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Stride, Inc. (LRN)

Q1 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to the Stride, Inc. First Quarter Fiscal 2022 Earnings Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

I would now like to hand the conference over to Mr. Tim Casey.

Tim Casey

Vice President-Investor Relations, Stride, Inc.

Thank you and good afternoon. Welcome to Stride's first quarter earnings call for fiscal year 2022. With me on today's call are James Rhyu, Chief Executive Officer; and Tim Medina, Chief Financial Officer. As a reminder, today's conference call and webcast are accompanied by a slide presentation that can be found in the Stride Investor Relations website.

Please be advised that the 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 in the Investors section of our website.

In addition to historical information, today's call may 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 latest SEC filings. The company assumes no obligation to update any forward-looking statements made during this call. Following our prepared remarks, we will answer any questions you may have.

I will now turn the call over to James. James?

James Jeaho Rhyu

Chief Executive Officer & Director, Stride, Inc.

Thanks, Tim. Each summer, as we prepare for the upcoming school year, we face operational and logistical demand to support the needs of millions of potential customers and thousands of teachers and support staff. These past two summers have proven even more challenging as a result of the ongoing global pandemic. Our country has been facing disruptions in the supply chain, shortages of workers across industries, uncertainty in the workplace and renewed fears of inflation, among many other difficulties.

In spite of this, I have great faith in our country, our ability to persevere and create opportunities through adversities. We are resilient, adaptive, innovative, compassionate, opinionated, proud, and sometimes, disagree, but we are always united. And as we navigate these recent challenges, we are evolving. We're being forced to rethink certain norms, and one of those has been our approach to education. I hope we now realize that there is no one-size-fits-all solution to education, to training or to workforce development. Certainly, some of the traditional methods work for many, but we need to ensure we are providing choices for everybody, choices about how and where we learn, how employers recruit, how we educate and train the workforce, and how we deliver opportunities for those seeking new paths.

Over 20 years ago, Stride was founded on the premise that students and families should have a choice in their education. The pandemic has made this mission more critical than ever before. We remain committed to ensuring that we are providing a best-in-class experience across the range of customers we serve, from early elementary to adult workforce solutions, and we want to make sure that these educational options are available to as many learners as possible.

The increasing demand for educational and training options continues to fuel our business. The pandemic and the resulting disruption across schools and districts has led to a surge of support for School Choice. Total support for School Choice has increased to almost 75% of the population. The pandemic raised awareness for parents about their students' education, and many recognized that they are not getting what they need from their existing school. And that surge in interest spans private schools, voucher programs, virtual schools and other similar programs.

And specifically, interest in virtual education has seen dramatic increases. In large part, this was because so many were forced into it during the pandemic. And while the experience was not always positive, it absolutely opened the eyes of many to the benefits of a virtual model. And for us, this has translated into what we believe is a structural long-term increase in the demand for our products and services. In fact, peak website traffic this year surpassed the traffic we saw last year at the height of the pandemic. We are seeing well over 1 million unique visitors to our websites each month and growing, and [ph] they're a (04:47) more educated consumer. Conversion rates for those who apply to our program are at a multi-year high. We attribute this in large part to the increase in awareness. Families that apply to our program know what they were looking for, and so, they convert at higher rates. This is an important trend for us over the longer term. And as families become more comfortable with virtual education and Stride's experience, it opens up other opportunities for us to offer other institutional and consumer offerings.

And while conversion rates have improved, so have conversion times. Families both know what they want and we are also making it easier for them to enroll. Our focus on the consumer experience and customer journey is just beginning. And if these early trends are any indication of what we can expect, we are going to deliver some really exciting customer experience improvements in the coming months and years ahead. Our roadmap of new product

and customer improvements is more robust than it has been in the over eight years that I've been with the company. Be on the lookout for some exciting new product announcements during the upcoming year.

However, this demand hasn't come without some additional challenges. As many of you have likely experienced, there are labor shortages in many industries, and education is not immune. Teacher shortages have been a real threat to the US education system for many years, and the pandemic has only exacerbated this risk. We're thankful for the thousands of wonderful teachers we manage, but these shortages have limited our ability to enroll new students in some states.

And given the dissatisfaction many teachers experience in traditional schools and the high satisfaction rates we see for the teachers that we manage, we hope that they consider us as an option. Particularly with vaccination requirements, accessibility and age restrictions, some teachers just don't feel comfortable in their current environment. And so over time, we will be looking to ship more and more teachers to online programs where they have greater flexibility, impact and reach than they have in their current roles.

Another trend that we see accelerating is the focus on career training and workforce development. We desperately need skilled workers, and many high school students are realizing that their future success does not need to be tied to a four-year college degree. This fall, our Stride career programs for middle and high school students enrolled 42,000 students, a 36% increase from last year. It's also three times the level we were at just two years ago. And our surveys for Career Learning demand are even more positive than overall virtual education. Even as interest in virtual option has increased, Career Learning interest continues to outpace it by multiples in the middle and high school space. We think that this interest, coupled with the opening of new programs and new state, can sustain strong growth in this business over the long term.

I think the investment community was rightfully skeptical of our ability to grow after last year's pandemic boom. And make no mistake, we continue to see a positive impact on our business from the ongoing pandemic uncertainty. But we also believe that there is an ongoing structural shift in education, and we are the digital leader in the space, and we believe that positions us to thrive over the long term across a broad spectrum of product and service offerings. For this year, that means we expect to grow both our top and bottom lines, and we believe we are on pace or better for the long-term goals we set out for ourselves just last November. Tim will provide more details on this in just a minute.

I also wanted to highlight one of our new product offerings for this school year. As many of you know, younger students were disproportionately impacted by the pandemic. Younger students were less likely to attend school consistently and were more likely to suffer from significant learning loss. Additionally, supporting younger students during at-home learning can be a challenge for families. We recognize the particular difficulties of this age group even prior to the pandemic, and have been working on an entirely new design for our K-5 course catalog. Our new programs are built specifically to support more independent learning and allow parents and families to play a more supporting role in a child's education. We believe these new courses will allow for deeper engagement and better academic outcomes.

And lastly, while COVID was rightfully receiving much of the attention over the last year, there have been other catastrophic disruptions. For example, in September, Hurricane Ida hit the Gulf Coast. A significant number of students were displaced from their homes and schools. Our team quickly mobilized to offer a free, private, virtual program for these students that is now serving hundreds of families. I'm proud of the team for this effort. It's doing what I call absolute right, and it's a core principle for Stride.

Thank you for your time today. Now, I'll pass the call over to Tim Medina to discuss our quarter results and fiscal 2022 guidance. Tim?

Timothy J. Medina

Chief Financial Officer, Stride, Inc.

Thank you, James, and good afternoon, everyone. First, let me quickly recap our reported results. Revenue for the quarter was \$400.2 million, an increase of almost 8% over the same period last year. Adjusted operating income was \$4.5 million, down significantly compared to the prior year, which I'll discuss in a few minutes.

And capital expenditures were \$15.4 million, an increase of \$2.6 million over last year. Driven by strong demand in Career Learning and a recovery in revenue per K-12 enrollment, we expect to grow revenue and profitability this year compared to prior year. Our first quarter results and this guidance for the rest of the year demonstrates the confidence we have about our ability to sustainably address the underlying demand for high-quality online educational options.

We believe this sets Stride up for a continued, long-term growth and expanding margins across our lines of revenue. Q1 revenue from our General Education business decreased \$7.5 million to \$306.3 million. This was due primarily to the expected decline in enrollments partially offset by an increase in revenue per enrollment. General Ed enrollments decreased to \$147,600 from \$164,600 last year during the height of COVID.

As James discussed, we continue to see strong demand for our offerings. And we expect that over the coming years, this business will grow off this new baseline. Revenue per enrollment in General Education increased 9.7% in Q1 compared to the same quarter last year. We are seeing favorable funding impacts in many states, offset by some mix shift to lower funded states. For the full year, we expect to see revenue per enrollment in line with or even better than our fiscal 2020 results.

Career Learning revenue grew to \$93.9 million, an increase of 64.4%. This was driven by continued strong growth in our Stride Career Prep enrollments and growth across our Adult Learning business. Within our Career Learning business, our middle and high school Career Learning revenue was \$71.4 million, up 46.4% from last year. This was driven by a 36.4% increase in enrollments and an 8% increase in revenue per enrollment. Like our General Education K-12 business, we expect revenue per enrollment and Stride Career Prep programs to improve significantly over last year.

Our Adult Learning business had another strong quarter, finishing with revenue of \$22.5 million. This puts us on a great trajectory for the full year, and we expect Adult Learning to contribute almost \$100 million in revenue during fiscal year 2022. Gross margins for the quarter were 31.6%, down 340 basis points compared to the same period last year.

We returned to a more normal seasonal pattern in our materials and computer expenses this year. Last year, we had a slower ramp in shipments to students, which pushed first quarter gross margins up. Therefore, we expect our second quarter comparison to be more favorable as spending this year is more in line with the normal seasonality we saw in years prior to last year. We continue to feel confident in our ability to achieve the 2025 gross margin targets we laid out last November and faster than we originally anticipated.

Selling, general, and administrative expenses for the quarter were \$133.4 million, up \$15.6 million from the first quarter fiscal 2021. The increase in SG&A is primarily driven by higher costs associated with enrollment and onboarding and the annualization of expenses from our acquisitions. Stock-based comp was \$8.3 million for the

quarter. We anticipate that we will finish the year with stock-based compensation in the range of \$29 million to \$31 million.

Adjusted operating income for the quarter was \$4.5 million. Adjusted EBITDA was \$25.5 million. Both of these metrics were impacted by the seasonality of costs that I outlined above. The timing of our costs and income in fiscal year 2021 had timing anomalies that we explained during our quarterly calls last year. This year, we expect our seasonality of expenses will be more similar to the years prior to FY 2021. And as you can see in our guidance, we think the second quarter will be very strong from a profitability standpoint.

Interest expense for the quarter was \$2 million. As we mentioned last quarter, we have adopted new accounting guidance that eliminates the non-cash interest expense related to the amortization of the debt discount from our convertible note. This results in lower interest expense. It also means that we have increased the long-term debt recorded on our balance sheet even though we have not taken on any additional debt.

For the year, we expect our quarterly interest expense to be fairly consistent with the first quarter. Our effective tax rate came in at 33%. For FY 2022, we believe we will finish the year with a tax rate in the 28% to 30% range, mostly due to an increase in non-deductible compensation above FY 2021. Capital expenditures in the quarter totaled \$15.4 million, up \$2.6 million from the prior period last year. This increase was expected as we invest in more mainstream consumer-facing products expected to contribute to future financial performance, as well as ongoing investments in our high-growth career and Adult Learning businesses.

Free cash flow in the first quarter, defined as cash from operations less CapEx, was negative \$146.9 million as compared to the prior year's \$127.3 million. This normal seasonality of cash flows relates to school launch and the enrollment and onboarding of new students. We expect to see positive cash flow for the next three quarters. For fiscal year 2022, we expect to have significantly higher cash flow from operations than in fiscal year 2021. We ended the quarter with cash and cash equivalents of \$218.5 million.

Turning to our guidance. For the second quarter of fiscal year 2022, the company is forecasting revenue in the range of \$390 million to \$400 million; adjusted operating income between \$55 million and \$60 million; and capital expenditures between \$14 million and \$17 million. For the full year, we are forecasting revenue in the range of \$1.56 billion to \$1.60 billion; adjusted operating income between \$165 million and \$180 million; capital expenditures between \$65 million and \$75 million; and lastly, an effective tax rate between 28% and 30%.

Before I wrap up, I want to be sure to thank our employees for their dedication to the academic and career goals of so many students and learners. Without the collective effort of thousands of Stride employees, we could not have achieved the strong results we saw this quarter and that we expect to see for the full year. Thank you all.

And with that, I'll turn it over to the operator. Operator?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] First question comes from the line of Jeff Silber of BMO Capital.

Jeffrey M. Silber

Analyst, BMO Capital Markets Corp.

Q

Thank you so much and congrats to the strong start of the year. I wanted to dig into your General Education enrollment trends. Obviously, the numbers were better than people thought. Is it possible to kind of parse through the difference between last year and this year in terms of the students that you retained versus new students that started this fall?

James Jeaho Rhyu

Chief Executive Officer & Director, Stride, Inc.

A

Hey, Jeff. It's James. So, yeah, I mean, obviously, as you know, we don't break that out actually. What I will say is that we have continued to see strong renewing interest in our programs. And I think it's just sort of logical like in order for us to, I think, hit the kind of numbers we're hitting, we have to have had both, a lot of returning families and then ongoing interest from new families. But like I said, we don't – as you know, we don't break that out specifically. But I just I think that the comments we're making around us seeing sort of a structural shift and sort of the tide rising, if you will, on demand is – it's real. And I think in addition to that, as I mentioned, we have more demand than we could actually have dealt with because we actually had to cut enrollment short in some states because of the teacher shortages. So we just don't see the demand abating as I think most people predicted.

Jeffrey M. Silber

Analyst, BMO Capital Markets Corp.

Q

All right. That's great to hear. And maybe we can drill down into the structural changes in demand. Are you seeing it all across the board? Are there certain grade levels or geographies that are stronger than others?

James Jeaho Rhyu

Chief Executive Officer & Director, Stride, Inc.

A

I think, generically speaking, we're seeing it fairly across the board. We do see a slight bias towards some of the younger grades. That's actually good for us, as you know, because it gives us actually a longer potential lifetime value with those students. It lets us often get more than one bite at the apple with those students because some of them do leave and come back. So we see a slight bias there. We did see some slight bias in states that had some higher COVID cases. I think that's sort of also natural. So we saw a little bit of bias there. But we've seen pretty strong demand across the board.

Jeffrey M. Silber

Analyst, BMO Capital Markets Corp.

Q

Okay. And if I can get back to what you talked about on the teacher shortage, can you just remind us how easy or difficult it is for you to transfer teachers again kind of across straight lines? And do you have a large number of international teachers that teach your US students?

James Jeaho Rhyu

Chief Executive Officer & Director, Stride, Inc.

A

Yeah. So I'll answer the second question first. We do not have an international sort of teacher pool that we draw from. I know there are other companies out there that do that. We have not headed down that path to-date. And so far, at least all of our teachers really we try to keep this as domestically managed as possible.

The teacher shortage is – definitely, it's across the board. We did see some specific concentrations in some of our larger states like California or Texas. And so – but it is a really pretty broad spread teacher shortage across the US. And I think if you do any of your digging into this independently, you'll see that – I mean this is a widespread – all the brick-and-mortar school districts are dealing with this. It was actually – there was a teacher shortage pre-pandemic. The pandemic exacerbated. A lot of teachers are reluctant to go back.

I think long term, it's actually just a great opportunity for us. We do not – I think to your first question, we do not though do much in the way of sort of cross-state pollination. As you know, in many states where you have to be certified, we have limited numbers of cross-certified teachers and things like that. So, it is something we need to work through because we do have some teachers that are cross-certified. And of course, there, we can use them. But we – obviously, we are very strict on our compliance requirements in ensuring that we manage to the compliance requirements in each state.

Jeffrey M. Silber

Analyst, BMO Capital Markets Corp.

Q

Okay. Great. I'll jump back in the queue. Thanks so much.

Operator: Next question comes from the line of Jeff Goldstein of Morgan Stanley.

Jeffrey D. Goldstein

Analyst, Morgan Stanley & Co. LLC

Q

Hey, guys. Good evening. On the Career Learning enrollments, was growth there in line with your expectations coming into the year? I know initially you didn't expect a large COVID-driven impact there, but do you think that came into play with student retention at all? And then I guess looking forward, is there any change to how you see the long-term enrollment trends in that business?

James Jeaho Rhyu

Chief Executive Officer & Director, Stride, Inc.

A

Yeah. I mean I think, Jeff, that the nice thing on an absolute basis is that retention in our career programs tend to be a little bit higher than our General Education program. So that obviously helps the trajectory of the enrollment business and just the mathematical sort of law of large numbers when you – we have a smaller business, it actually helps retention as well. So those kinds of things do help.

I think that, though, we were – I don't think we were surprised by the trajectory of this business. I think we continue to see all the research that we do, suggesting that the demand for these kinds of programs is just growing. And so I don't, in fact, think that we're surprised. I think the trajectory can continue. In fact, I actually think longer term it gets better because the one thing that I don't think we do a great job yet of is tapping the vein of the career-specific, interested families. I think we continue to sort of tap the vein of the more General Education families that do have an interest in career programs, and they opt into that program. But I think we can do a lot more into tapping into career-specific families that are looking for programs like ours, and I think that we've got a lot of upside in doing a better job of that. So I think the trajectory can certainly continue.

Jeffrey D. Goldstein

Analyst, Morgan Stanley & Co. LLC

Q

Okay. Perfect. And then you mentioned General Education revenue per enrollment being higher than last year. But I guess given the nearly 10% growth in the first quarter, is there something that will temper that growth rate for the remainder of the year or maybe – or did I misinterpret that and a number like 10% is the right run rate going forward? Maybe just help me with the trajectory for the remainder of the year and what's behind that. Thanks.

James Jeaho Rhyu

Chief Executive Officer & Director, Stride, Inc.

A

I think generically speaking, we're seeing this year, it's not – there's – it's not a Q1 thing. We're seeing this year we will see higher per person revenue or per enrollment revenue funding throughout the year. Of course, there's always a little bit of sort of give or take during the course of the year. But it's not going to go 10% this quarter and then down to 2% next quarter. So it'll stay in that range. We expect it at least to stay in that range through the year.

Jeffrey D. Goldstein

Analyst, Morgan Stanley & Co. LLC

Q

Okay. Thanks a lot. Appreciate it.

Operator: Next question comes from the line of Stephen Sheldon of William Blair.

Stephen Sheldon

Analyst, William Blair & Co. LLC

Q

Thanks. Hi, James and Tim, and congrats on the results here. Yeah. First, I think it'd be great just to get some updated thoughts. You mentioned a little bit in the prepared remarks. But just your ability to launch programs in new states over the next few years especially with some of the favorable trends you're seeing and accepting public vouchers. What opportunities do you think there could be in expanding the new states over the medium term?

James Jeaho Rhyu

Chief Executive Officer & Director, Stride, Inc.

A

So, I think in the short to medium term, there's a lot of opportunity. And I'm going to say this sort of – [ph] I don't mean (26:49) to get too far, maybe out of my own [ph] swim lane (26:51) here, but I just think given everything that's going on over the past two years in this country, I'm just disappointed in those politicians who are still resisting giving the kids in their states opportunities for virtual programs like ours. I just think it's a disappointing – it's just disappointing to me. And I think that the families out there that we hear from, it's disappointing to them as well.

I think from a new state opportunity perspective, I do think that there are a small handful of states that we can see we will get some traction in. We already know Georgia is going to come online next year. States like Kentucky, West Virginia, we see good traction in those states. New Hampshire, we see some early traction in that state. So I think that there is in the short to medium term some good conversations we see happening. And again, I just think that – you mentioned voucher programs, I think when you throw in things like the voucher programs which will really help our private pay business more, but I think when you throw those kinds of things in, I think that there's a lot of states who are – they're just considering ways that they can offer more choice to their – to the families in

that state. And I just – again, just given what we've been through in the past 18 months, I can't see how you can't do that.

Stephen Sheldon

Analyst, William Blair & Co. LLC

Q

Got it. That's helpful. On the guidance, I think in the past couple of years, you've seen quarterly absolutely revenue relative to the first quarter of the fiscal year either remain steady over remaining quarters or increase some. It seems like – and there's – acquisitions might be playing some of that, but it seems like they're assuming some slight moderation over the rest of the year right now. So I just want to ask how much of that is conservatism. Is there anything you're assuming especially in terms of in-year retention rates that may be different relative to what you've historically seen, just any detail there?

Timothy J. Medina

Chief Financial Officer, Stride, Inc.

A

As with any year, we have – we always have some variability in our quarter-to-quarter revenue. And this year, we saw an increased enrollment that was impacted by the COVID variants, as James talked to. And since this does introduce some more risk in our retention, we're being a little bit conservative in our forward estimates.

Stephen Sheldon

Analyst, William Blair & Co. LLC

Q

Got it. That's helpful. And then just lastly on the middle and high school Career Learning enrollment. I know you're going to see many more students graduate from those programs over the coming years. But for those that have graduated, what can you share about what those student – what those students are frequently doing post-graduation in terms of entering the workforce, continuing into other forms of higher education? And what do their outcomes look like even though I know it's probably a somewhat small sample size at this point?

James Jeaho Rhyu

Chief Executive Officer & Director, Stride, Inc.

A

Yeah. I think in your last comments the most relevant is just in terms of the number of actual absolute graduates that we've been able to track. The sample size is still pretty small. We advocate very strongly, even in our career programs, that we want one of three outcomes for each of our graduates. We want them either going to an employment path, going to further [ph] education (30:06), or doing some enlistment in the military, and we think that they're all three very viable.

And by the way, we advocate the exact same for our non-career high school students. It's actually no different. And so what we – early returns that we see from our career graduates are that they are, in fact, motivated to go down one of those paths. I think we have pretty good success in getting them down into that path. I think we're going to continue to invest behind our sort of [ph] counselor (30:38) program and making sure that we provide the right kind of counseling and advice to these kids. But too early to tell sort of definitively from a data perspective.

And as you may know, for those of you who are on the call that have graduated high school and/or college, I suspect that many of you don't know or don't keep in track with where your classmates are today and your schools have had difficulty to do that. So, the data is always a little bit tough to get at. So, we're working hard to figure out a way that we can really have good solid data around it, but the early returns certainly look good.

Stephen Sheldon

Analyst, William Blair & Co. LLC

Q

Great. Thank you.

Operator: Next question comes from the line of Alex Paris of Barrington Research.

Alexander Paris

Analyst, Barrington Research Associates, Inc.

Q

Hi, guys. Thanks for taking my call. I'd add my congratulations to the better than expected first quarter results and the strong start to the year. I just have a couple of questions. So enrollment was better than expected, particularly in Stride Career Prep, versus my model, obviously driven by – demand driven by Delta variant, clearly a tough comp. Just wondering are there any new programs in the mix that account for that enrollment in managed schools on the General Education side? I believe you have some new schools on the Stride Career Prep side this year.

James Jeaho Rhyu

Chief Executive Officer & Director, Stride, Inc.

A

Yeah. We actually – so, we didn't really have a lot of new programs this year, meaning fiscal year 2022, on the Career side. We're talking to all our clients about starting programs, and I think we still have some new programs that over the next couple of years, we will be opening. But it's a pretty good year-over-year comp for us, I think, in the sense that a lot of that growth was in fact not from new programs. Now, that's a little bit of a double-edged sword. I mean, I actually wish we had a couple more new programs than we did, but I think most of, if not, all of the programs that we have or states that we're in, they're interested and we just sort of work through all the mechanics and the logistics of getting them up and running. So, I actually think that the comp is pretty good and the upside is pretty good in the sense of we have a fair number of programs where we can still enter into in states.

Alexander Paris

Analyst, Barrington Research Associates, Inc.

Q

Got you. I appreciate that. You've talked about the teacher shortage several times on this call. It's been in the news. I'm wondering can you quantify the impact on enrollment due to the teacher shortage. I'm sure you left some families unable to enroll given the teacher shortage. What are your thoughts there? Any additional color would be helpful.

James Jeaho Rhyu

Chief Executive Officer & Director, Stride, Inc.

A

Yeah. I don't want to quantify it for you exactly, but I will give you a little bit of sort of – a little bit of stats here. For sure, we could have topped last year. Pretty sure we would have topped 200 if we could. We were several, if not, more hundred teachers short. So, you sort of can do the math on our ratios and stuff like that and back into a round number. But it's not insignificant and we are working very hard to try to make sure that we can get as many teachers filled as we can. But we also want to make sure that we do the right thing here. So it's a delicate balance and we're working hard to fill the need, but we do have the shortage.

Alexander Paris

Analyst, Barrington Research Associates, Inc.

Q

And contributing to the teacher shortage is vaccination requirements. I'm in Chicago, so it's in the news every day. Your teachers are obviously remote teaching. But do you have any vaccination requirements for teachers in certain states or in general?

James Jeaho Rhyu

Chief Executive Officer & Director, Stride, Inc.

A

So by and large, we do not. And when I refer to, I think, sort of long-term benefit to us about what's going on, I think there's a lot of that, whether it's a vaccination requirement that some teachers are maybe reluctant to meet where they don't have to meet with us, whether it's the fact that kid that they're teaching – kids in a classroom that aren't yet able to be vaccinated, I think that long-term trend plays well for us. I think it's the way that many school districts in the brick-and-mortar sort of realm have handled remote learning and their teachers during the past 18 months. I think that plays into it. And we see a lot of dissatisfaction, and we want to provide our teachers, teachers that we manage a safe work environment. I think we do that. We are providing them great professional development opportunities, I think, to teach in a way that is modern and will reflect where the education industry is going to go ahead. So I think there's just a lot of benefits that we provide for our teacher population, and I think that trend is going to work in our favor over the next several years.

Alexander Paris

Analyst, Barrington Research Associates, Inc.

Q

Makes sense. And then, I guess my last question is on revenue per enrollment, kind of following-up on a prior question, General Education, it was up 9.7%, Career Learning, up 7.9%. I assume that has to do with state-to-state and mix and so on. But I was kind of going into this year assuming that you'd have a 6% to 7% increase in revenue per enrollment this year, making up all that you lost last year due to COVID-related budget issues and that sort of thing. So given that we're more in the 8% to 10% range, are revenue per enrollment coming in higher than you had previously expected?

James Jeaho Rhyu

Chief Executive Officer & Director, Stride, Inc.

A

So, I think the Delta might be – I don't want to get into too many specifics here, but in a previous call, I think we've talked about that we're not going to see – or we, at that time, I think we didn't see a significant amount of ESSER money coming, and we still don't. But there is a little bit of that, there's a little bit of mix, there's a little bit of stronger enrollment funding trends. So, I think it's sort of an accumulation of things. It's not, I don't think, one thing in particular that we can point to. But the general tailwind, I think, is there, and I think that state governments are trying to make sure that these schools get funded. And I give a lot of states a lot of credit for really trying to do the right things here in this environment. So, it's really a shout-out to a lot of the state governments who have, I think, really done a great job.

Alexander Paris

Analyst, Barrington Research Associates, Inc.

Q

So just in conclusion, is 8%-plus sort of a better number to use than 6% or 7% for fiscal 2022?

James Jeaho Rhyu

Chief Executive Officer & Director, Stride, Inc.

A

Yes, for this year, for sure.

Alexander Paris

Analyst, Barrington Research Associates, Inc.

Q

Okay. Good. Very helpful. Again, congratulations on the quarter and setting up well for fiscal 2022. Thank you.

James Jeaho Rhyu

Chief Executive Officer & Director, Stride, Inc.

A

Thanks, Alex.

Operator: [Operator Instructions] Next question comes from the line of Tom Singlehurst of Citi.

Thomas A. Singlehurst

Analyst, Citigroup Global Markets Ltd.

Q

Yeah. Good evening. It's Tom here from Citi. Thanks for taking the questions and congratulations on the results. First question is on share. I mean, obviously, with – you're sort of dealing with the sort of hiatus from last year. But do you think you actually took share of the sort of the virtual school market, if that's right where I'm putting it? I'm just sort of comparing and contrasting what you guys have said relative to Pearson who looked like they weren't necessarily as robust in enrollment performance. That would be my sort of reading of what they've said. So, that was the first question.

And then, secondly, they had talked about revenue per enrollment coming down, albeit, I think, they did indicate that that might be down to a mix of states. I was just wondering what the sort of the growth profile across different states is doing to your revenue per enrollment, i.e., would the revenue per enrollment have been even better on a different sort of pattern of demand across different states. Those are the two questions I was going to start with, and I've got maybe one follow-up. Thank you.

James Jeaho Rhyu

Chief Executive Officer & Director, Stride, Inc.

A

Yeah. I mean, I think the market share question is one that is – it's a little bit hard because so many programs, whether the brick-and-mortar programs or whatever, have sort of spawned over the past year or so. But I think when you're talking about sort of like-for-like full-time virtual programs, like the ones that we offer, it does look like, if anything, we're either holding or gaining a little bit in share. So, I don't know that it – I don't know how dramatic it is. And again, it's a little bit confusing because of the number of brick-and-mortar programs that have been still running, and so – and there's a lot of sort of in and out in that. So, I think that that market share question is we're certainly – I don't see – we can't say anything that we're losing share against sort of like-for-like competitors.

On the funding side, I think that the funding for us, at least, we did have, I think, a mix this year that was, I want to say pretty comparable to last year, with one slight benefit in – if you may remember, California last year was sort of artificially depressed. They have pretty decent funding. We were able to enroll a little bit more in California this year, although California is also a state where we had to cut it off because of the teacher shortage. So, California state has tremendous demand and it's a great state. A lot of families really want this choice, and – but we couldn't serve all of it. So I think that from a mix perspective, we sort of tread water this year, by and large, and I can't speak to what other competitors' mix was. But I think for us, at least, we pretty much tread water.

Thomas A. Singlehurst

Analyst, Citigroup Global Markets Ltd.

Q

Okay. And then, the follow-on, I mean, obviously now, you've got through the back-to-school period. You know what the enrollment looks like. I mean, what have you learned sort of incrementally about the sort of, if I can call it the COVID cohort, i.e., are they fundamentally different in terms of the withdrawal rates, the engagement with the platform or any other sort of insights that perhaps you can offer just about a little bit more information that we're a quarter into the New Year?

James Jeaho Rhyu

Chief Executive Officer & Director, Stride, Inc.

A

Yeah. So interestingly enough, we went into last year actually thinking that the COVID cohorts were going to behave a lot differently than sort of the rest of the population that we normally attract. And what we found out through last year at least was – is that they did not, in fact, behave dramatically different than sort of our [indiscernible] (42:09) normal cohort. We actually expected them to and they didn't. And early returns are this year that, sort of similarly, is that they're just not that much different. I think our programs are engaging. I think families are engaged. I think families are particularly engaged now with COVID. They've gotten sort of paid more attention to online learning. And I think they understand a little bit better the difference between good online learning and bad online learning. I think that helped our retention rate last year a lot. And I think that bodes well for the long term, and that – but whether you're a COVID family or non-COVID family, I think we're separating ourselves a little bit from a lot of other online programs, whether they're brick-and-mortar or other online school programs, and that families come to us, they see the we're the market leader. They understand that our programs are digital-first. They understand that we have well-trained teachers. Our teachers really care about their online learning. Our teachers want to be in an online digital environment. And I think it sort of shows up in the way that they show us in their satisfaction surveys. Their onboarding has been very active. And I think we just had a sort of a program that outshines a lot of the other programs out there.

Thomas A. Singlehurst

Analyst, Citigroup Global Markets Ltd.

That's very clear. Thank you very much.

Operator: And there are no further questions at this time. This concludes today's conference call. Thank you for your participating. You may now disconnect.

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