



K12 Inc. Reports Second Quarter Fiscal 2019 with Revenues of \$254.9 Million

January 22, 2019

HERNDON, Va.--(BUSINESS WIRE)--Jan. 22, 2019-- K12 Inc. (NYSE: LRN), a technology-based education company and leading provider of online curriculum and online school programs for students in pre-K through high school, today announced its results for the second fiscal quarter ended December 31, 2018.

Financial Highlights for the Three Months Ended December 31, 2018 (Second Quarter Fiscal Year 2019)

- Revenues of \$254.9 million, compared to revenues of \$217.2 million in the second quarter of FY 2018.
- Operating income of \$33.3 million, compared to \$13.7 million in the second quarter of FY 2018.
- Net income attributable to common stockholders of \$23.7 million, compared to \$13.3 million in the second quarter of FY 2018.
- Diluted net income attributable to common stockholders per share of \$0.59, compared to \$0.33 in the second quarter of FY 2018.

To supplement our financial statements presented in accordance with U.S. generally accepted accounting principles (GAAP), we are also presenting adjusted operating income (loss) and adjusted EBITDA. Management believes that these additional metrics provide useful information to our investors as an indicator of performance because they exclude stock-based compensation expenses. Non-GAAP Financial Highlights for the three months ended December 31, 2018 (Second Quarter Fiscal Year 2019) are as follows:

- Adjusted operating income of \$37.4 million, compared to \$20.9 million in the second quarter of FY 2018.
- Adjusted EBITDA of \$55.1 million, compared to adjusted EBITDA of \$39.5 million in the second quarter of FY 2018.

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

Financial Highlights for the Six Months Ended December 31, 2018 (Year-to-Date Fiscal 2019)

- Revenues of \$506.2 million, compared to \$446.0 million for the first six months of FY 2018.
- Operating income of \$19.5 million, compared to an operating loss of \$4.0 million for the first six months of FY 2018.
- Net income attributable to common stockholders of \$15.4 million, compared to \$5.2 million for the first six months of FY 2018.
- Diluted net income attributable to common stockholders per share of \$0.38, compared to \$0.13 for the first six months of FY 2018.

Non-GAAP Financial Highlights for the Six Months Ended December 31, 2018 (Year-to-Date Fiscal 2019) are as follows:

- Adjusted operating income of \$27.7 million, compared to \$6.2 million for the first six months of FY 2018.
- Adjusted EBITDA of \$63.9 million, compared to \$45.4 million for the first six months of FY 2018.

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

Liquidity

As of December 31, 2018, the Company had cash, cash equivalents, and restricted cash of \$205.3 million, a decrease of \$27.8 million compared to \$233.1 million reported at June 30, 2018. This decrease is largely the result of normal seasonal trends. On a year-over-year basis, cash, cash equivalents, and restricted cash increased \$15.8 million compared to December 31, 2017.

Capital Expenditures

Capital expenditures for the six months ended December 31, 2018 were \$27.3 million, an increase of \$3.5 million from the prior year's first six months, and was comprised of:

- \$1.9 million for property and equipment,
- \$15.3 million for capitalized software development, and
- \$10.1 million for capitalized curriculum development.

Revenue and Enrollment Data

Revenue

The Company's lines of business are: Managed Public School Programs (programs which offer an integrated package of systems, services, products, and professional expertise that K12 manages to support an online or blended public school, including administrative support, information technology, academic support services, online curriculum, learning system platforms, and instructional services), Institutional (Non-managed Public School

Programs – programs which provide instruction, curriculum, supplemental courses, marketing, enrollment and other educational services where K12 does not provide primary administrative support services and Institutional Software and Services – educational software and services provided to school districts, public schools and other educational institutions), and Private Pay Schools and Other (private schools for which it charges student tuition and makes direct consumer sales). The following table sets forth the Company's revenues for the periods indicated:

	Three Months Ended December 31,		Change 2018 / 2017		Six Months Ended December 31,		Change 2018 / 2017	
	2018	2017	\$	%	2018	2017	\$	%
	(In thousands, except percentages)							
Managed Public School Programs	\$ 222,793	\$ 183,392	\$ 39,401	21.5 %	\$ 443,336	\$ 371,898	\$ 71,438	19.2 %
Institutional								
Non-managed Public School Programs	13,217	13,991	(774)	-5.5 %	24,622	31,150	(6,528)	-21.0 %
Institutional Software & Services	9,891	11,437	(1,546)	-13.5 %	20,985	24,895	(3,910)	-15.7 %
Total Institutional	23,108	25,428	(2,320)	-9.1 %	45,607	56,045	(10,438)	-18.6 %
Private Pay Schools and Other	8,971	8,391	580	6.9 %	17,243	18,053	(810)	-4.5 %
Total Revenues	\$ 254,872	\$ 217,211	\$ 37,661	17.3 %	\$ 506,186	\$ 445,996	\$ 60,190	13.5 %

Enrollment Data

The following table sets forth average enrollment data for the period indicated. These figures exclude enrollments from classroom pilot programs and consumer programs.

	Three Months Ended December 31,		2018 / 2017		Six Months Ended December 31,		2018 / 2017	
	2018	2017	Change	Change %	2018	2017	Change	Change %
	(In thousands, except percentages)							
Managed Public School Programs (1,2)	116.4	108.5	7.9	7.3%	117.0	109.1	7.9	7.2%
Non-managed Public School Programs (1)	23.7	23.9	(0.2)	-0.8%	23.7	23.9	(0.2)	-0.8%

(1) If a school changes from a Managed Public School Program to a Non-managed Public School Program, the corresponding enrollment classification would change in the period in which the contract arrangement changed.

(2) Managed Public School Programs include enrollments for which K12 receives no public funding or revenue.

Revenue per Enrollment Data

The following table sets forth revenue per average enrollment data for students in Public School Programs for the period indicated.

	Three Months Ended December 31,		Change		Six Months Ended December 31,		Change	
	2018	2017	\$	%	2018	2017	\$	%
	(In thousands, except percentages)							
Managed Public School Programs	\$ 1,914	\$ 1,690	224	13.3 %	\$ 3,789	\$ 3,409	380	11.1 %
Non-managed Public School Programs	558	585	(27)	-4.6 %	1,039	1,303	(264)	-20.3 %

Outlook

The Company is forecasting the following for the third quarter, fiscal 2019:

- Revenue in the range of \$250.0 million to \$255.0 million.
- Capital expenditures of \$9.0 million to \$11.0 million. Note: Capital expenditures include the purchase of property and equipment, and capitalized software and curriculum development costs as presented in our Statements of Cash Flows.
- Adjusted operating income in the range of \$24.0 million to \$26.0 million. (3)

(3) In addition to providing guidance on 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.

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. 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; failure to enter into new managed 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; discrepancies in interpretation of legislation by regulatory agencies that may lead to payment or funding disputes; termination of our contracts with schools due to a loss of authorizing charter; 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; 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 release is as of December 31, 2018, 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.

Conference Call

The Company will discuss its second quarter fiscal year 2019 financial results during a conference call scheduled for Tuesday, January 22, 2019 at 5:00 p.m. eastern time (ET).

The conference call will be webcast and available at <http://public.viavid.com/index.php?id=132537>. Please access the web site at least 15 minutes prior to the start of the call.

To participate in the live call, investors and analysts should dial (877) 407-4019 (domestic) or (201) 689-8337 (international) at 4:45 p.m. (ET). No passcode is required.

A replay of the call will be available starting on January 22, 2019 at 8:00 p.m. ET through February 22, 2019 at 8:00 p.m. ET, at (877) 660-6853 (domestic) or (201) 612-7415 (international) using conference ID 13685691. A webcast replay of the call will be available at <http://public.viavid.com/index.php?id=132537> for 30 days.

Financial Statements

The financial statements set forth below are not the complete set of K12 Inc.'s financial statements for the three and six months ended December 31, 2018, and are presented below without footnotes. Readers are encouraged to obtain and carefully review K12 Inc.'s Quarterly Report on Form 10-Q for the quarter ended December 31, 2018, 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 K12 Inc.'s website at www.k12.com.

K12 INC.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2018	June 30, 2018 (audited)
		(In thousands except share and per share data)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 203,275	\$ 231,113
Accounts receivable, net of allowance of \$12,402 and \$12,384 at December 31, 2018 and June 30, 2018, respectively	239,702	176,319
Inventories, net	17,068	31,134
Prepaid expenses	19,120	10,278
Other current assets	14,447	10,388
Total current assets	493,612	459,232
Property and equipment, net	32,481	28,868
Capitalized software, net	52,997	55,488
Capitalized curriculum development costs, net	52,085	53,558
Intangible assets, net	16,466	17,951

Goodwill	90,197	90,197
Deposits and other assets	45,865	36,669
Total assets	\$ 783,703	\$ 741,963
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current portion of capital lease obligations	\$ 26,191	\$ 13,353
Accounts payable	20,460	29,362
Accrued liabilities	14,619	14,345
Accrued compensation and benefits	28,120	36,050
Deferred revenue	51,476	23,114
Total current liabilities	140,866	116,224
Capital lease obligations, net of current portion	8,560	12,665
Deferred rent, net of current portion	2,766	3,270
Deferred tax liability	18,114	12,577
Other long-term liabilities	9,441	10,038
Total liabilities	179,747	154,774
Commitments and contingencies		
Stockholders' equity		
Common stock, par value \$0.0001; 100,000,000 shares authorized; 45,550,316 and 44,902,567 shares issued; and 40,215,573 and 39,567,824 shares outstanding at December 31, 2018 and June 30, 2018, respectively	4	4
Additional paid-in capital	705,825	703,351
Accumulated other comprehensive loss	(59)	(252)
Retained earnings (accumulated deficit)	668	(13,432)
Treasury stock of 5,334,743 shares at cost at December 31, 2018 and June 30, 2018	(102,482)	(102,482)
Total stockholders' equity	603,956	587,189
Total liabilities and stockholders' equity	\$ 783,703	\$ 741,963

K12 INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
	(In thousands except share and per share data)			
Revenues	\$ 254,872	\$ 217,211	\$ 506,186	\$ 445,996
Cost and expenses				
Instructional costs and services	160,329	139,163	319,314	286,530
Selling, administrative, and other operating expenses	60,183	61,958	162,761	158,240
Product development expenses	1,070	2,376	4,573	5,274
Total costs and expenses	221,582	203,497	486,648	450,044
Income (loss) from operations	33,290	13,714	19,538	(4,048)
Interest income (expense) and other, net	(504)	39	(92)	274
Income (loss) before income taxes and noncontrolling interest	32,786	13,753	19,446	(3,774)
Income tax benefit (expense)	(9,074)	(564)	(4,016)	8,804
Net income	23,712	13,189	15,430	5,030
Add net loss attributable to noncontrolling interest	—	70	—	173
Net income attributable to common stockholders	\$ 23,712	\$ 13,259	\$ 15,430	\$ 5,203
Net income attributable to common stockholders per share:				
Basic	\$ 0.61	\$ 0.34	\$ 0.40	\$ 0.13
Diluted	\$ 0.59	\$ 0.33	\$ 0.38	\$ 0.13
Weighted average shares used in computing per share amounts:				
Basic	38,816,669	39,347,244	38,625,359	39,227,708
Diluted	40,325,260	40,685,667	40,178,555	40,773,017

K12 INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended December 31,	
	2018	2017
	(In thousands)	
Cash flows from operating activities		
Net income	\$ 15,430	\$ 5,030
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	36,221	39,186
Stock-based compensation expense	8,164	10,296
Deferred income taxes	6,334	(51)
Provision for doubtful accounts	740	468
Other	3,971	3,485
Changes in assets and liabilities:		
Accounts receivable	(64,116)	(52,202)
Inventories, prepaid expenses, deposits and other assets	3,935	(7,759)
Accounts payable	(3,428)	(9,106)
Accrued liabilities	769	(9,259)
Accrued compensation and benefits	(7,930)	(9,711)
Deferred revenue, rent and other liabilities	24,795	28,705
Net cash provided by (used in) operating activities	24,885	(918)
Cash flows from investing activities		
Purchase of property and equipment	(1,914)	(5,917)
Capitalized software development costs	(15,263)	(13,378)
Capitalized curriculum development costs	(10,099)	(4,474)
Acquisitions and investments	(11,652)	(2,170)
Net cash used in investing activities	(38,928)	(25,939)
Cash flows from financing activities		
Repayments on capital lease obligations	(6,938)	(6,987)
Payments of contingent consideration	(987)	(1,819)
Proceeds from exercise of stock options	1,035	58
Repurchase of restricted stock for income tax withholding	(6,905)	(5,757)
Net cash used in financing activities	(13,795)	(14,505)
Net change in cash, cash equivalents and restricted cash	(27,838)	(41,362)
Cash, cash equivalents and restricted cash, beginning of period	233,113	230,864
Cash, cash equivalents and restricted cash, end of period	\$ 205,275	\$ 189,502
Reconciliation of cash, cash equivalents and restricted cash to balance sheet as of December 31st:		
Cash and cash equivalents	\$ 203,275	\$ 189,502
Deposits and other assets (restricted cash)	2,000	—
Total cash, cash equivalents and restricted cash	\$ 205,275	\$ 189,502

Non-GAAP Financial Measures

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

- Adjusted operating income (loss) is defined as income (loss) from operations as adjusted for stock-based compensation.
- 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.

This information should be considered as supplemental in nature and should not be considered in isolation or as a substitute for the related financial information prepared in accordance with GAAP. Management believes that the presentation of these non-GAAP financial measures provides useful information to investors regarding our results of operations because it is an indicator of performance with the removal of stock-based compensation which assists both investors and management in analyzing and benchmarking the performance and value of our business.

We believe adjusted EBITDA is useful to an investor in evaluating our operating performance because it is both widely used to measure a company's operating performance without regard to items such as depreciation and amortization, which can vary depending upon accounting methods and the book value of assets, and to present a meaningful measure of corporate performance exclusive of our capital structure and the method by which assets were acquired.

Our management uses adjusted EBITDA and adjusted operating income (loss):

- as additional measures of operating performance because they assist us in comparing our performance on a consistent basis;
- 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; and
- as consistent with lending covenants on our line of credit.

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 adjusted EBITDA and adjusted operating income (loss) 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.

Adjusted EBITDA and adjusted operating income (loss) should be considered in addition to, and not as a substitute for, income or loss from operations, net income or loss, and earnings or loss per share prepared in accordance with GAAP as a measure of performance. 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.

	Three Months Ended December 31,		Six Months Ended December 31,	
	2018	2017	2018	2017
	(In thousands)			
Income (loss) from operations	33,290	13,714	19,538	(4,048)
Stock-based compensation expense	4,140	7,217	8,164	10,296
Adjusted operating income	37,430	20,931	27,702	6,248
Depreciation and amortization	17,710	18,550	36,221	39,186
Adjusted EBITDA	\$ 55,140	\$ 39,481	\$ 63,923	\$ 45,434

About K12 Inc.

K12 Inc. (NYSE: LRN) is driving innovation and advancing the quality of education by delivering state-of-the-art, digital learning platforms and technology to students and school districts across the globe. K12's curriculum serves over 2,000 schools and school districts and has delivered millions of courses over the past decade. K12 provides online and blended education solutions to charter schools, public school districts, private schools, and directly to families. The K12 program is offered through more than 70 partner public schools, and through school districts and public and private schools serving students in all 50 states and more than 100 countries. More information can be found at K12.com. To download the enrollment app visit K12.com/app.

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