continue to enhance and leverage our qualifications and capabilities across the entire spectrum of our group. We continue to benefit from a large and involved stakeholder community, and most notably continue to attract extraordinary teams of people, board members, top talent with expertise throughout the organization.

And I want to say, again, how grateful I am for our combined group of board members, highly effective supply chain, government funders, our donors, and of course, our staff who have done an extraordinary job year after year; last year was no exception. So we do benefit from strong engagement across all the stakeholder groups, and I thank you once again for your interest in our organization.

**Operator**

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect your lines at this time.