

Stride, Inc. NYSE:LRN

FQ3 2025 Earnings Call Transcripts

Tuesday, April 29, 2025 9:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2025-			-FQ4 2025-	-FY 2025-	-FY 2026-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.15	2.02	▼ (6.05 %)	1.78	7.21	7.73
Revenue (mm)	590.08	613.38	▲ 3.95	606.28	2340.89	2502.16

Currency: USD
Consensus as of Apr-28-2025 4:10 AM GMT

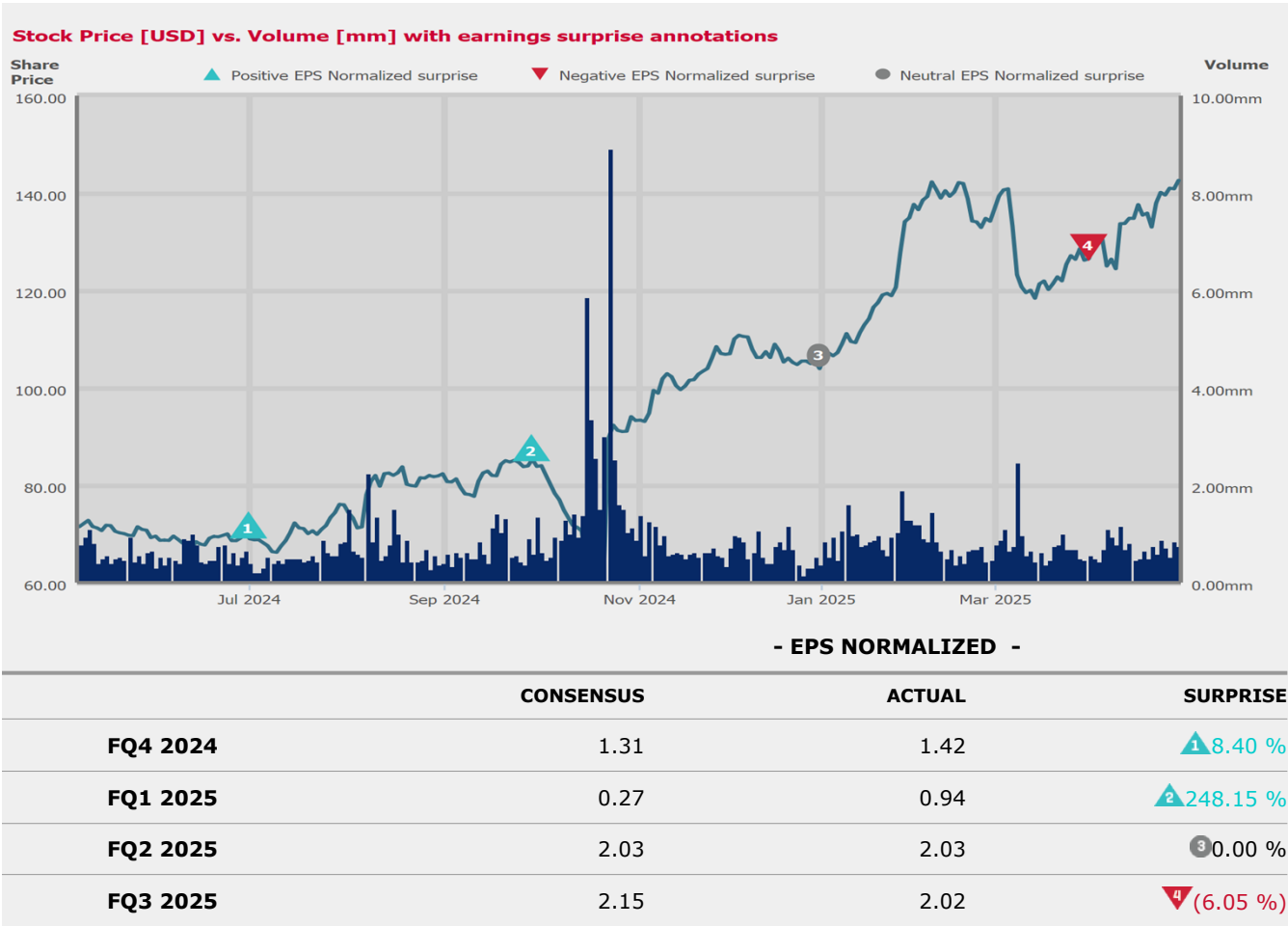


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Executive VP & CFO

James J. Rhyu

Chair of the Board & CEO

Timothy Casey

Vice President of Investor Relations

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Alexander Peter Paris

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Gregory Scott Parrish

Morgan Stanley, Research Division

Jason Ross Tilchen

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Jeffrey Marc Silber

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Presentation

Operator

Ladies and gentlemen, thank you for standing by. My name is Abby, and I will be your conference operator today. At this time, I would like to welcome everyone to the Stride, Inc. Third Quarter 2025 Earnings Conference Call. [Operator Instructions]

And I would now like to turn the conference over to Tim Casey, Vice President of Investor Relations. You may begin.

Timothy Casey

Vice President of Investor Relations

Thank you, and good afternoon. Welcome to Stride's Third Quarter Earnings Call for Fiscal Year 2025. 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 will also involve forward-looking statements. The company's actual results could differ materially from any forward-looking statements due to several important factors as described in the company's earnings release and latest SEC filings.

These statements are made on the basis of our views and assumptions regarding future events and business performance at the time we make them, and the company assumes no obligation to update any forward-looking statements. Following our prepared remarks, we will answer any questions you may have.

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

James J. Rhyu

Chair of the Board & CEO

Thanks, Tim, and good afternoon, everyone. Well, another solid quarter as demand continues to outpace last year. I mentioned last quarter that the macro environment remains favorable and some recent polling supports our thesis. A survey of parents compiled by the National School Choice Awareness Foundation earlier this year found that more than 60% of parents consider sending at least one of their children to a different school last year. And of those, 27% consider sending their child to a full-time online program, meaning over 15% of all families are considering a full-time online program. That is at a much higher level than we saw just a few years ago.

Also, February Gallup poll indicated that less than 1/4 of Americans are satisfied with public education. Now that's the lowest level since the survey began in 2001, and nearly 90% of parents are interested in non-college degree pathways, meaning a focus on career education. All of this bodes well for our future prospects. Now this is the time of year we are trying to both finish the year strong and gear up for the fall. If we continue to execute and given the macro trends we are seeing, that should position us for continued strong growth heading into next fall.

We also need to look past this fall. While we celebrate our 25th anniversary this year, we need to ensure we build an enduring business for the next 25 years. I believe we can continue to change the future of education by leveraging our core capabilities to deliver innovative outcomes-driven solutions for the 50 million-plus students across the country.

Parents remain dissatisfied with the current state of education, and we are in a position to give schools, administrators, teachers and students with tools to redefine the system and set ourselves up as leaders for the next 25 years.

In the near term, the trends we see in market demand, in-year enrollment and retention set us up for another strong start to the fall season. For context, since January 1, demand as measured by in-year application volumes has grown in each of the past 4 years. This year, application volumes are almost twice what they were 2 years ago and 4x what they were 4 years ago.

This is during a time when we have some constraints to the number of new enrollments we can add as some schools have closed enrollment for the school year. I've been pleasantly surprised by this ongoing trend, and it supports our thesis that demand for our products and services continues to strengthen.

So once again, we expect to finish the year with more enrollments than we started. We still have a lot of work to do before the next school year begins, but we feel confident in our ability to continue to grow enrollments in fiscal year '26.

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

Donna M. Blackman
Executive VP & CFO

Thanks, James, and good afternoon. As James mentioned, we continue to see strong in-year demand in Q3. We finished the quarter with enrollment up over 21% from last year, and we believe this has set us up to once again finish the fiscal year with more enrollments than we started for the third year in a row.

The market conditions, including demand for full-time online programs, coupled with our continued strong execution, give us confidence to again raise our FY '25 revenue and adjusted operating income guidance. For the full year, the implied growth rates, both revenue and profitability exceed the 2028 CAGR targets we outlined during our Investor Day in November 2023. Our AOI guidance for this year suggests we will be well ahead of the low end of our FY '28 AOI target 3 years early.

For our Q3 results, total revenue was \$613.4 million, up 17.8%. Revenue from our career learning middle and high school programs grew to \$223.9 million, up 33%. This strength was driven by enrollment growth of 34% to 98,700 enrollments. General education revenue was \$370.8 million, up 13% from last year, which was also driven by continued enrollment growth in the quarter. Average enrollments were up 14% from last year to 141,500.

Total revenue per enrollment across both lines of revenue was \$2,415 compared to \$2,420 last year. And as we've discussed over the last 2 quarters, the cause of a slight decline is the impact of state mix from in-year enrollment as we otherwise continue to see a largely positive funding environment. Given the results this quarter, we now expect to finish the year down less than 1% in revenue per enrollment.

While I know this is the quarter, we received a lot of questions about next year, and we remind you that it's very early in the season, I do want to give a little insight into what we are seeing with the funding environment for FY '26. Recognizing it's still very early in the process of states setting their budgets, we are seeing a generally favorable funding environment going into next year. And as they finalize their budgets over the next few months, I'll be able to give more color during our fourth quarter earnings call.

Additionally, I know there's lots of discussion about federal funding and the impact that could have on Stride. I want to reiterate what we've said last quarter, well less than 5% of our overall revenues come from federal resources.

Now to wrap up the remaining highlights for the third quarter. Gross margins were 40.6%, up 190 basis points from last year. Given the strength through the first 3 quarters, we expect to see gross margin improve around 200 basis points for the full year.

Selling, general and administrative expenses increased 5% to \$118.5 million. And as I've mentioned previously, we expected some increase in the back half of the year, we still expect to finish the year up slightly compared to FY '24.

Stock-based compensation was \$8.5 million, and we expect to finish the year with stock-based compensation in the range of \$34 million to \$37 million.

Adjusted operating income was \$141.7 million, up 47%. Adjusted EBITDA was \$168.3 million, up 40%. Both metrics are quarterly records for the company.

Diluted earnings per share for the quarter were \$2.02. Our EPS calculation now includes incremental shares related to our convertible notes on an as-if converted basis for GAAP reporting purposes. Our quarterly investor presentation includes a slide that shows the potential dilution from our convertible note at various share prices as well as the offset from the cap call transaction we completed at the time of no issuance. And starting next quarter, in addition to the investor presentation, we plan to introduce an adjusted earnings per share calculation in our earnings material to give investors a picture of the underlying EPS growth in the business.

Capital expenditures for the quarter were \$15.8 million, down slightly from \$16.3 million. Free cash flow defined as cash from operations less CapEx was \$37.3 million, down from \$52.2 million due to the timing of cash receipts. As of last year, we expect fourth quarter free cash flow to be up significantly.

Given the continued strength of in-year enrollments and the margin improvements, we are raising of our full year revenue and AOI guidance, and we now expect revenue in the range of \$2.370 billion to \$2.385 billion, up from \$2.320 billion to \$2.355 billion last quarter. Adjusted operating income between \$455 million and \$465 million, up from \$430 million and \$450 million last quarter. Capital expenditures between \$60 million and \$65 million, unchanged from last quarter. And an effective tax rate between 24% and 26%, also unchanged from last quarter.

Thank you so much for your time this afternoon. And now I will turn it over to the operator for Q&A. Operator?

Question and Answer

Operator

[Operator Instructions] And our first question comes from the line of Jason Tilchen with Canaccord Genuity.

Jason Ross Tilchen

Canaccord Genuity Corp., Research Division

Great. I guess the first thing I'm curious about, you continue to see really strong enrollment growth in the career learning program. And I think you talked about last quarter, that's largely coming from the same application funnel as General Education. But that over time, you're going to work towards opening up that sort of second funnel with sort of directly related to career learning. I'm wondering if you could talk a bit more about some of the steps you're taking in that area, some of the progress that's being made and sort of what's the time line we could realistically expect to start to see that stand-alone funnel really start to contribute to overall enrollment growth?

James J. Rhyu

Chair of the Board & CEO

Yes. So I think, Jason, the unfortunate truth of it is that -- and I think I've been saying this now for a number of years, now quarters, is that we just -- we haven't cracked the code on it yet. We keep running a bunch of tests around it. I think this year, we ran a number of tests at where we saw maybe a little bit more promise, but everything outside of the test we're running point to this being an attractive market for us and a good opportunity for us.

And if you look more broadly at the market, and see the activity that whether it's corporate enterprises are having around direct hiring out of high school, focus on skills as opposed to degrees and things like that. We know that this is sort of an evolving market in the direction of career education for high school. So probably a long way to saying that I don't think that we yet cracked the code. I don't know if there's a timing yet. I think we're making incremental progress. It's not as good as I would have hoped and that's on us.

Jason Ross Tilchen

Canaccord Genuity Corp., Research Division

Okay. Great. Really helpful overview there. And then one other question. I'm curious about some of the efforts you guys are making to improve socialization opportunities for students that are in sort of full-time online programs. Anything you can share there about some of the steps you've taken there to help sort of create a more similar experience to the sort of traditional in-person socialization opportunities?

James J. Rhyu

Chair of the Board & CEO

Yes. I mean I think we all, I think, recognize that socialization is one very significant aspect of school experience. We also, I think, recognize whether you like it or not, that kids -- school-age kids these days socialize predominantly online. Again, not a commentary on whether that's good or bad, just I think a factual statement. And so we are leaning into a number of platforms that enable that type of socialization. One of them is we call our K-12 zone. It's a virtual school. Basically, school structure, if you will. It has a playground and a library and things like that. We've gotten record -- this year, record usage. We rolled it out, I guess, formally a year ago, but we had it in testing before that. And we're just seeing record numbers out of that. And so we think that, that's one very, very powerful element.

The other thing that we're doing, and we just started testing it this calendar year, which is actually counter to the online engagement model is we're rolling out with essentially geographic pods, meaning we are rolling out the ability for families that live geographically close to each other that have similar school-age kids in the program to do meet-ups and things like that with the kids.

And it just so happens that I spoke to a family that just was unbelievably grateful that they were going to get the opportunity to do both of those activities, both the online and in-person. I think the families recognize that there's a reality about sort of just online socialization, that's important, but also just the opportunity to being from an online school to have a chance to meet up with kids in person.

We were just this past weekend at an event for one of our amazing kids in Florida. His name is Carter Bonas, and he's an incredible golfer. He had a golf tournament, and they did a meet-up party, a meet-up pizza party with mini golf the night before. And some of the families there had said that it was one of the most exciting things that their kids do is to do these in-person meet-ups. So we're just -- there's a lot of different angles that we can approach to improve our ability to enable socialization and we're going to continue investing behind that. We think it's really important for the families and for the kids.

Operator

Your next question comes from the line of Greg Parrish with Morgan Stanley.

Gregory Scott Parrish

Morgan Stanley, Research Division

Congrats on the quarter. Strong result. On your marketing strategy, thinking maybe ahead for the summer, I imagine the strategy may be limited changes. I don't know if there's anything to talk through. And then on the marketing spend, it's been pretty consistent over the last couple of years. Do you anticipate that number changing at all or maybe the similar spot is the right way to think about it?

James J. Rhyu

Chair of the Board & CEO

Yes. I think the approach from a marketing perspective, it is, I think, going to be pretty similar. Of course, we're always evolving. I think one of the things that, from a sort of approach perspective that I think that we've been doing a good job of in the past year or 2 is testing a lot of different things. I think our sort of testing velocity has increased. And so I think we're going to continue to lean into that, the ability to test a lot of different approaches, methodologies, creatives. And I think that will continue to improve.

And so I think that there's actually, I think, a lot of different angles of our marketing approach that we can continue to pursue that -- it goes back to the previous question around career as well, around creative and approach and social media and things like that, that local social media. I think there's a lot of different things that we have been testing and we're going to continue to test. And I think we continue to see opportunities to make improvements. So I think that's going to be consistent, and that will -- we'll keep double downing on that through the summer.

And sorry, the other question was...

Donna M. Blackman

Executive VP & CFO

Yes, with respect to spend. I mean, as you know, we grew enrollment significantly this year without increasing our marketing spend. Our priority is really around certainly doing some more testing, optimizing our media placement, our SEO, testing our messaging and improving our messaging. So we'll focus on that. And so the plan is not to spend significantly more on marketing, but to be smart about marketing and to look for ways to be more efficient in our marketing spend.

Gregory Scott Parrish

Morgan Stanley, Research Division

Okay. That's all very helpful. And then I always want to talk a little bit about the changes going on at the federal level and the shakeup at the DOE and not the funding side, I think that's been well covered over the last year or so. But they have a very pro-choice stance, right? So I mean, what are the impacts those kind of as they sort of filter down to the states through this administration? And maybe any other impacts really from the DOE and some of their stances?

James J. Rhyu*Chair of the Board & CEO*

Yes. I mean I think we have observed that -- I think we said before that we have a lot of confidence that this administration and the Department of Education is going to keep kids and families in focus, and we continue to believe that, that's the case. Some of the more tactical things that they're doing, I think, have maybe a little bit more sort of sound bite and impact at the postsecondary level right now. But I think just generally speaking, their general overall stance of empowering the states, which we're a state-level business really, reducing sort of overhead administration, if you will, we think that tends to be good. It tends to -- it does tend to send a message of more choice that I think this administration really believes in the power of choice and customers -- for the customers. So I think that's really an important message.

But I think outside of just continuing to monitor the things that they're advocating for and continuing to be aligned with what the administration is advocating, which I think we are, we're just very optimistic that both the federal government and the state governments are going to keep the focus on the kids and the students and the families.

Operator

Next question comes from the line of Jeff Silber with BMO Capital Markets.

Jeffrey Marc Silber*BMO Capital Markets Equity Research*

I wanted to go back to career learning, specifically the middle high school area. Just a really another strong quarter with growth accelerating. Can we get a little bit more color what's driving this strong growth?

James J. Rhyu*Chair of the Board & CEO*

Yes. I mean I think -- I might actually say the opposite way, Jeff, and I know this is going to sound -- I don't know, it may sound odd, but I actually think that I look at it instead of the fact that our growth is higher in middle and high school, I actually think we're missing some opportunities in the lower grades. I think the robust strength in middle and high school, we've seen that there for a while. I think that our types of programs directly address a lot of the needs that we're seeing in those grade levels. We see a lot of the parent satisfaction surveys and things like that in those grade levels where there for a lot of different reasons, that's the local, either districts or the states or the way the state programs are on or whether it's the lack of certain academic elements or restrictions around certain academic elements or things like that. It just opens up for those grade levels a lot of parental desire to look at alternatives.

But I think it similarly applies in the lower grade levels and we haven't been as effective in communicating that message in the lower grade levels because I'll tell you, one thing that we know across the country is reading scores, specifically third grade reading scores are really subpar. And one of the messages that we're really going to promote here to sort of have the lower grades "catch up" to the upper grade in terms of the awareness and growth is we're going to really lean into some sort of high-dosage tutoring in the lowest grade specifically around reading because we think it's that important. And we're going to make some pretty significant investments in that arena.

We've launched our tutoring platform a couple of years ago. It's running really well. And we think we can apply some of that into the lowest grade for a lot of the programs and really accelerate learning in the lowest grade. And I think that may be a message that's going to resonate as well with some families. So I think to me, it's more of a challenge of improving the lower grades as opposed to why the upper grades are outperforming lower grades.

Jeffrey Marc Silber*BMO Capital Markets Equity Research*

Okay. Fair enough. Shifting gears a bit, I think in your prepared remarks, you talked about some constraints. I don't know if it was some schools that have pulled enrollment or some states that have

closed enrollment. Is that in both general education and career learning? And any specific color would be great.

James J. Rhyu

Chair of the Board & CEO

Yes. Yes. It's a great question. And yes, it is in both. I think as I mentioned in my remarks, like the demand side of this equation has just really continued to grow in ways that I think are unexpected, at least to me, in a time of year that usually isn't the strongest part of the year. And we've just by the nature of either the policy or the school or the partner or whatever, sometimes we close up the enrollment windows. And this is by the way, it's not new, but just those enrollment windows close up often during this quarter. And so as demand continues to spike, the ability to meet that demand actually stays somewhat contained.

And so -- so that's just really a phenomenon that's always happened. We just haven't really had to deal with it as much in previous years because we haven't seen such a spike in demand. So it hasn't been as sort of acute as it has been this year. So it's really been really a demand-side issue more than any change in like enrollment windows or caps or anything like that. That's really always been there.

Operator

[Operator Instructions] And your next question comes from the line of Stephen Sheldon with William Blair.

Patrick James McIlwee

William Blair & Company L.L.C., Research Division

You have Pat McIlwee on today. So James, you've talked about this a bit, but in the past, you've said that uncertainty and chaos have historically benefited Stride. I understand that K-12 isn't necessarily within the crosshairs of recent trade policies or geopolitical tensions. But do you get the sense any of the traction you've been seeing has been supported by these uncertain times? Or do you think this demand is more so a factor of you reaching scale and word-of-mouth referral kind of beginning to flywheel?

James J. Rhyu

Chair of the Board & CEO

Yes, it's a great question. I think it's actually both. I do think that uncertainty -- I think broad macro uncertainty is probably less the issue. And we've just seen just uncertainty and volatility, whether it's gun violence certainly has precipitated, I think, a lot of interest in our programs. Uncertainty at the district level, and volatility in sort of how certain districts may be administering programs or whatever has benefited our programs, I think. Some of the larger sort of geopolitical things like tariffs and things like that, I don't think we see that as having a direct correlation with demand. In fact, I could say like in the data that I've seen, we have not seen a direct correlation between the past few weeks spikes in policies of tariffs or things like that, spiking demand. So I don't think it's that type of uncertainty.

But certainly, the uncertainty that happens at the district level, uncertainty that happens around school safety, uncertainty that happens around school policy, those types of things, I think, do have a positive impact. And I think your last comment there around the flywheel, we do see that I think that the more scale that we get and the high customer satisfaction scores that we've receive does create a lot of referral business. And so we see that sort of just directionally the referral numbers are strong, cost of acquisition is good. Things that sort of indicate towards referral also, those things tend to look good as well.

Patrick James McIlwee

William Blair & Company L.L.C., Research Division

Right. Okay. All very helpful. And Donna, on the gross margins, once again above 40% this quarter. You're already pacing ahead of your margin targets for the year. So my question really is just how much more room for expansion do you think you have in that line over time? And what are the primary levers as you think about driving that expansion over the next few years?

Donna M. Blackman

Executive VP & CFO

Yes. Look, I think we will -- we're continuing to see good flow-through in the business. I think the efficiency efforts that I started to talk about 2 years ago, maintaining those efficiency efforts, that's bearing out well for us. We'll continue to do that. I think we'll continue that into the future. I wouldn't expect to have gross margins be significantly higher than they are. Now we're not coming -- even though we are at the high end of our targets for 2028, I'm not changing our overall targets for our gross margins. We will continue, though, however, to see strong flow-through as the business grows and expands, and we are continuing to maintain those efficiency efforts that we put into place over the past couple of years.

James J. Rhyu

Chair of the Board & CEO

I also want to say that as much as those efforts are ongoing, we continue to look at ways to reinvest for the programs. So I mean, I mentioned earlier, the investment we'll make in tutoring. So there is a balance that we try to strike. Not always are those investments, gross margin impacting, but sort of in aggregate dollars, we're investing more today in the business in new tools, investing in our teachers than we've ever done before. So I think there is a balance there that we need to keep investing for the longevity of the business as the sort of the market dynamics evolve, technologies evolve, we want to keep investing in new technologies.

So there is a big investment piece of this that sort of gets maybe a little bit masked by how sort of other parts of the business we run efficiently. But there is -- there are a lot of investments that go into improving our product, the socialization stuff I mentioned earlier, those are all very significant investments that will grow over time as we see them working.

Donna M. Blackman

Executive VP & CFO

And some of those investments are some of what I talked about, as you may recall during our Investor Day, to help the teachers out to make their lives a lot easier, right, and take some of that administrative burden from them so they can do things that they love to do, which is teach kids.

Operator

And your next question comes from the line of Alex Paris with Barrington Research.

Alexander Peter Paris

Barrington Research Associates, Inc., Research Division

I essentially have two. First one for James. James, would you mind repeating your comments about finishing the year with more enrollment than you started? And while early, your comments for next year, I think you said that you would expect growth here just kind of going fast for my pencil. So can we get that recapped?

James J. Rhyu

Chair of the Board & CEO

Yes. I mean -- so -- and this has been now a multiyear trend where we -- we're on a trajectory. We feel pretty confident that we'll end the year with a higher enrollment level than we began the year. And you can sort of see, let me report it, we just reported numbers that were pretty significantly higher than we started the year, right? So ending the year at a higher level, what it does is it gives us a higher jumping off point for the fall enrollment because obviously, many of those students will come back.

And in fact, as we get -- almost counterintuitively, as we get toward the end of the year, many of the students who joined right at the end of the year have actually a high propensity to return in the fall. And so ending the year strong just really does set us up for strength going into the fall. And so there is some early indicator that we are going to end the year strong and that will bode well for the reregistration cohort for the fall. And so those -- that early indication along with the very strong demand we saw in Q3, January through March, if that continues, it just -- it really sets us up for a very strong demand season

for the fall, which I think sets us up for growth. So I think the characteristics are there, all there for us to continue our enrollment trajectory.

Alexander Peter Paris

Barrington Research Associates, Inc., Research Division

And then along those lines, is it too early to talk about applications for the fall? When do those start rolling in?

James J. Rhyu

Chair of the Board & CEO

Yes, the fall application season is like literally the windows are just opening up here. So it is -- that is way too early to really have any good indicator of how that's shaping up. So I think that we'll have a little bit more information on that in the next call. But like it's just -- it's -- at least the past couple of years that we've seen, the back half of the year has boded well -- the strength in the back half of the year has boded well for the fall application. So we don't yet see that, but if the prior years are any indicator, the strength that we've seen in this past quarter in application volume is a pretty good indicator for the fall.

Alexander Peter Paris

Barrington Research Associates, Inc., Research Division

That's great. And then, Donna, I think you said in terms of revenue per enrollment, for the full year, you're saying down less than 1%. I think you said down 1% to 2% as recently as the Q2 report. Do I have that right?

Donna M. Blackman

Executive VP & CFO

That is correct. And now that we're sort of 3 quarters in, so comfortable saying that we'll be down less than 1%.

Alexander Peter Paris

Barrington Research Associates, Inc., Research Division

Great. That's helpful. And then the last one is on the slide on Page 17. It's the -- just to understand how to use it a little bit better because I was off. I was using 47.6 million shares and on a diluted basis, it came in at 49.2 million. You talked about the illustrative average quarterly stock price. I'm just looking at Q3 and you started the year at about \$104 when you entered the quarter and then you finished the quarter at \$126. Is this just a simple average? Or is it a VWAP? How do we calculate that?

Donna M. Blackman

Executive VP & CFO

So just it's the average stock price for the quarter. So if you look on Page 17, so the average stock price for the quarter was around roughly \$127. So use the \$125 as the example. And so you would have added roughly 4.6 million shares to what would otherwise have been without the convert for the purpose of the accounting.

Alexander Peter Paris

Barrington Research Associates, Inc., Research Division

And what am I adding that to, the basic shares? My assumption for basic shares, basic shares plus whatever stock option underlying stuff is there plus the 4.6 million shares.

Donna M. Blackman

Executive VP & CFO

Correct.

Alexander Peter Paris

Barrington Research Associates, Inc., Research Division

I just wondered to have a more accurate share count.

Donna M. Blackman

Executive VP & CFO

Yes. And we can certainly walk you through it offline if you'd like.

Alexander Peter Paris

Barrington Research Associates, Inc., Research Division

Okay, for sure. And to me, your numbers were spot on mine, but you were slightly below the consensus EPS estimate. And I suspect it's just because of the share count that the consensus of analysts were using.

Operator

And ladies and gentlemen, that concludes our question-and-answer session and today's conference call. We thank you for your participation, and you may now disconnect.

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