

Stride Achieves Record Enrollment Growth over First Quarter

1/24/2023

Ends Quarter with over 180 Thousand Enrollments

RESTON, Va.--(BUSINESS WIRE)-- Stride, Inc. (NYSE: LRN), one of the nation’s leading technology-based education companies, today announced its results for the second fiscal quarter ended December 31, 2022.

Second Quarter Fiscal 2023 Highlights Compared to 2022

- Revenue of \$458.4 million, compared with \$409.5 million, driven by enrollment strength, increases in revenue per enrollment, and Adult Learning growth.
- Income from operations of \$68.1 million, compared with \$56.9 million.
- Net income of \$50.7 million, compared with \$42.0 million.
- Diluted net income per share of \$1.19, compared with \$1.00.
- Adjusted operating income of \$76.3 million, compared with \$60.7 million. (1)
- Adjusted EBITDA of \$100.5 million, compared with \$82.7 million. (1)

Second Quarter Fiscal 2023 Summary Financial Metrics

	Three Months Ended December 31,		Change 2022/2021	
	2022	2021	\$	%
	(In thousands, except percentages and per share data)			
Revenues	\$ 458,435	\$ 409,507	\$ 48,928	11.9%
Income from operations	68,073	56,915	11,158	19.6%
Adjusted operating income (1)	76,293	60,731	15,562	25.6%

Net income	50,705	42,004	8,701	20.7%
Net income per share, diluted	1.19	1.00	0.19	19.0%
EBITDA (1)	95,536	82,095	13,441	16.4%
Adjusted EBITDA (1)	100,477	82,697	17,780	21.5%

(1) To supplement our financial statements presented in accordance with U.S. generally accepted accounting principles (GAAP), we also present non-GAAP financial measures including adjusted operating income (loss), EBITDA and adjusted EBITDA. Management believes that these additional metrics provide useful information to investors relating to our financial performance. A reconciliation of these non-GAAP financial measures to the most directly comparable GAAP financial measures is provided below.

Six Month Fiscal 2023 Highlights Compared to 2022

- Revenue of \$883.6 million, compared with \$809.7 million.
- Income from operations of \$39.4 million, compared with \$49.9 million.
- Net income of \$28.0 million, compared with \$36.1 million.
- Diluted net income per share of \$0.66, compared with \$0.85.
- Adjusted operating income of \$56.4 million, compared with \$65.3 million. (1)
- Adjusted EBITDA of \$103.5 million, compared with \$108.2 million. (1)

Six Month Fiscal 2023 Summary Financial Metrics

	Six Months Ended December 31,		Change 2022/2021	
	2022	2021	\$	%
	(In thousands, except percentages and per share data)			
Revenues	\$ 883,585	809,733	73,852	9.1%
Income from operations	39,354	49,938	(10,584)	-21.2%
Adjusted operating income (1)	56,373	65,253	(8,880)	-13.6%
Net income	28,033	36,121	(8,088)	-22.4%
Net income per share, diluted	0.66	0.85	(0.19)	-22.4%
EBITDA (1)	93,068	99,265	(6,197)	-6.2%
Adjusted EBITDA (1)	103,519	108,153	(4,634)	-4.3%

(1) To supplement our financial statements presented in accordance with U.S. generally accepted accounting principles (GAAP), we also present non-GAAP financial measures including adjusted operating income (loss), EBITDA and adjusted EBITDA. Management believes that these additional metrics provide useful information to investors relating to our financial performance. A reconciliation of these non-GAAP financial measures to the most directly comparable GAAP financial measures is provided below.

Revenue and Enrollment Data

Revenue

The following table sets forth the Company's revenues for the periods indicated:

	Three Months Ended		Change 2022 / 2021		Six Months Ended		Change 2022 / 2021	
	December 31, 2022	December 31, 2021	\$	%	December 31, 2022	December 31, 2021	\$	%
	(In thousands, except percentages)							
General Education	\$ 274,764	\$ 313,241	\$(38,477)	(12.3%)	\$ 546,422	\$ 619,582	\$(73,160)	(11.8%)
Career Learning								
Middle - High School	153,795	75,287	78,508	104.3%	279,330	146,699	132,631	90.4%
Adult	29,876	20,979	8,897	42.4%	57,833	43,452	14,381	33.1%
Total Career Learning	183,671	96,266	87,405	90.8%	337,163	190,151	147,012	77.3%
Total Revenues	\$ 458,435	\$ 409,507	\$ 48,928	11.9%	\$ 883,585	\$ 809,733	\$ 73,852	9.1%

Enrollment Data¹

The following table sets forth enrollment data for students in our General Education and Career Learning lines of revenue. Enrollments for General Education and Career Learning only include those students in full service public or private programs where Stride provides a combination of curriculum, technology, instructional and support services inclusive of administrative support.

	Three Months Ended December 31,		Change 2022 / 2021		Six Months Ended December 31,		Change 2022 / 2021	
	2022	2021	#	%	2022	2021	#	%
	(In thousands, except percentages)							
General Education (2)	111.2	145.6	(34.4)	(23.6%)	111.5	146.1	(34.6)	(23.7%)
Career Learning (2)(3)	66.3	41.9	24.4	58.2%	65.1	41.9	23.2	55.4%
Average Enrollment	177.5	187.5	(10.0)	(5.3%)	176.6	188.0	(11.4)	(6.1%)

(1) Enrollments are presented as the average monthly enrollments during the second quarter fiscal year 2023. Total ending enrollments were 180.3 thousand and 187.6 thousand, as of December 31, 2022 and 2021, respectively. General Education enrollments were 112.8 thousand and 145.5 thousand and Career Learning enrollments were 67.5 thousand and 42.1 thousand as of December 31, 2022 and 2021, respectively.

(2) This data includes enrollments for which Stride receives no public funding or revenue.

(3) No enrollments are included in Career Learning for Galvanize, Tech Elevator or MedCerts.

Revenue per Enrollment Data

The following table sets forth revenue per average enrollment data for students for the period indicated. If the mix of enrollments changes, our revenues will be impacted to the extent the average revenues per enrollments are significantly different.

	Three Months Ended December 31,		Change 2022 / 2021		Six Months Ended December 31,		Change 2022 / 2021	
	2022	2021	\$	%	2022	2021	\$	%
General Education	\$ 2,281	\$ 1,953	\$ 328	16.8%	\$ 4,508	\$ 3,852	\$ 656	17.0%
Career Learning	2,319	1,794	525	29.3%	4,280	3,482	798	22.9%

Cash Flow and Capital Allocation

As of December 31, 2022, the Company's cash and cash equivalents totaled \$318.3 million, compared with \$389.4 million reported at June 30, 2022. The decrease is largely the result of normal seasonal trends.

Capital expenditures for three months ended December 31, 2022 were \$16.9 million, compared to \$14.2 million in the second quarter of fiscal year 2022, and were comprised of \$1.9 million of property and equipment, \$11.6 million of capitalized software development, and \$3.4 million of capitalized curriculum development.

Fiscal Year 2023 Outlook

The Company is raising its revenue and adjusted operating forecast and narrowing its capital expenditures forecast for the full year fiscal 2023:

- Revenue in the range of \$1.775 billion to \$1.815 billion.
- Capital expenditures in the range of \$70.0 million to \$75.0 million. Note that capital expenditures include the purchase of property and equipment, and capitalized software, and curriculum development costs as defined on our Statement of Cash Flows.
- Effective tax rate of 27% to 29%.
- Adjusted operating income in the range of \$180.0 million to \$200.0 million. (1)

The Company is forecasting the following for the third quarter fiscal year 2023:

- Revenue in the range of \$445.0 million to \$465.0 million.
- Capital expenditures in the range of \$16.0 million to \$19.0 million. Note that capital expenditures include the purchase of property and equipment, and capitalized software and curriculum development costs as defined on our Statement of Cash Flows.
- Adjusted operating income in the range of \$70.0 million to \$80.0 million. (1)

(1) In addition to providing an outlook for revenue and capital expenditures, adjusted operating income is provided as a supplemental non-GAAP financial measure as management believes that it provides useful information to our investors. A reconciliation of these non-GAAP financial measures to the most directly comparable GAAP financial measures is provided below. Please also see Special Note on Forward Looking Statements below.

Conference Call

The Company will discuss its second quarter fiscal year 2023 financial results during a conference call scheduled for Tuesday, January 24, 2023 at 5:00 p.m. eastern time (ET).

A live webcast of the call will be available at <https://events.q4inc.com/attendee/833472576>. To participate in the live call, investors and analysts should dial (888) 210-2831 (domestic) or 1 (289) 514-2968 (international) and provide the conference ID number 4812941. Please access the website at least 15 minutes prior to the start of the call.

A replay of the call will be posted at <https://events.q4inc.com/attendee/833472576> as soon as it is available.

About Stride Inc.

At **Stride, Inc.** (NYSE: LRN), we are reimagining learning—where learning is lifelong, deeply personal, and prepares learners for tomorrow. The company has transformed millions of people’s teaching and learning experiences by providing innovative, high-quality, tech-enabled education solutions, curriculums, and programs directly to students, schools, the military, and enterprises in primary, secondary, and postsecondary settings. Stride is a premier provider of K–12 education for students, schools, and districts, including career learning services through middle and high school curriculums. For adult learners, Stride delivers professional skills training in healthcare and technology, as well as staffing and talent development for Fortune 500 companies. Stride has delivered millions of courses over the past decade and serves learners in all 50 states and more than 100 countries. More information can be found at stridelearning.com, [K12.com](https://k12.com), galvanize.com, techelevator.com, and medcerts.com.

Special Note on Forward-Looking Statements

This press release contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve substantial risks and uncertainties. All statements other than statements of historical facts contained in this press release are forward-looking statements. We have tried, whenever possible, to identify these forward-looking statements using words such as “anticipates,” “believes,” “estimates,” “continues,” “likely,” “may,” “opportunity,” “potential,” “projects,” “will,” “expects,” “plans,” “intends” and similar expressions to identify forward looking statements, whether in the negative or the affirmative. These statements reflect our current beliefs and are based upon information currently available to us. Accordingly, such forward-looking statements involve known and unknown risks, uncertainties and other factors which could cause our actual results, performance or achievements to differ materially from those expressed in, or implied by, such statements. These risks, uncertainties, factors and contingencies include, but are not limited to: reduction of per pupil funding amounts at the schools we serve; inability to achieve a sufficient level of new enrollments to sustain our business model; limitations of the enrollment data we present, which may not fully capture trends in the performance of our business; failure to enter into new school contracts or renew existing contracts, in part or in their entirety; failure of the schools we serve or us to comply with federal, state and local regulations, resulting in a loss of funding, an obligation to repay funds previously received, or contractual remedies; governmental investigations that could result in fines, penalties, settlements, or injunctive relief; declines or variations in academic performance outcomes of the students and schools we serve as curriculum standards, testing programs and state accountability metrics evolve; harm to our reputation resulting from poor performance or misconduct by operators or us in any school in our industry and/or in any school in which we operate; legal and regulatory challenges from opponents of virtual public education or for-profit education companies; changes in national and local economic and business conditions and other factors, such as natural disasters, pandemics and outbreaks of contagious diseases and other adverse public health developments, such as coronavirus disease 2019 (“COVID-19”); discrepancies in interpretation of legislation by regulatory agencies that may lead to payment or funding disputes; termination of our contracts, or a reduction in the scope of services, with schools; failure to develop the Career Learning business; entry of new competitors with superior technologies and lower prices; unsuccessful integration of mergers, acquisitions and joint ventures; failure to further develop, maintain and enhance our technology, products, services and brands; inadequate recruiting, training and retention of effective teachers and employees; infringement of our intellectual property; disruptions to our Internet-based learning and delivery systems, including, but not limited to, our data storage systems, resulting from cybersecurity attacks; misuse or unauthorized disclosure of student and personal data; and failure to prevent or mitigate a cybersecurity incident that affects our systems; and other risks and uncertainties associated with our business described in the Company’s filings with the Securities and Exchange Commission. Although the Company believes the expectations reflected in such forward-looking statements are based upon reasonable assumptions, it can give no assurance that the expectations will be attained or that any deviation will not be material. All information in this presentation is as of

today's date, and the Company undertakes no obligation to update any forward-looking statement to conform the statement to actual results or changes in the Company's expectations .

Financial Statements

The financial statements set forth below are not the complete set of Stride, Inc.'s financial statements for the three and six months ended December 31, 2022 and are presented below without footnotes. Readers are encouraged to obtain and carefully review Stride Inc.'s Quarterly Report on Form 10-Q for the quarter ended December 31, 2022, including all financial statements contained therein and the footnotes thereto, filed with the SEC, which may be retrieved from the SEC's website at www.sec.gov or from Stride Inc.'s website at www.stridelearning.com.

STRIDE, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	2021	2022	2021
	(In thousands except share and per share data)			
Revenues	\$ 458,435	\$ 409,507	\$ 883,585	\$ 809,733
Instructional costs and services	288,347	261,950	583,848	535,774
Gross margin	170,088	147,557	299,737	273,959
Selling, general, and administrative expenses	102,015	90,642	260,383	224,021
Income from operations	68,073	56,915	39,354	49,938
Interest expense, net	(2,082)	(1,875)	(4,128)	(3,868)
Other income, net	3,970	3,884	5,007	3,795
Income before income taxes and loss from equity method investments	69,961	58,924	40,233	49,865
Income tax expense	(18,860)	(15,928)	(11,353)	(13,035)
Loss from equity method investments	(396)	(992)	(847)	(709)
Net income attributable to common stockholders	<u>\$ 50,705</u>	<u>\$ 42,004</u>	<u>\$ 28,033</u>	<u>\$ 36,121</u>
Net income attributable to common stockholders per share:				
Basic	\$ 1.20	\$ 1.01	\$ 0.66	\$ 0.88
Diluted	\$ 1.19	\$ 1.00	\$ 0.66	\$ 0.85
Weighted average shares used in computing per share amounts:				
Basic	42,259,061	41,525,736	42,167,844	41,042,401
Diluted	42,547,334	41,963,399	42,602,405	42,413,828

STRIDE, INC.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	<u>December 31,</u> 2022	<u>June 30,</u> 2022
	(audited)	
	(In thousands except share and per share data)	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 318,279	\$ 389,398
Accounts receivable, net of allowance of \$25,744 and \$26,993	442,166	418,558
Inventories, net	23,960	36,003
Prepaid expenses	43,822	25,974
Other current assets	<u>100,588</u>	<u>80,601</u>
Total current assets	928,815	950,534
Operating lease right-of-use assets, net	75,823	85,457
Property and equipment, net	68,124	61,537
Capitalized software, net	76,192	71,800
Capitalized curriculum development costs, net	50,557	50,580
Intangible assets, net	83,410	88,669
Goodwill	246,676	241,022
Deposits and other assets	<u>89,694</u>	<u>93,946</u>
Total assets	<u>\$ 1,619,291</u>	<u>\$ 1,643,545</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 32,809	\$ 61,997
Accrued liabilities	40,909	63,200
Accrued compensation and benefits	34,083	73,027
Deferred revenue	83,799	53,630
Current portion of finance lease liability	44,377	37,389
Current portion of operating lease liability	<u>13,281</u>	<u>12,830</u>
Total current liabilities	249,258	302,073
Long-term finance lease liability	28,925	28,888
Long-term operating lease liability	65,827	75,127
Long-term debt	412,260	411,438
Deferred tax liability	10,752	3,205
Other long-term liabilities	<u>10,370</u>	<u>10,233</u>
Total liabilities	777,392	830,964
Commitments and contingencies		
Stockholders' equity		
Preferred stock, par value \$0.0001; 10,000,000 shares authorized; zero shares issued or outstanding	—	—
Common stock, par value \$0.0001; 100,000,000 shares authorized; 48,431,576 and 48,112,664 shares issued; and 43,096,833 and 42,777,921 shares outstanding, respectively	4	4
Additional paid-in capital	688,695	687,454
Accumulated other comprehensive income (loss)	187	143
Retained earnings	255,495	227,462
Treasury stock of 5,334,743 shares at cost	<u>(102,482)</u>	<u>(102,482)</u>
Total stockholders' equity	841,899	812,581
Total liabilities and stockholders' equity	<u>\$ 1,619,291</u>	<u>\$ 1,643,545</u>

STRIDE, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended December 31,	
	2022	2021
	(In thousands)	
Cash flows from operating activities		
Net income	\$ 28,033	\$ 36,121
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	53,714	49,327
Stock-based compensation expense	10,451	8,888
Deferred income taxes	7,995	6,008
Provision for doubtful accounts	2,173	4,730
Amortization of fees on debt	822	809
Noncash operating lease expense	7,369	10,074
Other	(2,869)	5,550
Changes in assets and liabilities:		
Accounts receivable	(25,680)	(65,606)
Inventories, prepaid expenses, deposits and other current and long-term assets	(9,177)	11,944
Accounts payable	(26,059)	(26,810)
Accrued liabilities	(10,681)	(8,570)
Accrued compensation and benefits	(38,806)	(39,157)
Operating lease liability	(5,966)	(10,662)
Deferred revenue and other liabilities	29,863	5,686
Net cash provided by (used in) operating activities	<u>21,182</u>	<u>(11,668)</u>
Cash flows from investing activities		
Purchase of property and equipment	(2,823)	(2,705)
Capitalized software development costs	(21,399)	(19,330)
Capitalized curriculum development costs	(9,527)	(7,461)
Sale of other investments	60	5,261
Acquisition of assets	(1,409)	—
Other acquisitions, loans and investments, net of distributions	(767)	(3,956)
Proceeds from the maturity of marketable securities	36,729	7,248
Purchases of marketable securities	(55,879)	(38,720)
Net cash used in investing activities	<u>(55,015)</u>	<u>(59,663)</u>
Cash flows from financing activities		
Repayments on finance lease obligations	(19,938)	(14,744)
Payments of contingent consideration	(7,024)	—
Payments of deferred purchase consideration	—	(7,858)
Proceeds from exercise of stock options	10	246
Repurchase of restricted stock for income tax withholding	(10,334)	(35,404)
Net cash used in financing activities	<u>(37,286)</u>	<u>(57,760)</u>
Net change in cash, cash equivalents and restricted cash	(71,119)	(129,091)
Cash, cash equivalents and restricted cash, beginning of period	389,398	386,582
Cash, cash equivalents and restricted cash, end of period	<u>\$ 318,279</u>	<u>\$ 257,491</u>
Reconciliation of cash, cash equivalents and restricted cash to balance sheet as of December 31st:		
Cash and cash equivalents	\$ 318,279	\$ 256,986
Other current assets (restricted cash)	—	505
Total cash, cash equivalents and restricted cash	<u>\$ 318,279</u>	<u>\$ 257,491</u>

Non-GAAP Financial Measures

To supplement our financial statements presented in accordance with GAAP, we have presented adjusted operating income (loss), EBITDA, and adjusted EBITDA, which are not presented in accordance with GAAP.

- Adjusted operating income (loss) is defined as income (loss) from operations as adjusted for stock-based compensation and the amortization of intangible assets.
- EBITDA is defined as income (loss) from operations as adjusted for depreciation and amortization.
- Adjusted EBITDA is defined as income (loss) from operations as adjusted for stock-based compensation and depreciation and amortization.
- Adjusted EBITDA and adjusted operating income (loss) exclude stock-based compensation, which consists of expenses for stock options, restricted stock, restricted stock units, and performance stock units.

Management believes that the presentation of these non-GAAP financial measures provides useful information to investors relating to our financial performance. Adjusted operating income (loss) and Adjusted EBITDA remove stock-based compensation, which is a non-cash charge that varies based on market volatility and the terms and conditions of the awards. EBITDA and Adjusted EBITDA remove depreciation and amortization, which can vary depending upon accounting methods and the book value of assets. EBITDA and Adjusted EBITDA provide a measure of corporate performance exclusive of capital structure and the method by which assets were acquired.

Our management uses these non-GAAP financial measures:

- as additional measures of operating performance because they assist us in comparing our performance on a consistent basis; and
- in presentations to the members of our Board of Directors to enable our Board to review the same measures used by management to compare our current operating results with corresponding prior periods.

Other companies may define these non-GAAP financial measures differently and, as a result, our use of these non-GAAP financial measures may not be directly comparable to similar non-GAAP financial measures used by other companies. Although we use these non-GAAP financial measures to assess the performance of our business, the use of non-GAAP financial measures is limited as they include and/or do not include certain items not included and/or included in the most directly comparable GAAP financial measure.

These non-GAAP financial measures should be considered in addition to, and not as a substitute for, revenues, income (loss) from operations, net income (loss) and net income (loss) per share or other related financial information prepared in accordance with GAAP. Adjusted EBITDA is not intended to be a measure of liquidity. You are cautioned not to place undue reliance on these non-GAAP financial measures.

A reconciliation of these non-GAAP financial measures to the most directly comparable GAAP financial measures is provided below.

Reconciliation of Income from Operations to Adjusted Operating Income, EBITDA and Adjusted EBITDA
Second Quarter Fiscal Year 2023

	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	2021	2022	2021
	(In thousands)			
Income from operations	\$ 68,073	\$ 56,915	\$ 39,354	\$ 49,938
Stock-based compensation expense	4,941	602	10,451	8,888
Amortization of intangible assets	3,279	3,214	6,568	6,427
Adjusted operating income	76,293	60,731	56,373	65,253
Depreciation and other amortization	24,184	21,966	47,146	42,900
Adjusted EBITDA	\$ 100,477	\$ 82,697	\$ 103,519	\$ 108,153
EBITDA	\$ 95,536	\$ 82,095	\$ 93,068	\$ 99,265

Reconciliation of Income from Operations to Adjusted Operating Income (unaudited)
Fiscal Year 2023 Outlook

	Three Months Ended March 31, 2023		Year Ended June 30, 2023	
	Low	High	Low	High
	(In millions)			
Income from operations	\$ 62.5	\$ 70.5	\$ 147.5	\$ 164.5
Stock-based compensation expense	4.5	5.5	20.0	22.0
Amortization of intangible assets	3.0	4.0	12.5	13.5
Adjusted operating income	\$ 70.0	\$ 80.0	\$ 180.0	\$ 200.0

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