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Earnings Call

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Presentation

Operator

Thank you for standing by. My name is JL, and I will be your conference operator today. At this time, I would like to welcome everyone to the Stride Fourth Quarter Fiscal Year 2025 Earnings Call. [Operator Instructions]

I would now like to turn this over to Tim Casey, VP of Investor Relations. You may begin.

Timothy Casey

Vice President of Investor Relations

Thank you, and good afternoon. Welcome to Stride's fourth quarter and year-end 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, including our most recent annual report on Form 10-K and subsequent 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. We recently celebrated our 25th year anniversary and continue to see record demand for the products and services we pioneered a quarter century ago. In a rapidly evolving world, our focus is on how we can best serve customers and the market over the next 25 years.

First, some highlights from this year that reinforce our market leadership. We were named one of America's best midsize companies by TIME. We were named 2024 Company of the Year by BIG Awards for Business posted by the Business Intelligence Group and Best EdTech Company by the Global EdTech Awards. We received 2 Gold Stevie awards, one for our game-based curriculum and one for our virtual learning solution. We were awarded digital education awards, digital game-based learning product of the year and named the digital education institution of the year.

We are one of the largest employers of teachers and education staff in the country offering choice for teachers as well as families. And in a country where more teachers are leaving the profession than entering and where there is a persistent national teacher shortage, we have managed to grow and provide an outlet to teachers who are looking for something different than the traditional system can provide them. But all of this pales in comparison to the record numbers of families and students we're able to serve.

So how can we build on this momentum and also prepare for the next 25 years? The good news is that macro trends around our core business continue to be positive. Demand for school choice is growing, and our customers and potential customers continue to choose us in record numbers. Given where we are, less than 50% through our anticipated enrollment season, we can already see if current trends continue that

we will once again achieve double-digit enrollment growth this fall. And we are continuing to invest in new products and services. This will both benefit our core business but also give us new market opportunities to pursue. For example, over the past year, our tutoring business hosted over 100,000 sessions. In this upcoming school year, we are going to offer dedicated tutoring for all second and third graders focused on the core skill of reading.

We also continue to invest in our career platform and programs with an emphasis on building a community of resources that offer practical trajectories. And of course, everybody is talking about AI. We are proceeding with our cautious but ambitious approach to enable the use of AI in our programs in a responsible and impactful manner. I said a couple of years ago that we are not going to play into the hype around AI but rather focus on foundational areas and technologies that we can leverage for better customer outcomes and experiences. And we are continuing down that path both in partnership with other providers as well as through proprietary investments that we can leverage our core strengths. We're excited about what the next 25 years hold for us and how we can deliver on tomorrow's education today.

Thank you. Now over to Donna.

Donna M. Blackman

Chief Financial Officer

Thanks, James, and good afternoon. As James discussed, we had another strong year, driven by strong demand and the continued momentum in the school choice market. Full year revenue of \$2.4 billion was up 18% from last year. We continue to see the benefits of our scale coupled with improvements in marketing, which drove adjusted operating income of \$466.2 million, up nearly 60% from last year. Our team served more than 240,000 students and families this year, and I am incredibly proud of what we have accomplished. And as I look at the trends we're seeing for the upcoming school year, I see more opportunities ahead.

I'll talk a little bit more about next year momentarily, but I want to first provide more detail on our results for FY 2025. Career Learning and middle and high school revenues were \$876.3 million, up 35%. Full year enrollments totaled 96,300, up 33%. General Education revenue was \$1.45 billion, up 12%. Enrollment in General Education for the year totaled 137,700, up 13%. Total revenue per enrollment was \$9,677, up just slightly from last year. Throughout the year, state mix had an impact on our overall revenue per enrollment, but the strong fourth quarter results meant we finished the year relatively flat.

For FY '26, we see some states holding funding flat, while others are increasing funding. So overall, we see a fairly positive funding environment. Additionally, we do not anticipate any material impact on our revenue per enrollment from changes at the federal level. As with any year, revenue per enrollment may be also impacted by state mix and yield. While it's still early in the year, given the current environment, we expect full year FY '26 revenue per enrollment to be relatively flat to up slightly from FY '25.

Gross margin for the year was 39.2%, up 180 basis points. As we mentioned last quarter, there is a balance between continuing to invest in the business and improving gross margin. For FY '26, we anticipate making investments in our products and services as we seek to continuously improve the experiences for our students. Therefore, we expect gross margins to continue to grow but at a slower pace than we've seen in the past 2 years.

Selling, general and administrative expenses were \$524.3 million, up 2% from last year. We will continue to keep our SG&A spending in check, and we expect to see strong operating leverage out of the business going forward. Stock-based compensation for the year was \$36.8 million, up \$5.3 million from last year. As you saw in our press release, we booked a onetime noncash impairment charge of \$59.5 million related to our Galvanize business. This charge is associated with 2 aspects of the business. First, \$27.3 million is a pull-forward of lease expenses associated with our co-working business, which has never recovered from the COVID pandemic. And \$32.2 million is a trade name write-down due to the continued IT software business decline, which we've previously discussed. Given the onetime nature of this charge, we have excluded this from our adjusted profit metrics.

For the year, adjusted operating income was \$466.2 million, up nearly 60% from last year, and adjusted EBITDA was \$571 million, up 46% from the prior year. Diluted net income per share totaled \$5.95, up 27% from last year. As I mentioned last quarter, we're introducing a new metric this quarter, adjusted earnings per share, in order to give investors a better sense of the ongoing operational performance of the business. Similar to our other adjusted metrics, adjusted earnings per share excludes stock-based compensation, amortization of intangible assets and any onetime adjustments.

Additionally, the metric nets out the tax impact of these adjustments and includes the impact of the shares we expect to receive from the capped call transaction associated with our convertible notes. We believe this new metric will also help investors better understand the net impact of the convertible notes on our earnings per share.

For the full year, our adjusted earnings per share was \$8.10, up 48%, compared to \$5.49 in FY '24. A reconciliation of adjusted EPS is provided in the earnings release and the presentation accompanying our webcast. Our effective tax rate for FY '25 was 24.4%. Capital expenditures were \$60 million for the year. Free cash flow, which we define as cash from operations less CapEx, was \$372.8 million, up \$155.6 million from last year. We finished the year with cash, cash equivalents and marketable securities of just over \$1 billion.

This year was another record year for Stride with continued strong revenue and profitability growth. And while it's still early in the enrollment season, given that historically August and September are our busiest months, we are on track for another year of strong growth in FY '26. And as we've done in the past, we'll wait until the first quarter earnings to provide formal enrollment guidance. However, I'd like to add a little color to the comments James made about our anticipated enrollment growth for the first quarter.

Based on our latest data, we expect year-over-year enrollment growth to be in the range of 10% to 15% in the first quarter. It's still early in August, and we will need to continue to execute against what we believe is a strong market trend. A few additional notes for FY '26. Seasonality for next year should be in line with FY '25. SG&A as a percent of revenue should continue to decrease marginally, while CapEx as a percent of revenue is anticipated to be relatively flat. Stock-based compensation will increase slightly from this year, and interest expense and the tax rate should be in line with FY '25.

Thanks so much for your time today, and I'll turn the call back over to the operator for your questions. Operator?

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Jeff Sibler -- sorry, Jeff Silber of BMO Capital Markets.

Jeffrey Marc Silber

BMO Capital Markets Equity Research

Congratulations on the quarter and the strong year. I was wondering if we can just talk about fiscal '26. Really appreciate you giving us at least some framework of what you're expecting. You talked about the 10% to 15% potential enrollment growth in the first quarter. And I think you've caveated that with saying if current trends continue. So can we just talk about what current trends you're talking about and where you are seeing that strength? What's driving that 10% to 15% expectations?

James J. Rhyu

Chair of the Board & CEO

Yes. I mean I think we've been pretty consistent that we sort of view demand as application volumes as a proxy for demand. And so when we see early funnel activity, i.e., demand strong, we're really talking about applications. And I think applications have been a much more proven indicator of demand for us. It's much more reliable. It does require some level of sort of increased effort than just clicking a button. So families tend to convert higher.

We're not yet, I think, 50% through what we anticipate the season to be. So it is a little bit early, but I think those demand indicators, they look strong year-over-year. They look strong. And so we're pretty bullish that these trends should hold up and we'll have a strong fall.

Jeffrey Marc Silber

BMO Capital Markets Equity Research

All right. That's really helpful. My follow-up was just regarding either new contracts or lost contracts. I know there was some noise out of New Mexico, but you issued a press release last night. So maybe we can get some specific color in terms of what's going on there. And are there any other major changes that we should be aware of for the upcoming fiscal year, both positive and negative?

James J. Rhyu

Chair of the Board & CEO

Yes. No other major changes for the fiscal year. As we've said before, I just -- I'm not aware of a business that from time to time doesn't have some client turnover. Ours is no different. I think the -- what I see at least is the strength of our franchise is such that -- we did have an unfortunate actually incident in New Mexico where the partner we had didn't turn out to be kind of the partner, I think, that we expected. And we quickly were able to build a pipeline of new potential partners, and it all came together pretty quickly where we got a couple of new districts signed up with us.

So I think it sort of speaks more to the strength of our franchise really than any disappointment we have because, again, I think just in any business, it's impossible to have 100% client retention. So we're going to experience that from time to time, and I think the strength of our franchise will largely be able to overcome that. And we'll be able to continue to build and grow. And New Mexico is an amazing state. It's got a very, very unique population that I think our programs are uniquely beneficial in serving.

And I think, again, going back to the strength of our franchise, what we found overwhelmingly is that the families who are with the program last year that we managed have migrated over to our new programs as opposed to staying with the legacy program that they are still trying to run. So I think the customers have really spoken that they prefer our program and our approach and our franchise than what got left behind. And I think that really speaks to the strength of our programs.

Operator

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

Gregory Scott Parrish

Morgan Stanley, Research Division

Congrats on the results. And thanks for all the color heading into next year. I guess maybe I want to start with your long-term framework, especially on operating income. You've outperformed your targets and essentially hit them already. But thinking about the 10%, 20% framework, now that you've exceeded your plan and you've rebased the margin higher, I guess, the question is, does that get harder from here to grow operating income at twice the rate of revenue? And then thinking about next year, more specifically, is EBIT growth 2x revenue growth? Is that still the right target when thinking about next year?

James J. Rhyu

Chair of the Board & CEO

Yes. I think in any business, obviously, it gets harder the bigger scale you get. Just mathematically, I think it gets harder to 2x your revenue growth. I think that we've set pretty ambitious targets in the past over the past several years, and we've beaten those targets. I think we need to take a fresh look, though. As Donna said, the expansion on our gross margin is likely to regulate a little bit here this year and going forward. So as she said, I don't think we're going to continue to see the type of gross margin expansion, which I think disproportionately helps that 10% and 20% model. So sure, it's going to get a little bit tougher.

I also think that as long as we can continue to grow the way we have and the market continues to have the kind of demand that we see, our investors should be very pleased if we do something that's -- if it's 10% and 18%, I think that's a pretty darn good outcome. And we're going to take a fresh look this year at our planning. And we'll provide some updates either later this fiscal year or soon thereafter.

Gregory Scott Parrish

Morgan Stanley, Research Division

Great. That's helpful. And then maybe I come back to funding. One question on the fourth quarter number. I think the Career Learning, the 4Q number was pretty strong. I think that's sort of a true-up for the year. Maybe you could help us understand where that came in better than expected. I don't know if there's anything to call out. And then maybe bigger picture heading into '26, I mean, a lot of noise out there, all the federal funding and sort of districts facing uncertainty and state budgets, et cetera. Maybe kind of just flesh out what you're seeing. I know you called out your expectation for flat, but maybe just kind of anything to call out from your conversations with states.

Donna M. Blackman

Chief Financial Officer

Yes. With respect to Q4, you hear me talk more about overall revenue per enrollment as opposed to bringing it out from General Ed versus Career Learning because it really sometimes depends on what the mix is like from -- between General Ed and Career Learning. So I don't typically focus so much on whether it's a General Ed or Career.

What I would say is that -- kind of reiterate what I said in my prepared remarks that we sort of continue to see strength throughout the course of the year. We thought we would have some softness as we did relative to mix. But as the year progressed, those numbers started to improve. And so we ended the year certainly higher as the year progressed. We did have some favorable funding as it relates to some growth funding and some completion funding that happened in Q4 as well. But it's overall strong performance in both General Ed and Career Learning.

And with respect to the funding environment, as I said in my prepared remarks, the funding environment looks favorable. We have some states that are planning to increase while some are remaining flat. And so overall, we think it's going to be a positive funding environment for 2026. And as it relates to -- at the federal level, we don't expect that to have any significant impact on our funding for 2026.

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

I think the good news for us on the funding side is in addition to everything Donna outlined, our partners, given the strength of the funding environment, their financial profiles also continue to improve. So I think just -- there's a lot of residual benefit of having the kind of environment that we're having because our partners have strong balance sheets. And that obviously accrues to the customers that they're serving. And so I think just -- it's a very healthy environment for the overall sector for us to be in.

And as Donna said, the federal side of this stuff, again, everything -- we've said this before. Everything that I think we can see is that there is not any negative repercussion of any of the actions that we can see so far that the federal government is taking. And we're supportive of what we see that they are doing in that they are focusing on school choice for families in this country, which we believe is the right thing.

Operator

Your next question comes from the line of Jason Tilchen of Canaccord Genuity.

Jason Ross Tilchen*Canaccord Genuity Corp., Research Division*

First thing, I just wanted a bit of a follow-up on the comment that was made earlier regarding some of the -- maybe the slower pace of gross margin expansion next year. Maybe if there's anything you could share on where some of those investments in products and services will be focused on, how they could benefit the student or teacher experience. And then more broadly, sort of what are some of the other notable opportunities for cost savings here over the near term?

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

I think -- I don't know, somebody will correct me on the exact numbers. But 4 or 5 years ago, when I took the job, our gross margins were hovering in the 33-and-change percentile and now we're pushing 40%. And I think that's just -- it's a very significant improvement that we've made. All the while, we've tried to balance that with ongoing investments in the programs themselves.

This year specifically, we're doing something I think I mentioned that's going to be a little bit unusual, which is we are offering tutoring services, high-dosage tutoring services to all second and third graders, specifically targeting the one thing that you hear repeatedly within education, which is kids need to learn by the third grade. And if they can learn to read by the third grade, then they can learn other things, right? And that's really what we're targeting is getting kids to learn to read by the third grade.

And that's not an insignificant investment we're making to do that. We're going to see and monitor how effective it is. But as Donna said, that doesn't mean, by the way, we're indicating any contraction in margin. We're finding other ways to fund it, but it just does mean that the expansion is probably going to abate a little bit. I think that the area where we have ongoing opportunity is the same area that the rest of corporate America is talking about is I think there's a lot of efficiency that can be gained in adopting technologies like AI. AI is not the only one, but there are a lot of different technologies that we can adopt that make our operations more efficient. And I think we're going to continue to pursue those as well.

Donna M. Blackman*Chief Financial Officer*

We grew 180 basis points in gross margin this year, 220 basis points last year. And some of the additional investments that we're going to be making to not only just improve the -- to help with the students in terms of the outcomes with the tutoring, but also investing in some of the engagement work we're doing. You've heard us talk about our K-12 zone and investing and operating that as well.

Jason Ross Tilchen*Canaccord Genuity Corp., Research Division*

Very helpful. One quick follow-up, if I may. The Adult Learning business showed a little bit of stabilization in Q4. The decline there was much lower than in the first 3 quarters of the year. Just wondering if you could share anything about the transition that's ongoing there. And anything else you're seeing from the demand environment for those platforms?

James J. Rhyu

Chair of the Board & CEO

Yes. Like, listen, this has been just a miss on our part. It's been a disappointment. I don't think there's really any way to sugarcoat it. The -- obviously, the markets turned against us a little bit, specifically in the technology area. But I think overall in this, we've actually made some changes here in the past couple of months. I think that the demand side of it, particularly on the health care, continues to be an opportunity for us. We need to execute better than we have. And I think there is an opportunity for us to execute better and still get some value out of these things. But certainly, on the tech side, we haven't executed well, and the demand side has sort of turned against us. It's not a great story for us, and we just have to do better there.

Operator

Your next question comes from the line of Alex Paris of Barrington Research.

Alexander Peter Paris

Barrington Research Associates, Inc., Research Division

Congrats on a strong finish to the year. I just wanted to follow up a little bit about the lost contracts, gained contracts that we started the Q&A section with. It was late May that news broke that the Gallup-McKinley school district terminated their contract. I think that was around 4,000 students. So it was not insignificant. And again, some years, you lose them, some years, you gain new contracts. And then roughly 2 months later, you announce this big multi-district deal also in the state of New Mexico.

I just wonder if we can get a little bit more color there. You said a few interesting things. Number one, parents that had students at Gallup-McKinley have moved over to Destinations Career Academy of New Mexico, if I understood that correctly. I'm wondering, what's the magnitude there? And then the second and related question is, was this Destinations Career Academy already up and running? Because I think you noted that there was 3,000 students there in the press release.

James J. Rhyu

Chair of the Board & CEO

Yes. So let me try to unpack this here a little bit. When we encountered the difficulties with the Gallup-McKinley school district, we were uncertain about how those families were going to be able to continue in a program and -- period. Like we just -- we didn't have enough information sort of broadly whether it was going to be ours or theirs or whatever. And so we made a decision to offer those families a spot in a comparable private academy in New Mexico. And our view of it was that we were going to invest in those families irrespective of sort of whatever contractual outcome happened because it was important to us to make sure that we protected those families.

Our team did an amazing job in securing these contracts. And so those families now have, I'll say, a more secure home, if you will, in a similar environment, if you will, that they were previously in. But we did make an offer, and that would have been an investment on our part for these families. It also, by the way, ensured teachers that we employed in New Mexico were able to retain their jobs, which was also important to us, which we also made that decision at potentially investment on our part. Now it's all worked out. But we made that decision before we knew it was going to work out because it was the right thing to do for the families and for the teachers in that state. And we stood by them, and I think they're now standing by us.

But it was dicey. It was difficult. We were not sure that we were going to secure a new set of agreements. Shout out to the districts that signed up with us. I think they worked very quickly and diligently as well. So thank you to them. And I think we've all got the same goals in mind here, which is to ensure seamless

education opportunities for those families. And that's -- we've been able to come together and provide that. And we're very grateful for that opportunity to serve those families.

Alexander Peter Paris

Barrington Research Associates, Inc., Research Division

So that's great. So the 3,000 students already enrolled for the upcoming fall term. Did they come from Gallup-McKinley? Or are they already existing students that you were serving during fiscal '25?

James J. Rhyu

Chair of the Board & CEO

They largely came from the previous program. There are some new students in there as well. But if you think about it, you take -- you start with your 4,000 number that you started with. Well, there's a bunch of students that either will naturally attrit or graduate or whatever. And we go through every year a reregistration process with the schools. And the vast, vast, vast majority of families who have reregistered have reregistered into this program.

Alexander Peter Paris

Barrington Research Associates, Inc., Research Division

So who's left at the Gallup-McKinley? Or is the Gallup-McKinley program closing?

James J. Rhyu

Chair of the Board & CEO

We can't speak on their behalf. We have no idea. All we know is that the families have spoken to us, and they overwhelmingly want to continue in our program. I have no idea what's going on with them. That's for them to decide. But I know what we can control is that we want to continue to support the families in New Mexico. We made a commitment to do so. We wanted to continue to support the teachers in New Mexico. We made a commitment to do so. We backed up our commitment, and we were very fortunate, and we're very grateful to have our new partners in New Mexico.

Alexander Peter Paris

Barrington Research Associates, Inc., Research Division

So last point about that. And just to put it in perspective, if I'm right on that 4,000 number, it's only 4,000 of 234,000 from a financial perspective, from a stock market perspective. So that was a 4,000 hole that we were going to have to overcome, but it looks like that we don't need -- we're not going to have to overcome that anymore given that the families have spoken and they've registered at the Destinations Career Academy of New Mexico, which is your operated site, correct?

James J. Rhyu

Chair of the Board & CEO

Correct. We anticipate no hole to fill. And yes, you have the numbers directionally right. It would have been something probably less than 2% of the total that we would have, in theory, had at risk. But we feel pretty confident that New Mexico is a really strong demand state. We see a lot of demand in that state. We think we're going to continue to perform very well in that state, and we think that the families have really recognized us as the premier operator in that state.

Alexander Peter Paris

Barrington Research Associates, Inc., Research Division

That's great. That's really good news. And then I guess just the last question I'll ask you and I'll get back into the queue is, was there anything from the One Big Beautiful Bill that applies to your business either positively or negatively?

James J. Rhyu

Chair of the Board & CEO

Well, I think -- I have to be honest, I haven't dissected the One Big Beautiful Bill probably in its entirety sufficiently. I think that the sort of the overall corporate tax regime is -- looks to be generally favorable to most companies. I suspect that, that's also going to be generally favorable to us. I think, generally speaking, the line, not just from the tax bill, but the general line this administration is taking is a line of support for school choice. So I suspect that if there are things in that bill that impact us, it would be along the lines of school choice. It would be relatively favorable.

So I just -- again, putting politics aside, I just -- I think that an administration that favors school choice and favors parental choice and wants to put the voice of the families first, that is very much aligned with our mission. And so I just -- I think I give a lot of kudos to an administration that's willing to put families first. And I think that aligns with this company's view as well to make sure that we're putting the families first.

Operator

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

Patrick James McIlwee

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

You have Pat McIlwee on for Stephen this evening. Congratulations on another great year. My first question, James, just to elaborate on your commentary surrounding enrollments. I wanted to ask how much of this persistently strong enrollment trend you've seen that you would attribute to greater shifts in demand for this type of offering versus more company-specific changes you've made to your marketing strategy, word-of-mouth referral or anything else we should be thinking about there.

James J. Rhyu

Chair of the Board & CEO

Yes. It's a really interesting question. And we've -- obviously, we've tried to understand the market dynamics ourselves as well. And I think it's -- fortunately, I think it's a combination. One of the benefits, I think, of scale is you have increasing word of mouth, increasing awareness. We recently did some awareness studies. And I think our brand is really resonating, and the awareness of our brand is increasing. So I think those are all trending in a positive way. I talk to families all the time. And almost to a tee, almost every family I speak to tells me a story about how they referred other families to our programs. So it's -- certainly, that has had some -- given us some positive momentum.

I think we also cannot deny the fact that the overall market demand seems to be growing and increasing. Every survey, our own data suggests that families are increasingly looking for alternatives and increasingly looking for options. And in increasing numbers, that leads them to us or an option like us. I do think that we have been executing pretty well. And so therefore, maybe disproportionately, maybe we're picking up a little higher proportion of those -- of that increase in demand. But I think it's a combination of those things. And I think, again, I talked about our franchise. And I think as we continue to execute well and as we continue to make investments in our customers, I think we believe it will pay long-term dividends for the franchise.

Patrick James McIlwee

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

Right. Okay. That's helpful. And then on the tutoring front, it sounds like you've seen some really nice early acceptance of that offering. And you mentioned that you plan to continue scaling that offering this year. So I just wanted to ask if you could provide an update on how you're thinking about the monetization potential you see for that business and what the timing of that might look like.

James J. Rhyu

Chair of the Board & CEO

Yes. So just to be clear, we offer that platform both "internally" to the programs that we're managing as well as externally. It's getting in the external, if you will, market. That's sort of a market rate they're going to pay and it gets monetized in a normal way. I think that our business has a couple of

unique characteristics that distinguish us in the marketplace that we know both districts and states are increasingly honing in on. One is we're staffed with certified teachers. That's important. We also -- it's all -- it's certified teachers in the U.S., and it's a wholly U.S.-owned company. And I think in some states, that's becoming increasingly important. And so that gives us some distinguishing characteristics.

And so we're seeing traction not just with the programs that we manage, but also with other districts. A number of states are supporting sort of tutoring. And depending on the state, some states are putting dollars behind it. Some states are sort of advocating for it. And we think that, that trend is going to continue because we do see tutoring does give measurable academic gains for kids. And we're also investing in the platform itself such that the tutors have access to better technology, more materials. Obviously, we're looking at ways that we can infuse AI appropriately into our academic models, including tutoring. And so all those things and all those investments over time, I think, will provide more efficient means of tutoring, better teacher tools, better tutor experiences, et cetera. So I think there's good traction here that we're starting to see, and I expect it would continue over the next few years.

Operator

Your next question comes from the line of Gowshi Sri of Singular Research.

Gowshihan Sriharan
Singular Research, LLC

Can you hear me? Can you guys hear me?

James J. Rhyu
Chair of the Board & CEO

I can hear you.

Gowshihan Sriharan
Singular Research, LLC

First-time caller -- congratulations on your results. First-time caller, longtime listener. What are the operational regulatory or partner constraints currently that limits your ability to convert the demand into incremental enrollments? If you can talk about how much you had to quantify on how many applicants you might have to underway. And is there any initiatives that will increase your addressable seat capacity next year?

James J. Rhyu
Chair of the Board & CEO

Yes. So the constraints, they tend to be on, I'll say, sort of multiple levels. So I think right at the end there, you probably addressed one of the constraints. And there are programs that we manage that have some kind of structural constraint, whether it's a cap or our partner doesn't want to exceed a certain limit of enrollments for some reasons. Sometimes, we purposefully regulate the enrollments because we want to ensure there's -- we operate under certain state standards or state frameworks. And so we want to make sure that we're getting the best outcome for the longevity of the program and things like that. So there's a lot of factors that will go into sort of an accountability standard in a state or something like that.

And then there's just the sort of the operational, I'll say, conversion metric, if you will, of funnel conversion metrics that improve the lead conversion rate into an application and the application conversion rate into an enrollment. And a lot of that has to do with just sort of the operational mechanics of contacting families and how easy you make the application process for them and ensuring that they're not overburdened with document requirements and things like that. And so we look to improve the customer experience at all levels while also focusing on the outcomes. And there's a little bit of a balance there that we're always striking.

We've been able to really make those improvements over the last several years so -- such that we see -- we sort of have line of sight into the fact that we know if we do certain things and pull certain levers, we're going to improve our outcomes. And -- but again, it's always a balance. And so we continue to try

to optimize that balance. And I think we've been doing a pretty good job, and I think we have room to continue improving though.

Gowshihan Sriharan
Singular Research, LLC

Okay. On the enrollment per revenue per growth in the Career Learning segment kind of outpacing the General Ed, is this sustainable? What are the kind of mix pricing or state formula changes that might -- that will allow it to persist?

Donna M. Blackman
Chief Financial Officer

One of the comments I made earlier is when I'm looking at the revenue per enrollment, I am looking at it combined, gen ed and career. It's not like it's just -- it's not as if the funding is different for gen ed versus career. It really is a matter of mix. So when I talk about the funding environment for next year looking favorable, I am speaking about it in general, in total for Career Learning versus -- and General Education. And so we're not looking at one versus the other. And so that difference really, really depends on what the mix is, where we're growing from a Career Learning standpoint, where we're going from a Gen Ed standpoint.

Gowshihan Sriharan
Singular Research, LLC

Got you. And then the Adult Learning, given its size now and -- would you consider selling or winding it down or aggressively overhauling it? I mean what are the KPIs are you using to measure B2B transition progress?

James J. Rhyu
Chair of the Board & CEO

Yes. I think -- listen, I mean, it's -- overall, it's not a material part of our business. We do think it can generate incremental value. We're not a seller right now of that business. We see some of the operational things that we haven't executed well against, and we think we can do better. And so we're focused on just operating that business better every day, and I think we will see improvement over time. But it's not a drag, you know what I mean? So it's -- and it's not -- it hasn't proven to be a distraction. And so I think as long as it's not a drag and it's not a distraction and we think there's value to be created there for our shareholders, we're going to continue to try to operate it better.

Operator

Thank you. We've reached time for questions. This now concludes today's conference call. We thank you for your participation. You may now disconnect.

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