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Stride, Inc. (LRN)

Q4 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, good afternoon. My name is Abi and I will be your conference operator today. At this time, I would like to welcome everyone to the Stride, Incorporated Fourth Quarter Fiscal 2022 Earnings Conference Call. Today's conference is being recorded and all lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

And I will now turn the conference over to Tim Casey, Vice President of Investor Relations. Mr. Casey, you may begin.

Tim Casey
Vice President-Investor Relations, Stride, Inc.

Thank you and good afternoon. Welcome to Stride's fourth quarter and year-end earnings call for fiscal year 2022. With me on today's call are James Rhyu, 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 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. 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

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obligation to update any forward-looking statements made during this call. Following our prepared remarks, we'll answer any questions you may have.

I'll now turn the call over to James. James?

James Jeaho Rhyu

Chief Executive Officer & Director, Stride, Inc.

Thank you, Tim, and good afternoon, everyone. On the heels of completing another tough school year for many, we are already in the throes of what is shaping up to be the third school year with a heightened sense of uncertainty. This is in the backdrop of broader macroeconomic and geopolitical challenges and the COVID pandemic is not yet in our rearview mirror, all while we have entered into a period of economic uncertainty that we have not seen for over a decade. And inflation is pacing at its highest rate in over 40 years.

Employment remains strong and the labor market is extremely tight. We also faced the dilemmas of gun violence, extreme environmental hazards and the ongoing politicism of education. And yet, I see increasing opportunities for companies like ours. The solutions set we can provide happens to cater to the uncertain world we live in. Our broad set of offerings provide practical alternatives for our younger generation to gain the skills and tools to succeed in life without the burden of increasing college debt.

So we believe we are in a unique moment in our history to help shape an evolving education landscape and invest behind that evolution to build new end markets for our products and services that may not have been available to us pre-pandemic. And in order to do that, we have an amazing team of employees and partners here at Stride that believe in our mission and want to invest in our future. I'm incredibly grateful to all of these folks who work tirelessly on behalf of the customers and students we serve.

Now, some highlights from this past year. We continue to see strong demand as demonstrated by our enrollment counts this year. In fact, while we began the year 3% below prior year's enrollment levels, we ended the year almost 2% higher. We saw particular strength in both in-year acquisition and in-year retention. In fact, we've now seen improvement in-year retention trends for five straight years.

Awareness for the programs we manage are clearly dramatically higher than pre-pandemic. That translates into high satisfaction, lower churn and better conversion. Meanwhile, the skills taught in our Career Learning programs continue to be in high demand from both students and employers. 89% of employers say they are more likely to hire high school graduates if students have learned real-world skills. Our career programs effectively and efficiently deliver those very skills to our students.

The data continues to demonstrate that our approach to career education remains the right strategy, and we're seeing the results. This year, we topped $320 million in revenue in our middle and high school business, up over 60% from last year as we supported more than 40,000 students. We also continue to see success with our Adult Learning business. We finished the year with an annual run rate of revenue over $100 million and we exited the year seeing growth rates well above 20%.

I also previously mentioned the release of our K-12 curriculum earlier this year and I gave an update last quarter on the improved satisfaction we're seeing in those programs as a result. I'm pleased to tell you that Stride recently won the 2022 EdTech Breakthrough Award for Courseware Solution Provider of the Year for this new curriculum, obviously, a great tribute to the incredible teams behind this and all of the innovation here at Stride.

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Now, for this current fiscal year, it's important to remember that we still have the majority of the season in front of us. So it's too early for us to provide formal guidance. However, there are a few things I want to highlight for this year.

Our General Education business continues to pace well ahead of pre-pandemic levels. We believe the underlying demand for virtual education remains robust, even as the impact from the pandemic has lessened and students have returned to in-person classrooms. For the upcoming year, we opened a new program in West Virginia, and across all of our programs, we're seeing stronger lead and application volumes than last year.

In our Career Learning business, we continue to see robust demand. We've opened a new Career Learning program in Georgia, and we believe that there are significant opportunities for continued growth in our existing programs. We expect that this business will have strong enrollment growth in fiscal year 2023. Our overall cohort of pre-registered students is the largest ever, surpassing last year on a lower starting enrollment number, another data point indicating the strong student and family satisfaction for these programs.

And the teacher shortage remains. Stride is in a unique position to be able to mitigate the impact because we can often leverage our nationwide scale to support students across the country. We also began hiring earlier this year to ensure we can support all student programs.

Inflation is real and we are not immune to its impact. We had a somewhat muted impact this past year, given a large percentage of our costs were locked in, but we will feel some of the pressure in the upcoming year. And the funding environment, while continuing to be relatively positive, will largely lag the magnitude of inflation we are seeing.

We're also beginning to introduce new product and services into the market and we believe these new offerings will allow us to provide online educational options to a broader group of learners. You've probably heard me mention a few of these products over the past year, including a suite of teacher professional development offerings, a career platform for high school students, and a K-12 tutoring platform. All of these products build on our existing assets and allow us to quickly enter new and large markets where we have a distinct competitive advantage or positioning.

Our teacher professional development service looks like they are going to be engaged by one of the five largest school districts from this fall. Our Career Learning platform will be piloted with a handful of new and existing district clients, including another top 10 of the largest school districts in the country. And I'd previously mentioned that while the teacher shortage is acute, we are going to try and find ways to use this to our advantage.

In fact, we have launched a teacher shortage product into the market that enables us to leverage our scale teacher model to help districts with their shortages and we just won a multimillion dollar engagement. I expect more traffic here to come in the coming months and we will build on our wins and learn to also sell fast. The efforts to seed the market with these products that leverage our core capabilities is part of our overall strategy to reach the larger end markets for our offerings.

Our goals are to continue to grow into this fiscal year, but also to begin the expansion of our end markets and take advantage of the tumultuous environment we live in to reach more customers with our products and services. The long-term trends in education, particularly online and digital solutions for K-12, remain strong. The past few years have taught us that while uncertainty remains, I believe opportunity for us is also significant. Our long-range targets remain unchanged and the options in front of us to achieve those targets continue to grow.

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I'd now like to turn it over to Donna Blackman, Stride's new CFO. I know Tim Medina is enjoying his summering retirement and he left us with the most important legacy he possibly could, a transition to a new CFO that has been seamless. Donna has already proved she's more than capable of the task and has become an invaluable partner to me in a short time. She will help me guide this company to some exciting new opportunities.

Thank you. And I'll hand the call over to Donna. Donna?

Donna Meacham Blackman

Chief Financial Officer, Stride, Inc.

Thank you, James, and good afternoon, everyone. I want to start off by thanking James and the entire Stride board for this incredible opportunity to serve as Stride's CFO. I've always recognized the power of education to change lives. So when the opportunity was presented to me, I knew it was the right choice for me, both personally and professionally.

I believe that Stride's focus on Career Learning, coupled with our investments in new innovative products across both General Education and Career Learning will allow us to accelerate our impact on a wider range of learners nationwide. The company has grown tremendously over my two years here as Chief Accounting Officer, and I believe Stride is on an incredible trajectory. I'm excited to help drive the next chapter of growth.

Now, let's turn to our reported results. Revenue for the full fiscal year 2022 was $1.690 billion, an increase of 9.8% over the prior fiscal year. Adjusted operating income was $188.2 million, up 16.6%, and capital expenditures was $67.6 million, an increase of $15.3 million as we invested in new products and services to drive future growth. In each case, these results met or beat the expectations we provided in our guidance last quarter. We're incredibly proud of our results this year as we grew even as learners return to in-person education options last fall.

For the year, General Education revenue decreased slightly to $1.217 billion or 0.5% due to lower enrollments, partially offset by higher revenue per enrollment. Gen Ed enrollments finished the year at 143,200, down 8.6% from last year. However, this was an improvement over the beginning of the year, driven by the strong in-year acquisition we talked about previously. Revenue per enrolment increased 9.7% to $8,104. Given what we know today about state budgets and policies, we expect revenue per enrollment to improve next year, but not by as much as it did this year.

Career Learning continues to have strong growth, reaching $412.9 million in revenue for the year, up more than 60% in the middle and high school line of revenue. Enrollments for the year were 41,900, up 41.6% from last year. Revenue per enrollment was $7,640, up 13.8%. Career Learning middle school and high school revenues came in at $321.4 million. We believe this business will continue to see strong growth in fiscal year 2023 as we open new programs and expand our awareness efforts. We also expect revenue per enrollment to grow in line with General Education.

Adult Learning finished the year with $91.5 million in revenue, up from $55.8 million last year. In the fourth quarter, Adult Learning posted a 32% increase in revenue, another indication of the strong organic growth we are seeing in this business.

We finished the year with gross margins of 35.4%, up 60 basis points compared to last year. We were able to mitigate inflationary pressures this year and we still believe we are on track to achieve long term gross margins of 36% to 39% we outlined in our fiscal 2025 target.

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For the year, selling, general and administrative expenses were $439.8 million, up 3.6% from fiscal 2021. The increase in SG&A was driven primarily by the annualization of expenses for Adult Learning, partially mitigated by a decrease in stock-based compensation expense.

Stock-based compensation expense was $18.6 million, down significantly year-over-year due to the timing of stock-based grants tied to our Career Learning business. We currently expect stock-based compensation expense to increase marginally in fiscal 2023.

Adjusted operating income for the year was $188.2 million, up $26.8 million from last year and exceeding the guidance we issued last quarter. Adjusted EBITDA for the year was $273.1 million. Profitability was driven by continued Career Learning enrollment growth, increases in revenue per enrollment and improving gross margins. Interest expense totaled $8.3 million. We expect similar interest expense for fiscal 2023.

Our full year tax rate was 27.2%, in line with the guidance we provided last quarter. For fiscal 2023, we expect our tax rate will be in line with what we saw this year.

Diluted earnings per share totaled $2.52, up $0.81 from fiscal 2021. Capital expenditures for fiscal 2022 totaled $67.6 million, up $15.3 million from last fiscal year. We continue to invest behind organic growth as we position ourselves for incremental long-term growth in large addressable markets. Free cash flow defined as cash from operations less CapEx totaled $139.3 million. This is an increase of $57.4 million from last year, reflecting the strength of our core business.

Finally, we ended the year with cash and cash equivalents of $389.4 million. We believe that our strong free cash generation and cash position provide financial flexibility to both reinvest organically in our businesses and to pursue strategic disciplined acquisitions.

Now, I want to turn to fiscal year 2023 to provide some high level commentary on the upcoming year. I know investors are eager to get more information on our fall enrollment. However, it is still much too early to predict our fiscal year 2023 enrollment. Therefore, as is the case each year, we will refrain from providing guidance until we report our first quarter fiscal 2023 results in October.

Nevertheless, we do have some insights into the year. As James said, we believe we will continue to grow in fiscal 2023. This growth will be driven by continued strength in our Career Learning enrolments and revenue per pupil increases. However, there are headwinds as inflationary pressures, a tight labor markets and ongoing supply chain issues continue to impact our business.

We expect some inflationary impact to both instructional costs and SG&A in fiscal year 2023. While some of the pressure will be offset by increased funding and continuing efficiency efforts, we made the decision to fully fund salary increases for teachers and employees to ensure consistency and remain competitive in the labor market. This will result in a tightening of our margins in the short-term. However, we believe this is the right decision for our students and employees and will benefit us over the longer term.

We strongly believe in the long-term growth in demand for online education options, both for our full-time programs in General Education and Career Learning and the other new products we have been investing behind. We talked about these investments over the past year and fiscal 2023 will be the first year these products are introduced into the market.

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It's important to note that many of these first deals will be pilot programs at a few select districts. Therefore, we expect revenues will be minimal as we are taking a deliberate approach at launch to ensure long-term success. However, we will incur additional marketing and sales costs for these products, and we anticipate these investments will be largely mitigated by our ongoing efficiency efforts. We want to make these investments now to ensure the long-term success of these new products and we're confident these opportunities will expand our mission impact and addressable market.

To summarize, fiscal 2022 was another strong financial year for Stride and we anticipate continuing to build off the momentum in Career and Adult Learning and beginning to execute on our new product and services in fiscal 2023. This is an exciting time for Stride and I cannot be more proud of the Stride employees who contribute so much to the success of the company.

Thank you all for your time. I look forward to speaking with you more in the future. Now, I'll turn it over to the operator for Q&A. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And we will take our first question from Jeff Silber with BMO Capital Markets. Your line is open.

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

Q

Thank you so much. I just wanted to clarify a few things you said in your prepared remarks, and forgive me if I misheard you. James, I think you said something about the overall cohort being larger than ever. Are you talking about the total cohort, which would be General Education and Career Learning, or was it just specifically just Career Learning and what time period are we talking, are we talking about currently fiscal 2023?

James Jeaho Rhyu
Chief Executive Officer & Director, Stride, Inc.

A

Yeah. So I'm referring to the total overall cohort, meaning both Gen Ed and Career and that cohort was the ending fiscal 2022 cohort that is eligible to reregister for fiscal 2022.

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

Q

Okay. I appreciate you clarifying that. Thank you. And then I think you also used the terms tightening of margins in the short-term. What does that mean exactly? Should we expect the margin percentage to go down, should we just expect it to be flattish or just not as up as we previously seen, again, if you can just tell us what you meant by that?

James Jeaho Rhyu
Chief Executive Officer & Director, Stride, Inc.

A

Yeah. I think we're probably not ready to give specific guidance on margins. I think the comment is that and you're seeing this obviously across all industries, inflation is still both impacting us and somewhat uncertain to a degree impact. And at the same time, I think, as Donna indicated, we are doing things to offset the impact of inflation, i.e., really trying to drive efficiency.

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And so I think in the short-term, we do think that we could see some marginal impact of inflation, not ready to quantify right now, but clearly inflation, when two-thirds of our cost base is compensation related and in a tight labor market and everything else that everybody has going on in the country, obviously it's going to have some impact on us.

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

Q

Okay. It's fair enough. If I could just sneak in one more.

James Jeaho Rhyu
Chief Executive Officer & Director, Stride, Inc.

A

Sure.

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

Q

In slide 10 of your presentation, you show your fiscal 2025 financial outlook and you compare it to the results that you just incurred for fiscal 2022. If I look at the General Education revenue line, you're already above the low end of your long-term target, which is great. But I'm just curious, why – do you think you're going to be flattish? Would it be down over the next three years? If not, why not increase the low end of that target? Thanks.

James Jeaho Rhyu
Chief Executive Officer & Director, Stride, Inc.

A

Yeah. So it's a great point, Jeff, and I think we put these out, whatever [ph] to (00:24:46) November to go and we sort of want to keep them where they are for now, given just a lot of uncertainty that we see in the marketplace. We're clearly – our objective is to continue growing in both General Education and Career Learning. And on our current trajectory, we think that we're going to clearly be within the range that we've indicated here. The fact that we're already in the range and I think we're going to trend better over time mean that we'll continue to be in the range. And at the appropriate moment, we will obviously update this. But I think for now, just given all the uncertainty in the market today, we just want to be sort of extra cautious.

Jeffrey M. Silber
Analyst, BMO Capital Markets Corp.

Q

Okay. I understand. I'll get back in the queue. Thanks so much.

Operator: We will take our next question from Stephen Sheldon with William Blair. Your line is open.

Stephen Sheldon
Analyst, William Blair & Co. LLC

Q

Hey, thanks. Congrats on the results and on the new role, Donna. Wanted to ask about the teacher hiring commentary and I think you said that you're kind of hiring earlier than normal to meet anticipated demand. Any rough sense in how much your teacher capacity at this point is up relative to last year? And maybe some more detail on where you're having some success on the recruiting side, are you still recruiting in the same channels as you have historically or are you kind of widening where you're recruiting from?

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James Jeaho Rhyu
Chief Executive Officer & Director, Stride, Inc.

A

Yeah. Hey, Stephen. I think, so what I'd say is that the way that we onboard and hire teachers is it has multiple facets to it. First and probably the most important is, at the end of each sort of year, each school year, we're looking to re-contract with our existing group of teachers. Now, that in the previous two years because of, I think, greater uncertainty around how our enrollments were going to play out, that created some real stress on our system, particularly in the first year of COVID, when we saw the spike happened and that spike happened at a time that was fairly sort of, I'll say, late in the "hiring season" and we had a lot of catching up to do.

The second year, still some level of uncertainty and the teacher shortage sort of I think helped exacerbate some of the difficulties. This year, we had a strong, I'd say, teacher base to make offers to and we started earlier in towards in terms of our hiring practices. The general channel that we use are still largely the same. I won't get too much about all the channels that we use around teacher hiring, but they are largely the same. Obviously, we use third parties and things like that to help us. But we've been much more successful this season than we have in the past. And I think it's a great credit to the team, but it's also, I think, just a credit to the overall culture we're trying to build and the satisfaction that we're trying to drive within not just the students and customers that we serve, but within the overall teacher community that we serve.

And we think that we have ongoing opportunities with, as you hear, the teachers sort of more broadly across the US, they want more options. And I think that – and this is in no way, shape or form intended to be disparaging to any other opportunities that a teacher would have. But I think we do offer some different in opportunity for teachers who may want a different type of environment, a different type of flexibility than what our current teaching could offer them. So I think sort of the long term trend for us, while the teacher shortage may still continue to be acute over the next several years, is that in our position I think we have some really nice opportunity to take advantage of the marketplace and teacher hiring.

Stephen Sheldon
Analyst, William Blair & Co. LLC

Q

Got it. That's helpful. And then just as a follow up on the Adult Learning side, really nice sequential step up in revenue there. So I would love to get some more detail on what's driving that growth and the puts and takes between the different assets in there. And then I guess, how are you thinking about the potential growth in that business as you think about the next few years?

James Jeaho Rhyu
Chief Executive Officer & Director, Stride, Inc.

A

Yeah. I mean, listen, I mean, generically speaking, we have two pillars of our Adult Learning. We have sort of the technology skills side, and then we have the allied healthcare skills side, and both experienced nice growth heading into the end of this past year and I know you have to be a little bit careful because the accounting messes up the first half of the year. So, our actual reported growth is much higher than actual organic growth just because of the way the year-over-year accounting work. But I think in the back half of the year where you saw true organic growth, I think Donna mentioned, you saw that 30% type of growth trajectory and we're seeing strength in both the technology skills training as well as the allied healthcare skills training.

We see – and in every cycle, this normally does happen. You see other providers will talk about this, is that in periods of recession, people tend to want to get re-skilled. I think we are seeing some nice demand because of that cyclicality within the economy and I think we're going to continue to see strong demand for both of those

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verticals. And what we saw earlier this year when unemployment was, I think, north [indiscernible] (00:30:13-00:30:30) and people want to be skilled in those areas and they see career trajectories in those areas.

So, I think we're pretty well positioned and we're actually looking to expand. We're going to try to expand our footprint in terms of the types of offerings in allied healthcare, for example, we have about 30 certificates in the allied healthcare sphere. There's about 60 certificates that could be offered. And so you'll see us sort of expanding our footprint a little bit over time. And I think as Donna mentioned, we're always on the hunt for good acquisitions, have the balance sheet to do that if they present themselves.

Stephen Sheldon
Analyst, William Blair & Co. LLC

Q

Great. Thank you.

Operator: [Operator Instructions] We will take our next question from Greg Parrish with Morgan Stanley. Your line is open.

Greg Parrish
Analyst, Morgan Stanley & Co. LLC

Q

Hey. Good evening. Thanks for taking my question and congrats on the very strong result. Just want to unpack the revenue per enrollment and you both talked about it a little bit, but I guess we're going to be up, but not at the same magnitude as inflation. And I guess does that roll forward to 2024 then, I mean is the right way to think about it as maybe we'll have two years sort of above the sort of long-term framework that you have, but below current inflation?

James Jeaho Rhyu
Chief Executive Officer & Director, Stride, Inc.

A

Yes. So, yes, this was a little bit tricky for a number of reasons that I'll try to unpack a little bit for you here. But revenue per enrollment, obviously, had a number of factors that play into it, one of which is the overall funding environment, the other of which is obviously mix. There is a third element for our business that is essentially yield or capture element, meaning of every 100 students that you educate, ensuring that you capture the high yield across those 100 that has to do with the way states, different states get their sort of reporting for funding and so there is also the sort of yield component to it.

And we focus on improving across all three, meaning that we're obviously out there trying to convince policymakers to ensure that the funding in our program keeps pace with at least inflation and certainly with other funding mechanisms. We're always optimizing our mix, but we're looking to obviously take advantage of growth – long term growth trajectory that may in the short-term hurt our mix. And obviously, within the yield component, we're doing everything we can to improve engagement, which generally leads to higher yield.

In the funding environment, particularly, we've consistently seen over many, many years that funding for our programs on average continue to increase at a couple of percent a year. Again, mix and other things will change that dynamic in the actual reported per pupil revenue amount. What we see for this coming fiscal year, fiscal year 2023, is that the overall funding environment continues to be strong, consistent with prior years, i.e., couple percent, which does lag, obviously, inflation.

Now, it's our belief that over time we'll catch up. However, there's a big caveat to that, which is it is at the discretion of each state and subject to the funding in each state as sort of a tax based flow. And so as if we enter

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into a prolonged recession and if those state tax bases become under pressure, we still believe that legislators will allocate disproportionate amounts of funding to education, but it could put some pressure on the funding environment going into 2024.

So, that's why it's hard to tell really without understanding where the tax revenues will come in for this coming year and sort of we're going to enter into any prolonged type of recession. But absent sort of those negative pressures, we do believe that there will be some lag, but a catch up because our programs educate kids just like any other and we should, I think rightfully as funding for education generally will climb with inflation that we will also be a beneficiary of that and we hope that the legislators will see it that way and obviously will fund it that way.

Greg Parrish
Analyst, Morgan Stanley & Co. LLC

Q

Okay, great. Yeah, that's very helpful color. And then just sort of sticking with sort of macro and recessions, as you're talking about it, can you talk about the Career Learning businesses, I guess both of them, and I mean, we haven't really – these are sort of newer assets to you. We haven't really seen how these perform and it's a little bit different funding dynamics. How would you expect them to perform in a recession, do you think they hold up as well as Gen Ed, sort of what are the differences, what are the puts and takes there?

James Jeaho Rhyu
Chief Executive Officer & Director, Stride, Inc.

A

Yeah. So, I think I'm going to actually going to talk about three things. I know you mentioned sort of the two, correct, and I referenced earlier on the adult side, the allied healthcare and the technology career ed pillars. And I do think that particularly in the verticals in which we operate, they will hold up well in a recession. I think in previous recessions, we sort of see particularly healthcare and technology hold up pretty well. I'm not going to certainly speak for other providers, but I think just sort of generally in the markets, you see generically people talk about getting re-skilled in recessionary times and I think that that holds up if we head into another recession, prolonged recession here. I would expect that to hold up.

I'll talk about also a third pillar, which is our high school career program. And in fact, I may be the most bullish about our high school career programs because long-term, recession or not, high school kids need to get skilled while in high school and we, I think, have actually seen now tipping points where we see employers increasingly over the past year or so get on the bandwagon of opening their doors to high school graduates, increasingly looking for high school graduates with skillsets and also increasingly looking to allow for skills to be hot, trained and ladder up while in employment. And I think that bodes really well for the trajectory of our high school programs, which is really looking to enable those kids [indiscernible] (00:37:06) ladder with employers and I think it's really going to be an employer-driven gift, if you will, in the marketplace.

And I think that a combination of factors, but the tight labor markets over these past couple of years I think has really opened their eyes and everybody agrees that the student debt crisis is unsustainable. So, you have these confluence of factors and I think that we play really well into that confluence of factors, and I think you're going to see that not just in the career programs that we've had over the past few years, which has been very successful, is that we will be launching additional programs and platforms. I mentioned in my comments, we've got a new career platform that we're going to piloting here in the fall with very large school district, one of the top 10 school districts in the country, and I think we're going to get great traction with that as well over the coming years. So, I think all three of those elements, if you will, or pillars of our career strategy do bode well to do well if there is a prolonged recession or if they are not.

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Greg Parrish
Analyst, Morgan Stanley & Co. LLC

Q

Great. And I'll just sneak one more in here, if I can. Just wanted to ask about M&A. You have sort of a bit of a war chest built up and you are investing internally pretty aggressively here. I guess from the external aspect, I guess I'll ask in two ways, sort of what are you seeing in terms of valuations? Have they come down enough? Is there still sort of a disconnect? And then sort of the second aspect is sort of what's your plan, are you still sort of digesting the acquisitions that you made over the last couple of years or are you ready and able to attack the market when you see an opportunity?

James Jeaho Rhyu
Chief Executive Officer & Director, Stride, Inc.

A

Yeah. So I'll address the second piece of that first and come back to valuations. But I think we're ready and able right now to do a deal if we see one attractive in the marketplace. I think that we're always on the hunt. I think we want to retain a level of discipline and diligence around how we do them. I think the past couple, the MedCerts and Tech Elevator ones, had actually performed very well. And I think in that model [indiscernible] (00:39:22) deals of that ilk and we're always looking.

But, goes into the first part of your question on valuation, clearly, at least from what we see, valuation expectations in fact have come down. However, and we were looking at – I was talking to a third party a couple of weeks ago about an asset that was in the market, it was actually a career related asset. The valuation expectations were in and around 10 times revenue. They were marginally profitable, the marginally profitable asset and [indiscernible] (00:40:02) valuation expectations have come down and [indiscernible] (00:40:07) somebody over there. But they've come down to about 5, 7 times revenue, which frankly is not a price point that I think that Donna and I are willing to pay.

So while I do think they've started to come down, I'm not sure that in the types of assets that we're seeing, they've come down far enough for them to make financial sense to us. So there would have to be an overwhelming strategic opportunity to overcome what I think are still some elevated prices in the marketplace today, but we'll still continue to look. I want to be careful. We will be – continue to be very disciplined about how we look, but we will still be active in our search.

Greg Parrish
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thanks and congrats again.

James Jeaho Rhyu
Chief Executive Officer & Director, Stride, Inc.

A

Thank you.

Operator: [Operator Instructions] And there are no further questions at this time. Ladies and gentlemen, this concludes today's conference call, and we thank you for your participation. You may now disconnect.

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