

The Fedcap Group

Fiscal Year 2024 First Half Financial & Programmatic Results

May 7, 2024 - 11 a.m. Eastern

CORPORATE PARTICIPANTS

Christine McMahon - *President & Chief Executive Officer*

Carol Khoury - *Chief Financial Officer*

PRESENTATION

Operator

Welcome to the release of the Fedcap Group fiscal year 2024 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 * key followed by 0. We have with us today, the Fedcap Group's President and CEO, Christine McMahon; and Carol Khoury, Chief Financial Officer.

Today's presentation will cover several key areas, including program performance and highlights, financial reports, and strategic growth opportunities. 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 * then 1 to join the queue. Please note that this event is being recorded.

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

Christine McMahon

Thank you, Cindy . And thanks to all of you. Sorry for the brief delay. We had a technical issue that we've since resolved. So, a special thanks this morning to advisory partners, our INR partners, for their ongoing work and preparing this release. Their not-for-profit division has guided our release for the past nine years. We're going to continue to expand our transparency and our continuous improvements across a wide range of stakeholders. And we thank you for your participation.

I also want to thank our board members for today's call. They have driven our overall transparency agenda, including this call, and without a doubt, it has made us stronger. In addition to our board members, our impact is strengthened by our strategic partners, our suppliers, our service partners, donors, and of course, our government partners. And finally, I want to thank our employees who are second to none. This extraordinary team of individuals are dedicated to one mission -- improving economic wellbeing for all.

On slide four, you can see four areas of practice drive our work -- education, workforce development, health, and economic development. We operate through 23, not-for-profit subsidiaries across the U.S., Canada, and the U.K. Our reach is growing. We have over 3,300 employees committed to providing responsible solutions that positively impact the environment, communities, systems, and of course, the lives of people with barriers to economic wellbeing. For our first half of 2024, we executed a total annual contract value of \$97 million. And this is both recompetes and new projects, bringing the total contract value to over \$1.3 billion.

On slide five, you'll note that over 40% of our team represents minority groups, and half of them are women. On slide six, we are extremely proud of our adoption of the UN Sustainability Framework, which we did in 2020. This framework sets forth a 2030 agenda, and provides a shared blueprint to address the needs of both people and the planet. This work is driven by 17 sustainable development goals in a global partnership. And they recognize that ending poverty must go hand in hand with strategies that improve and integrate health and education, reduce inequality, and drive economic growth.

And all of this was in line with Fedcap's initial mission and our ongoing global approach. But in 2020, we began to specifically include environmental impact metrics, both internal, but also across our vast supply chain. Our total facilities management sector, for example, which currently encompasses over 22 million square feet under management, is driving key energy efficiencies,

through initiatives such as solar integration implementation, water consumption reduction strategies, implementing electrical meter metering programs, and many others.

And these efforts are continually expanding as part of our ongoing commitment. This is complimenting longstanding initiatives, such as recycling programs and the use of green cleaning products to promote sustainability and to minimize waste. And finally, through our training and education programs, where we are actively equipping workforce with the necessary skills and knowledge in environmental stewardship, these ensure that these individuals are well prepared to be employed within this emerging sector. And you will see these themes throughout our presentation today.

On slide seven, our operating principles focus on sustainable, financial health. Our staff and partners drive performance at top tier levels in our industry, but we're also focused on measured impact and value add that amplifies well beyond the required performing metrics, targeting those areas that propel individuals into middle class. This is in addition to our wage and wealth focus, our parent education and financial literacy initiatives -- this all drives our integrated approach within our core practice areas. And finally, a long-term goal is to develop ways to inoculate the helping systems with new and innovative approaches.

These efforts are all well beyond what is required of us, but they are critical if we are to fulfill our mission of economic mobility for all. And we'll continue to highlight these priorities. On slide nine, we had a strong first half. Our operating performance, both within our existing contracts, but also our ramp up of new contracts was solid -- up to \$97 million in executed contracts this first half. Almost \$11 million was for new contracts.

We served over 146,000 people. That's a 4% increase over last year, at this time. Children make up over 1,000 of those directly served, and well over 6,000 of those are veterans. On slide 10, we have delivered \$183.5 million in revenue across 300 contracts and 23 separate companies this first half, essentially flat, year over year. We are on track to meet our year end goals. Education represents 15% of our total, and it's the fastest growing practice. We offer a comprehensive array of tailored programs to accompany individuals through every step of their education journey.

We believe in the transformative power of education to shape lives. We provide the support and resources necessary for each individual to thrive at every stage of their education trajectory, from early childhood education through post-secondary education and beyond. Workforce and economic development have consistent growth and strong recompute performance, consistently in the high nineties. Our combined expertise and qualifications, along with targeted value-add services, are very much aligned with the needs of funding agencies and consumers.

We have continued expansion across the U.K. and Canada, which represents almost 30% of our total operation. Our pipeline is solid, with over \$854 million in development. Over 79% of that is new business, all mission aligned. On slides 11 and 12, we'll focus for a minute on education. Education and training are central to our success. We served over 2,200 students this first half, with contract revenues close to \$30 million, on track with year-end projections. We continue our rapid expansion in the high demand, clean energy sector.

This March, we've officially launched our Apex Wildcat Solar Technician Program in Brooklyn. We are launching an automotive program, specializing in electric vehicles, at Apex. And we'll begin rolling out new clean energy, HVAC training programs this year, as well. We're creating non-traditional on-ramps toward increasing levels of education. This is essential for those who have

had significant, and at times, structural barriers to education and economic wellbeing. Our growth in this area has and will continue to be a strategic priority.

Planning continues to align our work across the age span, from early childhood education to lifelong learning, but also integrated throughout our other practice areas. Civic call, now fully launched, will add to the re-skilling and up-skilling of workers whose jobs will be lost to automation. The median income of those with no high school diploma is \$22,000, and with only a high school diploma, 41, as compared to those with two to four years of higher education who have median incomes north of \$76,000, annually. This impact carries over to not only wages, but also lifelong wealth.

Graduation rates across our education practice remain strong, at rates of over 78% completion, compared to the national average of similar programs, which can range from 43 to 60%. Within our early childhood education, outcomes continue to exceed state averages by 10%, with 28% of those served returning to regular kindergarten. This is well above average. With our high school programs, over 60% of those graduating are advancing to higher levels of education, and 100% of the remaining will transition to competitive employment.

This first half, we acquired a Colorado based school called TACT, a trade school serving individuals with autism. TACT is led by an extraordinary leadership team and board. And with partners like Toyota, Miller Electric, and Subaru, they're breaking barriers for those with autism. Expansion to New York is underway, with additional expansion states identified over the next three years. We will see continued expansion of education programs in Fedcap's U.S. footprint, particularly childhood development, trades programs, and a focus on IDD and autism communities, as well as our plan for entry into the U.K. market, in particular, with high demand workforce needs, such as technology and green energy.

On slides 13 and 14, our workforce practice is delivering across our entire footprint, operating across the U.S., in Canada, and across the U.K. We are proud partners with government funders, such as the Department of Work and Pension; the Scottish government across the U.K.; the Ministry of Immigration, Training, and Skills Development in Ontario, Canada; across the U.S. partners, such as the District of Columbia's Department of Human Services; Tennessee's Department of Human Services. We have a broad range of funding partners across our footprint. We have exceptional and talented staff and a group of highly effective community partners.

Just one example of how effective our partnerships work -- in Canada, within our two catchment areas, Halton and Hamilton Niagara, our employment services transformation work continues to advance. It's driven by the Ministry of Immigration, Training, and Skills Development. And it works with an amazing group of 48 providers across 62 locations. This resulted in over 5,000 people securing work in this first half. This is up 20% from first half of last year. We're thrilled with these outcomes. It also reflects the great work being done at the local levels, with people with disabilities, indigenous, asylum seekers, the justice involved, and others needing employment services.

Collectively, we placed roughly 12,000 people in jobs this first half. This is a significant increase over this time last year, and we're on track to reach our goals of 24,000 jobs over this second half. Retention is at 79% over the 180-day mark. This is a critically important metric, and we've plans to drive past the 180 days in the future -- again, well beyond the customer demands for reporting requirements. Our largest contract in the U.K., serving long-term unemployed, was expanded for two additional years.

We won a new contract in Tennessee, and we're piloting new models to reach economic absentee workers. Those who were completely out of the labor force. On slides 15 and 16, our health practice supports are aimed at an array of important detriments of wellbeing, and they, too, are embedded in all of our programs. The results are powerful. In this first half, over 30,000 individuals were screened to determine eligibility for federal, state, or local benefits through Single Stop, a significant increase over last year. This increase is directly tied to our entry into the commercial sector, through our partnership with Entergy, which has provided single stop screening tool to their utility customers across Mississippi, Louisiana, and Texas, and soon expanding to Arkansas.

In the first half, we've connected households to a total value of eligible benefits and support, valued at north of \$290 million, which is \$19,000 per household, on average. And within that number, we served over 9,000 college students across 78 colleges. Over 7,300 children were affected by these screenings, and over 800 veterans. And noteworthy -- of the 7,300 children whose families are screened, 3,500 of them fall between the ages of zero and eight. This is a target population for our interests.

We've developed a nationwide partnership with Find Help, to provide people with the most comprehensive community resources directory in the United States, via the Single Stop community resource map. We added new benefits, in line with our environmental goals, to include cooling assistance, water assistance, weatherization benefits. And new states are targeted for expansion, including Tennessee, and as I mentioned, Arkansas to be added as early as this month. Across all areas of practice, 25,000 individuals were engaged in direct health and wellness services this first half, and well over 6,000 of those were veterans with critical education, employment, housing, and basic needs being met, as well.

And additionally, 6,000 children between the ages of zero and eight are represented in that number as children of those parents that we served. Again, a very important target population for our work. We imported our clubhouse model from the U.S. to the U.K. and are seeing increased employment results. Expansion plans are underway. We will see expanded services to the IDD services, and particularly individuals with autism. We're implementing our whole system, whole person approach, centered on health and work, drawing on the current U.K. and U.S. best practice. We'll continue to expand substance misuse services and mental health services across our footprint.

On slides 17, 18 and 19 -- in our economic development practice, through our supported work opportunities, we employed over 1,000 individuals this first half, adding 95 new jobs across our footprint, and with average salaries over 30% higher than minimum wage -- a critical component of our work and focus. Again, well beyond any contract requirement, is our commitment to long-term wealth. Building long-term wealth alongside wages is essential for economic mobility. We embed financial literacy, parent education, and a host of educational tools across our platform, with visible results.

You can see, on slide 18, we have combined savings -- we're tracking for combined savings moments -- \$140 million in retirement savings over this past decade. This is up significantly since 2010. Most impressive, that we have well over 50% of those individuals whose lives were affecting our minority groups, historically with savings well below average. Over this next rating period we will expect to expand our supported employment operation into clean energy and sustainability markets, including placement opportunities for individuals with mental health issues, IDD, and those with health barriers to employment.

And planning is underway to explore in expanded supported work services in the U.K. I'd now like to turn the presentation over to Carol Khoury, who will review additional financial metrics.

Carol Khoury

Thanks, Chris. Thank you, everyone, for joining the call. Today, I am reporting on the Fedcap Group's consolidated financial performance for the first six months of fiscal year 2024, ending March 31st, 2024. Please turn to slide 21. Our gross revenues for the period were \$133.5 million, slightly lower than the same period in fiscal year 2023. We are projecting year end revenues to be \$375 million, and a projected, compound annual growth rate of 9.1%, showing consistent, steady growth since 2010.

We expect revenue for the second half of 2024 to bring us to 5% budgeted growth rate for the year, based on our pipeline of opportunities across all business lines and the timing of the start of committed contracts. The Fedcap group has achieved a consistent win rate of 95% on recompetes, and our current pipeline stands at \$215 million. On slide 22, the balance sheet reflects the continued development of capital assets, and an increase in delayed payments from our economic development funders.

The primary measure of liquidity is our combined cash and marketable securities. We managed to maintain \$27.5 million in total, compared with 47 for the prior year. Fedcap's generated from operations is strong, however, as it can support capital asset investment and temporary account payment challenges as they occur. We do expect our liquidity balances to return to FY 2023 levels and beyond, as we will begin to receive the delayed payments, and as we reimburse ourselves for capital investments with the conversion of government and donor pledges.

Slide 23 -- are the key indicator of our profitability is its operating margin. We generated an operating margin of 1.15% for the first six months. Our personnel costs and program expense ratios remain steady, at 53 and 88%, respectively. The consistent margins and expense ratios reflect our leadership in matching expenses to revenue. This cost management is systematic and is driven by our efforts to budget our revenue opportunities at the contract level.

Our cash available for debt service for the first six months covers our mandatory debt service payments, at 1.77 times. Our remaining balance sheet metrics for the first half of the year demonstrate our ability to operate with sufficient liquidity. Slide 24 -- the Fedcap Group, like every other multinational organization employing thousands, has experienced increased headwinds related to inflation and reduced government funding. To manage the risk to our profitability, we have focused on contract terms, as well as a pricing model for both renewals and new business opportunities that can offset any eventual increases in operating expenses during the life of the contract.

We continue to prioritize organic growth, growth through acquisitions, innovative new programs, and revenue diversification to maintain impact and consistent financial results for the organization. Slide 25 -- you can see we have had steady growth, year over year, driven mostly by organic expansion, at 60%, and new program innovations, representing 15%. We will continue in this way, through 2030, focusing on innovation, combining with like-minded organizations and continuing to set growth as a priority.

With only a slight decline in the first half's revenue of 1.5%, when compared to the prior year, and given the current economic environment, the Fedcap Group's focused development of revenue generating activities that are well diversified and innovative, both by business line and geographically, supports the long-term financial sustainability of our collective group.

Slides 26 and 27 reflect our focus on diversification of programs and funding, and we consider this to be a priority for sound financial management. The Fedcap Group will continue to drive both program and revenue diversification. By 2030, we'll drive towards increasing our fee for service contracts to 34%, from 14%, reducing uncertainty of government contracts.

Our philanthropic efforts, slide 27, will also be prioritized over the next year. The Fedcap Group's overall, first half 2024 financial performance was stable. We are confident we will achieve our budgeted growth for the full year. Thanks, again. Now back to Chris.

Christine McMahon

Thank you, Carol. And Carol's report details were focused on our sustained financial health, our continuation of innovation and measured impact, but also the positioning against the continued headwinds related to inflation, reduced government funding, and a significant number of people still out of the workforce. We're ensuring our program and revenue diversities are combating the headwinds that we're facing, well beyond what our contracts require.

On slide 29, our pipeline is in line with these goals. We're developing approximately \$800 million in opportunities, and that number is steadily growing, with a total of \$672 million of that in new business, the majority of which is near-term opportunities expected to close within the next 36 months. And again, this pipeline is also consistent with the diversification of objectives Carol mentioned in her report. Our win rates are solid, 33% for new business and 95% for re-competing.

In slides 30, 31 and 32, we are proposed to deploy and scale new education, training, and workforce models, including supported work, along with community health services and targeted, economic development, in response to the issues facing those who have had long-term and structural barriers to economic wellbeing. We shall continue to leverage qualifications and capabilities across the whole spectrum of our shared practice. We'll continue to advance training education in high demand sectors, such as green energy and technology and the trades.

We will leverage our technology investments to ensure we are not just keeping up, but able to drive innovation and good customer experience across our platform. We'll continue to maintain a large and involved stakeholder community, and most notably continue to attract extraordinary leaders, board members, as well as significant strength and expertise throughout our entire organization. We will continue to seek like-minded organizations who want to combine their capabilities, but also aspirational goals to advance economic wellbeing through education, workforce, health initiatives, and economic development.

And on slide 31, as just one example, we're going to focus on new markets, such as the Medicaid expansion and the growing interest among funders in the U.K., to expand services to those receiving health benefits and supported employment opportunities. And finally, we continue to focus on our growing number of SaaS platforms, providing scalable impact to those with barriers to economic mobility. We will now pause for questions, turn it back over to the moderator.

QUESTION AND ANSWER

Operator

We will now begin the question-and-answer session. To ask a question, you may press *, then 1 on your touch tone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press *, then 2. At this time, we will pause

momentarily to assemble our roster. Our first question comes from Anna Arnal of Oracle. Go ahead, please.

Anna Arnal

Hello, good morning, everyone. My name is Anna Arnal, and I'm with Oracle. Chris and Carol, congratulations on these incredible results. The Fedcap leadership and team members inspire us by achieving these ambitious dreams, through hard work, creativity, and believing in investing in people. So, thank you very much.

So, you spoke about technology at the end of your presentation, and mentioned some excellent products you have rolled out. In what ways can disruptive technologies, such as artificial intelligence, VR, and automation contribute to enhancing economic wellbeing, fostering inclusive growth, and reducing social economic disparities?

Christine McMahon

Thanks, Anna, for the question. Really, really, really important -- we've put a tremendous amount of effort into developing technology. This has been longstanding, almost for a full decade. We're partnered with, of course -- internally, we're partnered with Oracle and other implementation providers, such as Sheron . This has been extraordinarily essential in our internal efficiencies and the effectiveness we have in delivering, even the kinds of metrics we're able to deliver today.

There are plans to add, incorporate, embed emerging tools, such as, AI that can really be game changers in improving the organizational efficiencies, to better serve our communities. These programs, these technologies that we've been developing, that you saw on the final slide, as well as some of the internal technologies we're investing in, are also extraordinarily powerful, in terms of client impact. For example, we've launched a total, a virtual reality program this past year. The nature of that is to improve academic access, as well as to open up doors for underserved communities to explore new careers.

This Fedcap VR technology is going to permeate throughout our organization, from special education programs through post-secondary into the workforce programs. It's programs like our virtual reality program, our Single Stop program, Fedcap Cares, prep now, get ready -- these are all technology deployed, which allows for tremendous efficiency, the ability to scale these solutions and target them, specifically in areas that advance economic mobility and economic wellbeing. So, we've continued to keep up pace in the technology. And we will plan on doing that throughout, into the future. So, thanks for that question. Really important.

Anna Arnal

Thank you, Chris.

Operator

The next question comes from Neil Fortier of Diff Agency. Go ahead, please.

Neil Fortier

Hi, this is Neil Fortier with the Diff Agency. Great presentation. My question for you is, could you provide a little bit more insight into the decision to focus on health, and particularly internationally?

Christine McMahon

Sure. Yeah, the health practice has really been essential to our breaking down barriers for what we think of as, you know, wage and wealth, the key elements of our economic mobility focus. And the health practice is essential. There are so many individuals whose health issues really serve

as a barrier to the employment and to accessing education and alike, and it's critical if we are to get at those issues that create sort of the lagging opportunities for people in the areas of economics and wealth, in particular.

In the U.K., for example, it's reaching a crisis level. There are almost 2.8 million people out of work, due to long-term sickness. That's almost 8% of the work-eligible population. And at the same time, there are around 1 million unfilled vacancies in the U.K. So, it's really an important discussion, not just in the U.S., but across the U.K. This is the health barriers that people are facing, some of it linked to COVID, but others just emerging, and ongoing health issues. It's really stifling economic growth.

Employers can't meet their demands. And so, we're going to continue to expand our health innovations, and coupled with sort of new education and training opportunities, like clean energy in the U.K. and beyond, because we think it's essential to overall economic growth in our communities, but in particular, nailing down these barriers to economic wellbeing, because of those health barriers. So, it's going to be a really important component of our strategy over the next 12 to 24 months.

Neil Fortier

Thank you.

Operator

Our next question comes from Ruby Fair of Manhattan Strategies. Go ahead, please.

Ruby Fair

Hi. Ruby Fair with Manhattan Strategies. Thank you, Chris and Carol, for that presentation. So, Civic Hall is an amazing example of how a successful public-private sector partnership can spur innovation, build a workforce of the future, and serve as a place for debate and dialogue. Do you believe that this collaborative model can serve as a blueprint for replication, nationally and internationally?

Christine McMahon

Great question, Ruby. And I'm thrilled with it, because, unequivocally, yes. We are extremely excited. Civic Hall's only been operating for six months, but it's already buzzing with activity, from training partners to tech startups to blue chip tech companies, and alike. I mean, it's really an amazing -- it's, organically, becoming greater than the sum of its parts, if you will. It's an amazing atmosphere there, one that I think will benefit countless numbers of people who are there to advance their own agenda for wages and wealth and breaking into new -- this sector as it emerges throughout our economic stratus.

What Civic Hall demonstrates is that space and place matter. In particular for underserved individuals, the ability to learn in a state-of-the-art facility, alongside major tech companies, for example, will give that person such a better shot at economic wellbeing. Oftentimes, we focus a lot on the training component of this, but we sometimes neglect is access. And that -- this place is really attracting people into one location that will enable people that we're trying to serve access to people, like Craig Newmark, inventor of Craigslist. I mean, these are the types of people participating in this facility.

And that enables people to just work alongside these individuals -- the individuals we're trying to serve. So, it's really a tremendous opportunity to help leverage space as a way of advancing people's wellbeing. Having minority owned startups, have a place to work with government

partners, VC companies, other innovations -- it builds a real community of progressive wealth building. And we're very excited about it and its progress in only a few short months.

The whole model, in our mind, to your question, is really replicable, both across the U.S., but also internationally, and something that will be a central part of our strategic growth. We hope to see a Civic Hall in at least two other locations, one being an international placement. And again, we're going to keep really great data on the kind of advancements that individuals -- our target population is experiencing in this setting. We're very excited. And if you have a chance, anyone in the area, stop by. You will not be disappointed.

Ruby Fair

Thank you.

Operator

One moment, please. This concludes our question-and-answer session. I would like to turn the conference back over to Christine McMahon for closing remarks.

CONCLUSION

Christine McMahon

Thank you. I hope it's clear that fiscal and programmatic performance, as well as our pipeline, is aligned with our strategic objectives. Despite facing headwinds, we maintain a strong sense of optimism for the future. Our strategic positioning allows us to deploy and scale effectively, delivering cost-effective solutions across our expanding footprint. With proven infrastructure and tested implementation strategies, we've successfully expanded our reach across 22 states, in the U.K. and Canada over the past decade, with plans for further expansion in the coming year.

Our company platform is meticulously crafted to align with our growth objectives. Leadership across our practice in education, workforce development, health, and economic development is bolstered by our highly effective corporate services division, and a robust supply chain, supported by capital partners, like Provident Bank and IDB, as well as key strategic partners throughout our footprint. Our collective focus remains clear -- driving sustained economic mobility.

At the heart of our organization lies a deep commitment to long-term, financial sustainability, a culture driven to remain relevant through innovation and measured impact. We extend our deepest gratitude to our board members, our donors, our funders, dedicated staff, and our efficient supply chain, all of whom continuously adapt to meet the emerging challenges. In closing, Fedcap stands firm in a belief that every individual deserves a sense of purpose, wellbeing, and dignity, achieved through equal access to higher education, meaningful work, and essential health supports.

Through effective collaboration, we shall continue to create opportunities for those facing challenges to economic mobility. Our approach remains steadfast -- inspire individuals to believe in the possibility of a better life; to foster the exchange of ideas that continuously improve our results; and perhaps the most important, to challenge our own perceptions about what is achievable for all people, despite barriers and perceived limitations. We thank you for your attention and continued support. The call is ended.

Operator

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