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**Stride, Inc.** NYSE:LRN

*Earnings Call*

*Tuesday, April 28, 2026 10:00 PM GMT*

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# Call Participants

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## EXECUTIVES

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

**Donna M. Blackman**  
*Executive VP & CFO*

**Eliza Henson**  
*Manager, Investor Relations*

## ANALYSTS

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

**Jeffrey Marc Silber**  
*BMO Capital Markets Equity  
Research*

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

# Presentation

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## Operator

Hello, and thank you for standing by. My name is Tiffany, and I will be your conference operator today. At this time, I would like to welcome everyone to the Stride Third Quarter Fiscal Year 2026 Earnings Call.

[Operator Instructions] I would now like to turn the call over to Eliza Henson, Manager of Investor Relations. Eliza, please go ahead.

## Eliza Henson

*Manager, Investor Relations*

Thank you, and good afternoon. Welcome to Stride's Third 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 questions you may have. Now I'll turn the call over to James.

## James J. Rhyu

*Chair of the Board & CEO*

Thanks, Eliza, and good afternoon, everyone. I'd like to start off with an update on the platform issues we experienced earlier this year. As I mentioned last quarter, we continue to execute on the road map for stability and improvements. As we close out this school year and preparations have already begun for the coming fall, we are heads down making sure our customers get the best experience possible. So I'm comfortable with our progress and believe we are on the right track as we prepare for the fall season.

And as we have discussed previously, the demand for our products and services, as indicated by application volumes continues to be strong relative to historic levels. And while our focus is on finishing this year executing against our road map, we believe the demand environment sets us up well for the future. And although we experienced a marginally higher level of attrition since I gave an update on our last call, this was not unexpected. We continue to monitor, but we are confident it won't harm our long-term prospects.

I believe the macro environment for school alternatives like ours continues to be a long-term trend that will serve as a tailwind to our business. Our job right now is to maintain focus and execute through the rest of this year and into the fall, so that the students and their families can continue to choose the options, including our programs that they deserve. Thank you, and I will now turn the call over to Donna.

## Donna M. Blackman

*Executive VP & CFO*

Thank you, James, and good afternoon. As James mentioned, we are seeing strong demand for the fall as measured by application volume, and we remain confident in the long-term growth in the business.

This quarter's results reflect continued demand and solid execution across the business, and I'll start by reviewing those results. Total enrollments grew 1.8% to 244,500 and total revenue for the quarter was \$629.9 million, up 2.7% compared to last year.

Revenue in our career learning, middle and high school programs grew nearly 16% to \$259.5 million, driven by strong enrollment growth of 11.6%. General Education revenue was \$357.5 million, down 3.6% compared to last year, driven by an enrollment decline of 5%, which was more than offset by the growth in our Career Learning business. As we think about next quarter, it's important to remember that we anticipate enrollment decline as most of our programs no longer accept enrollments during the fourth quarter.

We are focused on converting these leads into new enrollments for the upcoming school year, and we expect a sequential decline next quarter like we typically do every year from Q3 to Q4. Total revenue per enrollment across both Career Learning and General Education was \$2,485, up 2.9% from \$2,415 last year. As a reminder, revenue per enrollment can vary between General Ed and career due to program and state mix as well as timing. So we encourage investors to focus on total revenue per enrollment, which, as I've said previously, we believe is the most representative measure of underlying performance.

Given this quarter's results, we expect total revenue per enrollment for the full year to be up roughly 2% from last year. We've received a lot of questions about next year's enrollment expectations, and I want to reiterate that it is still very early in the enrollment season. We should have a better picture of the enrollment landscape during the fourth quarter call as well as more color on the funding environment as states finalize their budgets in the coming months.

Turning back to the results from the third quarter. Gross margins at 36.8% for the quarter was down 380 basis points. We expect to finish the year with gross margins in the range of 37% to 37.4%. Now let me provide a bit more color on gross margins. The year-over-year decline is primarily driven by continued investments in the business, including those related to our platform rollout as we support the transition. We would expect a portion of these costs to moderate as we move into FY 2027. Selling, general and administrative expenses totaled \$102.5 million, down \$16 million or 13.5% from last year.

We expect to finish the year with SG&A down 6% to 8% compared to last year. Stock-based compensation for the quarter was \$9.6 million. We now expect to finish the year with stock-based compensation in the range of \$40 million to \$42 million. Adjusted operating income was \$140.4 million, down 1%. Adjusted EBITDA was \$171.3 million, up 1.8%. And adjusted earnings per share for the quarter was \$2.30, down \$0.03 from last year.

As in years past, we expect fourth quarter profitability to be less than the third quarter as we ramp up marketing and other spend for the upcoming school year. Now moving to our balance sheet. Capital expenditures for the quarter were \$18.5 million, up from \$15.8 million last year. Free cash flow, defined as cash from operations less CapEx, was \$202.4 million, up from \$37.3 million last year. For the year, we expect free cash flow to be flattish to last year.

We finished the quarter with cash, cash equivalents and marketable securities of \$856 million. Turning to our guidance. For the full year, we are narrowing our revenue, AOI and CapEx guidance ranges and affirming our effective tax rate guidance. For the balance of the year, we expect revenue in the range of \$2.490 billion to \$2.520 billion, narrowed from \$2.480 billion to \$2.555 billion last quarter.

Adjusted operating income between \$490 million and \$500 million narrowed from \$485 million and \$505 million last quarter. Capital expenditures between \$75 million and \$80 million, narrowed from \$70 million and \$80 million last quarter and an effective tax rate between 24% and 25%, unchanged from last quarter. As you'll note, the range of revenue implies fourth quarter revenue below the fourth quarter of last year, driven by marginally higher attrition rates and tough comparisons associated with the timing of funding true-ups.

We do not, however, believe this is indicative of any change in underlying demand trends. We continue to see positive trends in demand and customer experience, and we remain optimistic about the coming school year. We believe that our investments in the business are setting us up for long-term success and

the ability to meet the demand of families seeking alternative education options. Thank you for your time today. Now I'll turn the call back over to the operator for Q&A. Operator?

## Question and Answer

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### Operator

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

### Jeffrey Marc Silber

*BMO Capital Markets Equity Research*

I appreciate the timing in terms of trying to gauge enrollment for next year. But I was wondering if you can comment on the contract renewal pipeline or new business. I'm just wondering how that's going, if you're seeing any pushback from some of the issues that you incurred last summer.

### James J. Rhyu

*Chair of the Board & CEO*

Yes. Jim, I think sort of 2 separate questions, and I think they have sort of similar-ish answers, but one may be more positive than the other. I think with our existing clients, we -- first of all, we're very thankful that our existing clients remain, I think, really positive on our programs. They understand the value that together, we're able to deliver and the value that we can bring to those programs.

So we still think that we have very good relationships with our partners. I mean, clearly, we have partners that aren't happy about things that have happened over this past year. But in general, they're working collaboratively with us, and I think they're pretty understanding. On the new business development side of it, interestingly, we have seen no negative impact in terms of doors that are opening for us, conversations we've been able to have. And in fact, our pipeline of new business activity is, I would say, probably as strong or stronger than it's been in the 5 years that I've been the CEO, certainly.

So I think the issues that we've experienced on the platform side, and I've gone out and talked to a bunch of these customers myself personally sort of to gauge the sentiment out there. Almost none of them focus on the issues that we've had. I think they're all focused on the success that we can deliver for families across this country and the belief that the options and the choices that we can provide for them are of paramount importance. And so we're getting nothing but really positive feedback. We proactively discuss the issues we've had this past year. And I think to it either, they're all pretty understanding. They've -- many of them have been through some issues themselves, almost all of them experienced really difficult issues regarding the platforms that they monitored and executed on during COVID.

So sort of reasonably fresh experience of somewhat negative platform issues. And so pretty positive conversations along those lines. And again, I think just the pipeline of activity that we have is as strong as we've seen in 5 years.

### Jeffrey Marc Silber

*BMO Capital Markets Equity Research*

Okay. That's great to hear. I know, again, you're not commenting on the funding environment for next year. But I know there's been some changes in certain states. Pennsylvania has been one that's been in the press. Do you see other states changing how they're funding virtual schools? Is that a trend we might see continue?

### James J. Rhyu

*Chair of the Board & CEO*

I think it's a little bit hard to sort of call a trend. Pennsylvania, as you indicated, they've had legislation on the books. I believe it may be for almost 20 straight years to cut virtual funding. They're one of the states in the country that have the longest-standing virtual programs. They have some of the highest penetrations in the state.

They have a very, very robust marketplace of providers in that state. I think, as you know, the politics have played into it for many, many years and particularly in that state, there's been legislation on the

books. We've been pretty successful for 20 years, getting that legislation sort of beating back a little bit. And at some point, that's not going to happen, and this was the year.

I think our business remains, I think, pretty robust in Pennsylvania. I think the market in Pennsylvania remains robust. I think that, if anything, these types of situations present opportunities for stronger players like us. And so we'll obviously look at ways that we can take advantage of any situation like this in the marketplace. So I actually think that something like this, in particular in Pennsylvania presents an opportunity.

More broadly across the country, I don't see -- I don't think we see any different trend than the activity we've seen in the past 10 or 15 years. I mean there's always legislation that's getting proposed, both for and against virtual programs. I don't see a materially different trend now than there was in any time in at least the past 10 or 15 years.

### **Operator**

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

### **Alexander Peter Paris**

*Barrington Research Associates, Inc., Research Division*

My first question relates to enrollment and the enrollment windows. It was my understanding that some of the enrollment windows at some of the programs might have closed earlier this year than last year and previous years in general, given the challenges of last fall.

And then obviously, we expect windows to be closed for the full fourth quarter. Is that an accurate statement? Did windows close earlier in the third quarter than last year? And what impact, if any, can you quantify on enrollment in the third quarter?

### **James J. Rhyu**

*Chair of the Board & CEO*

Yes. I think -- so the short answer is yes. And I think more -- maybe more profoundly, not just the windows, I'll say, closed earlier, I think, which we've indicated previously, we are very proactively not maybe taking advantage of even as much as we theoretically could windows that are open because we generally this year have taken the stance of trying to backfill as opposed to grow.

And so that's sort of what you've seen. And so when you have programs that you can backfill and you do, but you don't grow them and then you have other programs where windows are closing earlier, you're going to have a dynamic where it puts downward pressure on enrollment. I think we've been very clear and consistent with that all year. And so yes, I think you're exactly correct.

And through the fourth quarter, that's going to continue to be so to the extent that really we don't have windows open through the balance of this year. And so it's only a story of attrition. But again, I think that was pretty transparent from previous calls that we've discussed, and it does not change our perspective of the overall demand environment, which continues to be strong and bodes well for the fall.

So yes, you're going to have this dynamic, which we've explained around this year enrollment trends, which is going to run counter the past few years in terms of in-year enrollment growth. But I don't think that's a commentary on the overall demand, which we see continue to be very strong.

### **Alexander Peter Paris**

*Barrington Research Associates, Inc., Research Division*

Well, it looked like you backfilled well in the third quarter with enrollment coming in where it did a little bit. I mean we expected a sequential decline. We got a little sequential decline, but it was still up 1.8% year-over-year. Part of that's due to windows being closed earlier, part of it's due to the fact that you're not pushing hard, you want to get it right. Is there any way to quantify how many students you left on the table, so to speak, in the third quarter because of early windows being closed?

### **James J. Rhyu**

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*Chair of the Board & CEO*

I think it'd be difficult to quantify sort of -- I think it's difficult to quantify because conversion rates and things like that are a little bit variable. But it's clearly in the thousands. I think it's -- if you sort of just looked at prior year's trends and assuming that demand was similar and see how much we grew in the prior year, we left on the table probably a similar amount that we could have grown this year.

**Alexander Peter Paris**

*Barrington Research Associates, Inc., Research Division*

Okay. I got you. So sequentially, it grew from Q2 to Q3 last year. This year, it did part of that is due to the closed windows.

**James J. Rhyu**

*Chair of the Board & CEO*

Yes, exactly.

**Alexander Peter Paris**

*Barrington Research Associates, Inc., Research Division*

Yes. Okay. And then given the demand continues to be so strong as measured by application volumes, does that mean that these students get added to waitlists? And does that bode well for the fall term?

**James J. Rhyu**

*Chair of the Board & CEO*

Yes. In some cases, yes, they get added to a waitlist. In some cases, we've actually started opening up enrollment for the fall. So they're sort of in, I'll say, like a provisional state maybe because it's technically not open. But basically, we're accepting applications now.

And so we have some like, I'll say, provisional state enrollments as well. And so I think, yes, it does give us a little bit of a head start on the pipeline for next year. There are those a not insignificant number of families who unfortunately are, I don't say, desperate for a solution immediately.

And when we're not able to provide that immediate solution for them, then in those cases, they often do look elsewhere. So there is some number of the pipeline that we can't translate into next year enrollment because they're looking for an immediate solution and where we can't provide that, we certainly understand that they're going to look somewhere else.

**Alexander Peter Paris**

*Barrington Research Associates, Inc., Research Division*

All right. And then last question on the topic. Enrollment at some programs, their window was closed early. Can we say similarly that the enrollment window for the fall has opened up earlier this year than last year?

**James J. Rhyu**

*Chair of the Board & CEO*

I don't think materially. Yes. I mean I do think we try to get a little bit of a head start, but I don't think we're materially different than last year. We try to open the windows early every year, I guess, maybe for the fall is what I'm saying.

I do think that probably there is a little bit of a dynamic where in prior years, where there -- we open enrollments for the fall, there are some small number of families who when they realize, oh, we're calling in for the fall, but you actually have a spot now, I'll take the spot now. So that sometimes will happen.

**Alexander Peter Paris**

*Barrington Research Associates, Inc., Research Division*

Got you. And then anything to read -- this is my last question on enrollment. Anything to read into the fact that general education enrollment was down 5% and career learning enrollment was up 12%, just round numbers.

I know it doesn't really matter economically. Care to comment any color on that?

**James J. Rhyu**

*Chair of the Board & CEO*

Yes. No, I don't think there's anything really to read into that. It's just -- like you said, it's -- we sort of look at the whole pie and we break them up into those buckets. But I don't think there's not a specific trend, I guess, really that maybe to answer your question is that we see that's positive or negative based on those numbers.

**Operator**

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

**Matthew R. Filek**

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

James and Donna, you have Matt Filek on for Stephen Sheldon. Given you seem to be making good progress on mitigating the platform issues, how are you thinking about marketing spend from here? Is that something you plan to push the pedal on? Just curious how we should think about SG&A spend over the next year or so?

**James J. Rhyu**

*Chair of the Board & CEO*

Yes. I think we're on a trajectory for essentially business as usual from here on in. I think we're executing well against our road map, as I mentioned earlier, I think that we expect a very robust and successful fall. There's -- I don't see anything that is going to hold us back right now for ramping up.

And I think we're going to be in the market pretty aggressively. I will say, which I think actually is -- again, is a net positive for us that -- and I won't call it a trend yet, but I guess I see certain data points.

And again, I'm not saying yet it's a trend, but there are certainly some data points that appear as though the customer use of AI might be actually improving conversion because the ability for people to have better research essentially into different programs, I think, ultimately benefits us.

And so therefore, I think that there are some data points that we see where conversion could ultimately improve and therefore, our cost of acquisition actually goes down. And so I think that there are some things that I think look generally positive in sort of the funnel mechanics, if you will, of our business heading into the fall.

**Matthew R. Filek**

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

Got it. That's helpful color. And then can you just provide a little more detail on the Adult Learning segment and what it might take to get that segment to return to growth? I know in the past, you've been a little more positive on MedCerts with Tech Elevator and Galvanize, the laggards there. But just an update on what's going on within that segment and the path to get things back to growth eventually would be helpful.

**James J. Rhyu**

*Chair of the Board & CEO*

Yes. I think I mentioned this before. First of all, these businesses to us are -- I mean, if they disappear tomorrow, I don't think our shareholders would notice from this impact of our numbers, and they're just immaterial and not meaningful enough to really have a long-term impact for shareholders.

I think the underlying businesses, as we've described before, the boot camps are in just secular decline. I think it's going to continue to be the case. I think it's very difficult for the secular environment for the boot camp side, the Tech Elevator, Galvanize side of the businesses to really recover meaningfully.

And at least my industry checks across the folks in the industry that I know that run these kinds of businesses, I think, would all sort of echo this similar sentiment, at least privately for sure.

I think the MedCerts business is and continues to be an attractive market segment for us. We have not executed well across that market segment. We've had some leadership changes in the past year or so that we're hoping that will help reignite our positioning there. I continue to believe that we're going to make investments in that.

I think it benefits our K-12 programs. And I think it -- the market opportunity still exists. So it's not meaningful. The investments won't change the needle on anything in our financials. But I do think there continues to be opportunity there. We're going to continue to look for ways to take advantage of the opportunity. But I think clearly, our execution has not yet been where we expect it to be.

**Operator**

That concludes our question-and-answer session. Ladies and gentlemen, this concludes the Stride Third Quarter Fiscal Year 2026 Earnings Call. Thank you all for joining. You may now disconnect.

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