Fourth Quarter and Full Year 2018 Earnings Call

Prepared Remarks

Jason Terry - Safe Harbor

Thank you. Good afternoon everyone. Welcome to Rosetta Stone's fourth quarter and 2018 earnings conference call. Speaking on the call today will be John Hass, Chairman and CEO, and Nick Gaehde and Matt Hulett, Co-Presidents of Rosetta Stone. Additionally, Tom Pierno, the company's Chief Financial Officer will be available during the Q&A portion of today's call.

We have posted to the Investor Relations section of our website at www.rosettastone.com, both the earnings release and a slide presentation that accompanies today's call. We've also posted supplemental information and analysis on our website. This supplemental information will not be read on today's call.

I want to remind everyone that as always, there will be elements in today's presentation which are forward looking and are based on our best view of the world and our businesses as we see them today. These statements are subject to a number of risks and uncertainties that could cause actual results to differ materially. A description of these risks and uncertainties and other factors that could affect our financial results are included in our SEC filings, including our most recent annual report on Form 10-K and quarterly reports on Form 10-Q. We expressly disclaim any obligation to update or revise any forward-looking statements except as required by law.

Today's presentation and discussion also contains references to non-GAAP financial measures. The full definition, GAAP comparison, and a reconciliation of those measures are available in the aforementioned presentation and press release.

Our non-GAAP measures may not be comparable to those used by other companies and we encourage you to review and understand all of our financial reporting before making any investment decisions.

I will now turn the call over to John.

John Hass - Opening

Thank you and good afternoon.

As has become our custom at the beginning of the year, we will spend a little more time and talk about the changes that have occurred in our business, discuss where we see ourselves today and share with you what we expect moving forward. **Please turn to slide three.**

As always, everything begins with our mission. To change lives through the power of language and literacy education. By dedicating ourselves to producing real, demonstrable outcomes in our core areas of Language and Literacy, we make a difference in the lives of the two-thirds of children in our schools that are reading below grade level and the young woman in Berlin looking to advance her career by learning English. **Slide four please.**

To achieve these outcomes, we are transforming ourselves into a global leader in digital learning solutions. We begin from a legacy that is unique in our industry. A combination of two companies, both founded on the idea of using technology to change the way people learn. With over 60 years of combined focus in education technology, unlike more recent entrants, we have a level of expertise that manifests itself in areas like the depth and breadth of our Literacy businesses' peer reviewed research and in the quality of the Language businesses pedagogy and content.

Our shared history has allowed the creation of differentiated technology and capabilities like our speech recognition engine, the Rosetta Stone animation engine and a decade of experience in tutoring, that serve us well today, but which will be even more important in the future as we bring them together in new products.

Our position in Language learning is clear, we have nearly 1.5 million paid users accessing our solutions directly or through their school or employer.

In Literacy, where we currently serve approximately 17,000 schools and 4 million students, no one can match our record for demonstrated efficacy.

And Rosetta Stone has one of the most widely known brands in learning, which is a competitive advantage that has more potential than we are currently realizing. **Next slide please.**

To unlock these assets we had to change. From a company in 2014 that was dominated by a transactional Consumer language business, to a multi-disciplinary learning company with over 5 million paid learners in 2019.

And as a learning company we will provide the optimal, research backed experience for each learner by adapting to their needs, whether it is an immersive software path or providing them a blended learning experience with a teacher or tutor empowered by data and information.

Please turn to slide six.

And we are changing lives.

We know, for example, that achieving appropriate levels of literacy is highly correlated with higher lifetime earnings and lower levels of incarceration.

According to a 2013 study by Dr. Carolyn Carlson at Washburn University, approximately, seven thousand students drop out of high school every day with 60% doing so primarily because of low literacy skills. As these young people leave schools and enter the work environment with low literacy skills, not only do they earn less, they cost society more. In fact, if all of the students who dropped out of the 2011 class had, in fact graduated, the nation's economy would benefit by $150 billion in additional income over the course of their lifetimes. Staggering opportunity costs.

But it can change and that is what we are working to do every day. With our product portfolio our focus on improving student literacy performance and reducing dropout rates begins in Kindergarten and continues through middle and high school.

In 2018, we made progress in making the company the business and the engine of change that we want to be. Please turn to **slide seven** for an overview of our full year results**.**

Q4 2018 and 2018 Full Year Results

Today we reported that fourth quarter revenues were $44.6 million, stable with the fourth quarter of 2017 - the first time this has happened operationally since 2014. This is the inflection point we have been working towards.

Total 2018 revenues of $173.6 million decreased 6%. Within this, Literacy revenue grew by 21% in 2018, on bookings growth of 23%. The decrease in consolidated revenues was driven primarily by changes to our Consumer Language business model as it transitioned to subscription service. In 2018, only 3% of Consumer new unit sales were perpetual versus approximately 46% in 2017, with the attendant decrease in immediately recognized revenues. Importantly, even as Consumer bookings and revenues fell in 2018, the gross lifetime value originated by our North American Consumer direct business, or the total bookings we expect to receive from subscriptions sold in the year, rose by 6% to $58.9 million versus 2017.

We have now finished the transition from perpetual to subscription in our Consumer business and expect 2019 to be relatively normal for year-over-year comparisons.

Total adjusted EBITDA was $0.7 million in the fourth quarter, $2 million better than previously expected. For the full year, adjusted EBITDA was $0.2 million, a decline of $13.2 million versus 2017, driven primarily by the decline in Consumer revenues and an increase in operating expenses in our Literacy segment.

Operating cash flow in 2018 was $10.4 million, including $4.5 million from SourceNext. Capital expenditures were $16.9 million, an increase of $3.9 million year-over-year driven by a decision during the year to invest in new products including the new K-6 English learner product and the new international adaptive, blended learning product in Consumer. Additional investment in 2018 drove a simplified and capability enhanced language platform that Matt will discuss in a few minutes.   We had $38.1 million of cash and no debt at year end, in line with expectations.

Next slide.

It is clear that the business has changed fundamentally since 2014. It is more balanced with greater opportunity for predictable growth. Today we report three segments, each of which constituted approximately one-third of our total business in 2018. Across these segments, 46% of total bookings in 2018 were from K12 customers, a percentage that will continue to grow. We like K12 because demand is relatively consistent from year-to-year and, while the solutions required are demanding and increasingly require research based evidence that they positively impact student performance, they do not require high levels of customization.

To get to the place where we can offer great solutions and growth opportunities in both language and literacy required reallocating how we spend our investment dollars. **Please turn to slide nine.**

Even as we have reduced total company operating expenses since 2015, we reallocated our spend from Language to Literacy to take advantage of the opportunity we saw to build distribution and round out our product portfolio. During this period Literacy spend more than doubled as a percentage of total spend from 14% in 2015 to 33% in 2018. **Next slide please.**

Those of you that know K12 well, understand that the most successful companies have two things in common - products that demonstrably work and a national salesforce and implementation and training team to bring them to market. Many K12 companies never have either one, very few have both. Because of the investments we made over the last three years, we now have a productive direct salesforce and service team, and a portfolio of products that make our literacy suite the best in the marketplace. **Please turn to slide eleven.**

Looking back, our decision to invest in Literacy has been a good one, driving a compound annual growth rate in bookings of 26% since 2014.

Our confidence in continuing this growth is driven in part by our knowledge of what the team overcame as they delivered these results.

First, beginning just a few years ago, we hired, trained and equipped a completely new sales and customer success team while continuing to grow.

And we drove this growth even as the weighted average length of our Literacy contracts fell from 29 months to under 17 months, a decrease of twelve months or approximately one year of bookings.

This decrease occurred as purchasers moved away from multi-year adoptions generally, and as Core5 specifically, increasingly was viewed as part of general curriculum and funded in the annual operating budget. Because we are generally paid up front, as the average contract life has shortened it has led to fewer dollars being booked for each contract, all else being equal. This created a headwind to bookings growth the last few years. The good news is much of the shift seems to have occurred, and because our retention rates regularly exceed 90%, with renewal rates of 100% or more, lifetime value was deferred, not lost. **Turn to slide twelve please.**

Even as we were building our Literacy business we were re-imagining the products and go-to-market strategies in our Language business. On the product front, we introduced Catalyst for Enterprise and natively built mobile products for iOS and Android, while de-flashing, consolidating and moving off of old legacy language systems. The legacy work will largely conclude by the end of the year, but it has absorbed a substantial share of Language R&D effort and spend over the last few years and hindered us from moving forward as quickly and efficiently as we would have liked. But under Matt's leadership we are once again seeing the innovation that was a previous hallmark of our Language business. **Slide thirteen please.**

We have transformed the value proposition in our Consumer Language business. Moving from selling high priced CDs, downloads and multi-year subscriptions to offering a portfolio of subscription products. While this improved the demographics of the business and is driving unit growth, the transition significantly affected the timing in which we realized both revenues and bookings. **Next slide please.**

Ultimately, bookings are a function of the number of units we sell and the lifetime value of each of those units. In the past, calculating expected bookings was simple, as almost the entire lifetime value of a purchaser was received at the time of sale of a CD or long-term subscription. Over the last two years this has fundamentally changed.

In 2017, we transitioned our web business to subscription pricing. This improved demographics leading to increased unit sales, but decreased the average initial sales price as sales previously made to customers where the expected LTV was received upfront, like CDs, moved to shorter term subscriptions where the initial price was lower, but the LTV was largely made up through renewals. In 2018, we completed the process by transitioning both our app store and retail businesses.

Overall you can see the average initial life per unit fell from 22 months in 2016 to under 14 months in 2018. This shortening of initial term, was reflected in average sales price per unit, which fell from $175 to $105. This had a meaningful, temporary impact on bookings because, for the first time, a large portion of the expected lifetime value of a Consumer customer was being deferred to future periods. Simply, in 2016 almost 90% of the expected LTV of a customer was realized at initial sale. In 2018, we realized less than two-thirds. We expect the average initial selling price of new units sold in 2019 to trend down as the percentage of short term subscriptions grow, but expect this to be more than offset by unit growth.

So like Literacy, Consumer Language has experienced a trend of shortening subscription terms and deferred value realization with the attendant decrease in in-period bookings.

Turn to slide fifteen please.

This transition in Consumer Language is why we have emphasized lifetime value created. LTV brings everything together and allows us to compare products with different dynamics like CDs and short term subscriptions. During 2018, gross lifetime value created grew by 6% to $58.9 million. So since 2015, each of our businesses has fundamentally changed its product portfolio and go-to-market strategy. We believed these changes would lead to growth and expanding margins as investments are leveraged and as the masking effects of the transition lift. 2019 is the beginning of that future. **Slide sixteen please.**

A future that will see us focus on leveraging our two biggest assets - a growing presence in K12 schools and the Rosetta Stone brand. With that, **please turn to slide seventeen** and I will turn the call over to Nick to talk about our strategy for K12.

Nick Gaehde:

Thank you John.

It wasn't long ago that the business I lead had one primary literacy product, a small direct sales force, with the majority of sales coming from indirect sales team, and less than $20 million in bookings. Now as we bring together our Literacy and Language sales teams and look to the introduction of our K-6 English learning, or EL, product next year, on a consolidated basis we will have approximately 75 commissioned sales people, selling a world class portfolio of both Literacy and Language products, driving continued strong growth with improving margins. In total, one of the strongest leaders in the K12 marketplace. **Slide eighteen please.**

So why are we successful? We win in K12 because we have knowledgeable experts, and the best literacy curriculum and assessment portfolio in the marketplace. The efficacy of our products has been demonstrated over decades. 16 third-party reviewed studies highlight the rigor of our research and support our ability to meet the standards of evidence of the Every Student Succeeds Act that now guides federal education funding. We believe this level of demonstrated proof is unmatched in our industry and allows us to rise above competitors in what matters most to teachers and administrators, improving learner outcomes. And, now more than ever, we are a recognized leader in K12 having served approximately 17,000 schools and 4.0 million learners in 2018. We were selected #1 in every major category, ahead of great companies like Apple and Google, in the annual T.H.E. awards that recognize excellence in education technology. **Next slide please.**

And while Core5 remains our flagship Literacy product, we are seeing increased contributions from the entire portfolio led by PowerUp. PowerUp is our literacy curriculum product for non-proficient readers in middle school and high school. PowerUp meets an underserved need in our schools and extends our ability to address the needs of schools from Kindergarten to 12th grade. As a portfolio, Core5 and PowerUp, along with RAPID, our K12 computer adaptive literacy assessment, provide us the opportunity to have dialogues with schools and districts focused on all of their literacy needs. From helping English learners so that they can thrive in traditional classroom settings, to building vocabulary skills for socioeconomically disadvantaged students; we can provide systematic and explicit reading instruction for students with learning disabilities and improve high school graduation rates. By helping solve these and other problems, we have become a trusted partner to thousands of school districts.

And our ability to solve problems is having an impact. During 2018, the number of customers using more than one of our Literacy products grew approximately 785%.

Continuing to drive multi-product sales as a trusted partner to our schools is one of the reasons why we are so excited to bring our K12 literacy and language sales teams into closer alignment this year and to introduce our new English learner product that will meet critical and growing needs in our schools. At the beginning of the year the K12 Language sales team began reporting to me. Bringing the k-12 sales teams together over time will enable us to increase our reach and have the biggest impact on our customers.

Our K-6 English learner, or EL product, is a great opportunity for us to leverage our presence in schools. We start with a core of schools already partnering with us for their EL needs. For the first time we are bringing together key capabilities, from our speech recognition and animation engines, to our patented assessment without testing methodology, to provide a best-in-class solution for the fastest growing student population. Importantly, we are building the product on our myLexia platform that is currently serving over 17,000 schools providing actionable data and information for everyone from the teacher to the superintendent. Expanding the use of myLexia across curriculum areas is an exciting opportunity for us and a strategy to ensure customer success. Overall, I am happy with the progress we have made in developing our EL product since we first talked to you about it in the Fall and look forward to its launch in 2020.

Turn to slide twenty please.

In the meantime, we continue to pursue other opportunities that have served us well in recent years. A key area of focus has been to move customers from seat to whole school licenses. As Core5 has moved from intervention to an essential part of the school literacy curriculum, the number of whole school licenses has grown from a little under 1,300 in 2014 to over 3,800 last year. At $8,500 a school, the license portion alone of these sales represents an installed base of almost $33 million dollars on an annual basis.

And the upside in our remaining customer base is even larger. Over 10,000 current K12 customer schools remain on seat, rather than site, licenses, at a lower per school annual order value. **Please turn to slide twenty one.**

An even larger opportunity for growth is to serve new customers in our existing footprint.

Approximately 14% of all U.S. public schools license one or more of our literacy products today. Those 14% of schools, however, are in districts that together account for 41% of all U.S. public schools. Districts where we have reference accounts and the ability to show leaders the performance data for students and schools in their district. And districts where now with PowerUp, we can be a part of every school's literacy curriculum, not just the elementary schools. We will not ignore the 59% of schools where we have no in-district representation today, but the 41% within our existing footprint is the biggest opportunity to expand our school relationships.

These three areas - sales of additional products to existing schools, sales of whole school licenses to existing seat license schools, and sales to new schools in districts where we already have a presence - are the best opportunities to continue to leverage our presence in K12. With that, please turn to **slide twenty two** and I will turn the call over to Matt who will walk you through his priorities in the Language business.

Matt Hulett:

Thanks Nick.

In Language our focus is squarely on the segment of the marketplace we are geared to - adult language learners around the world.

I have had two priorities since I started at the company a little over a year ago: stabilize the overall language business and to develop and deploy a strategy to set us up for growth. The result of this focus was a decision to put more emphasis on our Consumer language business.

The consumer opportunity represents the largest addressable learning audience with English being the most popular with over 1.5 billion learners around the world. Last year, we finished our work migrating our perpetual CD business to a SAAS subscription model. We also focused on developing our now burgeoning mobile subscription business.

Our overall focus was to invigorate growth by investing in more product innovation and overall go-to-market improvements to generate a growing base of consumer subscriptions. Subscribers grew to 487 thousand at the end of last year, an increase of 32% since the end of 2017.

In 2019, we will continue to drive the momentum in our U.S. Consumer Language business that began in 2018. The U.S. is an attractive commercial geography for us. Our brand has great resonance and is synonymous with language learning. We have begun to grow here again because we are providing learners the best value in our history. We have invested in mobile-first innovations and different pricing options that are attractive to a wider audience. In short our strategy for the U.S. consumer is an enhanced product experience with new pricing structures that, while a premium to our peers, better match their needs.

In addition, to fuel more efficiency in our business over the long-term and to provide more leverage to our R&D investment, we are in the process of simplifying and reducing the number of platforms our Language products utilize and segregating important capabilities, like our speech recognition engine and advanced content, into individual services that can be more easily shared across our businesses. This work, and the work to deflash our products, have been substantial lifts the last few years, but will largely end later this year.

When completed, we will be able to more easily and efficiently bring advanced content to our Consumer learners and more innovation and engagement features to our Enterprise customers. In the future, I expect our Catalyst product and our Consumer product will start to resemble each other which will benefit both learners and us. We already see early signs of this synergy. For example, we recently introduced to our enterprise learners the SeekAndSpeak feature released to consumers late last year which uses AI and augmented reality in a mobile context to deliver a more personalized and immersive experience.

As part of our platform consolidation process, we are gearing up for a major upgrade to Catalyst, our best-in-class enterprise solution. In the next two quarters, we will be releasing our next version of the software that we dubbed, Catalyst Season 2. This enables us to provide a new modernized platform, and allows us to leverage content and functionality in both our enterprise and adult consumer base. **Slide twenty three please.**

With new products for consumer and enterprise customers, we are able to address a full range of needs but ultimately our learner is still an adult trying to learn a second language. This allows us to share content and functionality across our segments.

And we believe that we have the superior product within our marketplace. Evidence of this is the tremendously positive feedback from our customers as well as industry awards. We are proud to have recently won a Tabby award for the second year in a row for the best mobile product in the education category as well as just winning the PC Magazine's editor's choice award for the best language learning software for the seventh year in a row.

An important capability that we have refined through our experience with our enterprise customers is video tutoring. We fundamentally believe that unlocking the potential of providing human tutoring in concert with our world class content is going to be an important innovation for the company.

Slide twenty four please.

And we intend to continue to expand the awareness and usage of our recent mobile innovations throughout 2019. We like to innovate on single platforms, test and then replicate if the results are positive. For example, Your Plan, which allows a learner to set goals and receive ongoing feedback, was introduced to Android users in December of 2018. Based on our experience with these users, we are bringing this engagement feature to iOS users in 2019. **Next slide please.**

As I mentioned earlier, consumers are a big focus for us. However, the U.S. is not the largest commercial geographic opportunity for language learning. We see huge demand to address the entire spectrum of learners' needs, from excellent expert tutoring to incredible e-learning content, and we believe this will be extremely attractive for audiences, especially outside the U.S.

And in 2019, we are bringing Adaptive Blended Learning, or ABL as we call it, to consumer language learners via test marketing in South Korea. As a reminder, ABL is bringing together self-directed, adaptive software with a tutor, or in the case of K12, a teacher, in both cases powered by data and information to provide the optimal learning experience. We believe that a combination of Computer Intelligence and Human Intelligence is the best solution for learners.

We launched an MVP version of this experience in November of last year. We chose South Korea for our test because it is a huge, demanding marketplace, generally considered the second to third largest language learning commercial opportunity in the world, and it is competitive. If we can be successful in South Korea, we are reasonably confident the efficacy of our offering would warrant expanding into other markets. We are committed to being smart and agile with our test and we are optimistic based on early customer satisfaction and other data points.

I now have a full year with Rosetta Stone under my belt. In 2018, we demonstrated we could drive subscriber growth and increase the lifetime value of the customers who purchased our products. E&E had a more difficult year but we see positive momentum in our U.S. and EMEA enterprise sales efforts. And I am really excited to finish polishing up the product portfolio in 2019 as we put all of our focus on the future.

With that, please turn to slide twenty six and I will hand the call back to John.

John Hass:

Thanks Matt.

Our mission is to change lives through Language and Literacy education. We are positively impacting society through our work and we expect our influence to grow. To achieve this we will be the expert in K12 helping children learn to communicate through best in class reading and language solutions. And we will build on the turnaround in our U.S. Consumer and global Enterprise language businesses, and test to see if we can successfully bring a tutoring and software solution to demanding international customers to drive upside.

So let me now turn to guidance for 2019 and the trends we expect beyond this year. **Slide twenty seven please.**

In 2019, we expect consolidated revenue growth of 10% to approximately $191 million, through a combination of 20% revenue growth in Literacy, 8% revenue growth in Consumer and relatively flat revenues in E&E.

Our 2019 revenue expectation would have been higher, but because we expect approximately 80% of total Literacy bookings and 100% of Literacy bookings growth to occur in the second half of the year, the impact of its bookings growth on consolidated revenue this year is diminished.

Our revenue growth guidance assumes that total bookings growth will approach 10% in 2019. Within this, we expect Literacy bookings to grow over 25% to $74 million, a little faster than 2018. Our expectation is driven by continued strong retention and renewal rates, the ongoing maturation of our sales team, a full year of PowerUp sales opportunities and the reopening of a few markets, like Texas, that we were largely excluded from in recent years. Consistent with bookings growth, we expect Literacy's annual recurring revenue, or ARR, to grow a little more than 25% this year.

Consumer bookings, excluding SourceNext and FitBrains, are expected to grow 6% to $67 million. We expect this growth to be driven by a larger pool of renewable customers entering the year, and expected subscription unit growth within the year of approximately 30% or 150 thousand net new subscribers.

E&E bookings are expected to decline a million dollars to $58 million due to our de-emphasis of custom content projects and declines in our K12 language business pending the introduction of our new K-6 English language product next year. We expect this to be offset by growth in enterprise bookings.

Turning to profitability.

We expect a GAAP net loss of $15 million in 2019, with adjusted EBITDA of approximately $8 million.

Operating cash flow, is expected to be $19 million, an improvement of approximately $13 million before SourceNext payments. We expect this cash flow to be reinvested in the business and to be cash flow break even in 2019.

While we expect accelerating revenue growth in 2019, for the first time since 2014, this will not immediately turn into the cash flow we had previously expected for three reasons. First, the results in parts of our Language business in 2018, including retail in Consumer, as it went through the transition to subscription, and a few smaller, less core Enterprise lines, were not as strong as we had expected.

Second, while we are creating the amount of lifetime value in our direct Consumer business we had planned on, it is being realized more slowly because a greater portion will come from renewals then planned, deferring the receipt of cash.

Finally, we made the decision to increase product investment, primarily to fund development of our K-6 English learner product. Teaching the fastest growing K12 population, those students that don’t natively speak English, to speak English, is an amazing opportunity to change lives, leverage our position in schools and accelerate growth.

Let me turn to Q1. While we don’t normally provide quarterly guidance, given how close it is to the end of the quarter, we would like to share our outlook. I would remind everyone that Q1 is a very small quarter with approximately 14% of expected bookings for the year. This is especially the case in Literacy where bookings are expected to be down slightly from Q1 of 2018 and to constitute only 5% of total Literacy bookings for the year. At this point, we expect total Q1 revenue of $43-44 million, slightly up with last year, a GAAP net loss of $5-6 million and break even adjusted EBITDA, a modest improvement over last year. Operating cash flow is expected to be a use of $19 million as our costs are largely fixed across the year but this, as noted, is our lowest bookings quarter. We expect capital expenditures of approximately $5 million in the quarter.

Due to this first half use of cash I expect that we will have some seasonal borrowings. We expect to have positive net cash at all times and intend to end the year with no debt.

As implied by our full year guidance, we expect revenue growth and operating profitability to accelerate as we move through 2019 in line with the seasonal bookings growth in our business. In fact, nearly three-quarters of our year-over-year revenue growth is expected to be in the second half of 2019. To give you a sense, if we achieve our revenue expectation for the year, with the bookings progression we expect, Q4 revenues will be 15% higher than our expectation for Q1. This would be an annualized run rate of approximately $200 million, laying the foundation for the coming years.

So let’s look at 2020 and 2021. Please **turn to slide twenty-eight** and I will walk you through our expectations for growth and margin expansion.

Margin improvement in growing subscription software businesses is driven by a few factors. In sales and marketing, as headcount growth slows and as renewals become a larger share of bookings, productivity rises and margins improve. In R&D, improvement comes with the ability to spread investment over a broader customer base. And in G&A, there is an opportunity to drive additional business through those business support areas that are either fixed or semi-variable. These are the opportunities in our business as the rapid recent investment in Literacy slows and as Language begins to grow.

In 2020, we expect total revenues to grow to approximately $225 million. We expect the increase in revenues to be driven primarily by our Literacy segment where we expect total revenues of $84 million, an increase of 33% over 2019 guidance.

That is an important number so let me unpack it. We expect to be able to grow Literacy bookings in 2019 at a rate in line with our historical growth rate of 26% for the reasons discussed earlier. As a result, part of the increased growth is realizing as revenues in 2020, the bookings growth we see for this year. The balance is driven by our expectation that bookings growth will accelerate above 30% in 2020, in part as we begin to bring our K-6 English language learning product online.

In 2020, we currently expect Consumer Language revenue to grow to $78 million and E&E Language to be relatively flat, in part as we renew some E&E K12 customers in the Literacy segment on the new EL product.

In 2020, we expect adjusted EBITDA and operating cash flow margins of approximately 9% and 17%, respectively.

Approximately, 120 basis points of margin improvement is expected to come from sales and marketing as the headcount growth in Literacy sales and other support areas slows, and as a greater share of our bookings come from more efficient renewals.

Another, approximately 200 basis points of margin improvement is expected to come as we leverage research and development costs in K12 across a bigger base of schools and as the de-flashing and consolidation work in Language ends later this year. The balance of the improvement is expected to come from leverage in G&A.

The margin improvement opportunity in 2020 is clear if we deliver the topline growth we expect.

In 2021, we expect growth of 15% to $260 million in total revenue. Growth will be led by Literacy which by 2021 is expected to account for over 40% of total revenues and will have the full year benefit of the new K-6 English learner product.

I would note that a portion of our revenue growth in 2020 and 2021 is related to expectations for the English language offering we are bringing to South Korea this year. While we are happy with the early testing and excited about the opportunity, given how early it is this is the part of our outlook with the most inherent risk. The revenues in our Consumer guidance for this effort are approximately $7 million and $13 million in 2020 and 2021, respectively. Our profitability and cash flow estimates for the two year period are not dependent on this opportunity.

In 2021, we expect adjusted EBITDA and operating cash flow margins of 12% and 22%, respectively on an additional approximately 30, 90 and 180 basis points in improvement in sales and marketing, research and development and G&A, respectively. Finally, we expect capital expenditures to peak in 2020 at $22 million before declining to $18 million in 2021, as the upfront investments in our major new initiatives are completed.

The opportunity for us is clear and, for the first time, the math is becoming more transparent, more understandable and more predictable.

Continue to grow Literacy bookings at a rate in excess of 25% for the next few years, consistent with historical trends and the investment we have made. Accelerate Consumer Language bookings growth on the back of a growing renewal pool and subscriber base, and grow the enterprise portion of our E&E segment, while K12 language within E&E shrinks somewhat as we move a portion of that business to the Literacy segment. On top of this make a thoughtful, calculated investment to see if we can realize the tremendous opportunity in the international English language learning marketplace. If we do this we will have mid-teens consolidated revenue growth and can drive 400 and 500 basis points in margin improvement in 2019 and 2020, respectively, and an additional 300 to 400 basis points each year for a few years thereafter.

Conclusion

2019 is an important year. It is the year in which the masking effects of multiple business lines in transition that have complicated our conversations with you will dissipate, and bookings and revenue growth from previous investments will emerge more clearly. Profitability will improve and we will set the stage for continued growth and margin improvement in the future. If we do our jobs well, we will deliver for investors and continue to expand the positive impact we are having on society as we change lives through language and literacy education.

Thank you, and operator we would now like to open the line for questions.