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Stride, Inc. NYSE:LRN

Earnings Call

Tuesday, October 20, 2026 10:00 PM GMT

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Call Participants

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Presentation

Operator

Hello, everyone. Thank you for joining us, and welcome to the Stride First Quarter Fiscal Year 2027 Earnings Call. [Operator Instructions]

I will now hand the conference over to Eliza Henson, Director (sic) [Manager] of Investor Relations. Eliza, please go ahead.

Eliza Henson

Thank you, and good afternoon. Welcome to Stride's First Quarter Earnings Call for Fiscal Year 2027. With me on today's call are Bob Knowling, Chief Executive Officer; and Donna Blackman, Chief Financial Officer.

As a reminder, today's conference call and webcast are accompanied by a presentation that can be found on the Stride Investor Relations website. Please be advised that today's discussion of our financial results may include certain non-GAAP financial measures. A reconciliation of these measures is provided in the earnings release issued this afternoon and can also be found on our Investor Relations website.

In addition to historical information, this call will also involve forward-looking statements. The company's actual results could differ materially from any forward-looking statements due to several important factors as described in the company's earnings release and latest SEC filings, including our most recent annual report on Form 10-K and subsequent filings. These statements are made on the basis of our views and assumptions regarding future events and business performance at the time we make them, and the company assumes no obligation to update any forward-looking statements. Following our prepared remarks, we will answer questions you may have.

Now I'll turn the call over to Bob.

Robert E. Knowling
CEO & Director

Thank you, Eliza, and good afternoon, everyone, and thank you for joining us. It has truly been energizing to be a part of Stride's school year launch. School opening is always a flurry regardless if it's a traditional brick-and-mortar school or a virtual school. All of the excitement, the anxiety and the positive energy, it's still the same. So our students are back, teaching and learning is in full swing, and I'm fully focused on operational execution and our business results.

We delivered first quarter revenue of $639.4 million, which is up 3% from last year. Our first quarter enrollment results were lower than we anticipated. The results are disappointing to me, and obviously, this has my full attention. The experience that parents, students and teachers had with our technology platforms contributed to the headwinds in applications and the retention of new students during this period. While retention of returning students remained stable and our conversion metrics remain strong, it was not enough to overcome the decline in net new enrollments. And Donna will provide additional detail on enrollment trends, our financial results and our outlook.

Taking a step back, let me talk about my first 2 months as CEO and what I've learned, which factors into my plans going forward. Since becoming CEO at the end of July, I've met with district partners, I've met with school leaders to learn from those closest to our students and parents. And those conversations have reinforced my view that the demand backdrop remains substantial. Families continue to look for more flexibility for their children. They want personalization and career-focused options for their kids.

There's a recent Gallup report that showed satisfaction with K-12 education has reached a new low with only 32% of Americans satisfied with the quality of K-12 education in the United States. The survey underscores the continuing opportunity for education options that better meet the needs of students and families. Our opportunity is right in front of us, and we have to go earn that demand by delivering stronger student outcomes and a better experience. I'm convinced that Stride is well positioned to meet

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this demand. We have a strong foundation, and our focus now is on executing more consistently across the business and building on that foundation to create long-term value for students, for families, for our school partners and for our shareholders.

I've identified 3 key areas that I'm working to improve. The first priority is student outcomes. Student outcomes are the ultimate measure of our success. Our investments in curriculum, our technology platform and overall support services has to translate into meaningful academic achievement for students. Better outcomes leads to stronger retention, stronger relationships with school partners, and it provides sustainable growth. On average, nearly 60% of our students enter our schools below grade level, yet that is no excuse for falling short on outcomes. I will have a relentless focus on student and school success.

In order to do that, we have to analyze the data available across our schools to better understand which interventions are making the greatest difference for students and where we should focus our time and resources. For example, we know from our data that timely, targeted support can make a meaningful difference for students. Knowing when a student is falling behind is key as well as then applying the appropriate interventions to help the student. We have to use data more effectively across our schools in pursuit of student progress.

Second, I will spend more time listening directly to parents and incorporating what we hear into the improvements we make to the experience we provide. We have to help parents understand what their kids need to do each day with their school work. We need to teach parents how to access support and how to stay connected in a virtual learning environment. The parent engagement with the child in a virtual environment is one major difference from a brick-and-mortar school experience. When introducing our new platform changes last year, we added friction to the user experience instead of making it more seamless.

We did not sufficiently anticipate the end-to-end experience for families or move quickly enough to address the friction they encounter. And in hindsight, we should have taken a more deliberate approach to implementation and testing with greater focus on the experience of the families using the platform every day. Sounds simple, and it should have been, but we didn't get it right. We made meaningful progress in preparing for this year's school year, and we did not see a repeat of the broad-based technical disruption we experienced last fall. But that does not mean the experience is where it needs to be for our students and families.

In response to last year's technical problems, the leadership team decided to develop a new platform overlay called Launchpad that sits in front of the learning management system that caused last year's challenges. That was the right decision and one which I support. Launchpad organizes information and connects with the learning management system to help guide students through their day. As you may recall, Launchpad's initial rollout in the beginning of this calendar year was successful, and it improved the customer experience.

However, as we continue to make enhancements leading into the fall enrollment season, those enhancements led to a poor user experience during the school year launch. We have heard those concerns, and we take that feedback seriously. It is not acceptable for families to have difficulty navigating schedules, retrieving assignments or accessing classes. While we cannot isolate the impact on enrollment, we recognize that this friction affected some families' decisions during the enrollment period, and we're moving with urgency to make Launchpad simpler, more reliable and easier to use.

I have strengthened our technology leadership with the hiring of Darlene Williams as our Chief Information Officer. Darlene joined Stride from Rocket Software, where she served as the CIO there and led technology modernization, enterprise systems and complex integrations across a large, growing business. And she brings more than 20 years of experience building technology organizations and delivering scalable, secure solutions. With Darlene's appointment, all IT development and operational functions will come together under her leadership. She will help advance our technology road map with a particular focus on improving the experience for students and families and ensuring our investment supports better outcomes.

The third priority is getting more from the portfolio we already have. We have built capabilities that can add real value for students at different points in their educational journey, including tutoring, career

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exploration and connections to future opportunities through Tallo. Historically, we have not always been deliberate enough about how these capabilities fit together, which students would benefit most or how we measure their impact. We are addressing that by bringing a more integrated approach to our product portfolio, using data to identify where these offerings can have the greatest effect and scaling those that improve outcomes, that improve engagement and the overall K-12 experience.

We will also be more selective about the initiatives we support, shifting resources away from less effective capabilities and towards the areas we see the clearest opportunity to create value for students and families. That translates into concrete choices. We are halting further work on initiatives where we do not see a clear path to improving outcomes or creating meaningful value for students and families.

In my first months as CEO, we have begun a strategic reassessment of how we organize and operate the business. As part of that work, we've already moved to simplify the organization, bringing related teams together and clarifying accountability around our highest priorities. These actions are intended to sharpen our focus and direct both financial and leadership resources towards the areas with the greatest potential impact and return. And that work is ongoing, but we have not waited to begin making the changes needed to improve execution and strengthen the business.

We also recently announced the formation of a new Capital Allocation Committee, which is tasked with reviewing our capital structure, our capital allocation priorities, including input from shareholders. We expect to share more about this committee's initial framework in the coming months. The strategic reassessment supports our commitment to the fiscal 2028 targets that we have already communicated. The core work is execution, improving the experience for students and families, focusing our resources on the areas of greatest impact and holding ourselves accountable for the progress. Our strategic reassessment remains ongoing, and we will share more as that work develops.

To summarize, I'm excited about the market opportunity in front of us. I have full confidence in my team. And while change makes people uncomfortable, everything we are doing is in service to the kids and parents who chose us. I intend to lead Stride by staying close to what students, families and school partners are experiencing, focusing our resources on the areas of greatest impact and being very clear about where we need to improve and holding myself and my team accountable for making progress. I want to thank our employees, the educators and the school partners for their commitment to students and families during this important time of the year.

With that, I will turn the call over to Donna for a more detailed discussion of our financial results and outlook.

Donna M. Blackman
Executive VP & CFO

Thank you, Bob, and good afternoon. As Bob discussed, we remain focused on improving the experience for our students, families and school partners while also delivering against our financial objectives. With that context, let me turn to our financial results for the first quarter. Revenue was $639.4 million for the quarter compared with $620.9 million in the prior year, an increase of 3%. Adjusted operating income was $78.6 million compared with $81.1 million in the prior year. Adjusted EBITDA was $111.8 million compared with $108.4 million in the prior year.

Adjusted EPS was $1.37 compared with $1.52 last year. Total enrollment as of September 30 was 241,400 compared with 247,700 in the prior year. As we discussed last quarter, we expected the year-over-year comparison at count date to be more difficult. We moderated in-year enrollment growth during fiscal 2026, reducing the carryover benefit as we entered this school year. Against that backdrop, reregistration remained essentially in line with last year. The trends we saw and communicated in early August with lower application volumes, partially offset by higher conversion rates, continued throughout the fall season, which resulted in a year-over-year decline in net new enrollments.

Now we are seeing families continue to make enrollment decisions. And since the September count date, we have seen positive in-year enrollment activity. While it's still early, we are encouraged by the continued demand and remain focused on execution through the balance of the school year. Revenue per enrollment

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for the quarter was $2,556, up 7% from the first quarter of 2026. As we have discussed in the past, revenue per enrollment can vary based upon state mix, funding yield and the timing of adjustments. For the full year, we expect revenue per enrollment to be up 1.5% to 2.5% from fiscal 2026.

Turning to profitability. Gross margin was 37.7% for the quarter compared with 39% in the first quarter of 2026. The first quarter gross margin result reflects elevated costs associated with launching the school year, including higher instruction costs as well as the operational work underway to improve the experience for students and families. As we move through the year, we will continue to align our instructional costs with enrollment levels while maintaining our investments in initiatives intended to support stronger student outcomes. As a result, we expect full year gross margin to be down 100 to 200 basis points compared with fiscal 2026.

Stock-based compensation for the quarter was a benefit of $7.4 million, driven by the forfeiture of certain awards. For the full year, we expect stock-based compensation to be in the range of $15 million to $19 million, reflecting the impact of those forfeitures. Selling, general and administrative expenses were $156.8 million compared with $173.1 million in the prior year, primarily driven by lower stock-based compensation. For the full year, we expect selling, general and administrative expenses to be down 10% to 15% year-over-year.

Now turning to our balance sheet and cash flow. Capital expenditures were $24.5 million for the quarter. We continue to invest in technology, curriculum and improving the experience for students and parents while remaining focused on the returns from those investments. Free cash flow, which we define as cash flow from operations less capital expenditures for the quarter, was negative $149.3 million compared with negative $217.5 million in the prior year. First quarter cash flow followed the normal seasonal patterns of our business, and we expect to generate positive cash flow over the remainder of the year.

We ended the quarter with $884.2 million of cash, cash equivalents and marketable securities. Our $420 million convertible note matures in September 2027 and is now reflected under current liabilities on our balance sheet. And as a reminder, the principal must be settled in cash, while the conversion value above the principal can be settled in cash or shares. During the first quarter, we were constrained by our blackout period from repurchasing shares. With $311 million still available under our current authorization, which was extended through October 2027, we expect to return to the market opportunistically, subject to the market conditions and other considerations. Bob mentioned the Capital Allocation Committee and the plan to share the committee's initial framework in the coming months. In the meantime, our priorities remain funding the investments needed to grow the business, maintaining balance sheet flexibility and returning capital to shareholders.

Turning now to guidance. For the second quarter of fiscal 2027, we expect revenue in the range of $625 million to $645 million, adjusted operating income between $135 million and $145 million, and capital expenditures between $19 million and $21 million. And for the full year, we expect revenue in the range of $2.530 billion to $2.610 billion, adjusted operating income between $500 million and $530 million, capital expenditures between $70 million and $80 million and an effective tax rate between 24% and 26%. Our guidance reflects the enrollment outlook we see today, our expectations for revenue per enrollment and our planned investments to support students and families. We will continue to monitor enrollment trends as the year progresses.

Finally, we remain committed to our fiscal 2028 targets. The core work is execution, improving the experience for students and families, directing our resources towards the areas of greatest impact and holding ourselves accountable for progress. We believe the strength of our core business supports our ability to create long-term value.
Thank you for your time today. I'll turn the call back to the operator for questions. Operator?

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Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Jeff Silber with Bank of Montreal Capital Markets.

Jeffrey Marc Silber
BMO Capital Markets Equity Research

I wanted to focus first on the enrollment trends in the quarter. Maybe we'll start with Career Learning. Growth slowed pretty dramatically from what you've been seeing over the past few years. Can you give us any color on that? And do you expect that to reaccelerate over the time?

Donna M. Blackman
Executive VP & CFO

And so, Jeff, as you know, part of what we saw with respect to initially on Career Learning growth was attributable to the fact that we wanted to be -- every place we had a General Ed program, we wanted to have a Career Learning program. And so that reflected sort of higher enrollment growth over the past couple of years with respect to Career Learning. What we have seen overall with the decline year-over-year in our enrollment numbers that the Career Learning outpaced the General Ed enrollment. And that's driven by an increase in the number of high school students that we've seen.

We've talked previously about the fact that the number of students who come to Stride looking for a Career Learning program versus looking for a virtual program is not where we had expected it to be when we first launched Career Learning. And so we do think there's additional opportunity to further accelerate Career Learning when we create a separate funnel for Career Learning, which we have not yet created. And so part of that is driven by making sure we have delivered the results for getting jobs, et cetera, for those students who come through our Career Learning program.

Jeffrey Marc Silber
BMO Capital Markets Equity Research

All right. Let me shift gears then to Gen Ed. You saw a decline a little over 6%. I'm assuming Lone Star is in there. Can you first unpack the impact of Lone Star on GE? Were there any other schools or programs that were lost? And just general comments about how that's trending.

Donna M. Blackman
Executive VP & CFO

Yes. So for -- so certainly, there's an impact on Gen Ed from the loss of Lone Star. While we were able to offer any family who wanted to stay a program on one of our existing managed programs or in our private programs, the net impact relative to last year was about a loss of about 3,000 students, including the 2,000 that are sitting in our private school. The other part of that is we were limited in terms of capacity just because of the capacity limitations given the -- all programs that we have. And so we didn't see the growth in Texas that we might otherwise have seen.

Jeffrey Marc Silber
BMO Capital Markets Equity Research

And any other programs lost?

Donna M. Blackman
Executive VP & CFO

We lost a small program. But I think the important thing to note is we had a net increase of 5 additional programs this year. And while that's important, it's less about the impact in the current year. It's really more about setting ourselves up for longer-term growth. I think it speaks to the strength of the brand and

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that partners want to continue to partner with us. And so while it doesn't have a significant impact in the current year, again, it does set us up for long-term success, and I think it speaks to the long-term growth prospects for the business.

Operator

Your next question comes from the line of Stephen Sheldon with William Blair.

Stephen Hardy Sheldon
William Blair & Company L.L.C., Research Division

First, for the guidance for the full year, I think I heard you say, Donna, that since the count date, I think enrollments have moved up. I guess I would love to just get any detail on what you've kind of baked into the guidance for the full year in terms of sequential enrollment trends. I know last year was different. The prior 2 years, you saw 1Q to 2Q up, 2Q to 3Q up, and you've always been down 4Q. But just would love any commentary on kind of what you baked into the guide.

Donna M. Blackman
Executive VP & CFO

Sure. Look, what I want to start by saying, given where we are today, and it's still very early into Q2, we are encouraged by what we're seeing. We are encouraged by the fact that we are seeing in-year enrollment growth, and we were not in that situation last year. So again, early, but encouraged by that. Our guidance assumes in-year enrollment growth. So if we look at the midpoint of our guidance, it assumes in-year enrollment growth for Q2 and Q3. And you know from Q3 to Q4, we typically see a decline. And so we -- our midpoint guidance assumes that, that decline will offset the gains that we see in Q2 and Q3.

So we'll end the year with enrollment in line with where we were on count date, a much better position than we were in last year. On the high end, it's assuming we've had the in-year enrollment growth that we have in Q2 and Q3 that the decline that we see, again, historically, we see that decline from Q3 to Q4 will not be enough to offset. So we were seeing a net growth in the year versus count date. And again, that's what's baked into our guidance, yes.

Stephen Hardy Sheldon
William Blair & Company L.L.C., Research Division

Perfect. That's helpful. And then I guess I wanted to dig in on both the trend in new applications and marketing plans. I guess, on applications being down, I guess, any qualitative commentary you can provide on why you think it was down? Is that flow through the tech platform issues last year and maybe negative word-of-mouth activity around that? I know there's been a lot of concern about Google search algorithm changes in AI, consumer AI search. So curious why applications were down. And then maybe also on marketing plans for the year. Maybe just high level, are you tapering marketing spend some? I guess, how are you planning on managing the marketing budget over the rest of the year?

Donna M. Blackman
Executive VP & CFO

Yes. So one of the things I talked about in August that we were trending down with applications. And part of the reason we thought we're trending down on applications back in August is we had a really strong early enrollment, early applications last year. And so -- but it was a tougher comp. And so if you look at overall, we ended from an application standpoint, while we're down, we were about 2% higher than we were 2 years ago. So part of it is related to tougher comp. But the reality is our technology issues did have some impact on our application volumes on our net new enrollments. And that's one of the things that Bob is talking about and really taking a deep dive into not just understanding the issues, but making sure we fix the issues and don't repeat the issues and make sure our families have the experience that we want them to have that they've been accustomed to having.

With respect to our marketing spend, we talked about returning to marketing spend. We cut back on our marketing spend last year. We've returned to spending on marketing. And yes, the impact, not just on

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us, but across not just our industry, all industries in terms of the Google search and that impact is down across the board for not just our industry, but again, across the board. And so yes, that's certainly having some impact as well. But the reality is we do think there is demand out there that we've got to be able to go out and capture that demand. And so we've got to improve the experience. We've got to execute. And I am encouraged by what I've seen to date in terms of net new in-year enrollment growth.

Operator
There are no further questions at this time. This concludes today's call. Thank you for attending. You may now disconnect.

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