Stride, Inc. NYSE:LRN

Earnings Call

Tuesday, January 27, 2026 10:00 PM GMT

Call Participants

EXECUTIVES

Donna M. Blackman
Executive VP & CFO

James J. Rhyu
Chair of the Board & CEO

Timothy Casey
Vice President of Investor Relations

ANALYSTS

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

Gregory Scott Parrish
Morgan Stanley, Research Division

Jason Ross Tilchen
Canaccord Genuity Corp., Research Division

Jeffrey Marc Silber
BMO Capital Markets Equity Research

Patrick James McIlwee
William Blair & Company L.L.C., Research Division

Presentation

Operator

Thank you for standing by. My name is Tina, and I will be your conference operator today. At this time, I would like to welcome everyone to the Stride Second Quarter Fiscal Year 2026 Earnings Call. [Operator Instructions] It is now my pleasure to turn the call 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 Second Quarter Earnings Call for fiscal year 2026. 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 J. Rhyu
Chair of the Board & CEO

Thanks, Tim, and good afternoon, everyone. I'd like to begin our call today by providing an update on the platform issues we discussed last quarter. I think the bottom line is that we've executed on our plan and the core issues are behind us. Our focus now is to drive ongoing improvements that continue to enhance the customer experience. We will continue to build on the progress that we have made so far. And insofar as possible, we will work to find proprietary solutions in order to maintain more control of the user experience. I'm confident we will not have a recurrence of these issues in the upcoming season.

In addition to the stabilization of our platforms, we also saw continued strength in demand for our products and resiliency in our existing enrollments. The trends that have driven our strong enrollment growth over the last few years remain. Families continue to seek alternatives to the traditional model of education to address their specific needs. So we were able to take advantage of the strong demand in applications to backfill much of our attrition during the quarter and end the quarter basically flat with the prior quarter. Our goal this year is stability and not growth. So that's what we prioritized.

Now there were still some uncertainties as we headed into this quarter, most notably, how would withdrawal trends shape up as we started the second semester. I'm pleased to share that so far, second semester withdrawal rates are within historical norms. Now I'd like to circle back and discuss our approach to rolling out new platforms and why it is strategically important to us to make these investments. We operated a proprietary set of legacy platforms that were over 20 years old and a lot of technical debt, and we're not going to scale with the business as we needed them to. So we went to the market to get what we believe and what the market has confirmed are market-leading platforms to replace our outdated ones. That thesis still holds true.

However, we also want to ensure that we don't place too much reliance on third parties. So as part of our road map, we are working with our platform partners to build an architecture where we also have a degree of influence and control over our own destiny. This will be an evolving ecosystem, which prioritizes our customer needs, and we are investing now to ensure we have plans in place to be able to move forward productively either way. We are confident the primary issues from this fall are behind us. The primary evidence we can point to are the reduction in the number and types of calls to our customer support center. As an example, after we addressed a significant login issue a couple of months ago, call volumes dropped over 90% week-over-week. Qualitatively, we've also seen a significant decline in the commentary on social media discussing the challenges students are facing on the platform.

Now thankfully, the families in our community are resilient and our teachers and school staff are superheroes. We continue to be in contact with them and solicit feedback as we roll out new improvements. And given the trends we are seeing in demand, withdrawals and customer experience, we believe we are well positioned for a return to our expected growth patterns next year. I want to thank all of the Stride employees and school staff who spent the last quarter moving us forward and toward our end goal of delivering results and an experience we can all be proud of. With that, I'll turn the call over to Donna, who will talk more about our financial results. Donna?

Donna M. Blackman
Executive VP & CFO

Thank you, James, and good afternoon. Our employees and school staff continue to work hard to meet the needs and improve the experience of the families we serve, and we continue to see strong demand for our core offerings as families seek us out for educational alternatives. Our results this quarter reflect that continued demand.

Some highlights from our quarterly results. Revenue of $631.3 million, up nearly 8% from the second quarter of fiscal year 2025. Adjusted operating income of $159 million, up $23.4 million or 17% from last year; adjusted EPS of $2.50, up $0.13 from last year; adjusted EBITDA of $188.1 million, up 17% and capital expenditures of $16 million, up from $14.8 million last year.

As a result of the continued demand for our offerings and the stabilization of our withdrawals, our total enrollments for the second quarter were 248,500, up 7.8% from last year and up slightly from the first quarter. Revenue in our Career Learning middle and high school programs grew 29% to $275.6 million, driven by enrollment growth of 17.6% year-over-year. General Education revenue declined 3.6% to $341.4 million compared to last year. Average enrollments were up slightly from last year to $137,000, but revenue per enrollment was down 3.6%, largely due to mix. Total revenue per enrollment across both lines of revenue were $2,437, up 1.8% from last year.

As we mentioned last quarter, we are generally seeing a positive state funding environment. However, we still anticipate some impacts from state and program mix and timing, so we expect to finish the year flattish to last year. Gross margins for the quarter were 41.1%, up 30 basis points from last year. During the quarter, we recognized a gain related to a noncore business. We were able to reach an agreement to exit a long-term commitment in that business, which positively impacted gross margins. As I mentioned on the call in October, we will continue to see additional expenses related to the platform implementation throughout the rest of the year, and we now expect full year gross margin to be similar to FY 2024.

Selling, general and administrative expenses totaled $112.8 million, down nearly 2% from last year. We saw some benefits from the continued rightsizing of our adult learning business, and we also pulled back our marketing spend during the quarter. Stock-based compensation for the quarter was $10.3 million, an increase of $2.4 million compared to last year. We expect to see stock-based compensation in the range of $41 million to $43 million for the full year.

Now turning to our balance sheet and cash flow. Capital expenditures in the quarter were $16 million. Free cash flow, defined as cash from operations less CapEx, was $75.9 million compared to $208.6 million last year. Cash flow during the quarter was impacted by the timing of some payments, specifically a large receivable we typically get in Q2 was pushed to Q3. We don't think there's any risk for this payment, rather it's a timing issue between quarters. We finished the quarter with cash, cash equivalents and marketable securities of $676 million. As in past years, we expect to see positive free cash flow for the balance of the year.

In November, our Board authorized the repurchase of up to $500 million in shares. The authorization allows us to purchase shares through October 31, 2026. During the second quarter, we repurchased $88.6 million in shares. Even with this authorization, we will continue to consider our best use of cash and our capital allocation priorities remain unchanged. We will continue to balance investments in organic growth and potential M&A transactions with our share repurchases. As we've said in the past, our strong balance sheet enables us to maintain financial flexibility.

Now turning to our guidance. As James mentioned, we are seeing positive trends in demand and overall customer experience, and we are reaffirming our full year revenue guidance of $2.480 billion to $2.555 billion. Given this year's trends, I want to provide a little more commentary on seasonality. Over the past few years, we've seen the second half revenues weighted towards the fourth quarter. This year, our quarterly enrollment trends are slightly different, and therefore, we believe that the third and fourth quarter revenues will be more evenly split. Also, it's important to remember that many schools start closing enrollment for the full year in the third quarter. So even with the demand remaining strong, we still expect our third quarter average enrollment to be similar to the first and second quarters. Historically, we have seen seasonal decline in enrollments during the fourth quarter, and we expect comparable trends this year.

Now returning to our guidance. We expect adjusted operating income between $485 million and $505 million, up from our prior guidance of $475 million to $500 million. Capital expenditures between $70 million and $80 million, unchanged from our prior guidance and an effective tax rate between 24% and 25%, also unchanged. For the third quarter of 2026, we expect revenue in the range of $615 million to $645 million; adjusted operating income between $130 million and $140 million and capital expenditures between $16 million and $21 million.
We feel confident that the biggest challenges to our tech implementation are behind us. We still have work to do, but we believe we are well positioned to see continued long-term growth based on the strong demand we see for our offerings. Given this, we believe we remain on track to achieve our FY 2028 financial goals. These goals allow us to continue to appropriately invest in the business to ensure that we are set up for long-term success. Thank you for your time today. Now I'll turn the call back to the operator for questions. Operator?

Question and Answer

Operator

[Operator Instructions] And our first question comes from the line of Alex Paris with Barrington Research.

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

Congratulations on an outstanding quarter. What a difference 3 months makes. So I got a couple of questions. I'm going to start with enrollment. Enrollment was certainly in line with your guidance and a little bit better than consensus expectations as you offset elevated attrition by in-year enrollment. I just wanted to get a point of clarification. James, you said withdrawal trends in the second quarter are within historical norms. So have we returned to a more normal attrition rather than the elevated attrition we talked about last quarter?

James J. Rhyu
Chair of the Board & CEO

Yes. So just to be 100% clear, we are 3.5 weeks, I guess, into this month. And so there's not yet a full quarter of data. So I don't want to say the quarter. But yes, we -- in the January month to date, which is where we actually had, I think, the sort of -- that sort of second semester risk potential where a lot of withdrawals would happen for the second semester, we saw withdrawal rates return to normal levels, which was very good news for us.

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

Yes, absolutely. Good news. All right. And then demand, both you and Donna said demand continues to be robust as measured by applications, I'm assuming. Any degradation or any increase or just continued strong? How would you characterize that? Or just a little additional color would be helpful.

James J. Rhyu
Chair of the Board & CEO

Yes. I think you're right. And sorry if I didn't clarify, demand, we measure demand through application volumes, and demand continues to be strong. Last year was a like by far, a record-breaking year, and we're seeing volumes that are similar to last year. So -- and I would say, for a little bit of context, this is -- we're seeing very strong demand volumes at a time where we're not as aggressively in market either trying to acquire enrollments. So that really speaks to a little bit of the strength of the organic demand that we see for our programs, which is also, I think, long-term good news.

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

Absolutely. And then the last question I'm going to ask, and then I'll get back in the queue. I just -- so really great news to see that attrition has sort of stabilized and is back to a more normalized level. I get it that we're early in the second semester here. I had a question about school or program relations since this summer. Obviously, this was unexpected, not only for investors, but also for those who run -- those who are in charge of the programs that you run. What are you hearing from your schools, the Boards of Trustees of the schools with regard to the issues that you faced and the remediation efforts that you have embarked on so far? And what have you done to be in front of these clients? And any additional color there would be helpful.

James J. Rhyu
Chair of the Board & CEO

Yes. It's actually a great question. I think the first thing I would say is that we have just really fantastic partners. I think most people know that we have basically two categories of partners. We have these independent charter school board partners and then we have these districts, which are brick-and-mortar school districts predominantly, and they partner with us to offer this full-time offering -- a full-time online offering. And I'll say, when you have a failure in your system somewhere where your partners are relying on you, I think it's natural for your partners to be frustrated and upset. And I wouldn't expect anything different. I think the thing that I see -- and we actually had late in the fall after we announced this, we actually had a summit for our partners where -- we bring all our partners into the office here. And I think that I see is that our partners understand and recognize, by and large -- it's not that they don't have frustration. They understand that we have shared mission. And I think that shared mission gives us a common sense of purpose. And that common sense of purpose allows us to work through these issues together. And I think it's really productive. Again, that doesn't say that some of our partners aren't frustrated. Of course, they're frustrated on behalf of our clients just as we are. And I think I understand and appreciate the frustration that they have. But we had a record turnout here for our summit. I was able to personally speak to a lot of our partners. A lot of our partners expressed a lot of faith in our ability to turn this around. So we're just very appreciative of the partners that we have. I think in a different situation, our partners could have reacted differently. I think they stay the course. They understand we have a common mission, and I think it's been very productive.

Operator

Our next question is from Greg Parrish with Morgan Stanley.

Gregory Scott Parrish
Morgan Stanley, Research Division

Congrats on the stabilization here in the quarter. I wanted to double-click on the potential for in-year enrollment growth in third quarter because -- I mean, it sounds like the core platform challenges are behind you, withdrawal rates are within historical norms and demand is still strong. So I'm not really understanding why you wouldn't grow. You grew 10,000 students sequentially last year. So maybe you're taking a cautious approach just given the last few months or maybe there's something else to call out, but I just wanted to help understand that.

James J. Rhyu
Chair of the Board & CEO

Yes. I mean, I guess I would -- first of all, I would really caution investors or analysts to get maybe ahead of themselves here. And I think the answer is actually really a follow-up to the last question that Alex asked with our partners. We just think it's prudent, and I think our partners think it's prudent to give ourselves time to settle in here for this year. And could, in theory, do we see demand trends that theoretically could allow for growth? Probably, yes. Do we think it's the right thing to do? I don't think so. And when you go through a tough few months like we have, putting your foot back on the gas, I think just it sends the wrong signal all around to our partners, internally to our employees. And so it's just not the right thing to do long term for our business. So it's not what we're going to do. It has really no correlation to the demand or the withdrawal characteristics. It has to do with setting ourselves up for long-term success. And that's sort of the decision that we've made and sort of the decision we're going to stick with.

Gregory Scott Parrish
Morgan Stanley, Research Division

Yes. Okay. That's fair and helpful. So I mean, is the right way to think about it that I mean, you're going to potentially turn some students away here and say, hey, we don't have capacity because we're sort of ingesting where we're at. Is that one way to think about it?

James J. Rhyu
Chair of the Board & CEO

Every year, by the way, for a host of reasons, we do not have enough capacity for the demand, say every year, every year in the past few years for sure. For a whole host of reasons. Sometimes it's because we have caps, sometimes it's because we don't have just enough -- whether it's teacher capacity or whatever the reason, our partners want to cut enrollments off at a certain date. Whatever the reason, we always deal with this. We deal with it at different orders of magnitude. As I think Donna mentioned, during this semester, in a normal year, enrollment windows will be closing anyway. So anybody who's applying after the enrollment window gets turned away. So again, this is not an unusual circumstance from that perspective. It's -- we have people who essentially get put on a waitlist or get deferred. We often encourage our families to apply for the fall. We help them do that. So it's not an unusual situation for us. It's a situation I think we'll manage and handle very well. I think the good news is that the demand for our products and services continues to outstrip the capacity and supply that we have. And as long as that continues into the future, I think we're set up well. I think also the overall trends, forget about just the demand and applications that we're seeing. I think we continue to see the overall macro trends for our business for alternative forms of education continue to grow. And I think, again, long term, that bodes well for our business. I think we've got to be really careful not to make shortsighted short-term decisions. I think we're trying to do things that will build value for our customers over the long term. And so I just don't think it's that unusual of a situation that we're in, and I think that we know how to manage through it.

Gregory Scott Parrish
Morgan Stanley, Research Division

Yes. Okay. That's very helpful color. And maybe just a couple more cleanup questions for me. On the revenue per enrollment, and I'm sorry, maybe this is a little messy, but I know it can be noisy as you accrue through the year, but the Gen Ed revenue per enrollment down 4. I think you called out mixed Donna and then Career Learning up 10. Maybe just help us unpack there if there's anything sort of onetime or how to think about why those moved so much.

Donna M. Blackman
Executive VP & CFO

Yes, Alex, and part of the reason why I've sort of been sort of focused on the combined revenue per enrollment is because the revenue per enrollment between Gen Ed and Career as well as the enrollment between Gen Ed and Career can get a little bit wonky, right? And so as we -- when we typically talk about mix, we think about it from a state perspective. But there's also a mix between Gen Ed and Career, right? So as we think about how we do the forecasting of our enrollment, and if we forecast our enrollments with an assumption for Gen Ed and we have more Career than we have Gen Ed or vice versa, we still have to do a true-up adjustment, right? It doesn't impact the full year. It doesn't impact the total number, but it could impact the variance between Gen Ed or Career. So it gets a little bit wonky. And so overall, the impact of our revenue per enrollment for the year, as I said, will be flat. The impact of the revenue per enrollment for the quarter, I would sort of focus on the total as opposed to the difference between Gen Ed and Career is really, as I pointed out in my prepared remarks, about state mix and also about program mix. When I say program mix, I mean between Gen Ed and Career and also some timing as well.

Gregory Scott Parrish
Morgan Stanley, Research Division

Okay. That's helpful. And maybe just a last sort of model cleanup question for me. I think you called out some long-term agreement adjustment that benefited gross margin. I'm sorry if I missed it, but can you size that at all? I don't know if either in dollars or what sort of gross margin would have been excluding that impact? Any way for us to think about it?

Donna M. Blackman
Executive VP & CFO

Yes. The total amount -- it's really -- you may recall, when we purchased our boot camp business, we purchased a community business, which is sort of a business where you can lease space. And so it was not core to our business. And so that business, we have been sort of talking about trying to get rid of that business. We've had some success over the years and getting rid of small parts of it. We were able to negotiate and get out of one of the larger leases that were set to expire in 2030. The impact on that -- on the gross margins in Q2 was roughly around 200 basis points.

Gregory Scott Parrish
Morgan Stanley, Research Division

Okay. And that doesn't sound onetime then, right? Because you got out of that lease, so that should come out of your cost base on a go-forward basis. Is that right?

Donna M. Blackman
Executive VP & CFO

Yes, right. So we will no longer have that lease expense that we would have otherwise had through 2030.

Operator

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

Jason Ross Tilchen
Canaccord Genuity Corp., Research Division

Just to go back a little bit to Q2, I was hoping maybe we could unpack the overall enrollment growth. You mentioned sort of increased about 800 students sequentially. Can you just talk about the level of gross adds and withdrawals relative to a typical Q2 that you saw? And maybe a little bit more color you can share on what some of the conversations were that you had with some of the families who are experiencing some of these issues, that would be very helpful.

James J. Rhyu
Chair of the Board & CEO

Yes. So we don't really disclose specific withdrawal volumes and things like that. And so I think what I would just say that with demand being as strong as it is, we were able to backfill, I think, pretty effectively, and that's a good thing. I think when we talk to the families and it's really actually pretty amazing how resilient the families themselves are because -- and I've had a chance to talk to a number of families myself personally and the sentiment tends to be I need this alternative. And basically, I'm willing to grit and bear some of the pain, if you will, because of how important this alternative is to me and my family. And that's a pretty, I find eye-opening testament to how important, I think, structurally these types of programs are within our society. And obviously, particularly in the earlier days of the fall, the user experience was difficult for a lot of families. And for as many families as we saw really grit through it with us, it's a real testament to their resiliency and I think a real testament to the need for some of these alternative programs that we operate. And so I think the conversations are never easy. When you're disappointing a customer, the conversation is never easy. And I can just -- I don't know that I had a statistically significant number of conversations where I can say that it was representative. But I think the numbers sort of bear it out that you don't have this many families persist in a program that had some technical glitches for this long if they're not really resilient and if the alternative program isn't that important to them. So I think that's sort of the message.

Jason Ross Tilchen
Canaccord Genuity Corp., Research Division

Okay. Really, really helpful. And then just in terms of the sort of the operational performance of the platform today sort of relative to historical normal operations. Can you just give us a little bit of context about how things are performing, if there are still any issues that are in the process of being resolved? And then just sort of the follow-up to that is maybe a little more color on the road map to continuing to work on sort of in-housing some of that tech over time.

James J. Rhyu
Chair of the Board & CEO

Yes. I think the context in the answer to this question is that prior to this year, we were dealing with an increasing number of issues on the platform. That's sort of what I was referring to in our comments to the technical debt that we were incurring that was growing year-over-year. And so it's not like the previous platforms were not experiencing issues. And I think that sort of when you get back to a place where most platforms like this are going to -- they're not perfect. And so yes, are there still issues that pop up from time to time? Of course. No different than prior platforms. So -- and there are edge cases often, whether that's whatever the device somebody is trying to use as an edge case or the software somebody is trying to use as an edge case or the connectivity that they have is an edge case. And so we obviously -- we try to eliminate as many of those edge cases as possible. But I feel like we're at a point where we have a good foundation now to build off of. And I think we learned a lot through this experience. And I think that we need to make sure that we have better redundancy and a lot of what we're trying to do is to ensure sort of better redundancy. We still have to rely on our third parties. And I'm hopeful that our third parties are going to continue to step up and be good partners. And I think that we have, through this experience, gotten a lot of feedback from our customers. And a lot of it has to do with the user experience, how the workflows are, the sort of distinguishment in grade levels and sort of what's more appealing for lower grade levels versus middle-grade levels versus upper grade levels. And a lot of those things are things that over time, we can just continue to refine and build and iterate into our system and continue to get that feedback and improve. So I'm optimistic. I think we've got a long road ahead of us of creating really incredible experiences for our customers. And just to round out the answer, that's not exclusive to the academic elements of the experience. We are investing in a lot of elements of the experience that actually extend beyond the academic elements that just give a fuller, richer experience to the families.

Operator

The next question is from Stephen Sheldon with William Blair.

Patrick James McIlwee
William Blair & Company L.L.C., Research Division

You have Pat McIlwee on for Stephen. And congratulations on all the progress you made this quarter. My first question, James, you've acknowledged that you still have some work to do here, but you've clearly made a ton of progress since the fall. So if we were to assume that you're largely past the issues you saw that last fall, how are you thinking about the risk from any negative word-of-mouth activity going forward and the risk to top of funnel trends heading into next year. Is there any sign that, that could have a more lasting impact?

James J. Rhyu
Chair of the Board & CEO

Yes. So I actually think that we were worried about that pretty acutely in the fall. And I think that we were concerned that, that sort of overhang, if you will, of bad press, bad word of mouth, whatever, would carry over into, I'll say, sort of a post normalization period. And we've just not seen evidence of that. In fact, I would actually suggest we've seen the opposite. We think that we had momentum in sort of word of mouth. I mentioned earlier that our demand characteristics continue to look strong, and they look strong in spite of us being less aggressive in the marketplace, as you can imagine, as we're sort of tempering our growth this year. And so when you see the organic strength that we've seen in demand, that would run counter to an assumption that there would be this overhang in sort of negative sentiment. I think it speaks to the macro conditions of our business that are very strong and the strength of 25 years operating this business as a leader. And the reality is if you're -- and this -- we've done some sort of, I'll say, "focus groups" or talk to some families about some of their experiences. And if you're not in the market for this alternative, there's really no reason for you to hear the negative sentiment. And when you're in the market, largely, you're not going to the places where you're going to hear the negative sentiment because you need this alternative. And so we just haven't seen evidence that the demand characteristics are negatively impacted so far, at least by an overhang of sentiment around what happened this fall. We just haven't seen it.

Patrick James McIlwee
William Blair & Company L.L.C., Research Division

Okay. That's really encouraging. And one more on margins. I understand there was some onetime benefit to the gross margins this quarter, but G&A also took a nice step down. Can you talk about how you managed to drive that efficiency despite the unforeseen circumstances you were dealing with in the quarter and maybe some of the labor and capital that might have required?

Donna M. Blackman
Executive VP & CFO

Yes. One of the things that we have been talking about for the past couple of years is that we've got to -- internally, I say to our senior management team, we've got to remain disciplined during the good times. So when things are difficult that we can continue to maintain that level of discipline. We continue to be disciplined. With that discipline, there are a couple of other things that we've done. And I said it in my prepared remarks, we continue to rightsize our adult business. Given the sort of stability and the focus on stability and not growth, we sort of pulled back on our marketing spend. And so those are some of the things that we've done to be able to reduce the costs in our SG&A. And so some of the additional costs you might expect given the impact of our platform challenges that we have, you would see those in our gross margins, not in our SG&A.

James J. Rhyu
Chair of the Board & CEO

I also got to say, give a huge shout out to the team here. The team here that have been working to resolve some of these problems, I mean, they've been working 24/7 for the past several months, and they just don't give up. They're on top of it. I mean it's just -- it's really amazing to see how our mission has rallied our employees on behalf of our customers. And listen, again, it's not perfect. Not everything is perfect. But we just see a lot of employees just step up in amazing ways. I mean just the number of stories I could tell you that are countless on the way that the employees in this company just step up because they believe so much in our customers, and they want to help our customers so much that it's not sustainable, by the way. But you get a lot of leverage out of that when you have employees that are that committed.

Operator

[Operator Instructions] Our next question comes from the line of Jeff Silber with BMO Capital Markets.

Jeffrey Marc Silber
BMO Capital Markets Equity Research

I know you're focused on maintaining stability this year, and that makes a lot of sense. And then you're not going to give specific guidance next year, but I'm just curious, in terms of potential new partner pipeline, can you talk a little bit about that? And I'm just wondering how discussions are going based on what happened a few months ago, if there's been any change?

James J. Rhyu
Chair of the Board & CEO

Yes. So it's sort of an interesting and timely question only because I was visiting a potential partner last Friday. I won't give you the state, but it wasn't an easy state for me to [fly in and out of it]. And we dealt with the questions of what happened this fall pretty directly and I'll say, reputational issues that they might have questions around. And I spent a couple of good hours with this potential partner. They haven't signed yet, but they gave no indication that any issues that we've had, whether they're platform related or otherwise, by the way, reputational issues that may be floating around in the market. They're just sort of unconcerned because, again, and this is sort of, I guess, maybe how powerful the macro conditions are and the mission is that they really believe in what we're doing. They recognize that we're the leader. They want to help families in their state, and they think that their state deserves these types of alternatives, and they really want to be a part of it. And so again, I just -- I can't speak for every partner, every potential partner or whatever. I just happened to be visiting one last week, and there's no overhang that I have experienced from a potential partner on this past fall or sort of any events that have happened in this past year or so.

Jeffrey Marc Silber

BMO Capital Markets Equity Research

Okay. That's very helpful. You also mentioned that you cut back a bit on marketing expenses in the second quarter. Should we expect that to ramp back up, especially in the fourth quarter as we're entering into the potential enrollment season?

Donna M. Blackman
Executive VP & CFO

Our assumption for the back half of the year is that our SG&A will continue to benefit from some of the -- what you saw happening in the first half of the year. We want to sort of maintain that level of flexibility in Q4. We typically start to ramp up a little bit in Q4. And so we want to have some flexibility there. But when you think about the overall SG&A in the back half of the year, we will expect that number to continue to be reflective of what you saw in Q2 and maybe down a little bit. But we have some flexibility to ramp up on the marketing spend as we get to later in the fiscal year.

James J. Rhyu
Chair of the Board & CEO

And I think that just from a planning perspective, we expect in the normal cadence of the rest of this fiscal year and going into next fiscal year to be in market business as usual. There is no expectation that we would not be returning to business as usual for the fall season in whatever cadence that is this year or next year.

Operator
With that, this concludes today's closing remarks. You may now disconnect.