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Nerdy, Inc. NYSE:NRDY

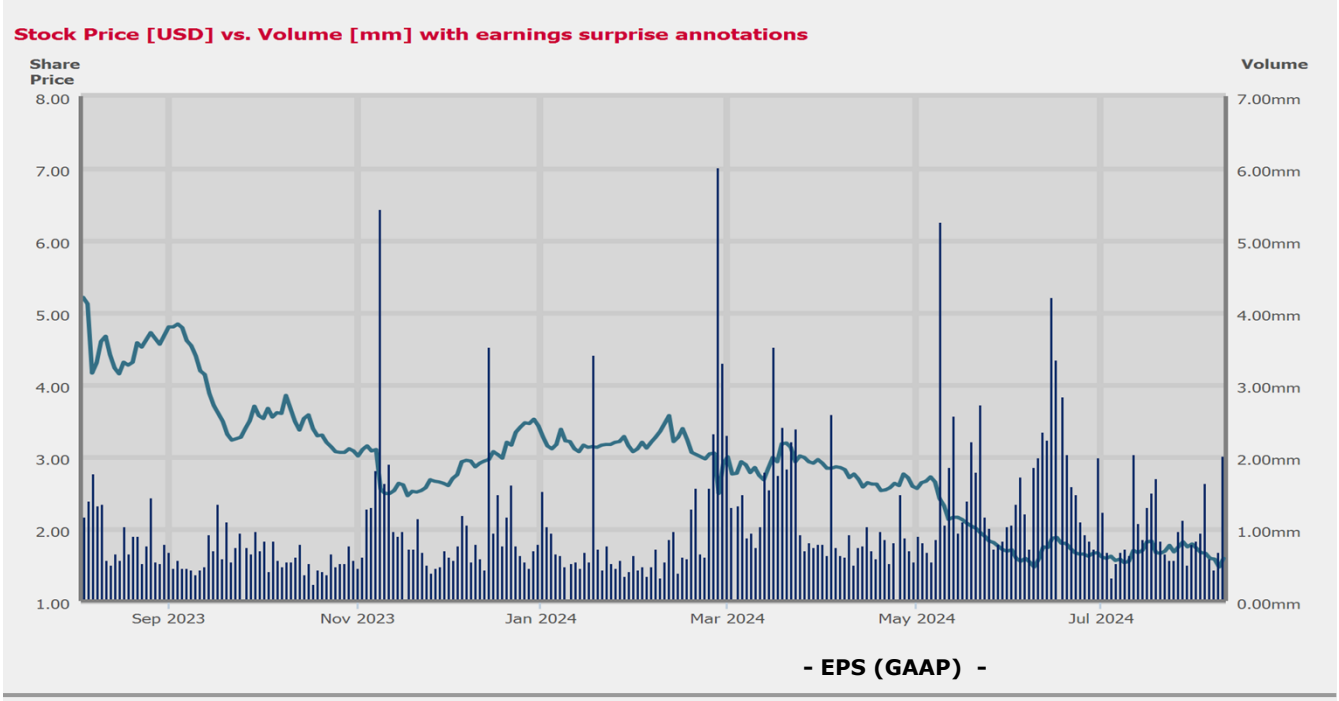
FQ2 2024 Earnings Call Transcripts

Thursday, August 08, 2024 9:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2024-			-FQ3 2024-	-FY 2024-	-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	(0.13)	(0.08)	NM	(0.15)	(0.32)	(0.26)
Revenue (mm)	51.22	50.98	▼ (0.47 %)	49.58	237.45	290.00

Currency: USD
Consensus as of Aug-05-2024 4:10 AM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2023	(0.20)	(0.13)	NM
FQ4 2023	(0.12)	(0.05)	NM
FQ1 2024	(0.11)	(0.07)	NM
FQ2 2024	(0.13)	(0.08)	NM

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Call Participants

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Presentation

Operator

Good afternoon. Thank you for attending today's Nerdy Inc. Q2 2024 Earnings Call. My name is Matt, and I'll your moderator for today's call. [Operator Instructions]

I would now like to pass the conference over to your host, T.J. Lynn, Associate General Counsel at Nerdy.

T. J. Lynn
Associate General Counsel

Good afternoon, and thank you for joining us for Nerdy's Second Quarter 2024 Earnings Call. With me are Chuck Cohn, Founder, Chairman and Chief Executive Officer of Nerdy; and Jason Pello, Chief Financial Officer.

Before I turn the call over to Chuck, I'll remind everyone that this discussion will contain forward-looking statements, including, but not limited to, expectations with respect to Nerdy's future financial and operating results, strategy, opportunities, plans and outlook. These forward-looking statements involve significant risks and uncertainties that could cause actual results to differ materially from expected results. Any forward-looking statements are made as of today's date, and Nerdy does not undertake or accept any obligation to publicly release any updates or revisions to any forward-looking statements to reflect any change in expectations or any change in events, conditions or circumstances on which any such statement is based. Please refer to the disclaimers in today's shareholder letter announcing Nerdy's second quarter results and the company's filings with the SEC for a discussion of the risks. Not all of the financial measures that we will discuss today are prepared in accordance with GAAP. Please refer to today's shareholder letter for reconciliations of these non-GAAP measures.

With that, let me turn the call over to Chuck.

Charles Cohn
Founder, Chairman, President & CEO

Thanks, T.J., and thank you to everyone for joining us today. In the second quarter, we continued to make progress against the 3 primary goals we laid out for the year, including our first goal, which was to scale the winning product for every learner. We recently completed the convergence of all of our [indiscernible] for schools institutional customers on to the unified consumer experience [indiscernible] learning [indiscernible]. The unified platform provides a modern, intuitive and personalized learning experience to better serve the needs of learners while also allowing us to increase the pace of innovation and leverage product improvements across both our consumer and institutional businesses to drive value in both businesses.

Within our consumer business, we experienced a higher-than-expected level of seasonal end of year and summer cancellations, which has resulted in fewer active members than anticipated as we enter this back-to-school period. These changes were primarily driven by our lowest-priced product, which, in retrospect, didn't sufficiently encourage learners to establish a weekly habit and instead, we're overly focused on flexibility. This experience caused us to scrutinize and reexamine our product priorities through the lens of what drives retention consistently over time within the tutoring category.

In particular, we found that the learning membership frequencies focused on making tutoring a weekly habit in service of an important learning goal, naturally drove significantly better retention and higher lifetime value. Based upon this learning, we have reoriented our product [selection] toward our premium learning membership, which encouraged the development of a weekly tutoring habit with a consistent tutor over a long period of time to support achieving an important learning outcome. Examples include a parent ensuring their first grade student could read or a college student getting a great grade in organic chemistry course in service of their dream of becoming a doctor and going to medical school.

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Over the last 45 days, we've been focused as a team towards executing on the fundamentals of a great customer experience, including shipping multiple significant improvements to the learning membership user experience. In particular, one area of renewed focus is on a learner's first 30-day activation period, which includes significant enhancements to the scheduling experience that improves the schedule reliability, [match] quality and ease of scheduling through a better digital onboarding experience. While many of these improvements were recently deployed, the early signal is quite promising as it relates to both reducing churn of older cohorts and driving overall improved engagement and retention of new cohorts.

The shift in our product mix towards premium memberships, coupled with digital user experience improvements is positively affecting newly acquired cohorts with faster time through first session, higher levels of tutoring sessions per week, higher levels of non-tutoring engagements due to improved discoverability across the platform, higher average revenue per member per month, or ARPM, higher new learning member monthly recurring revenue and higher levels of retention. So while we're entering the back-to-school period with fewer active members than anticipated, we are encouraged by the recent improvements we're experiencing.

Our second goal for the year was to continue to expand the number of learners we can impact. Our premium strategy in our institutional business is allowing us to introduce our products to school districts at a larger scale than ever before. During the second quarter, we successfully enabled access to the Varsity Tutors for schools platform for an additional 1.1 million students, bringing the total to 3.3 million students at nearly 600 school districts. For the full year, we have set an ambitious target of enabling access to the Varsity Tutors platform for 10 million students or approximately 20% of the K-12 population in the United States. By providing a robust set of academic test-prep and enrichment resources at no cost to our school district partners, we aim to efficiently build trust and credibility at scale and lay the foundation to becoming the preferred tutoring platform for these school district partners as they look to implement paid tutoring programs. We believe this is a scalable way to introduce ourselves to a large portion of students and parents in the United States, which we believe will create a halo effect with our consumer business and allow us to build a larger revenue business with lower customer acquisition costs over time.

This quarter we also continued to make progress to improve the Varsity Tutors for schools' student and administrator experiences. All of our [indiscernible] tutors for schools' customers have been converged now onto the unified consumer product experience used for learning membership. [indiscernible] we believe can drive heightened levels of engagement and customer satisfaction by making the already available resources more discoverable and usable.

Our revamped administrative dashboard increases school district leaders' ability to measure the impact of our high dosage tutoring programs by providing a real-time view of programs' key performance metrics that reinforce the value of our program.

Our third goal was to lay the foundation to deliver profitable growth. We recently completed the expansion of the Varsity Tutors for schools' sales and go-to-market team. Hiring occurred later in the year and onboarding the sales team in the seasonally slower summer period has taken a bit longer than originally forecasted. That's resulted in lower-than-anticipated bookings during the summer months and a more back-weighted bookings expectation. We still believe that these investments are appropriate given the level of market activity as we head into back-to-school, coupled with the growing awareness in the market that high dosage tutoring is the most effective way to accelerate learning.

We also feel good about the product enhancements made as we head into back-to-school and how that [ladders] up to a more compelling offering for our customers. During the second quarter, we experienced higher-than-anticipated tutor substitute costs within our institutional business in a seasonally high period during the school year. As a reminder, this is our first school year with our new access-based subscription product. In response, we recently introduced improvements to our underlying marketplace infrastructure systems, including session scheduling enhancements, invoicing overhaul and tutor substitution automation that we believe will allow for us to provide best-in-class logistical reliability. We believe these software-based enhancements to our marketplace infrastructure will represent a material competitive advantage over time and are expected to meaningfully improve gross margin during the back-to-school period and on

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a go-forward basis, while simultaneously improving the customer experience due to the higher reliability levels we're able to deliver.

We also expect that these changes which have required material time and energy, will now enable us to more efficiently and easily scale the institutional business and handle even larger scale institutional opportunities. As we enter the back-to-school selling season, we are hyper focused on ensuring our marketplace delivers an exceptional experience for our customers. The recent conversion to our consumer and institutional platform, coupled with the shift back to our core value proposition in the consumer business and the expansion of the Varsity Tutors for schools' go-to-market team will enable a return to durable and profitable growth as we exit the year.

We appreciate your continued interest in our company and look forward to meeting the evolving needs of workers in any subject, anywhere and at any time.

With that, I'll turn the call over to Jason to discuss the financials in more detail.

Jason H. Pello
Chief Financial Officer

As Chuck mentioned, we continue to make progress towards achieving the 3 primary goals we laid out for the year. In the second quarter, we delivered revenue of $51 million, results that represented 4% year-over-year growth. Revenue growth in the current year period was driven by the continued scaling of our consumer and institutional businesses, partially offset by lower ARPM in our consumer business. Additionally, revenue for the 3 and 6 months ended June 30, 2023, included legacy package revenue of $4.9 million and $15.8 million, respectively, that did not recur in the current year period due to the completion of the transition to learning memberships in our consumer business. Consumer Learning Membership's subscription revenue of $36.4 million increased 2% year-over-year in the second quarter and represented 72% of total company revenue. New consumer customer acquisition remained healthy with growth of 12% year-over-year in the second quarter as learning memberships continue to resonate with learners. Active members of 35,500 as of June 30 were up 15% year-over-year. However, they were below our guidance of 37,000 members to end the quarter.

ARPM of approximately $281 at the end of the second quarter resulted in an annualized run rate of approximately $120 million from learning memberships at quarter end. The lower-than-expected ARPM was due to a higher mix of lower frequency, non-premium learning memberships than anticipated. Our institutional business delivered revenue of $11.1 million, an increase of 33% year-over-year, which represented 21% of total revenue. Varsity Tutors for schools executed 56 contracts, yielding $4 million worth bookings. Bookings numbers reflect a focus on increasing access to Varsity Tutors for schools' platform in hiring and onboarding sales personnel in service of and optimizing for the back-to-school buying period in the longer-term market opportunity within institutional.

Our premium strategy in our institutional business is allowing us to introduce our products to school districts at a larger field than ever before. During the quarter, we successfully enabled access to the Varsity Tutors for schools platform for an additional 1.1 million students, bringing the total to 3.3 million students at nearly 600 school districts.

Moving down to P&L, gross profit of $33.5 million in the second quarter was lower by 2% year-over-year. Gross margin was 65.7% for the 3 months ended June 30, 2024, compared to a gross margin of 69.8% during the comparable period in 2023. The decrease in gross margin for both current year period was a result of lower margins related to our institutional offerings, primarily due to higher utilization of tutoring sessions across our new access-based subscription products and higher substitution costs in a seasonally high period during the school year. As Chuck mentioned, we have recently introduced improvements to our marketplace infrastructure systems, which we believe will meaningfully improve gross margin during the back-to-school period and on a go-forward basis.

Sales and marketing expenses for the quarter on a GAAP basis were $15.5 million, an increase of $0.6 million from $14.9 million in the same period in 2023. Non-GAAP sales and marketing expenses, excluding noncash stock-based compensation, were $14.9 million or 29% of revenue. This compares to $14.2

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million, which was also 29% of revenue in the same period in 2023. Sales and marketing increases were driven by investments in our institutional sales and government relations organizations in order to drive customer acquisition, brand awareness and reach, including through signing up school districts with free access to the Varsity Tutors for schools platform.

Year-to-date, we have more than doubled the number of territories in our sales organization to drive a greater local presence and ensure close alignment to state initiatives, while in parallel building out an inside sales team to capture the increased activity in the market, driven by a growing awareness that tutoring is the most effective way to accelerate learning by educators. These impacts were partially offset by marketing spend efficiencies driven by the transition to learning memberships, which allow for a more efficient operating model in our consumer business. General and administrative expenses for the quarter on a GAAP basis were $33.2 million, an increase of $3.5 million from $29.7 million in the same period in 2023. Non-GAAP general and administrative expenses, excluding noncash stock-based compensation costs, were $22.5 million or 44% of revenue. This compared to $20.3 million or 42% of revenue in the same period in 2023. Included in G&A costs were product development costs of $11.6 million, an increase of $3.2 million from $8.4 million in the same period in 2023.

Our investments in product development and our platform-oriented approach to growth have allowed us to launch and continuously improve our suite of products, including learning memberships for customers and our district teacher and parent assigned offerings for institutional customers. These subscription and access based offerings simplify our operating model needed to support the organization, which allows us to maximize the investment in our platform. Non-GAAP adjusted EBITDA loss of $2.1 million for the 3 months ended June 30, 2024, was at the top end of our guidance range of negative $2 million to negative $4 million and compared to a non-GAAP adjusted EBITDA of $1.3 million in the same period in 2023. Non-GAAP adjusted EBITDA and non-GAAP adjusted EBITDA margin improvements relative to guidance were primarily driven by continued operating efficiency gains. Compared to last year, non-GAAP adjusted EBITDA and non-GAAP adjusted EBITDA margins were lower primarily due to investments in the Varsity Tutors for schools' go-to-market organization and product development teams to drive innovation and support our continued growth.

As of June 30, 2024, the company's principal sources of liquidity were cash and cash equivalents of $69.8 million. We believe our strong balance sheet provides us with ample liquidity to operate against our plan and pursue growth initiatives.

Turning to our business outlook. We are providing third quarter and updating full year revenue and adjusted EBITDA guidance. For the third quarter, consumer revenue is impacted by the higher-than-expected level of seasonal, end of school year and summer cancellations, which have resulted in fewer active members than anticipated as we enter the upcoming back-to-school period, coupled with lower ARPM. For institutional, third quarter revenue guidance reflects the quarterly low point in revenue during the year due to normal seasonality and the resulting lower revenues from Varsity Tutors for schools when K-12 schools and universities are on summer break.

Third quarter adjusted EBITDA guidance reflects the impact of seasonally lower revenue and higher variable costs in the third quarter as we ramp into the back-to-school selling season, coupled with investments in product development and the Varsity Tutors for schools' sales and government relations organizations to drive continued innovation and growth. For the full year, Consumer revenue guidance reflects anticipated levels of new customer acquisition as students return during back-to-school, coupled with higher ARPM and retention improvements stemming from our focus on premium learning memberships.

Within institutional, full year revenue guidance reflects the delay in onboarding of the Varsity Tutors for schools' sales team, which has resulted in lower-than-anticipated bookings during the summer months and a more back-weighted bookings expectation as we enter the 2024-2025 school year. Consistent with prior guidance, we expect to return to durable and profitable growth as we exit the year.

For the third quarter of 2024, we expect revenue in a range of $35 million to $38 million. For the full year, we expect revenue in the range of $196 million to $204 million. For the third quarter of 2024, we expect adjusted EBITDA in the range of negative $19 million to negative $17 million. And for the full year, we

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expect adjusted EBITDA in the range of negative $21 million to negative $19 million. As Chuck noted, as we enter the back-to-school selling season, we are acutely focused on delivering an exceptional experience for our customers and ensuring a return to operational excellence.

In closing, thank you again for your time and for your continued interest in our company. With that, I'll turn it over to the operator for Q&A.

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Question and Answer

Operator

[Operator Instructions] First question is from the line of Ryan MacDonald with Needham.

Ryan Michael MacDonald
Needham & Company, LLC, Research Division

Maybe to start on the institutional business, so you've added 1.1 million students during the quarter and 3.3 million across 600 districts now between -- from this freemium strategy. Can you just talk about how you're using maybe this expanded presence now to convert more schools and districts to paid customers? And what type of conversion rate have you seen thus far off the strategy?

Charles Cohn
Founder, Chairman, President & CEO

So one of the things that's been really exciting about our platform access strategy or giving access to our low or 0 marginal cost products for schools is the fact that these are really valued, that there's a lot of perceived value and real value that administrators and their students receive from them. And so many of these students were exposed to our products just toward the tail end of this past semester heading into the summer, but it's been pretty encouraging the fact that just about every school district is willing to meet with us and consider rolling these out. And there's been a very high uptick rate. And so we've been encouraged by the number of partnerships we've already formed and the number of meetings that we're having heading into the school year and then how that ultimately relates to building trust and credibility with those school districts and that pulling through to commercial paid relationships.

And so one of the aspects that I think we've been optimizing and getting better at is making sure that those can happen concurrently, and there's not the need to have the conversation around our free tools first and then subsequently later have the commercial conversations. And so we've been getting better and better at using the opportunity to have an audience to explain just how powerful many of our access-based products like [teachers], district [designs], and the extent to which they can solve some core problems at administrator space, like learning loss remediation, like helping students be more excited about coming to school in those days and then ultimately seeing attended pull-through, which is the secondary benefit of tutoring. And we've seen -- at this point, really all of our bookings coming through relate back to platform access opportunities and getting that motion [honed]. It took a little while to thread the conversation on both elements of the product, but now we're able to have much, much more comprehensive and strategic conversations and both the volume and nature of those conversations is very, very encouraging.

Ryan Michael MacDonald
Needham & Company, LLC, Research Division

Maybe moving to the consumer business. So it sounds like we're moving away from this lower price strategy and focusing back more on the premium learning memberships. How long do you think it's going to take to -- or maybe if you need to rebuild the top of the funnel there on that offering and drive that conversion? And then for Jason, perhaps, maybe you could help us understand, as you're looking at the guidance for third quarter and the remainder of the year, what sort of assumptions you're making for learning members and ARPM as you shift back the strategy towards the premium memberships?

Jason H. Pello
Chief Financial Officer

I think what's important about the shift back to premium memberships is that we're still seeing healthy demand when we think about the top of the funnel. And then when we think about conversion rates as we're moving towards the back-to-school, they're above what we saw last year. So we're encouraged by the health of the consumer, the market is there, and we think our premium offerings provide students the opportunity to get into a much deeper habit and consistent relationship with tutors. And anytime

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we've seen that, the data would indicate that you see higher levels of engagement and higher LTV. Recent weekly cohorts are already starting to demonstrate those factors. So we're seeing faster times to first session, higher levels of tutoring sessions per week, higher levels of non-tutoring engagement due to increased discoverability that we've enabled across the platform. You're seeing higher ARPM and higher new learning member MRR or monthly recurring revenue and already higher levels of retention across the most recent weekly cohorts since the middle of the summer.

When we think about the back half and the back-to-school period, we expect to end Q3 with about 40,000 active members, and then we expect to end the year with about 43,000 active members. These growth rates are consistent with historical back-to-school seasonality in the back-to-school peak that we see every year. And then from an ARPM perspective, because we're mix shifting back towards premium members in our highest volume periods, we would expect ARPM to be above $300 at the end of each quarter on a consolidated basis.

Charles Cohn
Founder, Chairman, President & CEO

The other thing I would add is that as you enter back to school, the number of new customers that you add seasonally is roughly double in, call it, September and October, what it is in the June and July time frame. And so you're able to acquire much, much larger numbers of customers. And in this case, it will be at higher ARPM levels consistent with our premium membership. So you can accelerate revenue meaningfully heading into a back-to-school period. And I think one of the things that we really consider to be a silver lining and positive has been recognizing some of those higher levels of churn from the lower-cost offerings in the spring. We realized that we had a little bit of work to do on the activation side to get people into weekly habit and that the product needed to do more of the heavy lifting. And that goodness in identifying how we're going about doing it, as we actually executed on it, started pulling through to higher levels of one-to-one usage on a weekly basis, year-over-year and relative to past cohorts on a non-tutoring engagement level and then through to ultimately retention. And so we've seen those cohorts flip from negative year-over-year on retention in the late spring to early summer to then positive year-over-year and the product work and other operational initiatives, [otherwise] the company are oriented towards nailing that weekly habit formations in the first 30 days in activation. And ultimately, that's what we would need to do to make a freemium or low-cost offering really, really successful anyway, and it also drives retention and acceleration within our premium memberships as well today.

Operator

Next question is from the line of Andrew Boone with JMP Securities.

Andrew M. Boone
JMP Securities LLC, Research Division

Chuck, can you talk about the keys to increasing engagement for users? What exactly are they looking for? And what can you guys do to the product to really drive that engagement?

Charles Cohn
Founder, Chairman, President & CEO

So one of the things I think that's true about any onboarding experience is that it needs to be intuitive, it needs to remove friction, it needs to push somebody toward the path of actually being able to consume the thing that they purchased quickly and get value out of it. And that's kind of the general [North Star Board]. The work that we're doing that is aimed at helping people very quickly and intuitively get through our digital experience without friction, in an intuitive manner to be able to find their tutor, know where it stands, to the extent that their matches pending know exactly where in the process it is and then ultimately seamlessly get them through to that first session and have quality indicators and funnel indicators each step along the way that indicate that we as a company are making progress in enhancing that experience, removing friction and that they're getting through to a high-quality session. And after that first session, that it's easy to replace their tutor to the extent that it's not perfect or to the extent that they need to reschedule or alternative times, we've made significant improvements to our invoicing system, to our scheduling system, to our matching process and then to the actual digital onboarding

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experience in UX as well. So if you log in, you'll see that we've made pretty dramatic upgrades over the course of the last 60 days or so that make it more intuitive, and you should expect to see continued enhancements to that experience that are oriented around getting somebody into the weekly habit.

And then separately, once you nail the primary objective that people come into the platform with, which is tutoring, we then want to get them engaging with our non-tutoring products as well. And we know that when somebody engages in multimodality learning historically, they end up with roughly twice the retention, twice the lifetime value of those customers that only use tutoring as the modality. And so we're now making it much easier to discover relevant classes, relevant diagnostic tests, to engage in the AI tutor, to then benefit from other forms of learning like on-demand videos that are relevant and get people into a habit that spans multiple subjects and then ultimately, multiple school years.

And we're also making it easy to add additional students to the account and making that intuitive as well, so an entire family can get value out of that experience. So that's something that you'll see the digital experience has gotten progressively better at doing, and we'll continue to improve over the course of the next few months with a big focus there as well. But we're seeing that pull through to growth on both a cohort basis and year-over-year basis and the one-to-one utilization rates, the -- all the other modalities of learning and then ultimately to retention. So all the leading indicators there are good.

It took having a little bit of a hiccup there in the late spring, early summer for us to really dig and refocus all of our initiatives and identify that first 7 to 30 days as an area that we could really improve it [indiscernible] but ultimately, we're seeing it pull through a much better customer experience, and I think much better unit level economics over the fullness of time.

Andrew M. Boone
JMP Securities LLC, Research Division

And then I wanted to ask about [SO3]; I think we're getting closer to the expiration there. I know we've talked about this in the past, but can you just remind us and tell us about recent conversations you've had with schools as that has come up?

Jason H. Pello
Chief Financial Officer

Just as a reminder, SO3 funding was appropriated through the American Rescue Plan. We believe there's still about $6 billion to $8 billion left to be spent by the end of September. Those funds have to be obligated by September 30; they can be used for up to 4 years of learning beyond that date, but they do have to be obligated by September 30. We're still having active conversations with school districts about [SR] funds, how to best utilize them, how to enter into multiyear agreements in order to support their students over multiple school years. And so as we move into the back-to-school period, now that administrators are getting teachers hired, they're getting students in the school and into their daily routines, we're starting to move towards more active conversations around what tutoring programs could look like to support administrators and teachers.

Charles Cohn
Founder, Chairman, President & CEO

And we also are seeing though -- this isn't dependent on SR and these conversations have been focused on title funds, on existing operating funds, there's state grant programs, there's specific legislation that's been funded in a variety of states to fund tutoring programs. And so as SR's just one of the funding sources and the conversations have certainly shifted progressively more toward other funding sources like Title 1, which is roughly $20 billion per year in funding. And the reality is that tutoring works, right? And we're able to deliver live learning at scale, including high-dosage tutoring, that's best-in-class better than anybody else out there and we feel like that capability, including a lot of the underlying logistical investments that we've made to drive reliability and systems, we're delivering live learning at scale, ultimately are very, very valuable assets to make us a great partner to school districts.

So with 14,600 public school districts or whatever the count may be exactly, we feel like there's a massive opportunity there to augment how they deliver supplemental learning and tutoring and it's a net new

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industry being formed. So certainly [SR3] was a portion of that industry, but we're seeing that all the data from every study coming out, reinforces the fact that high-dosage tutoring is the most effective way for students to remediate our new off and catch up, and there will continue to be funding sources for it. So our conversations are much more nuanced and expansive than focusing on a particular funding source. And we feel good about how the product improvements we're making ultimately ladder up to us being a great partner to schools over time and participating in the creation and growth of this industry in the coming years.

Operator

Next question is from the line of Alex Sklar with Raymond James.

Unknown Analyst

This is Jessica on for Alex. To start off with, just a little bit a follow-up on an earlier question. Thinking about your revenue guidance and as you implied like going back to high single-digit revenue growth [indiscernible] years, what would you call as a key driver for this [rebound]? Is it like -- is consumer being a seasonally stronger quarter? Or is it also like your sales team for Varsity Tutors for schools ramping up and that's what's helping out? Like which do you think has been a more bigger contributing factor

Charles Cohn
Founder, Chairman, President & CEO

Yes. I think the -- if I had to weigh the 2 factors, the larger driver, just given the size of the business is going to be the consumer returning this back-to-school period and our focus on that premium member, which is going to drive higher levels of ARPM. As I mentioned, the early signal from the early weekly cohorts is indicating higher levels of engagement, high levels of retention across those cohorts. So as you move towards the back-to-school period, it is the largest selling season. The level of top of funnel nearly triples in September and October as compared to the summer months. And so what you'll see is consumer will drive it, but the ramping and onboarding of the Varsity Tutors for schools' salesforce, the [government] relations team and the marketing effort is positioning us well to also deliver on the institutional side as we move towards back-to-school. When I think about the guidance change from the last time we talked to maybe time, about 40% of the decline is on the consumer side with 60% of the decline in revenue on the institutional side in the back half.

Unknown Analyst

Another question is, so as you're thinking about reaching -- to have a goal of reaching up to 10 million students, have a halo of a benefit from that, in general, just considering these deals, what kind of school districts are you targeting? Are you thinking about like more urban or suburban or rural districts? Or like larger districts, more [indiscernible] where are you guys seeing that you believe in helping out with your discussions and with your team?

Charles Cohn
Founder, Chairman, President & CEO

We're finding this resonates with all school districts. These are valuable products that have real value for students and administrators. And as a result, we are happy and willing to partner with all of these various school districts. There's certainly a prioritization effort related to how we go to market and reach out, but ultimately, we are aiming to become the de facto tutoring platform in the United States and build trust and credibility with all school districts and all students.

Operator

Next question is from the line of Brett Knoblauch with Cantor Fitzgerald.

Unknown Analyst

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This is Thomas on for Brett. I know we touched on it a bit earlier, but more so just the broader regulatory landscape rather than just SR. It seems like almost every month, you see a new federal or state program trying to fund high-dosage tutoring. How does Nerdy ensure that they're a beneficiary of these programs? Is it more so lobbying on the regulatory side? Or is it going into the schools and educating them about these funds?

Charles Cohn
Founder, Chairman, President & CEO

Well, the good thing is that because tutoring works, because outlet studies are demonstrating it works at the city, county, state and federal level, there's ample reason for people who want to invest in high-dosage tutoring. So that's kind of the first thing is that it really works and the research is coming out and people are now realizing that it's capable to deliver at scale to an extent that was never possible before. So we are able to build relationships. Certainly, we have an enterprise sales team that we've been building and investing in, along with the government relations team and marketing efforts to make sure that we are known and trusted. But ultimately, the quality of our products and execution build that trust. And over time, you accrue more and more positive relationships that can testify to the great services that you can deliver and the impact you can have on students. And so we've been getting progressively more mature in that regard. And our products have been getting sequentially better based upon customer feedback and what we're seeing in the market. And we feel good about how that ultimately builds toward an environment where states and perhaps even at the federal level, there will be support for additional funding for high-dose tutorage because it's so effective and that as a leading provider that's trusted, we'll have an opportunity to participate in all of those conversations and ultimately -- and the opportunity to help those students.

Operator

The next question is from the line of Greg Gibas with Northland Securities.

Gregory Thomas Gibas
Northland Capital Markets, Research Division

Just curious, what do you think is driving the higher-than-expected level of cancellations that you're seeing this summer?

Charles Cohn
Founder, Chairman, President & CEO

Well, as we leaned into some of the lower cost offerings, many of those offerings did not drive weekly habit. So I think the product wasn't ready for the pricing mechanism that was in place to drive weekly habit and tutoring is something that people do on a weekly basis historically and traditionally, and it's how people organize their calendars. I'm going to learn organic chemistry on Wednesday night or I'm going to -- my daughter is going to learn, work with a reading specialist on Monday afternoons, every week. And so the frequencies that were oriented around meeting on a weekly basis or twice a week basis, naturally, we're better aligned to important learning outcomes, which is why people buy tutoring. And they also aligned with the calendarization of how people manage their lives. And the low-cost products, where you can kind of use it ad hoc, it's very easy to fall out of habit in anything that is at ad hoc, that is not habit-based. And so in shifting back to the focus on the premium memberships right now, not only does the mix alone naturally drive improvement in retention, but we're also focusing the product enhancements on driving people into that weekly habit from a scheduling perspective and making that more likely. And so perhaps it's a good learning and relearning and it's going to inform the UX and product such that we really put a lot of folks in related to getting people into that weekly habit.

Gregory Thomas Gibas
Northland Capital Markets, Research Division

And you may have addressed this, but regarding the ARPM trends from the lower frequency memberships trending lower, when do you expect that to inflect positively on a year-over-year basis?

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Jason H. Pello
Chief Financial Officer

So with the shift towards a focus on premium memberships during the key back-to-school period and given the volumes that you see during that period, as I mentioned earlier, are 3x as high as what we would see during the summer, we would expect that the ARPM is above $300 by the end of Q3, and that would carry into Q4 and beyond. So it will infect quickly. It's already started to do so as we moved through July and early August. And that's what gives me that confidence that it will be above $300 again in the back half of the year.

Charles Cohn
Founder, Chairman, President & CEO

Yes, a lot of the trends you've seen recently with the higher ARPM products and there's some seasonality here, are approaching $400 on the new customers acquired. And so you're not just accelerating the number of customers, but you're also mixing higher ARPM customers, higher frequency customers over time and [latter] on the higher levels of retention that we're seeing in recent cohorts and that can build quickly and over time as we continue to execute.

Operator
There are currently no further questions registered. [Operator instructions] There are no additional questions waiting at this time. So that will conclude the conference call. Thank you for your participation. You may now disconnect your lines.

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