Stride, Inc. NYSE:LRN

Earnings Call

Tuesday, January 24, 2023 10:00 PM GMT

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Call Participants

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Stephen Hardy Sheldon
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Thomas A Singlehurst
Citigroup Inc., Research Division

Presentation

Operator

Good afternoon, ladies and gentlemen. Welcome to the Stride Second Quarter Fiscal 2023 Earnings Conference Call. [Operator Instructions] And please be advised that this call is being recorded. [Operator Instructions]

Now at this time, I'll turn things over to Mr. Tim Casey, Vice President of Investor Relations. Please go ahead.

Timothy Casey
Vice President of Investor Relations

Thank you. Good afternoon. Welcome to Stride's second quarter earnings call for fiscal year 2023. 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 in the Stride's 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 filing. 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 made during this call.

Following our prepared remarks, we'll answer any questions you may have. I will now turn the call over to James. James?

James J. Rhyu
CEO & Director

Thank you. Good afternoon, everyone. I say this now for the past couple of years that part of our ability to succeed longer term is dependent on the macro environment providing a tailwind for our products and services. A survey that was released just last week found that more than half of all parents have considered a new or different school for their child over the past year. As families we continue to see a need for us more and more are aware that our programs offer that alternative. And certainly, awareness for virtual programs like ours increased dramatically since the pandemic. And we don't see that reversing. In addition, families are increasingly engaging in their child education in ways just a few years ago we didn't see.

Parent activism on their child new app, whether it be for philosophical, safety, religious, medical or any other host of reasons are on the rise. That will not fall enrollment numbers, it was disappointing to us. We've also said we saw increasing in-year demand in the early days of October. Well, that continued with us through December, and we ended the quarter with over 180,000 enrollments, up from 174,000 enrollments at the end of September. And in the first few weeks of January, we are continuing to see strong demand and growth.

That Q2 enrollment growth is the largest enrollment gain this company has ever experienced. So we went from being down 8% year-over-year at the end of September to now being down to 4%. A number of factors are contributing to these strong results. In-year demand remained strong during the quarter, and we're seeing record levels of retention of existing students. Once families come to us, they are staying in our program longer.

We're seeing many students' families continuing to explore their options throughout the year, not just at the beginning of the year. Same survey I mentioned before, which was conducted at the beginning of January, down to 26% of all parents are currently considering a new school for their children. And this sentiment is reflected across our enrollment profile. Leading application volumes remain strong. Referral and returning customers are also trending favorably, beating the number of customer referrals from existing or prior customers. Other customers had always been a pretty significant part of our business and continues to trend very strongly. And many customers would have either been in a program before who have looked at a program but isn't enrolled are reconsidering at very healthy rates.

So clearly, the market is not getting an alternative [indiscernible]. This is at a time when our position as an option for students and families has never been so important. The schools we manage and the partners in our network had worked hard to ensure we provide availability and access. Our programs offer as much flexibility as possible. As a result, we're seeing more students choosing Stride during the school year.

So I believe, long term, our core full-time educating offering, both general education and career education, are on solid footing and on a growth trajectory for years to come.

We're also beginning to make some progress into expanding our product and service offerings. This year, we successfully launched a number of new product pilot programs. We have a number of districts, both large and small, signed up for our updated career platform pilot that began during the past fall. And our next version of the platform is very easy to explain. We also have secured contracts with districts for our upgraded teacher and professional development platform, and we've successfully rolled out our tutoring platform to a couple of test districts.

Our new professional development product offers on-demand training for teachers based on educational best practice. The platform delivers course in leadership, directional practices, counseling and special programs. This is prudent because we deploy these training modules to the thousands of teachers. We've already trained teachers for our managed programs, and much of it is available now for free.

We're receiving positive feedback on the product so far, and now we're starting to see schools that take us. We secured an opportunity to deliver our professional development platforms, one of the largest school districts in the country. I said last quarter that our goal for the year was to expand on our top line growth and aim to achieve a basically flat year-over-year adjusted operating income. Our revised guidance based on these improving enrollment trends continue to show that these are achievable goals.

A big driver behind this strength is the sustained success in our Career Learning programs. I continue to believe that these programs can have an outsized impact on the continued skills gap and labor challenges this country is seeing.

Our recent study demonstrated finding that 75% of high school graduates do not feel prepared to make college or career decisions after graduation. 72% reported that they were only sometimes are rarely exposed to a variety of career options. Meaning that for many students, it's not just about the ability to do a job but rather exposure to the career itself. And Stride can be a part of fix in this. Our career programs offer students opportunities in 10 industries with over 400 career courses, including career exploration and more in-depth experience.

Students also recognize that schools need to be provided with this important aspect of education. More than 60% of students in the same study feel that it is the responsibility of the school to expose them to these opportunities. [indiscernible] is the responsibility of [family and friends], which can disadvantage many students. Our offering is to close these gaps and provide an alternative to schools who have shifted their focus away from preparing students for their careers.

We also continue to see more companies willing to hire nontraditional candidates. A recent Gartner article on the top workplace prediction expects that the trend towards relaxing formal education and experience requirements and job booking will continue in 2023. This includes employers reaching out directly to external candidates with nontraditional backgrounds, something our new career platform can address immediately. I think we have a unique opportunity in front of us to lead innovation around a number of educational products and services.

That isn't limited to new products. I previously mentioned that we rolled out and approved K-5 curriculum, the time we saw significant improvement in customer satisfaction. Recently, that same product was awarded Children's Home Learning Product of the Year award. This award is the best digital learning products for aged -- children aged 4 to 18. That implied new curriculum design that allows students to work more in development.

On top of that, Tech Elevator was awarded the Adult Home Learning Product of the Year award, which recognizes the best digital learning products for people over the age of 18. These awards confirm our best-in-class product suite and encourage we continue to prudently invest in our future.

I'm also proud of the work environment we are creating in these traditional times. We recently ranked #18 in the top 100 companies for higher jobs by FlexJobs. It's a great part for Stride, our core business are showing strong demand and improving trends with a favorable macro climate at our back. I believe we are on the cusp of having more meaningful success in some of our newer products and services.

Now I'll pass the call over to Donna for a recap of our second quarter results and our updated guidance. Donna?

Donna M. Blackman
Executive VP & CFO

Thank you, James. And good afternoon, everyone. First, let me quickly recap our reported results. Revenue for the quarter was $458.4 million, an increase of 12% from the same period last year. Adjusted operating income was $76.3 million, up $15.6 million or 26%. And capital expenditures was $16.9 million, an increase of $2.7 million.

We are very pleased with the strength in both revenue and adjusted operating income in the quarter. As James discussed, we continue to see strong demand across all of our offerings. This is the first time we have seen enrollment growth from the first quarter to the second quarter.

Average enrollment for the second quarter were 177,500, and we finished the quarter in excess of 180,000. This growth supports our belief that students and families are more aware of the school options available to them. It also gives us the confidence to raise our full year revenue and profitability guidance, which I will discuss later.

Now let me provide more detail on our second quarter results. Career Learning revenue was $183.7 million, up 91%. This strong growth was driven by increasing Stride career prep enrollment and continued strength in our adult learning business. Middle and high school Career Learning revenue was $153.8 million, up over 100%. This was driven by a 58% increase in enrollment and a 29% increase in revenue per enrollment. The quarterly increase was driven by increased funding, some timing impacts and the better-than-expected retention that James discussed.

We continue to see a favorable funding environment. And for the full year, we believe revenue per enrollment will increase just over 10% from last year. This increase is a combination of higher funding, better capture and mixing into higher-funded space. Adult learning revenue in the quarter was $29.9 million, up over 42%. We remain on pace to finish the year with greater than 30% growth in this business.

Quarterly revenue for our General Education business was $274.8 million. The decrease from last year is due primarily to the decline in enrollment we previously outlined, somewhat offset by an increase in revenue per enrollment. Gen Ed enrollments were 111,200, down from 145,600. However, in both Career Learning and Gen Ed, we actually finished the quarter with enrollments that exceeded our first quarter numbers, a phenomena the company has not experienced previously. Revenue per enrollment for Gen Ed increased 17% from the second quarter last year. Similar to Career Learning, we anticipate finishing just over 10%.

Gross margins for the quarter were 37.1%, an increase of more than 100 basis points compared to last year. As we said last quarter, we're seeing a more normal seasonal pattern of our expenses this year in line with pre-COVID years. Additionally, I am pleased to say that we are starting to see some of the efficiencies we discussed last quarter have a positive impact on expenses. However, inflationary pressures

still exist. Given these factors, we now believe we will finish the full year with gross margins that are flat to last year, a significant improvement on what we thought last quarter.

Selling, general and administrative expenses were $102 million, up $11.4 million from last year. Most of the increase is due to scaling our adult learning business and our continued investment in new products.

Stock-based compensation was $4.9 million for the quarter. Adjusted operating income for the quarter was $76.3 million, and adjusted EBITDA was $100.5 million. Interest expense for the quarter came in at $2.1 million, and our effective tax rate for the quarter was 27.1%. And finally, diluted earnings per share totaled $1.19.

Turning to our balance sheet and cash flow items. Capital expenditures totaled $16.9 million, up $2.7 million from last year. Free cash flow was $147.4 million, up $41.7 million from last year. This increase is tied to revenue growth and the timing of receipts from states that regularly pay us on a lag. We expect to continue to see positive cash flow for the rest of the fiscal year. We finished the quarter with cash and cash equivalents of $318.3 million.

Turning to our guidance. For the third quarter of fiscal year 2023, we are forecasting revenue in the range of $445 million to $465 million, adjusted operating income between $70 million and $80 million, and capital expenditures between $60 million and $90 million.

For the full year, we are raising our revenue and profitability guidance and narrowing our CapEx guidance. We now expect revenue in the range of $1.775 billion to $1.815 billion, up from $1.71 billion to $1.79 billion previously; adjusted operating income between $180 million and $200 million, up from $160 million to $190 million previously; capital expenditures between $70 million and $75 million; and an effective tax rate between 27% and 29%.
Thank you for your time today. Now I'll turn the call back to the operator for Q&A. Operator?

Question and Answer

Operator

[Operator Instructions] We'll go first this afternoon to Jeff Silber of BMO Capital Markets.

Jeffrey Marc Silber
BMO Capital Markets Equity Research

Congratulations on the strong results. A few items that you had talked about was an improved funding environment. I know it's too early to give guidance for next year. But can we talk about what you think might happen next year? I know a lot of the states and districts are talking about funding right now in terms of what they expect for next year. So any color would be great.

James J. Rhyu
CEO & Director

I think, generally speaking, the funding environment remains strong. I think, as you know, as you referenced, a lot of states are sort of in session now and over the next several months to finalize what it will actually look like for next year. So anything right now is still pretty premature. In fact, a lot of the states don't even yet know, and there's a lot of back and forth that will go in the state negotiations around funding.

But I think as you also know, some of it will actually depend on how local state economies are projected to be for the next year or so. So they'll take that into consideration as they go through their deliberations. But the early signs are it continues to look pretty favorable.

Jeffrey Marc Silber
BMO Capital Markets Equity Research

Okay. That's great to hear. You also a couple of times mentioned timing. I'm just wondering if we can get a little bit of color. Were there issues in terms of timing from both an expense and revenue perspective in terms of things may be deferred into the third quarter?

Donna M. Blackman
Executive VP & CFO

So there was some impact of timing for both the -- primarily related to our revenue. And so some funding adjustments that we would normally expect to see later on the year, we saw some of that a little bit earlier this year. The other thing, more importantly, is that with respect to our rate. As you know, like last year, our retention ended up being higher than we had forecasted. We were a little bit conservative in our forecast earlier in the year. And so we had a catch-up sort of later in the year. And so when you look at sort of a year-over-year comparison, Q1 to Q2 was an easier comparison versus last year because we had that sort of catch up last year in late third quarter, fourth quarter.

Jeffrey Marc Silber
BMO Capital Markets Equity Research

Donna, I'm sorry, you mentioned the funding adjustment. Can you just explain that again? Is that a benefit in the second quarter, delay further in the second quarter? Roughly how much was it?

Donna M. Blackman
Executive VP & CFO

It's a benefit for the full year.

James J. Rhyu
CEO & Director

Sorry. So Jeff, I think -- and I want to be sort of maybe clear that these happen sort of every year. We always have some level of fluctuation. I think what we're seeing for the full year net-net, it will probably be very consistent with last year. And so I think we're probably in the range last year and this year. Timing is a little bit different, but I think as you see, our guidance suggests that -- we think we're going to end strong. Even though we did get the benefit in this quarter. The back half of the year, we do expect to be very strong.

Jeffrey Marc Silber
BMO Capital Markets Equity Research

Okay. I appreciate that. I can follow up with the details off-line. If I could sneak in one more question. I'm actually at an ed tech conference, and we're hearing a lot about AI, ChatGPT, et cetera. A lot of the folks think it could be a positive in terms of helping them prepare their lesson plans, et cetera, but there's a lot more people would seem to be worried about students abusing tools like this. I'm just wondering if you've seen anything, are you hearing anything? Are you doing anything?

James J. Rhyu
CEO & Director

Yes. So I mean, obviously, sort of the past couple of months, OpenAI has exploded generally. And of course, it has had a lot of press around the education industry and for what it can do sort of in theory around education. And I think it's still too early to really know how it's going to impact the education space. I would say this though. I think early on, people were worried about Google Search as it relates to education and kids being able to ask questions to Google Search and then along comes things like Alexa and things like that, that help solve math problems. There are apps where you can take pictures of math problems and that'll give you the answers. This is not a new phenomenon.

Technology -- the application of technology to assist in, I'll say, generically, educational problem solving is not new. And I think as an industry, we have to -- our job is to ensure that we're teaching our kids critical thinking skills, which cannot necessarily be replicated yet in any of these technologies. And so we're going to continue to evolve our programs, our curriculum to focus on that.

Obviously, to the extent that we're aware of, we do not promote the use of these tools to substitute work. But I think it's very early still on what the impact is going to be. And I think that -- we're certainly not pushing against it. Because just like Google, I just -- I don't think the technologies are going to go away or there's going to be some magical way to stop people from using these technologies. I think we have to lean into it and find ways that we can really adapt with it as opposed to pushing against it. I'm seeing a lot of people in the education industry, I think, as you're referencing, thinking about how to push against it. And that's, I think, probably not how I think about it.

Operator

We'll take our next question now from Stephen Sheldon with William Blair.

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

Really nice work in the quarter. First question here. I just wanted to kind of ask how you've been managing teacher capacity through all this. It seems like enrollments are exceeding your expectations. So just how are you feeling about your capacity if you continue to see strong enrollment demand second half of this year and into fiscal 2024?

James J. Rhyu
CEO & Director

So I think there's sort of good news, bad news to this. I think we mentioned -- we actually were planning for higher enrollments in the beginning of the year, i.e. that meant we were sort of a little over hired in some places. Obviously, this normalizes some of that. So sort of like bad news are always better news now in that situation.

Also, in our situation, unlike maybe a brick-and-mortar environment where you've got 25, 30 desks in a classroom, tough to squeeze in that many more. We can add a few to different classrooms and class sizes, and we have a little bit more flexibility there. We have yet to see across our network significant stress on our system that would be unusual, meaning every year, there's some level of stress in our system. I think you see that across the nation today just with the teacher shortage. So -- but I don't think we see any unusual stress.

And if you think about across 30 different states and 70 different programs, we're talking about, what, 6,000 extra enrollments from last quarter spread across that. Across any different classroom size, you're not really talking about a real significant number. So I think for right now, at least we see it's manageable. It's obviously not a bad problem to have. But we are certainly monitoring it, and we're going to continue to make sure that we're staffing appropriately.

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

Very helpful. Just follow-up, I wanted to ask about -- I think you talked last quarter about some cannibalism from General Ed enrollment switching to Career Learning enrollments. Did that trend kind of continue as we look at the fiscal second quarter? And any rough quantification of how much of a shift that's been as we think about the first half of this year?

James J. Rhyu
CEO & Director

Yes. And I think -- so the short answer is yes, it continues, and I think it's going to continue for some foreseeable future. Because I think the career offering specifically for high school students and for many middle school students, it's so much more compelling because you get all of that general education high school with an extra layer career education on top. So it's sort of a no-brainer, and I think it's going to continue for some time to come.

And I think if you look at, I'd say, largely the growth in career education, you can -- it's -- we -- and we've said this before, we look at it sort of right now in the aggregate because we think it's all sort of -- one, we see 90-plus percent of the funnel for career education is actually generated originally from general education. So we sort of see it as one pool right now. We do hope in the coming years that we will be able to have more distinct pools as we hone in our ability to attract incremental customers for our career education programs, but that has not yet happened. So predominantly, it's still one pool.

Donna M. Blackman
Executive VP & CFO

But it's also worth noting that the growth we saw from count date to date, that growth -- some of that growth came in Gen Ed as well.

Operator

We go next now to Greg Parrish at Morgan Stanley.

Gregory Scott Parrish
Morgan Stanley, Research Division

Congrats on a really strong result. I guess, we talk about enrollment so far in January. I know what happened last quarter, unprecedented. But what are you seeing so far in 24 days? I mean, could potentially third quarter be higher as well?

James J. Rhyu
CEO & Director

So definitely don't want to predict where third quarter is going to end. Historically, third quarter is a quarter that declines as well. And in fact, the third quarter tends to be harder for us because you have the withdrawal that happened and you have less schools that have available spaces to actually backfill those

withdrawals. So just logistically, the third quarter actually is, generally speaking, harder for us than the second quarter.

Having said that, the first 3 weeks of this month, so far, we continue to see strength in our funnel. We continue to see strength in applications and demand. We continue to see growth in enrollments through the first few weeks of the month of the new quarter. But it's going to be hard, I think, to continue that trajectory, at least that we saw in Q2 through the end of Q3.

I don't think it's impossible to grow from Q2 to Q3, but it will be certainly very hard to keep the same trajectory. And if you look year-over-year, sort of the implication is we're sort of -- if we can keep going here, we can certainly get close to some year-over-year good comps.

Gregory Scott Parrish
Morgan Stanley, Research Division

Okay. Great. That's helpful. And then maybe I want to switch to adult learning. Growth accelerated in the quarter. It's 42%, I think, from what I have. And this was in calendar fourth quarter. There was a ton of uncertainty going on in the macro. Typically a slower seasonal month for many out there, and you accelerated. So can you talk about what drove the strength in the quarter? And is that sort of step-up sustainable for the rest of the year?

James J. Rhyu
CEO & Director

Yes. So in the adult space specifically, which is -- which has the 42% growth year-over-year in the quarter, one is I think we're executing well. I've got to give a lot of credit to -- we've got a number of businesses in that, that we have, I think, really strong leadership. They run fairly independently, and I think they're just doing a really strong job.

You may remember that we have one portfolio company in that adult education space, Galvanize, that had been doing poorly. And I think I indicated previously -- in previous quarters that it looks like this is the year we're turning that around. We're seeing that. So that obviously helps the whole portfolio. So I think really strong execution.

The market, I think we've said this also before, generally speaking, in recessionary type of markets, that tends to bode well for adult education. So I think we're seeing a strong macro environment for it. And I think we've got the wind at our backs for those, and we hope certainly to see continued growth.

Gregory Scott Parrish
Morgan Stanley, Research Division

Great. And then just one more for me. I kind of wanted to narrow down here on the revenue per enrollment because I've got a couple of things going on. I understand in the quarter, second quarter, there was some like onetime anomaly catch-up that's captured in revenue per enrollment. So we can't extrapolate that going forward.

But then we said that second half revenue per enrollment is still going to be strong similar to last year. And then to tie it all together, I think you said it was going to be up 10% for the year, I think you said in both. So I guess what I'm missing is, I mean, if second half is strong in revenue per enrollment, doesn't that bring you well above 10% year-over-year? Maybe I'm missing something, maybe it's conservatism given that we don't know what the funding environment is like, but I just wanted to tie that down.

Donna M. Blackman
Executive VP & CFO

So one thing worth pointing out when I talked about sort of the year-over-year comps in that last year, we were more conservative with what we thought would happen with retention. And so as we got later in the quarter in Q4, we had a catch-up because the retention was better than we had anticipated. And so the year-over-year for Q4 will certainly be less than what we saw in the first half of the year.

James J. Rhyu
CEO & Director

So sorry, just following from what Donna said because I think it's a really important point. I think we're seeing -- if you look sequentially, Q1 to Q2 to Q3 to Q4, historically, over the past several years, sequentially, we gained strength in revenue per enrollment through the year. That's -- some of that's really just sort of the conservative nature of our estimates and things like that. And so I think that's appropriate. And so we sort of have some strength through the year.

And I think this year, similarly, we will have some strength sequentially through the year, which does imply, by the way, that we will continue to have double-digit gain. However, I think as Donna is indicating, in Q4 of last year, that sequential strength, if you will, took a sort of a step up in Q4. It makes the Q4 comp harder. So even if we continue to have that sequential strength through Q4 of this fiscal year, the year-over-year comp in percentage terms is probably going to be hard -- to be very high in terms of percentage terms. So I think that's where you sort of get the full year percentage. So there's going to be some dilution, if you will, in Q4 probably in the full year comp in percentage terms.

Gregory Scott Parrish
Morgan Stanley, Research Division

Okay. It's all very helpful. And congrats again on the quarter.

James J. Rhyu
CEO & Director

Thank you.

Operator

[Operator Instructions] We go next now to Tom Singlehurst at Citi.

Thomas A Singlehurst
Citigroup Inc., Research Division

It's Tom here from Citi. Congratulations on the results. The first question I wanted to ask about was market share. I mean maybe I got sort of the wrong way almost. I know I've noticed there some last week indicated that revenue was down for them. And I think overall enrollment fell in the same sort of quarterly period. I'm interested on market share. I know geographically, you don't necessarily map onto exactly the same areas. But within the trends you saw, would you say that there is a share gain implicit in what you've done?

James J. Rhyu
CEO & Director

Yes. So I'm going to answer that -- totally fair question. I'm going to answer it slightly maybe from a different angle than what -- the way you're presenting it. I think that -- the short answer is yes. We, I think, almost by default gain market share, almost irrespective of our growth relative to connections, by the way. And that's for the very simple reason that we're seeing across the landscape of the U.S., virtual programs are getting shut down in brick-and-mortar schools. So therefore, the whole pie is starting to shrink a little bit right now. And therefore, as we sustain or grow, as we've done, our market share sort of mathematically by default will grow.

So I really won't speak to some of the other specific competitors and what they're doing and what they're seeing, but we are certainly seeing strength in our funnel, in our demand, and we see that continuing through the year. We see that the overall macro trends around these programs continuing to be strong. And I think that it will work in our favor as brick-and-mortars continue to sort of either shrink or shut down their programs. So -- but we certainly, I think, we consider that we have gained market share just because of, again, the shrinking overall programs across brick-and-mortar districts.

Thomas A Singlehurst

Citigroup Inc., Research Division

That's great. And then the second question, I mean, obviously, fantastic news that you're looking for revenue per enrollment up 10%. I think previously, it was 7% to 10%, and then potentially gross margins flattish relative to upwards of a 200 basis point compression. I was wondering whether you could just unpack the drivers of those changes again and specifically comment on whether some of that is also a function of just that spectacular sort of enrollment performance across the second quarter that you had actually help coming -- growing the base of having more students in the mix automatically help both of those mixes.

Donna M. Blackman
Executive VP & CFO

There are a couple of things that are happening. So we've got strong funding increase. You've probably heard us talk previously about capture. So we're capturing more of the rate, increase in attendance. There's some mix involved. We also did some pass-through revenue, where we actually have to spend the revenue that we receive. So there are a number of factors that actually impact our rate. But as James said earlier today, it's a -- we're in a strong funding environment. And the fact that we're actually growing in states that pay a higher rate and shrinking in states that pay lower rates, that certainly has an impact on that.

James J. Rhyu
CEO & Director

Also, I want to give some credit. I think the team and Donna specifically, her team has done a really fantastic job. We talked about driving efficiencies in our business, and that was going to be both at the gross margin line and the operating line, and I think we've done that. And so we entered the year in a little bit of a hole, and we dig ourselves out. We committed to digging ourselves out. And while the macro environment has helped us, the enrollment has helped us, we've also driven some efficiency in this business, and I think that also helps. So I think it's a real combination of factors.

Thomas A Singlehurst
Citigroup Inc., Research Division

And if I could just follow up. I'm sorry for being painful. But when you talk about capture, is that the element that's linked to strong enrollment, and therefore, your ability to actually extract the funding that you're expecting? Is that how I should interpret that?

Donna M. Blackman
Executive VP & CFO

So...

James J. Rhyu
CEO & Director

Go ahead. Go ahead.

Donna M. Blackman
Executive VP & CFO

Yes. So part of the capture is if we have a student enrolled and we get the higher attendance or we meet certain criteria for those students, then we actually get the full amount of the PPR. So that's what I mean by capture.

James J. Rhyu
CEO & Director

Captures are our version of a yield metric, okay? And so for every $100 that's available to us, on average, we are able to "capture" or yield $75. We're always trying to yield more, $75 to $80, $80 to $83. And through a number of efforts and -- a lot of that's through engagement, as Donna was saying. There's a lot

of different mechanisms for how that yield plays out. But essentially, it's a yield game that we're trying to improve, and we're constantly focusing energy on how 00to improve that yield. And so I think this year, we're having some improvement in the yield -- essentially a yield metric.

Operator
[Operator Instructions] And ladies and gentlemen, it appears we have no further questions today. So we'd like to thank you all so much for joining us on the Stride Second Quarter Fiscal 2023 Earnings Conference Call. Again, thank you all so much for joining us, and we wish you all a great evening -- good night.

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