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Earnings Call

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Presentation

Operator

Good day, everyone, and welcome to the Stride Third Quarter Fiscal 2024 Earnings Call. Today's call is being recorded. I would now like to turn the conference over to Timothy Casey, Vice President of Investor Relations. Please go ahead.

Timothy Casey
Vice President of Investor Relations

Thank you, and good afternoon. Welcome to Stride's third quarter earnings call for fiscal year 2024. 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 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 J. Rhyu
CEO & Director

Thanks, Tim, and good afternoon. The state of education in the United States continues to evolve, but more importantly, the way parents and students view that education is evolving. Every survey and research I have seen this year confirms that customers want choice. A recent survey by the National School Choice Awareness Foundation strongly supports this. Of those surveys, almost 3/4 indicated that they'd at least considered a new school for their child over the past year, and that is up from just over half last year. Almost 2/3 looked for a new school for their child, and over half said they were likely to consider a different school over the coming year. And the paradigm on college as a default option for students is beginning to show real cracks. In a recent survey of high school students, more students felt that on-the-job training courses leading to licensure and courses leading to professional certifications were a better value than 2- or 4-year college degrees. That value equation between college and skills training is swinging in favor of skills training.

The Wall Street Journal also recently published a number of articles on this trend. They reported that 52% of college graduates are in jobs that don't make use of their skills or credentials. They also reported on the growing trend of Gen Z students entering skilled trades, leaving the traditional college path behind to pursue high-paying skilled jobs. The article cited the survey that showed the growing rise of generative AI has changed the equation when it comes to college with the majority of the respondents saying they saw blue-collar jobs offered better security than white-collar jobs given the growth of AI.

One of the most compelling findings was that the most critical factors for college graduates defining success are the things that Stride can offer at the high school level, a choice of major, internships and getting the right first job. We, at Stride, are delivering tomorrow's education today.

Artificial intelligence also continues to dominate the new cycle in education as well as other industries. We are building a foundation to support our AI efforts and are developing and testing ways to improve

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the customer experience for the teachers and students we serve. Initial feedback is very encouraging. We remain committed to incorporating AI and other technologies into our programs, but we will do so by putting the right tools into the hands of teachers and students to supplement their work and empower all parties.

Now we just finished another incredible quarter. We reported record quarterly revenue, and our enrollments hit a new all-time high of 198,400 students, sequentially higher than last quarter and higher than the pandemic levels of fiscal year '21. Our in-year enrollment growth now for 2 years running indicates that the landscape of education of choice is expanding and more fluid and that the fall is just one indicator of customer sentiment.

Many of you are already wondering about the upcoming fall season, while we are focused on delivering for our customers this year and ending the year strong. If the trends we are seeing in enrollment during this year continue, we've set ourselves up for a strong fall season. Application volumes as a proxy for demand continue to trend strongly, and conversion rate indicators are positive. As of today, we have the largest cohort of reregistering students in Stride's history.

There's still a lot of work to be done before next school year, but we feel we are well positioned to continue to grow enrollments. Given the landscape of education today, I believe Stride represents one of the many emerging trends on the future of education by delivering on tomorrow's education today that is accessible technology driven, flexible, career focused and proven.

With that, I'll pass the call to Donna. Donna?

Donna M. Blackman
Executive VP & CFO

Thanks, James, and good evening, everyone. As James talked about, we continue to see strong in-year enrollment trends in the third quarter. Coupled with our strong retention numbers, we feel comfortable increasing both our revenue and profitability guidance for the full year. We now anticipate revenue growth between 10% and 11% and adjusted operating income growth between 39% and 44%. These growth rates achieved the annual growth rates we outlined in our 2028 target in November.

Turning to our quarterly results. We reported revenue of $520.8 million, an increase of 11% from the third quarter of fiscal year 2023; adjusted operating income of $96.4 million, up 20% from the same period last year; earnings per share of $1.60, up $0.30 from last year; and capital expenditures of $16.3 million, an increase of $1.1 million from last year. Career Learning middle and high school revenue grew 11% to $167.9 million. This performance was driven by enrollment growth of 10% year-over-year and revenue per enrollment growth of 2%. We continue to see enrollment growth in the quarter, up over 1,000 from the second quarter. This is a continuation of in-year enrollment trends we've seen in the second quarter and third quarters over the last 2 years.

In our General Education business, revenue was $328.9 million, up 14% from last year. This strength was also driven by continued enrollment growth in the quarter with average enrollments finishing the quarter up almost 4,000 from last quarter. Revenue per enrollment in the quarter was up 7.5% from last year. As we think about the fourth quarter, it's important to remember that we anticipate enrollment declines from the third quarter high as most of our programs no longer accept new enrollments during the quarter. There is always the opportunity for us to convert these leads into enrollments for the upcoming school year, but we still expect a sequential decline in Q4.

Per pupil revenue continued to be impacted by timing, and particularly for Career Learning, we are going against a strong comp from last year when we finished the year up 16%. We continue to see good funding increases across general and career. However, in any given quarter, these can be impacted by a number of things, including mix, yield and timing impacts from prior year catch-ups that we've previously discussed.

While it's still very early in the process of next year's funding, as of right now, we see an overall positive funding environment at the state level for fiscal year 2025, so not as strong as we've seen over the past 2 years. States are also grappling with the loss of extra funding in the coming school year, which could impact how they decide to allocate funds across all schools. Our Adult Learning business continues to see

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impacts from the slowdown in our coding programs. Revenue for the quarter declined $5.9 million to $24 million.

MedCerts, our allied health programming continued to see strong growth but not enough to fully offset the declines in our boot camps. MedCerts should finish the year with revenue growth of more than 20%.

Gross margin for the quarter was 38.7%, up 140 basis points from last year. We're still seeing benefits from the efficiency efforts we've put in place last year but not as strong on a year-over-year basis as some of these efficiencies took hold in the back half of last year. Importantly, we're not content with those efforts, and we continue to drive improvement in gross margins while supporting strong academic outcomes. For the full year, we still expect to see gross margins improve by 200 to 250 basis points.

Selling, general and administrative expenses for the quarter were $113 million, up 10% from last year. Stock-based compensation for the quarter was $5.3 million. We now expect to finish the year with stock-based comp in the range of $28 million to $31 million. Adjusted operating income for the quarter was $96.4 million, up 20% from last year and our strongest quarter ever.

Adjusted EBITDA was $120.5 million. As with every year, we expect fourth quarter profitability to be less than the third quarter as we begin to ramp up marketing and other spend in anticipation of the upcoming school year. Interest expense for the quarter was $2.4 million. Our effective tax rate for the quarter was 26.1%. Diluted earnings per share for the quarter was $1.60. Capital expenditures in the quarter were $16.3 million, $1.1 million above our spend last year.

Free cash flow, defined as cash from operations less CapEx, was $52.2 million, down from the prior year period, mostly due to timing of cash receipts. We expect fourth quarter free cash flow to be up significantly from last year as a result. We finished the third quarter with cash and cash equivalents of $376.6 million and marketable securities of $194.1 million.

Based on the continued in-year enrollment and retention trends, we are raising the low end of our full year revenue guidance and bringing up our profit guidance. We now expect revenue in the range of $2.025 billion to $2.04 billion, adjusted operating income between $280 million and $290 million, capital expenditures between $60 million and $65 million, and an effective tax rate between 24% and 26%. Thank you for your time. Now I'll turn it over to our operator for Q&A. Operator?

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Question and Answer

Operator

[Operator Instructions] We take our first question from Alex Paris with Barrington Research.

Alexander Peter Paris
Barrington Research Associates, Inc., Research Division

Congrats on the beat and raise. I just have a couple of questions here. First off, well, Career Learning is still growing enrollment faster than General Education. General Education has accelerated, and now the growth rates are kind of comparable. Is that how we should think about the growth rates regarding the respective segments going forward, comparable growth rates now that you've rolled out Career Learning so significantly?

James J. Rhyu
CEO & Director

Yes. I mean, I think, directionally, that's probably right, Jeff -- sorry, Alex. I think the only maybe distinction really is going to be sort of really on 2 levels. One is obviously mix, meaning predominantly our career programs are high school oriented, right? So there's sort of great mix in the shifts. We've seen strength in some of our lower-grade programs recently, so -- but obviously, that can shift and then schools opening, right?

So to the extent that we have new programs opening, we really do try to make sure that they open with career programs, but there are some dynamics that could maybe make that not as even necessarily as we would want. But yes, I think that we see that both of those will continue to grow, and they're going to continue to have strong market dynamics for us.

Alexander Peter Paris
Barrington Research Associates, Inc., Research Division

Speaking of opening schools, what's the plan for fiscal 2025 if you could talk about it, either in terms of new states or new programs and number of new Career Learning programs versus a number of new General Ed programs?

Donna M. Blackman
Executive VP & CFO

So one of the things we laid out as part of our Investor Day back in November is a number of states that we are focused on looking at continuing to try to expand in the states where we're not currently in, to continue to grow programs in states we currently are. I don't have anything to announce on today. As you might recall that when we talked about 2028 guidance, that guidance was not predicated on the fact that we would add new states, but we are certainly having great conversations with states to add new programs. And we'll have more to talk about that in Q4 and in Q1. We don't want to get ahead of ourselves before we have any deal signed.

James J. Rhyu
CEO & Director

I also -- one thing I'd add is that the new states versus new programs equation for us sometimes is sort of -- it's not obvious where the better benefit is, and meaning we have some states, for example, where our programs are pretty restricted in terms of the ability to grow in size and things like that. And so in some of those states that have a lot of demand characteristics, it's actually better for us to open a new program in that state than open up a new state.

So it's not that -- and it's not necessarily a trade-off one for the other. It's not a zero-sum gain here. But just the opportunities that present itself often for us, we more aggressively pursue where we think that

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there is strong demand characteristics and things like that, that may not be a new state but actually had better growth opportunity for us.

Donna M. Blackman
Executive VP & CFO

Well -- And One last thing I'll add to that, if there are -- we have a couple of states where we have some caps. We're pushing up on our caps. One of the growth opportunities is for us to either have the caps eliminated or have the caps expanded.

Alexander Peter Paris
Barrington Research Associates, Inc., Research Division

Good. Well, that color is helpful. One last question, and I'll get back into the queue. It seems like that other income line item is increasing at a pretty rapid rate, both in the quarter and year-to-date. What is in that line, other income beneath -- after operating income, other income?

Donna M. Blackman
Executive VP & CFO

I'm glad you asked that question. As you know, we generate a lot of cash in the business, and so we're taking that cash and investing it in marketable securities. And so that's what's driving that increase. That's primarily what's sitting in the other income line item.

If you look at our cash number, it may be lower than you would expect because we're actually investing that cash. And so you'll see some of that in our marketable securities and our short term with assets as well as our longer-term assets as well.

Operator

We'll take our next question from Jeff Silber with BMO Capital Markets.

Ryan Christopher Griffin
BMO Capital Markets Equity Research

This is Ryan on for Jeff. Just had a question on the funding environment. We saw some data that districts are beginning to cut back on tech spend just to get ahead of the cliff in September. Was wondering if you could give any more color on your confidence on the funding environment for next year.

James J. Rhyu
CEO & Director

Yes. I think there's 2 separate issues at play here. One is the ESSER cliff that you referenced, and the other is actually just overall funding environment, right, because the ESSER cliff is really a federal government-funded program, whereas the baseline funding is largely the state-based funding and those, again, are 2 separate things. I think that, for sure, districts are feeling a little bit under pressure because of that federal funding that is that cliff that you mentioned that's going to go away.

That does -- I think the intent of the funding was always temporary and was not to be sort of for a lot of structural ongoing costs. I think that every district's made their own sort of decisions for the best -- what they thought at the time probably best for their district. But I do think for a lot of them, they -- their structural costs increase and now they're finding themselves having to sort of figure out ways to scale back.

I don't think that we are under the same kind of pressure because we have not had -- it's not that we haven't benefited from that funding. We have sort of indirectly benefited from some of it. But we haven't taken the same sort of approach maybe to it, and I don't think that we have a cost structure that's going to need to be rightsized because of ESSER funding going away.

Now having said that, I think Donna mentioned in her remarks, that still means we continue to pursue cost efficiency. We want to run an efficient business here and -- but those are -- that's a distinct

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thing altogether. The funding environment at the state level, I think, continues to be in line with our expectation, meaning it's positive. It's continuing to trend positive, and we think that the funding environment going into next year is stable, and we will see positive funding increases.

Now how that actually translates to our business next year based off of mix and flow-through and things like that, we don't know yet. I think we're going to see robust strength in our business going into next year. The mix of funding and how that impacts us, I think, remains to be seen. But sort of whatever it's going to be, it will be -- I'd say, if it impacts us, it will be somewhat temporary, meaning a 1-year thing, and then we'll sort of revert to a normalized pattern in the year after that.

So I'm not too concerned about it, although there's a potential for, based on mix and things like that, some onetime impact to us. But I don't think it's severe as you might be hearing from districts and things like that.

Ryan Christopher Griffin
BMO Capital Markets Equity Research

Got it. That makes a lot of sense. And then just for the follow-up, I think you mentioned your app volumes and the conversion rates were looking good for the fall cohort. I know it's still kind of early. Can you give any more color on what's driving that success?

James J. Rhyu
CEO & Director

Yes. So I think my comment is really focused on if the trends this year continue into next year. This year, we are -- because the fall cohort season is barely underway. I mean there's not really a lot of data yet for that, but the in-year season that we've seen has been very strong. Application volumes continue to be strong. Our conversion rates continue to be strong, and so we do think -- and we saw this last year. We saw that translate into a good fall season. So we think it is a good early indicator of it translating again into a good fall season.

We -- a couple of years ago, for those of you who remember, we actually had, I would say, an operational -- not a great operational fall season. And we've worked really hard over the past couple of years to improve that, and we continue to improve it. And I think those operational things give us those improvements in both application funnel volumes as well as conversion rates. And so I think a lot of it is attributed to, I'd say, our operational improvements that we've made. And also, I think, particularly in the in-year side of it, the overall market dynamics, which I talked about a little bit as well, I think, are strong.

Operator

We'll take our next question from Greg Parrish with Morgan Stanley.

Gregory Scott Parrish
Morgan Stanley, Research Division

I'll just say my congrats on the quarter and strong result. So I guess I'll just ask about fall enrollments a slightly different way. Maybe just kind of zooming out higher level, you have sort of long-term financial targets out there, kind of imply mid-single digits to high single-digit enrollment growth, high single digit at the upper bound of your 2028 target. So that's kind of the framework you have out there. If you think about next year, are there any sort of headwinds to that framework? Or do you expect the kind of growth in the long-term framework sort of knowing what you know now?

James J. Rhyu
CEO & Director

Yes. I think based on what we see, we don't see a headwind against that framework. I think it's a really good way to think about it and the way you're framing the question, I think, is really smart because we are trying to build a long-term growth business here. I know everybody is concerned about the fall, and so we're building the long-term engine here for growth. I think that everything we see from a market dynamic perspective and our own operating sort of cadence, if you will, indicates that we're right within

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that framework. And we expect -- I think we expect that, all things being equal, we're going to continue to execute well against that.

Gregory Scott Parrish
Morgan Stanley, Research Division

Great. And then maybe talk about M&A pipeline. I mean is that full at the moment? Could you see things ramping up? Are you seeing M&A activity kind of ramp up broadly? And then sort of secondly and related, maybe you can kind of update us on you, management, and the Board's willingness to potentially lever up if the right acquisition target presents itself. Or do you sort of like the sort of very low leverage position that you're in?

James J. Rhyu
CEO & Director

Yes. So listen we've always been very active in terms of our M&A pipeline. I've been a little bit more bearish on valuation, and I continue to be a little bearish on valuation out there. So I don't think there's anything on the near horizon for us. I think if we deploy capital, I want to make sure that we deploy for a good return at a high probability. And I think I just don't see that right now.

I think our Board is going to be supportive of the right strategic deal if that comes along. And I think structuring that right strategic deal, if it includes leverage, I think they're going to be supportive of. I think they're probably more focused on ensuring that we make good strategic decisions that are the right long term -- in the right long-term interest of our shareholders. And I think they have a belief that the capital structure we put around pursuing that, we'll have options around probably. And usually, we do and we'll try to find that right mix of options to pursue any deal that we need to.

I personally will tell you that while I'm not against leverage, and I think that in many instances, it's the right mechanism to do a deal. I probably don't like loading ourselves up with debt. I don't think that's -- I know that the textbook tells you to have certain amount of turns or whatever, and I'm just probably not as big a believer in having as much leverage as possible in the books.

I think where we sit today is pretty good. We have -- we're going to end the year with a few hundred million dollars of net cash on the books. I like that position to be in. We've got a maturity here in the next few years that we're going to have to pay off of several hundred, $400-plus million. And I want to be really comfortable. If you've lived over the past 20 years through the credit markets, you know that they can seize up literally in a day. I've had to live through a couple of those. And I want to make sure that we're not in a position where we're beholden to capital markets like that.

Gregory Scott Parrish
Morgan Stanley, Research Division

Awesome. Yes. That's great color. And then maybe for my last question, sort of an odd one. But I want to talk about your marketing strategy. You're ramping up your campaign for this year. I don't know if you're doing anything differently. And you talked about this on the prior question, excuse me. You saw a lot of improvement last year versus a year prior. So I guess, this season, is it kind of running the same game plan that gave you success last year or any material changes?

James J. Rhyu
CEO & Director

Yes. So I think a little bit of both, meaning the program that we ran last year was an improvement over the prior year, and we'll continue to do those things. As it turns out, I think we also have -- we have sort of a multiyear road map of improvements we think are going to move the needle for us. They require time, investment and good execution. We can't do them all at once. And so I think we continue to see opportunities to improve our execution, improve the way we draw the funnel in and improve the way we convert the funnel.

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So I actually think there's more headroom to improve. I think the team has laid out a really good road map of executing against that road map. And so I actually think that we're not done here. I think we've got a ways to go to -- that we can improve across the funnel metrics.

Operator

We'll take our next question from Tom Singlehurst with Citi.

Thomas A Singlehurst
Citigroup Inc., Research Division

Tom here from Citi. A couple of questions actually. The first one, probably slightly betraying my ignorance. But Pearson as a competitor has announced a couple of sort of -- I saw they want to call them contract wins. So they've obviously -- sort of taking over sort of existing sort of virtual school operations. I'm just wondering whether there are sort of similar opportunities for Stride as well, whether they're the sort of discrete sort of opportunities to take on sort of additional sort of schools that are already up and running and whether that can be a source of enrollment growth as well over time. So forgive the basic question.

And then the second one is on the technology boot camps piece. I mean, obviously, I suppose the trends that you're seeing there are representative of what's being seen sort of across the industry. I'm just interested what, if anything, you're going to do about it. I mean is it just one of those things where you just need to stick with it and wait for it to work through? Or is there some remedial action to try and stimulate demand? Any thoughts on when that turns around would be very much appreciated.

James J. Rhyu
CEO & Director

Yes. So let me take that sort of Pearson question first. I think the first thing I would say is that maybe this -- I don't know, maybe I get criticized for saying that like I want Pearson to succeed actually. I think it's -- having a good, healthy, robust competitive market's really good for everybody. I think education in this country needs that.

So I'm personally rooting for Pearson. I hope they continue to have success with their programs. I'm personally not a fan. And again, this is probably maybe not what everybody wants. I'm personally not a fan of sort of taking over other people's clients unless there's a situation where it's necessary.

I think we're all better off if we grow the pie than try to split the pie up in more pieces. I think our approach largely focuses on growing the pie. And I think -- again, I think our education system is -- needs that. So I think if we're all trying to fight over the breadcrumbs here, then I think we're not doing what's best for the marketplace, and we're not doing what's best for each other.

Having said that, if that's the game that everybody is going to play, then of course, we're going to play that game, and we're going to play to win. But my preference is to grow the pie. I know that Pearson's lost some contracts. And of course, they've got a business to run, and they need to find ways to sort of get that growth back. And so I respect whatever they think they need to do to do that.

But I don't see that right now as necessary for a path for us to continue to grow the way we've been growing. I think as Donna mentioned earlier, our plans are not contingent on new states. They're also not contingent on winning contracts from competitors or others. So I think we feel pretty good about our plan to hit our long-range targets without having to resort to those tactics.

As far as the tech boot camps go, I think, yes, the overall market, what we're experiencing is indicative of what's happening in the overall market. I think it's changing pretty quickly in the sense that people are learning about how AI is going to impact things pretty quickly here. I think people are realizing, by the way, how expensive AI can be. Building a large language model can be pretty expensive.

I think we are trying to take a very foundational approach to investing appropriately but investing for outcome, investing for return, investing for our customers. It does not mean, I think, having splashy announcements around AI. I don't think that's the right strategy for us. I think those splashy

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announcements have hurt the tech boot camp space a little bit because of the promise of what AI might be able to do and how it might hurt that industry.

I think what we're finding as time goes on is that there will be a place, there is a place for skills training broadly, specifically skills training in the tech space. And I think that the boot camp type of approach has a place long term for that skills training in the technology space.

I think we're seeing now the corporate side of the space, the B2B side, some interesting opportunities. I think people are realizing that the technology landscape in terms of development is not going to probably turn on a dime. I think the biggest technology companies have very significant competitive advantage there. I think the rest of the world is going to be a little bit of a slower lower migration path. The war for tech talent, I think, continues to be very, very challenging. I think the migration to technology talent to AI is creating some opportunities.

So I guess, in short, I would say that I think that there is a turnaround here. I don't know that I could predict that it's going to happen next year per se, but I think there's a long-term strategy for growth here that we see and that we think we can take advantage of.

Operator

[Operator Instructions] We'll take our next question from Stephen Sheldon with William Blair.

Matthew R. Filek
William Blair & Company L.L.C., Research Division

James and Donna, you have Matt Filek for Stephen Sheldon. Congrats on the nice quarter. To start, can you provide an update on tutoring and share some thoughts on when tutoring might become more material to the story?

James J. Rhyu
CEO & Director

Yes. I think -- so our approach to tutoring is sort of twofold. Our, I'll say, more traditional tutoring solution, which is the -- for us is actually, I think, still somewhat distinguished in the marketplace in the sense that our traditional tutoring solution, it's an online solution that uses state-certified teachers and we see now a number of states putting money behind those types of programs. And I think that we are getting some decent traction there. We've won a number of new clients there.

I don't think it's going to -- it's -- in the next year or so, it's going to become material to our $2 billion-plus revenue line, but I think it has the potential to be a significant contributor over time. And we've seen -- we saw some good growth this year. We see some good contracts coming up for next year. And then we're getting really good customer feedback on it.

I also think the competitive landscape for it is evolving a little bit in the sense that you see some new players coming in with AI products. I think we have yet to see an AI product in the tutoring space really hit the mark if you will. That's the other pillar for us. We are also looking at how we can deploy some of our content in an AI tool using a small language model that's proprietary that we think we can augment our tutoring offering with.

I think that we see what our clients are saying, is that some of the quality of the products in the marketplace are forcing some of the districts to go out for bid. There are some concerns, I think, with some companies that have -- whether it's foreign ownership or whatever. And I think we're seeing some of that. So I think that we're seeing opportunity there as well. So I think for us, tutoring is a good long-term opportunity in both the traditional sense and sort of a new technology, innovative way, and we will continue to pursue and invest in it.

Matthew R. Filek
William Blair & Company L.L.C., Research Division

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Got it. That's helpful. Great to hear the initial traction has been strong. Just as a quick follow-up to that, though, can you remind us your plans on delivering the tutoring services to non-Stride students? Is that something that students would come directly to Stride for? Or could those tutoring services possibly be delivered through integrating with a learning management system or something like that?

James J. Rhyu
CEO & Director

Yes, it's a great question. So our service is delivered directly right now to consumers and through districts. The integration with a learning management type system or some back-office type of system is -- I think it's definitely something that we would like to pursue. We've got nothing to announce right now, but it's definitely something that we think is a compelling proposition. But again, I think it's also the -- I think what's in the news tends to focus a little bit more around the AI prospects around it.

And I think we just got to be -- careful is not the word. I think we've got to be deliberate about how those things get rolled out and work. There's concerns, I think, around student privacy. There's just -- there's concerns around hallucinations. There's concerns around the language model that can actually provide the right algorithm to learn from the interactions that are happening. And so I think we just got to proceed cautiously.

Operator
And with that, that concludes today's presentation. Thank you for your participation today, and everyone may now disconnect.

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