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Earnings Call

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Call Participants

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Presentation

Operator

Good morning, and welcome to the McGraw Hill Inc. Earnings Conference Call. [Operator Instructions] Following the prepared remarks, we will open the call for questions. I would now like to turn the call over to your host, Danielle Kloeblen, Treasurer and Senior Vice President, Investor Relations. Please go ahead, Danielle.

Danielle Kloeblen
Senior Vice President of Finance & Investor Relations

Good morning. Welcome to McGraw Hill's earnings call for the first quarter of fiscal year 2027. Joining me today are Philip Moyer, President and Chief Executive Officer, and Bob Sallmann, Executive Vice President and Chief Financial Officer. During today's call, we will make forward-looking statements based on our current expectations and the current economic environment.

These statements, estimates, and projections are subject to significant uncertainties beyond management's control. As detailed in the cautionary language in our earnings release for the fiscal first quarter ended June 30, 2026, the accompanying investor presentation, our 10-Q for the same fiscal quarter and our other SEC filings.

We will also reference certain non-GAAP measures today, which we believe provide useful supplemental insight into our financial and operational performance, though they are not substitute for GAAP measures. Definitions and GAAP reconciliations are available in our earnings release, the appendix to the investor presentation, and on our investor relations website. For those listening to a recording of this call, please note that the remarks are as of today, August 13, 2026, and have not been subsequently updated. With that, I'll turn the call over to the President and Chief Executive Officer, Philip Moyer.

Philip D. Moyer
President, CEO & Director

Good morning, everyone. Thank you for joining us. Millions of students and educators worldwide are preparing to head back to school, and McGraw Hill is leading the way. We're entering our most important selling season off the back of a stronger than expected first quarter. McGraw Hill has more paid enterprise users than any other education company in the world, over 100 million active curriculum licenses, over 7.5 million users of our AI solutions, and billions of learning interactions.

This is what it looks like to be the world's preeminent education company. Q1 exceeded our expectations, both on revenue and profitability. Revenues grew 2.6% year-over-year, while recurring revenue grew 9.8%, representing 77% of total revenue. Adjusted EBITDA was $207 million, yielding a margin of 37.7%.

More than 192 basis points of growth over the prior year, and net income was $58 million. These results represent disciplined execution across our teams, on our fiscal year 2026, where we delivered revenue growth, margin expansion, and positive net income, and a $646 million reduction in gross debt. In higher education, Inclusive Access, our Evergreen content delivery model, and our world-class go-to-market team continue to drive momentum. Q1 marked another quarter of share gains, extending our 10-year streak.

Our Connect offering exhibits the stickiness of enterprise software, which gives us some considerable confidence as we head into the fall. In K-12, we're at the beginning of a multi-year curriculum adoption cycle, driven by the Science of Reading. 44 states representing 86% of K-5 enrollment have mandated Science of Reading based pedagogy with large states like California accelerating their ELA cycles. In fact, Stanford University projects 300 to 700 additional districts could adopt Science of Reading curriculum materials over the next 7 years, on top of the usual cycle.

Our new literacy programs, Emerge, Summit, Soar, and Emerger Juntos, a comprehensive K-12 program built on the Science of Reading. It will also be one of the only dual language programs in the U.S. market.

And I'm very happy to say that it's exceeding our expectations with early cumulative capture rates above our 25% to 30% target range. We've seen additional adoptions since last quarter.

Many of which are in open territory districts that were not previously our customers in July. Our California ELA programs were recommended for approval by a state reviewer panel, and we're looking forward to November when the state will approve the final vendor list for the procurement cycle that begins in fiscal year 2028. I'm also excited to announce our expansion into the increasingly important dyslexia screening market.

It's estimated that 1 in 10 people have dyslexia, including 10 million students in the United States alone. And as a result, 40 states in the United States have mandated student screenings for dyslexia. We're launching exclusive integration with Stanford University for ROAR, which stands for the Rapid Online Assessment of Reading. It's an evidence-based dyslexia screener and the only screener designed to assess foundational reading skills across the full K-12 spectrum. We integrate ROAR data with our McGraw Hill Plus analytics platform, which will uniquely help teachers identify, intervene, and target instruction all in a single unified interface and experience for the student and the teacher.

On a separate note, I'm also excited that Florida has recently approved our math programs ahead of the state's upcoming adoption beginning in fiscal year 2028. In global professional medical information now doubles every 73 days. The need for curated medical grade content at scale is growing. And McGraw Hill is building directly into the convergence of medical education and clinical workflows.

Our AI Reader tool now spans 4 new pharmacotherapy and pharmacological titles, with 96% of pharma doctor penetration. While our clinical reasoning tool has added 18 cases and landed its first commercial deals across osteopathic medicine, physician assistance, and nurse practitioner programs. I'm also excited to note that last month, our AI agent powered by Harrison's Medicine was tested head-to-head against leading LLM platforms. We saw a panel of respected medical editors and physicians, and it outperformed every tool on every question, delivering more complete, accurate, and up-to-date clinical responses without hallucinations.

We're trusted by 98% of U.S. medical schools, and with our new agentic AI platforms, we're just scratching the surface of how our medical grade content can be applied across the $13 trillion medical industry. International also continues to present attractive growth opportunities. In Australia, we secured our largest K-12 ELA intervention deal with the Tasmania Department of Education, covering nearly 200 schools and approximately 5,000 students. Student populations around the world are growing, and McGraw Hill is one of a few edtech companies that is able to serve globally at scale.

And these wins reflect the growth opportunity ahead. AI is another growth vector, and the narrative is shifting. The world is realizing that AI is not replacing jobs or destroying companies. It's making them better, and education is a best example of this. Humans have an insatiable desire for knowledge, and the need to educate the next generation is growing daily.

We will simply not have astronauts reach Mars or manage fleets of robots, harness biology to extend lifespans, or usher in global peace and prosperity without doing an excellent job in education. Education is the fountainhead of human progress, and unlike other industries, it simply doesn't have a terminal value.

The challenge is we must teach more subjects to more students faster and in more ways than ever before. Teachers and students are having a hard time keeping up, and they're looking for someone they can trust. According to our Global Education Insights report that we just released, educators are 81% more likely to completely trust AI that is embedded in existing educational platforms versus general purpose chatbots.

It was also interesting that trust among educators in general purpose GenAI chatbots declined 33% year-over-year. These surveys, along with customer conversations, continue to reinforce that AI will be a tailwind for McGraw Hill, because we can teach more subjects to more students with more trust than any other option. A great example of this is the contrast between OER and McGraw Hill. As mentioned, we take more business from OER than we lose.

The average school district uses over 2,400 disparate tools, and the average teacher and student has over 25 separate logins. Do-it-yourself content and chatbots that the educator must self-correct takes their time away from students and is not driving repeatable outcomes. McGraw Hill doesn't make educators piece it together. We deliver a fully integrated system of curriculum, assessment data, personalized learning, and professional development.

Integrated directly into the daily workflows of the educator and the student. As we build our AI driven adaptive edtech tools, we start with a deep mode of high quality human curated content, a proprietary education ontology with 26 billion annual learning interactions and a 7,000-educator research network, and over 100 independent peer-reviewed education outcome validations.

When given a choice between our integrated, trusted AI model versus a general purpose chatbot with OER content found on the internet with no efficacy studies, teachers and students tend to choose McGraw Hill. As a result, we now have 8 live AI learning tools serving more than 7.5 million active users with 3 additional launches planned this fiscal year.

Our AI Reader alone has scaled to 63 million interactions across 2.6 million users to date. But we're just getting started. Agentic AI is quickly becoming one of the most important technologies in the AI race. Agentic AI allows companies to create purpose-built knowledge graphs and couple these with different size models to achieve higher accuracy rates, better speed and efficiency levels that surpass the general purpose AI models.

We believe the future of knowledge will be agentic, and the agentic AI pilot that I mentioned last quarter continues to grow. We already have over 14 companies in our pilot group, and they're using a wide variety of third-party chatbots and open-source tools, which we can integrate with. We are building our agentic tooling to be a part of any education experience with any choice of chatbot that supports agentic standards. And we believe this represents an opportunity for meaningful TAM expansion.

We look forward to sharing more about our agentic strategy, our broader suite of tools, and our growth priorities at our Investor Day on November 18. Our mission to build human intelligence across the full education life cycle has never been more vital, and our ability to deliver on it has never been stronger. Excited to now turn it over to Bob to walk through the financials of the quarter.

Robert Sallmann
Executive VP & CFO

Thank you, Philip. We had a strong opening to the fiscal year. We outperformed our expectations and are building meaningful momentum towards multi-year growth. New wins, strong retention, upselling, pricing, and accelerating digital engagement are trending positively. However, we are taking a measured view as we await higher education enrollment and final K-12 district award decisions, both critical for the full-year outlook.

And adjusted EBITDA can shift between Q1 and Q2 due to academic seasonality and K-12 shipment timing, which is why we focus on first half performance as a more meaningful measure. With that context, total revenue for the quarter was ahead of our expectations at $550 million, an increase of 2.6% year-over-year. Reoccurring revenue reached $426 million, an increase of nearly 10%, or 77% of the total revenue mix, demonstrating the durability and predictability of our model.

And digital revenue increased nearly 9% year-over-year, representing 64% of total revenue. The remaining performance obligation was $1.5 billion and is expected to increase sequentially reflecting typical K-12 seasonality.

Adjusted EBITDA was $207 million yielding a margin of 37.7%, an increase of 192 basis points compared to last year, or growth of 60 basis points when excluding benefits from the sale of intellectual property. Margin expansion was driven by cost discipline, digital mix, and AI productivity gains, even while investing in ELA, AI tools, and agentic curriculum pilots. Our industry leading margin profile reflects a differentiated value proposition. One that we believe is durable and positioning us well for continued expansion over time. This overall momentum we are seeing across revenue growth, margin expansion, price realization, and market share gains reflects AI as a genuine tailwind for our business, one you'll see playing out in each of our segments. Now, let's move on to the segments. Our momentum continued within higher education in the small but encouraging summer session with $200 million in revenue in the quarter, up 10% year-over-year, while reoccurring revenue grew 14% year-over-year.

Trailing 12-month market share remained above 30% through June, an increase of 140 basis points year-over-year, according to MPI. At 57% of revenue, Inclusive Access continues to perform well with activations and adoptions both accelerating through June. Our Evergreen continuous content delivery model, which represents 68% of higher education revenue in the fiscal year 2026, protects our renewal base and enables more competitive takeaway opportunities, evidenced by 59% of our accounts rolling over to the latest release without sales rep intervention.

Our value based pricing approach continues to stick, driven by ongoing product enhancements and a differentiated go-to-market approach. We are actively monitoring fall enrollment signals.

Our overall guidance continues to embed an assumption of 1% enrollment growth, and we will update our assumptions as we gain more in the coming weeks. Shifting to K-12, revenue in the quarter was $274 million, up 1.3% year-over-year, with reoccurring revenue growing 7%, reflecting the durability of our multi-year contracts and strong capture rates and science in ELA. Outside of math in California and Texas, our K-12 capture rates are at the high end of the targeted range, and we're continuing to build momentum.

As Philip mentioned, our new ELA program is delivering early results that stand above our targeted 25% to 30% capture rates. The multi-year ELA cycle is underway with 44 states aligned with the Science of Reading and California's adoption cycle starting in fiscal year 2028. Our supplemental and intervention pipeline is up double digits for fiscal year 2027 and we continue to see improvements in our renewal rates. We are embedding McGraw Hill Plus in Emerge, Summit and Soar to unify data across core, and assessments. Global Professional delivered $35 million in revenue in the quarter, with reoccurring revenues growing by over 6%. Medical Education represents 80% of the segment and has significant runway as AI-enabled clinical simulations and diagnostic training tools early traction. And as non-strategic print titles wind down, the true growth profile of this business becomes increasingly visible.

International delivered $45 million in revenue in the quarter, impacted by the Middle East conflict which delayed K-12 shipments, which are now being fulfilled. Growth in the Middle East and Latin America is expected to offset continued higher education enrollment pressure in Canada. Positioning the region for growth in fiscal year 2027. We ended the quarter with $194 million in cash and $644 million in total liquidity with our revolving credit facility remaining undrawn. Q1 reflects a seasonal use of working capital tied to back to school preparation, which came in below prior year and drove improved cash flow from operations. Collections will ramp post our primary selling cycle, consistent with historical seasonality. CapEx and product development remain in line with our expectations. We have cycled through our cash trough and are now building cash with gross debt reduction as a top priority.

We reduced gross debt by $646 million in FY 2026, lowering annualized cash interest expense by nearly $45 million and remain committed to our net leverage target of 2x to 2.5x. We will also continue to opportunistically evaluate ways to optimize our capital structure. In July, Moody's upgraded our credit ratings across the board, reflecting our strong financial profile, lower leverage, and commitment to continued gross debt reduction. Our $50 million of share repurchase authorization remains in place. Our capital allocation approach is unchanged. Organic reinvestment, debt reduction, select tuck-in M&A, and opportunistic share repurchases as a value-creating complement. The M&A pipeline remains active with select targets that accelerate our product development roadmap in adjacent areas that can be scaled across the organization.

We are reaffirming this year 2027 guidance across all metrics ahead of the primary back to school period. Leading indicators are encouraging and we remain confident in our financial trajectory with greater visibility ahead as the large fiscal second quarter selling season progresses and we are seeing students arrive on campus. We will factor this into our guidance when we report fiscal second quarter results in November. Approach we took last year. We remain focused on execution, which will support our multi-year trajectory of mid-single-digit-plus revenue growth and continue margin expansion. With that, I'll turn the call back to the operator for questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Steven Koenig with Macquarie Group. Please go ahead.

Steven Richard Koenig
Macquarie Research

My first question is for Bob. Can you give us some color on just the drivers of the outperformance in the quarter versus your internal expectations? And then I've got a follow up for Phil.

Robert Sallmann
Executive VP & CFO

Sure thing. Thanks, Steven. Yes, we executed well across the businesses. We're building momentum as I highlighted. What we saw was really the performance or outperformance in K-12. As we highlighted, I want you to think about that being a first half and second half business and it's really critical for us to deliver our educational materials into districts ahead of back to school.

And so what you're seeing is a little bit of that benefit where we executed and delivered in say June versus July, but it's really critical that we ensure those materials are there in district on time. I'm trying to say that's the biggest driver of the overperformance, but look, we're really pleased with the momentum we're building in higher ed and across the businesses.

Steven Richard Koenig
Macquarie Research

Philip, for you. Your data points on the superiority of your AI tools and adoption of AI Reader. It's very, very encouraging. Can you give us maybe a little bit more detail on how you're progressing with potential commercial constructs for your AI strategy and maybe what do you feel investors may not appreciate or need to know about that strategy.

Philip D. Moyer
President, CEO & Director

I would tell you we're super excited about a lot of what's happening in AI for us and just in tooling in general. One of the things I want to highlight for investors just in general is that this quarter we did over 284 curriculum and releases of AI tools and learning tools. Our pace of innovation is accelerating. It's one of the fastest that we've ever had. I believe I can safely say the fastest, while we expanded margins. Important to say, and there's two reasons for that. First of all, we're able to monetize on top of the existing curriculum licenses we have. We have over 100 million curriculum licenses.

When you look at most other edtech companies, they have lots of free users and very few paid users, and we're starting to monetize. When I talked about the 7.5 million many of those are paying us additional fees on top of the curriculum license. Sharpen is a great example of that where today you pay for the curriculum and then Sharpen also adds in learning tools and you're going to see us do that across a wide spectrum of our curriculum across those 100 million curriculum licenses.

And so in some cases it's an additional AI driven learning tool. In some cases, it's going to be an upcharge for AI access or MCP access. And in other cases, we're inventing brand new tools. So I would tell you that we're really excited about it.

What you're seeing as well hold inside of organizations like higher ed as well as K-12 is our price. We're actually able to command more price in those markets, and that's being driven both by the tooling, the assessment products, and as well as the study aids on top of those 100 million licenses of curriculum.

Operator

Your next question comes from the line of Henry Hayden with Rothschild & Co. Redburn. Please go ahead.

Henry Hayden
Rothschild & Co Redburn, Research Division

We were hoping to get some incremental color on the guidance philosophy given there's been no change there despite strong momentum in the quarter. So how much conservatism have you baked in around cap rates in K-12? Should we expect there to be upside risk for the full year beyond kind of the previous indication for that to come in at the lower end of the range? And then just as a follow up, is there any more detail you'd be able to give us on the early indicators for the full year for California ELA and ELA more broadly as we think about the capture rates at the segment level moving forward.

Robert Sallmann
Executive VP & CFO

We just spoke on June 11th when we developed our guide and used sort of all the insights we had at that point to inform what the guidance would be. And we provided a range, of course, for various different outcomes. As we progressed since then, a couple of months have passed. We haven't really seen a meaningful shift in terms of capture rates or anything that would indicate a difference.

Now, we did highlight the momentum that we're building, particularly in higher ed, we saw capture rates, we're seeing price, we're seeing other areas, but the most meaningful measure for us will be when students arrive on campus. And so as we wait until the end of August and to September, those will be those indicators of where we'll be in higher ed. So consistent with our past practice this is an important quarter, but really it's not until we complete our second quarter that we can come back and have more visibility for the full year.

Philip D. Moyer
President, CEO & Director

And on ELA capture, we are very, very pleased with what's happening with our Emerge, Summit and Soar program. We're one of, as I mentioned in our earnings call or in some of my remarks, one of the only fully dual language programs that's in the United States that spans the full grade level. It's a really important differentiator. The other thing, we have built this thing, literally it's one of the largest single investments that we've made in the history of McGraw Hill to launch this program.

And we're really, really excited about what's happening in the literacy market. It's one of the biggest mandate changes in curriculum that's ever occurred in the education market all simultaneously. We're excited as well about our Rapid Online Assessment of Reading, ROAR. So, we're bringing dyslexia screening with our literacy program, and we're seeing a great progress.

I mentioned last quarter that we scored 212 out of a 214 rubric in Colorado. I'm happy to say that we just got through our panel of reviewers in California and so we're expecting the list to come out in the early September time period, but we've been recommended for approval. That ROAR program I mentioned is also approved in California. California and our early win rate is pretty extraordinary. We're seeing districts like Lake Washington, St. Cloud in Minnesota, Maricopa in Arizona, Snoqualmie in Washington, some really great districts that are adopting and this is what we call kind of year zero for the program. So it's just we're just bringing out fully as we get into next year and we're already seeing rates that are significantly higher than what we saw in our previous program.

Wonders was about a $1.5 billion program for us over 10 years. And what we're seeing is traction that is actually exceeding a lot of what we saw when we first rolled that out. So exciting, an exciting moment for us in literacy as we look to the coming fiscal year.

Operator

Your next question comes to the line of George Tong with Goldman Sachs. Please go ahead.

George Tong

Higher education performance in the quarter was supported by share gains, pricing, and enrollment. Can you unpack these drivers and elaborate on how your performance compares with your largest competitors?

Robert Sallmann
Executive VP & CFO

Sure, thanks George. When we think about that 10% revenue growth let's go back to last year and really this is relating to the spring semester and it's just a carry over from there. So what you're seeing is enrollment being up about 4%, that price we talked about price sticking at a greater rate.

And so we'll see that at about 2%. And then the remainder of that is really the share gain piece. So that's really the drivers of the growth there. And I said previously in the prepared remarks, we're really well positioned as we walk into this important back to school as a student show up on campus with both price, with takeaways and some other things that'll allow that momentum to continue.

Philip D. Moyer
President, CEO & Director

I would add in a couple of things. First and foremost, I think that we have maybe one of the most world-class go-to-market organizations inside of the entire industry. And I would say that I've ever experienced. I worked in go-to-market organizations at Microsoft, Amazon, Google, some amazing, amazing organizations. And I would tell you this organization is world-class that we have. We made a deep investment in customer success as well that's paying off. Our retention rates are simply, I believe that we could say that it may be the best in the industry. The other thing that's really differentiating us is, move to Inclusive Access.

We made that shift, making all of our content more accessible. I think in some cases from a pricing perspective, our competitors, but then we're adding more value on top of that, especially with something like Evergreen. And I'll see relationships jump from $200,000 to $600,000 really quickly because of people moving to both Inclusive Access and getting more students and then also Evergreen where you have more professors because we're constantly talking about the update into content.

And then our customer success teams are landing with those professors. And some of our competitors are pulling their customer success team, pulling their go-to-market teams. I was with a professor last week, and great professor, and he said, the difference between you and everyone else is that your team, every person, they pick up the phone, They come in, they're there, they respond. They are world-class in terms of how they service the classroom, the professor, the institution.

And so our feet on the ground in the organization, the relationships, and then our systematic execution, our pricing execution, and our content execution are just simply, there's not a lot of companies you can look at and say 10 straight or 40 straight quarters of share growth. It's a pretty extraordinary story. And we're really proud of that.

George Tong

I was really intrigued about your announcement with ROAR. Did you not have a product that focused on dyslexia beforehand? Why this specific product? And what do you think it means in terms of the opportunities you have in that market?

Philip D. Moyer
President, CEO & Director

So as mentioned, approximately 1 in 10 people, it's estimated in the world have dyslexia. It's a unique wiring of the brain. And it turns out that you can actually rewire the brain. It's very important. There's been a tremendous amount of science that's been done.

At Stanford in particular, it's considered one of the best programs in the world around dyslexia. And the ability to be able to detect that early and then be able to provide the appropriate intervention and then instructional models to be able to actually rewire the brain, it's a really critical thing. And I think there's been a lot of science that's been done, and they've just been bringing out really solid screening for dyslexia.

We've been in the intervention supplemental market for awhile. We also have fantastic literacy program and so this ability to be able to detect any kind of multiple learning disabilities, specifically dyslexia, which is the number one. It really gives us a way to walk into a school district and be able to give a holistic program that a lot of other organizations can't provide.

We're also excited about it because it's also one of the only multilingual screeners that's in the marketplace. It also provides Spanish screening. As a whole, both here in the United States and on a worldwide basis, this allows us to both provide a literacy program, intervene properly, and then I'll say provide a service to the district in a single package, be able to understand proficiency for any kind of reading learner.

George Tong

All right, let me shift gears a bit and maybe talk about the K-12 market. I know we're looking at six months instead of quarter by quarter, but some of the other folks in the industry have been talking about delayed decision-making. I'm wondering if you are seeing that. Has it gotten any worse or any better since we talked last quarter?

Robert Sallmann
Executive VP & CFO

It hasn't meaningfully changed. We are watching some of the supplemental intervention decisions and that pipeline and how it's closing. But generally I would say it's consistent with our what we saw a month ago. And so again, we've built the pipeline. We're excited about where the supplemental intervention is, might be the one area where people are seeing a little bit slower delays around calls. But we haven't seen anything meaningfully shift.

Operator

Your next call comes from the line of Faiza Alwy with Deutsche Bank. Please go ahead.

Faiza Alwy
Deutsche Bank AG, Research Division

I wanted to ask about K-12 also, and really just learn more about the demand for agentic AI solutions and kind of how that's balanced against more demand for paper and pen, particularly in the early elementary grades. So just would love your perspective on kind of how you're balancing those two things.

Philip D. Moyer
President, CEO & Director

Thank you for the question. This is such a wonderful question. And specifically, there is a lot of, I'll say, debate right now around what the appropriate amount of screen time is in the classroom. In some cases, a pretty significant backlash. We've seen actual bans in some classrooms for tools. And then we've seen it other areas, geographies around the world, a movement towards screens. We have a philosophy that screens are appropriate or best kind of used based on the amount of self-regulation that a particular student has. And I kind of liken it to the lens of a camera.

It has to be very narrow and focused in some cases, but the more self-regulation you get, you're able to still focus while the world, you take in more of the world. And in the early years, last quarter I talked about, the announcement of the adoption in Seattle school districts, the school board was concerned and wanted us to assure them they only had 7% usage of instruction time was on a screen, which we can do. And it's precisely what we do about 20 minutes a week.

And as we move into AI of a new higher grades you can definitely have more AI capabilities. So the early years, I would say we primarily use AI for assessment or short-term in some cases for intervention supplemental, but we're spending a lot of time as well in traditional teaching.

The amazing thing about McGraw Hill is I think that we can safely say that we may be one of the largest, if not the largest, edtech companies in the world because of the 100 million paid subscribers to our content, but we're also one of the largest book and paper based programs in the world. And so we're one of the few companies on the planet that can serve at global scale print as well as digital in whatever way a school wants to use.

And so and you'll see us continue to build tooling around this. You can see us continue to take leadership. We have literally hundreds of PhDs that are on our that are on our in our organization that focus significantly on this about the appropriateness of screens and then the appropriateness of paper based on the type of reader. And as I mentioned, we're one of few companies that can do this at scale. And let me add to that. I think printing at scale is very difficult and we do it extremely efficiently. And so if you think about some of the competitors.

Robert Sallmann
Executive VP & CFO

that are digital first, digitally native, they will really have challenges printing at scale and doing it on time. And as I mentioned into my earliest question, it's really critical to deliver that print material on time when students need it ahead of the back to school season and do it efficiently. And we've been doing that for a very, very long time. So we are very well positioned should that market shift going forward.

Faiza Alwy
Deutsche Bank AG, Research Division

Great. Thank you so much. And then just to follow up also, you talked about that you take more business from OERs than you lose. Just I'm curious if you can share kind of the latest developments around that. I know it's been it's been an important topic. So has anything shifted over the last couple months since we talked about this?

Philip D. Moyer
President, CEO & Director

No, it really hasn't. I've been really proud of the team throughout the summer. The summer tends to be a little bit of a slower selling season or in the school market, as you can imagine, a number of teachers are taking some well-earned breaks over the summer, but the team has been winning. And we've been continuing to take both share as well as take share from OER. The thing that I keep getting told by everyone, and I've mentioned before is that teachers don't want to have to spend all their time off building curriculum. They'd rather spend it in the classroom with students.

And so kind of rolling your own with a chatbot or some OER resources and have to figure out how to build an assessment and then how to figure out how to build an activity or to build a case study that kind of reinforces. They really do love actually having somebody like McGraw Hill deliver the content to them in a package and then them being able to augment and focus on what they're amazing at, which is actually landing that content with students.

They'll use a lot of additional content, but it really helps to start with a package that you trust and that has content that you know has been human curated and with assessments that actually have been third party validated.

So we continue to win over the summer, I guess is what I would say, even though there's not a lot of teachers making decisions.

Operator

Your next question comes from the line of Shlomo Rosenbaum with Stifel. Please go ahead.

Shlomo H. Rosenbaum
Stifel, Nicolaus & Company, Incorporated, Research Division

Bob, I want to ask you a little bit about a question we had before and how it goes into the science of literacy. Last quarter, the company was closed. I would say a little bit, I don't know if you put it more conservative or talking down the capture rates that they were expecting and now you're talking about very strong capture rates.

I'm trying to understand what changed in one quarter and does it have to do with the fact that you've come out with this next generation literacy curriculum and as you talk to that, I want to ask you to just explain a little bit about the change that's going on in the market with all the different states and how that's going to impact the cycles in terms of curriculum, it seems like it's additive to the existing cycles. It seems like something that's just not really appreciated out there in the market. And you can tell me if these two things are the capture rates in this science and literacy are connected.

Robert Sallmann
Executive VP & CFO

Yes, great, great question. Let me kind of go through these in a few different pieces. So when we speak of our capture rates, and we talked about outside of California and outside of Texas, we're at the high end of our range. And historically, we've been in that 25% to 30% range. And then when we said that our blended rates were at the lower end of the range, implying that we have some opportunities to make some improvements in California, by example. What we are seeing, and there's lots of improvements that are happening, we are seeing some excitement around the changes we've made and its position as well for into '28. So we would expect those overall capture rates to continue. Now, when we talk about the Science of Reading in our new ELA program, it's been landing exceptionally well.

When we launched Wonders over 10 years ago, we saw our early signals and early capture rates. We're well above those now with our new programs, Emerge Summit, Soar. So what you will see, and again, this is where I'm talking about momentum as we move to '28 those are the areas know some ongoing business. But I do want a couple areas outside of territory. So we're number studies were number two. So these are places that we are really well positioned, continuing to take share, continuing to expand our share. And so that's when I talk about momentum, those are the places we're seeing it.

Shlomo H. Rosenbaum
Stifel, Nicolaus & Company, Incorporated, Research Division

Then how much of the beat in K-12 was really delivering the printed material ahead of expectations it sounded like that was something that was very key happened in June versus July so maybe you could kind of quantify that and lay out what we should be expecting for next quarter because it seems like it was somewhat of a pull full.

Robert Sallmann
Executive VP & CFO

Yes, and I think and that's exactly it. I think about first half, right? And so we just want to ensure those students have all the materials ahead of back to school. And so I don't really think of it so much as a Q1, Q2, but that first half. And so when we look at the beat in K-12, it was in line with our first half expectations. And some of it came in faster in June versus July. And that's why in mind we kept our guidance as well, and we'll continue to monitor other trends as we go into next quarter.

Operator

Your next question comes from the line of Joshua Chan with UBS. Please go ahead.

Joshua K. Chan
UBS Investment Bank, Research Division

I guess first question is on the LLMs. There's been some kind of more visible moves by the LLMs in the education space. So could you talk about what impact that might have on you and how you're thinking about the market, if at all?

Philip D. Moyer

President, CEO & Director

Yes, I would say I expect that every LLM will probably announce some kind of a set of relationships and partnerships in every industry. You'll see OpenAI make some announcements in healthcare. You'll see probably Microsoft make some announcements inside of education or financial services and Google make some announcements in manufacturing.

Generally, big tech companies need to show that there's partners that they go-to-market with because they can't write all the lines of code. They can't certainly make all the prompts necessary to be able to deliver every vertical industry. And so as an example, the Anthropic announcement this past quarter, they announced the collection of different tools that support MCP and some curriculum resources. And they said, this is our strategy in education.

We love Anthropic. We love Microsoft. We love Google. The important thing is, we announced this MCP agentic strategy specifically because we knew that all of the AI chatbots in the world going to be moving to the standardized protocol to be able to consult expert information and expert tooling, which is what we are. And so we don't see increased competition. I will say, I think it's a really important note. But we do see the more and more of these chatbots and the more and more companies that announce agentic protocol support for MCP gives us a bigger opportunity. I was with a really, really cutting edge university, very large university. They are working on their AI strategy.

And it was so interesting to me because when I spoke to them, they said, oh my God, they said, we really hope you can make this simpler. We're already up to 64 different AI chatbots and we need help. And the beautiful thing about what we're building is that we're both building the ability to be able to participate with those chatbots, and then we're also building some of our own interfaces in case you didn't want a 65th chatbot, you can kind of depend on a McGraw Hill chatbot that gives you access to lots of content.

When I was over in Scotland, I spent some time with some of our Harrison editors, as I mentioned as well. These are some of the most demanding positions in the world. I do encourage you to take a look at the list. It's a pretty incredible list. And we were using our agentic tooling to show them, to let them ask medical grade questions, things that you would use actually in care, point of care.

And it was grilling our chatbot and the extraordinary performance just literally lit up the room against competitors, kind of like general purpose chatbots. And I guess the thing I would leave you with is that chatbots are wonderful, but they need to be grounded in truth. And that's what we do really well. And so we'll both build an experience that can participate and an experience that is completely packaged.

Joshua K. Chan
UBS Investment Bank, Research Division

And maybe one follow-up for Bob. I guess based on your comment about looking at the first half versus the first quarter, would it be fair to say that the guidance, the four-year guidance would have likely stayed the same no matter what happened in the quarter? Or is that what you mean by kind of waiting until Q2? I'm just curious because I guess the guidance not moving despite the strong Q1 kind of creates a certain optic.

Robert Sallmann
Executive VP & CFO

No, no, I wouldn't categorize it exactly that way. I mean, I think what should we see things that are outside of that first half dynamic is where we would be making any sort of adjustments for our full year guide. So when we look at it, we're really pleased with the execution and the execution really across each the segments, but it came in line with my more in line with my first half expectation, hence why we didn't make any changes.

But more importantly around that guide is we still have the remainder of the summer selling season in K-12, as well as the all-important students coming back to campus. So those are really the metrics we watch closely and that informs us more for the remainder of the year. And I'll tell you, Josh, this still is consistent with the philosophy and approach that we applied last year.

Operator

Your next question comes from the line of Toni Kaplan with Morgan Stanley. Please go ahead.

Toni Michele Kaplan
Morgan Stanley, Research Division

You talked a lot about ROAR and I was hoping you could clarify whether this is an add-on type of offering to the traditional reading programs or is it included, but you can use it to sort of raise the price more or is it more of a retention tool? Just wanted to understand if there's financial upside that you're seeing from it specifically?

Philip D. Moyer
President, CEO & Director

Thank you very much for the question. We're really excited about it. And yes, it's all of the above, but we're not bundling in terms of like just throwing it in for free. It definitely is paid for offering. We do think it both enhances the package or the overall literacy program, and it's also an opportunity to expand our TAM.

Over 40 states have mandated dyslexia screening, and you don't just screen once for the student. You can screen at any point in their life. Students life and quite frankly you can even screen for dyslexia well after the student graduates. In some cases schools are actually mandating multiple screenings throughout a student's life span, the time in the school.

And you know what we're excited about is that this ROAR is a full K-12 screener. You can screen an 11th grader. You just caught that student or you can screen a kindergarten student and so that ability to be able to participate in the 40 state mandate is pretty incredible. It's about 86% of all the students are represented by those 40 states and then also, in Latin America, we have a very strong presence in Latin America and over in Spain.

And so we're also excited about the fact that this is multilingual. And so we can also take this really important ability to be able to detect and intervene also into these Latin America markets where there's literally a burgeoning education marketplace. So definitely TAM expansion and also expansion of the services we provide.

Robert Sallmann
Executive VP & CFO

And Toni, just specifically when we think about that integration with Emerge Summit and Soar, that would be an incremental add that we charge to the districts. And then we have the ability to sell it on a standalone basis as well. So you'll see both of those revenue streams coming forward as we move through the year our relationship with ROAR.

Toni Michele Kaplan
Morgan Stanley, Research Division

Great. And then just as a follow-up, you mentioned the comments about Florida approving the math programs in advance of their adoption period. And I was wondering is like was the timing of that you know faster than expected. It's a it seems like a good sign just given some of the other states like California and Texas where you've had sort of other issues, but I guess is this a good sign that you will see more adoption than normal in Florida, or is this a regular dynamic and it just happens ahead of the adoption period anyway?

Philip D. Moyer
President, CEO & Director

I think I would say it happened on time, so I wouldn't say that it wasn't before or after our expectation. The good news was that we literally got an expansive approval of the program, both the lower mats throughout K-12, and then also some of our upper mats. I mentioned that we had a release of ALEKS for

Calculus. This is a really difficult thing to build a fully interactive, personalized experience. That's one of our elements as well. So Florida, and I want to really make sure all investors know, we do well in math. In some states, we're number one, number two, number three in math.

We've done well in math for a long time. We were excited that we were approved by Florida. We've got great relationships in Florida. And so we were excited going into the selling season. And we also have one of the most beloved, and I do mean beloved tools. I sit with children in third grade. I've sat with them in seventh grade.

I've sat with some up in the upper grades. They love ALEKS as a method for assessing and also doing personalized learning. And so the Florida, we were happy to get approved. We were also happy to get approved for the California ELA opportunity. And we continue to have good share in the math market around the country. So we're not increasing or decreasing our forecast. It happened on time.

Operator

Your next question comes from the line of Ryan MacDonald with Needham & Company. Please go ahead.

Ryan Michael MacDonald
Needham & Company, LLC, Research Division

Phil, first one for you, and I'm going to be a little weird and go out of higher ed and K-12 on this one. I was very intrigued to hear about what you were talking about with Harrison's Medicine and medical journals and putting that into an agent and that showing better results than some of the other clinical journals evidence tools.

So can you just talk about the sort of the level of prioritization you see for resources, time, investment in sort of globalization professional in that medical opportunity, given you have a seemingly sort of the startings of a product that is, is sort of strong from an efficacy perspective in a market where there's a lot of venture dollars going thrown at it companies with valuations that are 10x that of McGraw Hill at the moment, like how do you think about the prioritization of sort of investment when you have what seemingly is a very strong tool in a very interesting sector.

Philip D. Moyer
President, CEO & Director

I love this question, I will tell you, I'm really excited about the space. I looked over, I was talking to the board recently and noted that there's been a roughly 300% growth in the need for medical education. They're forecasting about 11 million shortage of healthcare workers by 2030. We've got 27% growth in doctors outside of the United States, about 11% growth here in the United States, like very vibrant market. We need to educate more healthcare workers around the world. We just converted a huge portion of our medical curriculum over in India. We just landed our first sale in India.

For the medical curriculum, there's 800 different medical schools that are adopting medical curriculum. So it's a long way of me saying very vibrant market. Some of the tools that are out there to have I don't know, you can take a whole bunch of like public content and maybe some journal content, throw it together into a rag. That's relatively simple to build. That's not hard to build. A rag of an MCP interface on top of some information. What's really hard is grounding in content and having medical grade. Medical grade, you've got to get high levels of nines of repeatability to be able to participate in a clinical setting.

And what was so exciting for us is that we put this in front of doctors and individuals that lead entire healthcare systems in some cases. And it was very repeatable in terms of how it was producing repeatable answers. When you have to curate information in the medical industry, you need experts to be able to trial it, you need to be able to fine tune it, you need to be able to ground it in the current science, and then you need to really make sure that you're able to maintain the security around it, make sure the model's not poisoned or tripped in any way, shape, or form.

We view this as a really important opportunity for us. You will see us continue to add information and we literally have thousands of different, I'll say materials that are inside of our AccessMedicine, you're going to see us put interfaces MCP interfaces on top of this. We've got content in pharmacy, we've got content in physical therapy, we've got content in the highest levels of the medical space, in pharmacology, oncology, a whole variety of spaces. That is a very attractive content set that we start with. We're not relying on third parties, but when we start integrating third-party content in, our interface is going to become even more valuable.

When I look at some of the things that are out there that got early starts, we're starting from a better place is what I would tell you. You'll see us continue to integrate more and more third party content in and work with our in our position in medical schools, hospitals and even in some cases, companies around the world. We started about 96%, as mentioned, of medical schools here in the United States, as an example, as our starting place for this opportunity. So very big opportunity for us, very big opportunity to expand TAM, and a very big opportunity to serve a rapidly growing market.

Ryan Michael MacDonald
Needham & Company, LLC, Research Division

I appreciate all the color there and it's certainly an exciting opportunity. Bob, for you, I understand maybe where we're still on the wait and see in terms of getting students on the campus and sort of seeing where that enrollment picture shakes out for the top line, but as we think about adjusted EBITDA and sort of the flow throughout the year. Were there any investments that maybe were sort of that shifted from Q1 into Q2 as you think about that first half, second half picture that's sort of keeping us, I guess, a bit more conservative on the adjusted EBITDA outlook with the reaffirmation of the guidance?

Robert Sallmann
Executive VP & CFO

Yes. No we are executing really to that plan. We laid out our roadmap. We have that built on a monthly, quarterly basis. We're really executing to that plan. We haven't seen any real meaningful shifts one way or the other, both on the cost and investment side.

Operator

Your next question comes from the line of Jeffrey Meuler with Baird. Please go ahead.

Jeffrey P. Meuler
Robert W. Baird & Co. Incorporated, Research Division

So your tone seems upbeat on - at least for literacy bookings trends in K-12 or more upbeat, I think than you sounded last quarter. The Q1 RPO or ending RPO and implied billings were weaker than I was expecting. Just any timing factors to talk to there? And I think there was a comment about additional adoption since last quarter. Was that in reference to something slipping out of Q1, but closing in Q2?

Robert Sallmann
Executive VP & CFO

There is a little bit if you think about the timing of when we take those orders again in K-12, you see a lot of orders coming through the entire summer. We're managing that funnel and executing against us. We're watching that. So you could see a little bit of timing and again that comes back to my comment around it really being a first half, second half business. And you would have heard some commentary that I mentioned around supplemental intervention and timing in that funnel as well. So those would be the areas that we would be watching here over the remainder of the first half and then even into the second.

Jeffrey P. Meuler
Robert W. Baird & Co. Incorporated, Research Division

Okay. And then on research and development expense, is that the decline? Is it mostly about the timing of development cycles for ELA or something else? Or are you starting to see meaningful efficiency gains from AI or other factors in that line? Because I would also think we'd be seeing some AI investment coming through.

Robert Sallmann
Executive VP & CFO

Yes. So we are making investment, but what we are seeing is that being offset by the efficiency gains that we are capturing. So what I will tell you is that change is really tied to timing in our roadmap more so than anything. But we are absolutely realizing productivity and efficiency gains, which is allowing us to bring product into market a little bit faster. Nothing there but timing and how we're thinking about our roadmap. It's consistent with what we laid out.

Operator

Your next question comes from the line of Stephen Sheldon with William Blair. Please go ahead.

Matt Filek

You have Matt Filek on for Stephen Sheldon. For K-12 in Texas, anything you can share on how Bluebonnet is performing and feedback you're hearing from districts using it? And with some districts opting for shorter term contracts, how do you think about the opportunity to win back those contracts as they come up for renewal over the next couple of years.

Robert Sallmann
Executive VP & CFO

Yes, and Matt, this is consistent with how we saw it last quarter. And so those shorter contracts will provide us an opportunity to come back. Our intent is always to serve the teachers, provide them the highest quality materials, ensuring that they have more time with students and be as productive as possible. So our position has not changed from a quarter ago, and I think it's pretty consistent with how we spoke about it just two months ago.

Matt Filek

And then can you just provide a quick refresh on how you're balancing M&A, share repurchases, and further deleveraging, and what types of assets are most attractive? I think last quarter you mentioned that you thought you may get a couple of deals done this year, so any update on all of that would be helpful.

Robert Sallmann
Executive VP & CFO

You bet. A great question. And I'll reiterate our priorities remain unchanged, right? The first thing we always fully fund is organic investments that have the best ROI. Our second commitment is to deleveraging and we remain committed to the 2x to 2.5x. I want to get to below 3 as fast as possible. And then we are balancing that with M&A. And I talked about the funnel being robust, continues to be very robust. I think there is opportunity, I'll reiterate, we do think there's opportunity to do some nice tuck-ins that will accelerate that roadmap this year. And I think that's largely tied to seller expectations being more aligned with us and things that we can actually scale across our business.

So I hope to be able to announce something this year. And then when we talk about that share repurchase, that's just opportunistic. We'll go out and look at it and evaluate it in the open market when our blackout window is there. And that would be the third complement, the fourth complementary item to our capital allocation policy.

Operator

Your next question comes from the line of Marvin Fong with BTIG. Please go ahead.

Marvin Milton Fong
BTIG, LLC, Research Division

Maybe, to start with supplemental intervention, I think I heard in the comments that the pipeline's on double digits. Maybe just a two-parter here. Just like what's driving that? I know ALEKS brought a new product there, but you're also bundling and cross-border on the course. So just kind of talk about what's working there. And the second part of the question is, you talked about also some possible delaying in the decision making there. So just kind of help us out square those two dynamics of the strong pipe sure.

Robert Sallmann
Executive VP & CFO

I think there's two things that's really driving that increase in the pipeline. One you already addressed, which is expanding our portfolio of products. That's allowing us to increase our offering, but more importantly is being connected to the core. And we're seeing that resonate and simplifying offerings to the districts to the teachers having one McGraw Hill offering rather than having multiple point solutions has really resonated. So I think those are the things that we're seeing most attractive when we're talking to teachers. And of course, it's all tied back to outcomes that we can stand behind and efficacy. So those are the factors I think were well positioned.

And then with respect for the timing, nothing that's -- maybe it's just close. We'll watch it closely several weeks ahead, but nothing that has really changed. But it would be something we would have noticed, you know.

Operator

Your next question comes from the line of David Karnovsky with J.P. Morgan. Please go ahead.

David Karnovsky
JPMorgan Chase & Co, Research Division

Just two quick ones from Bob. You saw in the 10-Q within K-12 a $7.5 million benefit from the sale of IP to a third party. Can you just clarify what this was, whether it was contemplated in guidance? Is this an ongoing opportunity for you? And then I think in your prepared statement, you noted some movement on Middle East delivery. Could you just talk to the dynamics there? Does the conflict in the region end up impacting the year, or is this just like a delay into later quarters? Thank you.

Robert Sallmann
Executive VP & CFO

Yes, great questions on the $7.5 million. We created some jointly created some IP and we no longer are using the IP as we release Summit and Soar, those products will no longer be utilizing that jointly created IP. We sold the IP and so it won't recur. It was included in our original guide. But more importantly, what I'll tell you is it will ultimately benefit us longer term as there won't be any sort of shared royalty stream associated with that product. And so it's fully completely internally developed on Summit and Soar.

And with respect to the Middle East conflict, no impact to the full year, purely timing. We're seeing things shift out of what would have typically gone in the first quarter into second or third. We've already procured and arranged production capability in the Middle East. Should this continued and conflict continue for a little bit longer. So we actually were well positioned going forward for us to meet the needs of our customers in region.

Operator
This concludes our Q&A portion and this concludes today's call. Thank you for attending. You may now disconnect.