Learning Tree International, Inc.

Fiscal Year 2017 Conference Call

Remarks by
Richard Spires, Chief Executive Officer
and David Asai, Chief Financial Officer

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For your convenience, the text of today's prepared remarks will be posted in the Investor Relations section of our website. Go to: www.learningtree.com/investor.

Good Afternoon. I am David Asai, Chief Financial Officer of Learning Tree International. I am joined today by Richard Spires, our Chief Executive Officer and Magnus Nylund, our Chief Operating Officer. First, I will read the disclaimer on forward-looking statements and then discuss our performance in our fourth quarter and full year 2017, which ended September 29, 2017. Richard Spires will provide forward-looking information about our first quarter of fiscal year 2018, and our expectations for the remainder of fiscal year 2018. After those remarks, we'll open the floor for questions and discussion.

Forward Looking Statement Disclaimer:

As a reminder, there are statements in this presentation that are not historical facts and are forward-looking statements within the meaning of the federal securities laws. These forward-looking statements, including the first quarter 2018 financial performance guidance, and any expectations for the full year 2018 are based on management's current expectations, assumptions, available information and beliefs concerning future developments and their potential effects on Learning Tree. Such statements involve inherent risks and uncertainties, many of which are difficult to predict and are generally beyond the control of Learning Tree. There can be no assurance that future developments affecting Learning Tree will be the same as those anticipated. Learning Tree cautions readers that a number of important factors could cause actual results to differ materially from those expressed in, or implied or projected by, such forward-looking statements. Investors should not put undue reliance on these forward-looking statements, since they are based on key assumptions about future risks and uncertainties. Some of the factors discussed in our annual report on Form 10-K, as well as in our other reports filed with the SEC that could affect us include risks associated with:

- Ability to reverse our trend of declining year over year revenues and negative cash flows from operations and to maintain sufficient liquidity;
- Ability to obtain additional liquidity in amounts and on terms acceptable to the Company;
- Ability to successfully implement our new strategies to achieve our cost reduction goals;
- Competition;
- International operations, including currency fluctuations;
- Attracting and retaining qualified personnel;
- Intellectual property, including having to defend potential infringement claims;
- Implementation of partnerships with third party providers of courses and or course material;
- Efficient delivery and scheduling of our courses;
- Technology development, new technology introduction;
- Maintaining cybersecurity;

- The timely development, introduction, and customer acceptance of our courses and other products;
- Changing economic and market conditions; and
- Adverse weather conditions, strikes, acts of war or terrorism and other external events.

Learning Tree is not undertaking any obligation to revise or update forward-looking statements contained herein to reflect future events, developments or changed circumstances after the date of this presentation, unless otherwise required by law.

In order to help the reader assess the factors and risks in our business that could cause actual results to differ materially from those expressed in the forward looking statements, please read our 2017 annual report on Form 10-K, including Item 1A “Risk Factors”, which we filed with the SEC today, and is available at the SEC's Internet site (www.sec.gov).

We follow a 52- or 53-week fiscal year. This means that our year-end and quarter-end dates are on the Friday nearest the end of the calendar quarter. This method is used to better align our external financial reporting with the way we operate our business. The fourth quarter of fiscal years 2017 and 2016 were both comprised of thirteen weeks and fiscal years 2017 and 2016 each had 52 weeks.

Fourth Quarter Results

Before discussing our full year 2017 results, I would like to summarize some key line items from our fourth quarter of fiscal 2017:

- Revenues in our fourth quarter of fiscal 2017 were $19.6 million, a decrease of 9.5%, compared to revenues of $21.7 million in our fourth quarter of fiscal 2016;
- Our gross profit percentage in our fourth quarter was 46.5% of revenues, compared to 42.8% in the same quarter of fiscal 2016;
- Operating expenses decreased in our fourth quarter of fiscal 2017 to $7.4 million, compared to $11.3 million in our fourth quarter of fiscal 2016. Operating expenses for the fourth quarter of fiscal 2016 included a $1.9 million non-cash restructuring charge;
- In our fourth quarter of 2017 we had operating income of $1.8 million compared to an operating loss of $2.0 million for the fourth quarter of fiscal 2016 which included the $1.9 million non-cash restructuring charge;
- Net income for our fourth quarter of fiscal 2017 was $1.5 million compared to a net loss of $2.2 million for the fourth quarter of fiscal 2016;
- Income per share on a diluted basis for our fourth quarter of fiscal 2017 was $0.11, compared to loss per share of $(0.17) in our fourth quarter of fiscal 2016; and
- Both the net loss and loss per share figures for the fourth quarter 2016 include the $1.9 million restructuring charge.

Fiscal Year 2017 Revenue and Participants

In fiscal 2017 our revenues of $70.7 million were 13.4% lower than our revenues of $81.6 million in fiscal 2016. This principally resulted from a 10.2% decrease in the average revenue per participant and a 3.5% decrease in the number of participants when compared to the prior fiscal year. The decrease in the average revenue per participant was caused primarily by lower average revenue per participant from the implementation of periodic pricing promotions and strategies, and changes in foreign exchange rates, which negatively impacted revenues by 2.3%. The decrease in the number of course participants was due to lower demand worldwide for our public open enrollment courses.

Overall, during fiscal 2017, we trained a total of 53,170 course participants, compared to 55,126 course participants in fiscal 2016.

2017 Operations

Cost of Revenues. Cost of revenues was 57.0% of revenues in fiscal 2017 compared to 61.5% in fiscal 2016, and accordingly, our gross profit percentage was 43.0% in fiscal 2017 compared to 38.5% in our prior year. The change in cost of revenues as a percentage of revenues in fiscal 2017 primarily reflects the combined effects of the 10.2% decrease in revenue per participant that was offset by a 16.7% decrease in cost per participant. The decrease in cost per participant is primarily the result of the 19.7% decrease in the cost of revenues offset by the 3.5% decrease in participants. The reduction in cost of revenues for fiscal year 2017 when compared to fiscal year 2016 is the combined result of our cost reduction program, reduction in fixed real estate costs and running a lower number of events. During fiscal year 2017, we presented 4,543 events, 8.5% less than the 4,963 events during fiscal year 2016. Changes in foreign exchange rates do not materially affect our gross profit percentage, since exchange rate changes affect our cost of revenues by approximately the same percentage as they affect our revenues.

Course Development Expense. During fiscal 2017, course development expense decreased by $2.2 million to $2.9 million compared to $5.1 million in fiscal 2016. Course development expense was 4.1% of revenues in fiscal 2017 compared to 6.3% in fiscal 2016.

Our library of instructor-led courses numbered 318 course titles at the end of fiscal 2017 compared to 349 course titles at the end of fiscal 2016.

Sales and Marketing Expense. In fiscal 2017, our sales and marketing expense decreased by $4.5 million to $13.5 million from $18.0 million in fiscal 2016. The decrease was primarily due to decreases in direct mail marketing costs as a result of eliminating all direct mail activity and lower sales costs due to lower revenue when compared to the prior year.

General and Administrative Expense. General and Administrative expense during fiscal year 2017 was $14.9 million, compared to $18.9 million in fiscal 2016.

Restructuring Charge. In fiscal 2016, we recognized a $1.9 million non-cash restructuring charge related to our Reston, Virginia facility. We determined this facility was surplus classroom space as a result of the classroom space that became available in fiscal 2016 at our new facility in Herndon, Virginia. In fiscal year 2017 we adjusted the restructuring charge to increase it by an additional $0.4 million as a result of changes in estimates used to calculate the original charge.

Income (Loss) from Operations. In fiscal 2017, we recorded a loss from operations of $1.3 million, compared to a loss from operations of $12.5 million, in fiscal 2016. The loss from operations for fiscal year 2017 includes the $0.4 million restructuring charge, while the loss from operations for fiscal year 2016 includes the $1.9 million in restructuring charges.

Other Income and Expense. For fiscal year 2017 we had other expense, net of $0.3 million while in fiscal year 2016, we had other income of $0.2 million. The difference is primarily from foreign exchange losses of $0.3 million in fiscal 2017, compared to foreign exchange gains of $0.2 million in fiscal 2016.

Income Taxes. The tax provisions for fiscal 2017 was $0.5 million compared to a tax provision of $0.4 million for fiscal 2016.

Net Income (Loss). Net loss for fiscal 2017 was $2.1 million or $(0.16 per share), compared to a net loss of $12.7 million or $(0.96 per share), in fiscal 2016**.** The net loss for fiscal 2017 includes the $0.4 million restructuring charge and the net loss for fiscal 2016 includes the $1.9 million restructuring charge.

Liquidity and Capital Resources

During fiscal year 2017, the total of our cash and cash equivalents decreased by $3.5 million to $5.1 million at September 29, 2017 from $8.5 million at September 30, 2016. This decrease primarily resulted from cash used in operations of $3.2 million and capital expenditures of $0.1 million.

As of and for the fiscal year ended September 29, 2017, we reported an accumulated stockholders' deficit of $17.4 million and we have also reported negative cash flow from operations in 2017 and for the previous five years as our revenues have declined each year during this period. At September 29, 2017, our capital resources consisted of cash and cash equivalents of $5.1 million. We have established a $3.0 million line of credit with Action Capital Corporation. The line is secured by our U.S. operation's accounts receivable and is subject to limitations based on the amounts of available accounts receivable. There have been no borrowings to date on this line of credit. While we have, and will continue to take steps to stabilize and grow revenues and decrease our operating costs on a year over year basis, unless we are able to generate positive cash flow or improve our liquidity in the future, there is substantial doubt about the Company's ability to continue as a going concern. Our registered independent public accounting firm again issued a "going concern qualification" in their report on our audited financial statements for the year ended September 29, 2017.

I will now turn the call over to Richard Spires our Chief Executive Officer, to address our projections for the first quarter of fiscal year 2018 and our expectations for Fiscal Year 2018.

This is Richard Spires, the Chief Executive Officer of the company. Prior to providing an outlook for the first quarter of Fiscal Year 2018, I wanted to make a couple of comments on our fourth quarter and full year 2017 performance. Regarding the fourth quarter results, it was a solid financial performance for the Company, which we believe reflects our approach of repositioning the Company financially through implementation of our comprehensive cost reduction program while still being able to maintain quality and enhance our business with our enterprise clients. In the fourth quarter we continued to see growth in our Workforce

Optimization Solutions and customized training solutions offered to enterprise clients. Our major challenge, however, is that we continue to experience a decline in course attendance for our public courses. As I mentioned during the last earnings call, to address this decline, the Company has been working to leverage resellers and other partner models to increase our sales reach, by partnering with certification organizations and other appropriate training providers to broaden and deepen the training products we offer as described in our Form 10-K. Our overall objective is to stabilize the revenue from training offered via our public open enrollment courses, grow our revenue from Workforce Optimization Solutions and training for enterprise clients, and reverse the year-over-year declines in revenue.

As we entered fiscal year 2017, we had an objective for the Company to achieve an operating income break-even position. In terms of the full year fiscal year 2017 results, we recorded a loss from operations of $1.3 million, compared to a loss from operations of $12.5 million in fiscal 2016. The loss from operations for fiscal year 2017 includes the $0.4 million restructuring charge, while the loss from operations for fiscal year 2016 includes the $1.9 million in restructuring charges. While we did not achieve break-even in fiscal year 2017, we made significant positive progress this past fiscal year and I would like to recognize the employees of Learning Tree for their hard work and dedication as we work to return this Company to profitability.

Now let’s cover our projections for the first quarter of fiscal 2018:

First Quarter Fiscal 2018 Financial Guidance

Effect of Exchange Rates. Because we conduct approximately 37% of our business in currencies other than U.S. dollars, fluctuations in exchange rates will affect revenues and expenses when translated into dollars. If the exchange rates of December 1, 2017 remain constant for the remainder of our first quarter of fiscal 2018, we would expect changes in foreign exchange rates to favorably affect revenues by approximately 2.8% in our first quarter compared to our same quarter of fiscal 2017.

First Quarter Revenues. For our first quarter of fiscal 2018, we currently expect revenues of between $16.5 million and $17.5 million, compared to revenues of $18.6 million in our first quarter of fiscal 2017.

First Quarter Gross Profit. We expect a gross profit percentage in our first quarter of fiscal 2018 of between 44.2% and 45.2% compared to 42.9% in our first quarter of fiscal 2017.

First Quarter Operating Expenses. We expect overall operating expenses for our first quarter of fiscal 2018 to be between $7.4 million and $7.8 million, compared to $8.5 million in the same quarter a year earlier.

First Quarter Income (Loss) from Operations. As a result of the above factors, we expect to have first quarter operating results of between a loss of $(0.5) million and operating income of $0.5 million compared with an operating loss of $(0.5) million in our first quarter of fiscal 2017.

First Quarter Other Income (Expense), Net. We expect first quarter other expense, net to be less than $0.1 million, compared to other income of $0.2 million in our first quarter of fiscal 2017.

First Quarter Pre-Tax Income (Loss). Overall, for our first quarter of fiscal 2018, we expect to report pre-tax results of between a loss of $(0.6) million and income of $0.5 million, compared to a pre-tax loss of $(0.3) million in our first quarter of fiscal 2017.

Outlook for Fiscal Year 2018

Our second quarter of the fiscal year is, from a financial perspective, typically our worst-performing quarter, based on seasonality and the buying patterns of some of our major clients, including the US Federal Government. As such, we are continuing to seek ways to drive efficiencies and lower our cost structure to help preserve capital in the near term.

For the full fiscal year 2018, it is our objective for the Company to continue to improve profitability and achieve a positive income from operations. While achieving profitability is one objective, it is also our objective to return this Company to growth, in which our revenues, when comparing a quarter's performance to the same quarter the previous year, is once again growing. We are not currently projecting such revenue growth in fiscal year 2018 (and our first quarter 2018 projections are evidence of that), but we continue to strive to position the Company to achieve this revenue growth.

Although we are and will continue to work diligently to accomplish our goals and objectives, there is no assurance that we will achieve them and if so, by the expected timing of the end of fiscal year 2018. I also note that due to the recent history of year over year declines in revenue and the current liquidity position of the Company, there are significant risks that we will not accomplish enough of our goals to achieve positive cash flows in the near term.

And now we'd like to open the floor for questions.

Thank you.