Stride, Inc. NYSE:LRN

Earnings Call

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CALL PARTICIPANTS 2

PRESENTATION 3

QUESTION AND ANSWER 7

Call Participants

EXECUTIVES

Donna M. Blackman
Executive VP & CFO

Eliza Henson

Robert E. Knowling
CEO & Director

ANALYSTS

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

Jeffrey Marc Silber
BMO Capital Markets Equity Research

Presentation

Operator

Hello, everyone. Thank you for joining us, and welcome to the Stride Fourth Quarter Fiscal Year 2026 Earnings Call. [Operator Instructions]

I will now hand the conference over to Eliza Henson, Manager of Investor Relations. Eliza, please go ahead.

Eliza Henson

Thank you, and good afternoon. Welcome to Stride's Fourth Quarter and Year-end Earnings Call for Fiscal year 2026.

With me on today's call are Bob Knowling, 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 Bob.

Robert E. Knowling
CEO & Director

Thanks, Eliza, and good afternoon, everyone. Before we discuss our results, I would like to address the leadership transition that we announced last Thursday. The Board executed this leadership change after careful evaluation and deliberation. And ultimately, the Board determined that for Stride to reach its full potential, a new leader was needed to take the reins.

Having made that decision, the Board enacted our succession plan to appoint me as the new CEO. We collectively believe that it was best to do this immediately so that I could hit the ground running. I appreciate the Board's confidence in making me Stride's CEO. A strong consideration was putting in place a leader with strong tech and education experience and a track record of building strong teams. Those qualities aligned with my background. I've been an independent member of the Stride Board since 2018.

On the education front, I served as the inaugural CEO of the New York City Leadership Academy, which was a nationally recognized nonprofit organization committed to improving outcomes for students, particularly the most vulnerable students through high-quality educational leadership.

I was a founding member of the organization, which was crafted under Mayor Michael Bloomberg, and Chancellor Joel Klein. It was during my tenure there that I grew to truly understand the importance of driving student outcomes. I believe this is the ultimate measure of educational success, investments in curriculum, technology and support services must translate into meaningful academic achievement. Educators, institutions and policymakers expect this from Stride and this will be one of my top priorities.

On the tech side, I spent the early part of my career in the Bell system at Ameritech and US West. As Executive Vice President of Operations and Technology at US West, I oversaw every technical function in the company. Subsequently, I became CEO at Covad Communications, which I took public, and have served as CEO of SimDesk Technologies and Telwares as well.

I have also served on the Board at a variety of Fortune 500 companies, bringing a lens of delivering long-term shareholder value through Board oversight. I've been the leader on every Board on which I have served, whether as Chairman of the Board or committee Chair.

Given my experience on Stride's Board, I have a strong understanding of our business. I've got an appreciation for our mission and our people who deliver on that mission every day. So if you were to summarize my experience in a few words, I have a proven track record as an operator. I'm known for building strong teams and I get quite deep in the details as that is my comfort zone.

Second, I have a strong blend of tech and education experience. And then third, I bring a shareholder-driven mindset from my Board experiences. There is a lot to continue to build on here at Stride, and I'm incredibly excited by the opportunity ahead of us.

Stride is a market leader with several competitive advantages. We have a significant and scaled base of students across more than 30 geographies, and the management team is committed to growing the business deeper where we already have students as well as planting flags in new geographies. The management team has exhibited disciplined fiscal management. And as a result, we have a balance sheet that enables us to make prudent investments in the growth of our company.

An example of this is the extension of our share repurchase authorization until October 31, 2027. Once our trading window opens at the end of October, I intend to actively consider opportunistic stock repurchases as part of our capital allocation strategy.

Stride has a tremendous amount of talent throughout the organization, from the management team all the way to our front line. That's why I'm eager to roll up my sleeves alongside this group. And I do recognize there is room for improvement. While we have strong foundational elements, we also have many students that we could still be serving. To grow our market share, in large part, we must improve student outcomes. This includes better leveraging our suite of products and services, such as our live and AI tutoring platforms and our Tallo career and digital curriculum platforms. We've done a nice job over the years of adding capabilities, but I believe that there's even more we can do to extend our suite of products and to help students to reach their goals.

Improving our go-to-market has huge potential. As we execute our strategy, I am confident that we will better meet the needs of our students, which will, in turn, create more value for our shareholders.

Let me now pivot to talk about our performance. As you've heard the team talk about in the past, Stride has made significant investments in our technology platforms to improve the long-term scalability of the business. We have improved the customer experience. We've strengthened our operational foundation and we've positioned the business for future growth. As a result of the steps we have taken to date, we have delivered 4.2% enrollment growth and 4.7% revenue growth.

Turning briefly to the previously announced decision by Roscoe Independent School District to not renew their contract for our Lone Star Online Academy. While we're disappointed by the district's decision, Texas remains an important state for us, and our commitment to serving families across the state remains unchanged. We continue to operate multiple schools in Texas, and we're actively placing Roscoe Independent School District impacted families in our other programs. As we look towards the upcoming school year, it is still early in the enrollment season. Families will continue to make enrollment decisions throughout the fall and increasingly throughout the school year. And with that caveat, we are encouraged by the indications we are seeing so far.

Applications are tracking slightly behind this time last year, but we're seeing improved conversion metrics and reregistration activity continues to track slightly ahead of last year. While I'm just getting started in the CEO role, it's clear to me that there is much to be excited about. I have relocated to Virginia, and I'm full steam ahead. I believe we can build upon what this leadership team has accomplished and reach even greater heights.

Thank you for your attention. And I'll now turn the call over to Donna.

Donna M. Blackman
Executive VP & CFO

Thank you, Bob, and good afternoon. As Bob discussed, FY '26 was a year of meaningful progress for Stride. We continue to see strong demand for our programs, made progress on a number of strategic priorities and delivered solid financial results. While the year was not without challenges, we believe the progress we made positions us well for the future. I want to thank our employees, school partners and our students and families for their continued commitment throughout the year.

Now I'd like to provide some detail on our fiscal 2026 financial results. For the full year, revenue was $2.518 billion, an increase of 4.7% over fiscal 2025. Adjusted operating income was $498.4 million, up nearly 7%. Adjusted EBITDA totaled $617.6 million, up 8.2% from last year. And adjusted earnings per share were $8.33. Overall, these results reflect another year of resilient demand and disciplined financial management.

Looking more closely at our business, revenue from our Career Learning, middle and high school programs was $1.04 billion, an increase of 19% from last year. Full year Career Learning enrollments totaled 109,700, up 14%. General Education revenue totaled $1.42 billion, decreasing 2% from FY 2025. Enrollment in General Education totaled 134,200, down 2.5% for the year. Taken together, we serve approximately 243,900 students during the year, just over 4% more than last year, reflecting sustained demand for the educational choices we provide.

Total revenue per enrollment across both lines of revenue was $9,914 compared to $9,677 last year. FY '26 revenue per enrollment continue to reflect differences in state funding, program mix and enrollment timing.

Looking ahead to FY '27, most of our partner states have now finalized their educational budgets. While funding decisions vary across states, the overall funding environment remains supportive. As with any year, revenue per enrollment may be impacted by state mix and yield. And while it's still early in the enrollment season, given the current environment, we expect full year FY '27 revenue per enrollment to be relatively flat to up slightly versus FY 2026. As always, revenue per enrollment may continue to fluctuate modestly based on state and program mix as well as enrollment yield throughout the year.

Now turning to profitability. Gross margins for the year was 37.8%, down 140 basis points. As we mentioned previously, our investments affected our near-term margins, but they also strengthened the business and have positioned us well for the years ahead. While many of the onetime implementation costs associated with these initiatives are now behind us, we will continue to incur some ongoing expenses associated with the new platforms as we focus on realizing the long-term operational benefits, and we will continue to invest in our strategic priorities.

Selling, general and administrative expenses totaled $499.8 million, down 4.7% from last year. Stock-based compensation for the year was $40.3 million, and our effective tax rate for FY '26 was 23.3%.

Now turning to our balance sheet. Capital expenditures for the year were $78.8 million. Free cash flow, which we define as cash from operations less capital expenditures, totaled $355 million, down $17.8 million from last year. We finished the year with cash, cash equivalents and marketable securities of approximately $1.034 billion.

During FY 2026, we continued executing against our share repurchase authorization, purchasing approximately $189 million of our common stock. These repurchases reflect our confidence in the long-term value of the business, while maintaining the financial flexibility to continue investing in our strategic priorities. We ended the year with approximately $311 million remaining under the current repurchase authorization, which now extends to October 31, 2027.

Even as we continue executing against our share repurchase authorization, our capital allocation priorities remain unchanged. We will continue to invest, first, in opportunities that support organic growth, evaluate strategic acquisitions that strengthen our business and return excess capital to shareholders when we believe it creates long-term value. Our balance sheet gives us the flexibility to pursue each of these priorities, while maintaining a strong financial position.

Now before I wrap up, let me offer a few thoughts on FY 2027. As Bob mentioned, we're encouraged by what we're seeing early in the enrollment cycle. At the same time, I remind investors that the first quarter count date enrollment growth will face a more difficult comparison than it has for the last couple of years. Because we moderated in-year enrollment growth during FY 2026, we won't have the same carryover benefit entering fiscal year. As a result, even with healthy demand and solid execution year-over-year, count date growth may appear more modest than what we've seen over the past few years.

Keeping that in mind, for FY 2027, seasonality should remain generally consistent with the years prior. CapEx and SG&A as a percent of revenue are anticipated to be relatively flat. We expect gross margins will be flattish to last year, and we expect to see somewhat of an uptick in both stock-based compensation and tax rate from this year.

As we typically do, we will provide formal enrollment and financial guidance when we report our first quarter results in October. It is still early in the enrollment season and with August and September being our busiest month, there is still a lot of work ahead of us, and we remain confident in our ability to execute.

FY '26 was an important year for Stride. We believe the foundation we've built positions us well for the coming year, and we believe we are on track to achieve our FY 2028 financial targets.
Thank you for your time today. Now I'll turn the call back over to the operator for your questions.
Operator?

Question and Answer

Operator

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

Jeffrey Marc Silber
BMO Capital Markets Equity Research

I wanted to start with Lone Star Online Academy. I think this is the first opportunity you've had to discuss this publicly. Can you give us a little bit more color what happened? I know the outcomes there were a little bit subpar. Is that the reason that Roscoe decided not to renew? And if that's the case, how do you make sure that things like this don't happen at other schools?

Donna M. Blackman
Executive VP & CFO

So Jeff, as we have talked about previously, we were in conversations with Roscoe about renewing the contract. And as you have indicated, we certainly had some performance issues with that school. And I think the district decided not to renew the contract. And as you also know that in any given year, we could have schools that do not decide to renew the contract.

To get to the second part of your question about how do you ensure that this doesn't happen in the future. We will never -- we're going to ensure we won't have the contracts leave us. We will -- as part of the business, we have contracts that leave us, we have -- and we sign on new contracts. But what I can say is, Bob is really focused on student outcomes. And we are continuing to invest in our student outcomes. And so that will help us to enable us to ensure that we deliver to our students the outcomes that they come to expect.

Jeffrey Marc Silber
BMO Capital Markets Equity Research

Okay. I appreciate that. I know you're not providing guidance for fiscal '27. You mentioned a few times, it's still early in the year. But based on what you know now, at least directionally, should we see enrollment revenue and earnings growth in fiscal '27?

Donna M. Blackman
Executive VP & CFO

So Jeff, I'm not going to get ahead of myself. We did that a little bit last year. Here's what I will say, the funding environment looks favorable. And I said that in my prepared remarks. While our application volumes are strongest, that's really like slightly behind last year, but still strong. What I'm encouraged by is the fact that our conversion rates are higher as well as our reregistration rates are higher.

And so other than saying those things, I don't want to get too far ahead of saying what 2027 numbers will look like. But hopefully, those data points are helpful for you. I just don't want to get ahead of ourselves because we are so early in the enrollment season. And August and September is a really busy time for us and our team is working really hard to make sure that we enroll as many students as possible and have them have the best experience as possible.

Operator

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

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

I appreciate the opportunity to ask a question or 2. First, just to follow on the previous question by Jeff. Last year, from Q4 to Q1, you brought on 12,400 students to get us to where we were. This year -- and you alluded to it in your prepared remarks, you're starting with fewer students because you held down in year enrollments. And if you added, the same number of students, 12,400 from Q4 to Q1 this year, you'd be pretty flat, down 0.4% on a year-over-year basis as of the count date. Are you expecting some growth in the fall? I know you don't want to commit to a number or what have you. If you were able to do 12,400 last year, can you do 12,400 this year, I guess, is what I'm asking.

Donna M. Blackman
Executive VP & CFO

Yes. Look, I think the important thing to note is where we're ending the year, right? And so because we're ending the year lower than what we began the year. And in the past few years, that was not the case, right? We ended the year with enrollment higher than we began the year. So the starting point was much easier for us to be able to grow. So the comparison from a count date perspective will certainly be -- the comparison will be a tougher comparison because of that.

And I know you want me to give you an enrollment number and I'm probably not going to give you an enrollment number. That's going to make you happy. Last year was sort of a onetime thing. I've had conversations with investors who say we're not going to do that again. But I do think it's important for you to know where we're seeing things in terms of the conversion rates, where we're seeing things in terms of rereg and where we're seeing things from -- in terms of for next year in terms of application volumes.

And so while things are pointing in the right direction, August and September is when we're really, really busy. Parents are making decisions about the upcoming school year, even at latest August and September. And so I don't want to get ahead of ourselves for full 2027.

But the other thing I will point out to you is that we cut off our enrollments last year earlier than usual. And so while it's still early to say what that will look like for FY 2027, what I can say is I would not expect for us to cut off our in-year enrollment to the same capacity that we did on last year. And so I hope that information is helpful for you.

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

It is. So just a clarifying question on that last comment. Would you expect in-year enrollment this year like we saw in the 3 years prior to fiscal 2026? Regardless of where you start?

Donna M. Blackman
Executive VP & CFO

Yes, yes. So I would -- look, based on where I sit today, I would expect us to have in-year enrollment growth. In 2025 from Q2 to Q3, we had pretty significant in-year enrollment growth. And so I don't know if I want to commit that we're going to have that in-year enrollment growth consistent in 2027. But what I will say is that we're not going to have all the windows closed to the same extent that we had them closed in 2026.

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

Got you. And then the last one is still related is, obviously, investors were concerned by what seemed like the sudden CEO succession announcement last week, Thursday. A lot of investors voted with their feet, with the sell-off in the shares 15% or 18%. Thinking that this had something to do with a disappointing fall enrollment season. Was that part of the decision? Or is it more, Bob, like you said earlier, changing horses for the next phase of accelerated growth?

Robert E. Knowling
CEO & Director

Thanks for the question. It is the latter. There was no consideration about any forward thinking, forward-looking performance, but a need and a desire to move to the next level of growth and development of this enterprise. And as you probably all know, leadership transitions are tough. But the decision was made and we made it to be an immediate in effect so that I'd really have a chance at the end of the fiscal year to hit the ground running relative to 2027.

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

Okay. Because it sounds like all the comments -- I appreciate that. It sounds like all the comments are -- the fall term expectations are not too different from the Q3 call or the Q2 call.

Donna M. Blackman
Executive VP & CFO

I think it's fair.

Operator
There are no further questions at this time. This concludes today's call. Thank you for attending. You may now disconnect.