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Company Participant

Jeff Maggioncalda, *Chief Executive Officer*

Fireside Chat Participant

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Transcript

Stephen Sheldon

All right. Good morning or good afternoon, depending on where you are. We'll get started here. Welcome to the Coursera session for those who don't know me. I'm Stephen Sheldon, I cover Vertical Technology at William Blair, including Education Technology. I'm required to inform you that a complete list of research disclosures and potential conflicts of interest is available at our website at williamblair.com. For Coursera's disclosures, in today's discussion, the company may make forward-looking statements based upon current expectations actual results could differ materially due to a number of risk factors. For more information, please refer to Coursera's IR website for the latest SEC filings and Safe Harbor statements.

Really excited to have Coursera's CEO, Jeff Maggioncalda with us today, who's been Coursera's CEO since 2017. While it's Coursera's first time at the conference, this isn't Jeff as he has participated numerous times before when he was CEO of Financial Engines, as most probably know, Coursera completed their IPO a few months ago. And in my view, it's one of the best position companies in the ed-tech landscape, and for investors, it seems like a great time to be looking at a given a lot of fundamental change in tailwinds underway in the market that may not be fully appreciated. But maybe just starting here, Jeff, Coursera's evolved quite a bit over the last five years. Can you give us a brief overview of what Coursera does, who it serves and kind of a run through the three business segments?

Jeff Maggioncalda

Yeah. Stephen, well, first, thanks a lot for having me. You guys do a great job. I've been a CEO for 25 years now, and I don't know how many times I spent with your firm at Financial Engines, but it's really great to be back. And it's great to be with Coursera. On June 12, I will celebrate my four-year anniversary here. It has been a thrill and like with Financial Engines, which was founded by Bill Sharpe, Nobel Prize winner, Coursera was also founded coincidentally by Stanford professors and also like genius level Stanford professors. It is unbelievable to have the chance to have a leadership role at Coursera.

It has evolved quite a bit. It was started in 2012 by Daphne Koller and Andrew Ng both Computer Science professors at Stanford. It's really kind of at the dawn of streaming to a large extent. And they were really at the forefront of saying there's a lot of demand in particular for their machine learning courses. Let's put some of our lecture videos up for free and just make them available to more people. They put them up and over a 100,000 people came to watch them. And then Daphne with Scott Sandell, who's the Managing Director over at NEA. I know Scott quite well. And they described what was happening with these lecture videos. And Scott said, well, we should start a company. So he called John Doerr of Kleiner and they got this thing going and it has grown incredibly.

It was just a free coursera.org website that has now turned into a global learning platform. We've attracted as of the end of March 82 million individual learners that come to Coursera, because not just Stanford, but from the earliest days of Stanford publishing machine learning courses. Duke and Penn and Princeton and Michigan and Illinois and Lausanne University and Columbia and Unam and Mexico and Católica de Chile, down in Chile and Higher School of Economics in Russia and Macquarie University in Australia, 160 universities have now jointly – joined the platform over the last nine years and published over 5,000 courses that attracts these learners who can watch the videos for free.

So it's a freemium business model. That now also includes premium credentials. And that's where the revenue has started coming from is. Selling those courses for \$49 has been a good start, but now selling degrees to a global audience of over 200 million students. It's an enormous opportunity. And I will say I've inherited most of the building blocks and just kind of shaped it up a bit to scale a little bit more quickly.

Stephen Sheldon

Got it. That's a great overview, good starting place. On the content side, I think you've really established yourself as a leader in areas like IT, data science, analytics, business, you've expanded into areas like healthcare, and you've also added new forms of content, shorter form videos or projects, professional certificates. Can you talk some about the overall content strategy and what the breadth and types of content could look like five years down the road? Where are you focusing the investments and the expansion?

Jeff Maggioncalda

Yeah. So I think that this is a really important question, notably, because this is what we sell. It's like if you go to Amazon, you buy stuff. If you go to Coursera, you learn stuff, you buy learning products. My view is that the inventory that you can offer to your customers is very important. And not just as individual pieces to say, oh, we need to have hands-on projects, because people are using digital tools more and more. So we need a short form, web based and 60-minute hands-on learning environment. But those projects could be tied to courses and those courses are more lecture based they teach theory.

So there's one question is sort of what is the catalog of content and credentials need to look like. And right now it looks like this. It started with those courses. They're about 10 hours. They come mostly from universities, but also 160 universities and 60 industry partners. There's about 5,000 courses. The lecture videos people can watch for free. That's what draws so many people in, but they have to pay for the certificates. Interestingly, last year in 2020, 30 million people registered on coursera.org to be learners. We grew from 47 million learners to 77 million in just 2020, obviously big tailwinds from COVID.

But those free course lectures from branded universities and branded players like Google and AWS and Microsoft really allows to have very low acquisition cost. So among those 30 million learners who came to Coursera 84% of them came from free sources. And that really allows us to collect a learner base that we can then monetize with different types of learning products. So on the one hand, you want things for free to draw people in at very low cost, but then you want premium credentials that you can sell. And these would include specializations.

These are multi-core series in data science, business, technology, and health that people subscribe to for \$49 a month. There's professional certificates, which are skill-based programs. Usually four or five courses often authored by our industry partners that cost about \$49 a month. And now we have over 30

accredited Bachelor's and Master's degrees that are offered, not by Coursera, but by Imperial College of London, University of Michigan, University of Illinois, University of Pennsylvania. And what these are, they're \$20,000, \$30,000 degree programs where the tuitions paid to the university and we receive a share of that.

So when we think about the content strategy, a lot of it is continuing to build out a broader selection in each of those different price points, projects and courses and specializations, professional certificates, and degrees. And we are really leaning into degrees. The number of people buying degrees right now is about 220 million people. They're spending about \$1.9 trillion in U.S. terms what on a global basis about \$1.9 trillion. And this is a product that really hasn't had been much innovation in 300 years. And we think if we can help universities move degrees online and break them into smaller pieces that you can earn over time while you're working, it could really open up the market for not just a better product, but a more accessible product.

Stephen Sheldon

Got it. And maybe just sticking on the degree side, I mean we can dig and we'll dig into the other segments as well, but how do you think the pandemic has influenced the way universities are thinking about expanding online both in fully online programs and in hybrid format. And could this be in your view, do you think it will be a multi-year tailwind or universities going to have to think about this more?

Jeff Maggioncalda

I think it will be a perpetual tailwind. And when I say – what I say, what I mean and one analogy that might make it a little bit more accessible to people who are not in higher education as a CEO of a company before the pandemic, all of our employees went to an office every day. On the same day, March 6 of 2020, all of our employees did not go to the office. We all work from someplace else mostly at home. We are now coming to a point where in California, I think June 15 things are going to start opening again, but we're not going to require the employees to go back to the office.

They can go back if they want to. They can go back one day, two days, zero days, five days, it doesn't matter. And we have already been hiring in the last 90 days over half the employees we're hiring aren't even near in office. We are now going after a global talent base that of employees at Coursera. Similar to the sort of hybrid – perpetually different way that we work, it's going to be same thing for education and is beyond a shadow of a doubt at this point. On the learner side, learners, especially young adults, whether they're in college and want to have a residential experience, but more flexibility with when they learn and what classes they can learn in, but also when their people are working and they can't afford to go back to campus, the flexibility of online learning is just unprecedented. You cannot match it with just a physical environment. So I think online learning is something that learners are demanding in the same way when you took your first Uber ride, you say, you know what? This is just a more convenient accessible product than the taxis.

I think we'll be able to really make a big permanent difference in learning demand. On the supply side, universities are realizing that to attract students and not just your conventional student, but working people who could have been your customer, if all you didn't require them to come to your campus, there's a large market of people that could buy, whether it's a full degree or part of a degree from higher education. So we see a permanent shift where every student will be learning online, even if you are on campus.

And additionally, there'll be many, many students learning online who do not go to campus, but I'd say almost every single university of the I've been talking to a lot of them. We have 2000 universities on Coursera for Campus who actually license content from our educator partners to deliver to their students, virtually every single one of them says, we are not going back to the on-campus only model. I mean that is now a closed shut case.

Stephen Sheldon

Yeah. I'd say, I would tend to agree with that. On the degree side, I guess, why do you think there are other players in there that can help universities shift online? Why do you think your university partners choose to work with you relative to other players? What drives Coursera's differentiation?

Jeff Maggioncalda

I think there's a few things. And frankly, of course a big part of our job is to continually not just add more value, but add more distinctive value that can't be copied by others. It really starts with reach, global reach. And so this is really a gift that Andrew and Daphne in the first few years created with these open free courses that came from top universities. It's just attracted a lot of learners around the world. So if an education partner, whether you're a university or whether you're Google, if you want to reach 82 million people, 80% of whom are not in the United States. So it's a global learner base. Coursera is a great way to do that. That's the direct individual.

But the other part of a reach on the educator side is, if you want to get your courses into businesses to help re-skill people, we offer distribution channel there. If we offer – when we offer Coursera for Campus, if you are say a Tableau or SAS, and you want to get students using SAS to do statistical programming instead of our studio, which is an open source version. You can use Coursera to get in front of students. We offer global reach to not only individuals, but institutions. That's the first big thing that we do is the global distribution. We're more distinctive than others.

The second is this stackable portfolio, where as an institution, a university educator, you can put out just a course, just a project, a full degree, a full degree broken into pieces. And you can use those pieces to make money. If someone just wants to buy a course, boom, you got \$49 or half of it. We share about half, but that course can be part of a degree program. So you're also building a funnel into your degree program. If you open up some of those courses and sell them as pieces. We call this a stackable model of degrees. That's another thing that we do, that's quite distinctive.

And then the third is really the scale data analytics. We have an ability through Coursera labs to teach hands-on learning in a way that others don't. We have more data than virtually every other competitor does. We have more businesses that give good demand signals of what skills are required. And as the platform gets bigger, the benefits to all the stakeholders, the benefits to learners goes up when we get more business, because they get signals about what skills are important for jobs.

The benefits of educators goes up when we get more learners, because they've got more institute – individual distribution. And even what we find is now to campuses, not only they're interested in the content to teach students, but they want to know what kinds of skills are my students going to need when they graduate? Well, Coursera for Business gives very clear signals about what skills are most in demand and what courses should students take to graduate with a higher chance of getting a job. So even something like student employability is a benefit to Coursera for Campus, because of Coursera for Enterprise. So it's really those network effects, I think are some of the biggest differentiators.

Stephen Sheldon

Yeah. I guess on that feedback loop, the feedback loop from business to academy of the universities, are we still in the earlier stages of that feedback loop being closed and have you seen universities start to take some of those insights and actually help students think about what skills they might need to be employable things like that, I guess, where are we in that evolution?

Jeff Maggioncalda

We're at the very early stages I mean to be honest. We didn't really anticipate this so much, but we know that a predicate like a fundamental reason the basis for the learners coming to Coursera it's not just I want to learn from really smart professors. It's I want to learn things and earn credentials so I can advance my career. So career advancement is a major value proposition to the learners. To the extent that any learner, including students on campus feel like if I learn this stuff, I'm going to have better economic opportunities. That's a very attractive thing.

One of the things that we're finding as we think about Coursera for Business is that companies are starting to move. And I think it's a good sort of evolution from a world where there's – well, everyone's saying people need to learn for the rest of their lives. Everyone's saying people need to know data literacy. Everybody's saying, we got to move to the cloud. Everybody's saying we need cybersecurity like this is just washing over every single industry. But they're also starting to realize that we can move from just saying, hey, take these courses. If you're a business and employer saying to an engineer, hey, you have to take some courses to, hey, if you're a software engineer, we want you to learn machine learning skills. We want you to build predictive algorithms into the software.

So the software creates a different kind of learner user experience. So the companies are getting much more focused on who needs, which skills to deliver the business results. It's not so much about consuming content as it is about developing skills. We've created something called SkillSets that we rolled out on the Coursera for Business side. And we really thinking, this is really where we want to take the business world and that's where they're heading.

But we started showing skill sets to our Coursera for Campus university customers. And it wasn't just, here's an idea for how your students can learn skills. We literally say, do you want to see the actual skill sets that employers are using to train their own people in these particular job roles. We can expose the skill sets to your students and not just here's the skills you need, but here all the content that teaches those skills, that's the same content being taught in the biggest employers in the world. We're at the very early stages of this, but we think there's a really big link between what we're doing on Coursera for Business and the students' employability value proposition that can exist for Coursera for Campus.

Stephen Sheldon

And it doesn't seem like there are a lot of players that have both sides of that relationship, but there was a strong relationships with enterprise and a strong relationship with universities.

Jeff Maggioncalda

That's right. There's another thing, Steve, and when you think about Coursera for Government, what does every government thinking about right now? How do you create more employment post pandemic? A lot

of jobs are getting automated. Governments are sitting here with high unemployment rates, especially among youth. They're thinking, how do I get my population into some kind of entry-level digital career? The fact that we've got this content and these relationships with the businesses, of course, creates a very obvious value proposition to governments, who fundamentally just trying to get people employed. So, yeah, the fact that we have all these tens of millions of learners, but also this institutional distribution where especially that business piece is so relevant to campuses and governments, we think creates a lot of nice advantages.

Stephen Sheldon

Got it. Maybe shifting back to the consumer business, because I think it's important, when you think about adding registered learners and the way that that feeds into the other businesses. I guess, if you thought about the last few years, what surprised you about where you've added learners? Where are the big opportunities do you think to continue growing the registered learner base?

Jeff Maggioncalda

Yeah. So the registered learner base and just for definition sake for the audience, registered learner doesn't mean someone's paying us and it doesn't even mean someone's completed a course or even taken a course. It means they've set up an account on Coursera. And so they've expressed interest, they put in their email address, they sent set up an account. Maybe like, well, that's not worth very much. Well, it's not as much as someone who buys a degree, but it's worth a lot more than people think. And we're coming to realize, wow, these registered learners are quite valuable.

The thing about learning and especially as the world accelerates more and more people talk about lifelong learning, but often people don't think about, well, what are the real implications of lifelong learning? What it means is that even while people are pre-work experience they're going to be learning. They'll go to some – oftentimes, they'll go to some university, they'll have some period of learning only and not being in the workplace. Not everybody, a lot of people go to workforce and learn world at work. But they're going to be learning stuff for the whole working career.

And it's not just learning new skills, it's going to be also earning credentials to distinguish themselves in the labor market and advance their career. So if you have a relationship, especially if you can create a relationship with a learner, when they're earlier in their human capital formation process. And you can satisfy them at points in their life where they decide, I got to get a degree or I need to learn this skill or I need to learn this tool or I need to learn some other credential that proves to employ that I know this new neural network technique, deep learning or whatever. Over someone's life, if we continue to build out a broader array of products, we'll have chances to sell things to learners who need to buy, not just content, but credentials. It's a lot, lot. It's a little bit like what Amazon did. First, you just went there to buy books.

Well, now it's the point where the selection is so broad that almost anything people want to buy you trust the selection, you trust the price, you trust the customers service and you trust the delivery mechanism. So you're like, look, I'll just turn there first, whether it's to buy a book in the early days or whether it's to buy electronics later.

We want to have a fairly full portfolio of learning products, where someone can come in when they're young, take an open course for free, when they want to get a bachelor's degree, they can get it on Coursera. Then when they want to get a master's degree, they can get that on Coursera. And then when they want to get a post-graduate certificate, that kind of enhances their bachelor's degree because, hey,

now I know data science, they can get that on Coursera too. It comes from the university or industry partner, but it's delivered on Coursera.

Stephen Sheldon

And that I think you're hitting on kind of the next topic I wanted to get into, which is just in consumer paid user engagement. I think you've had pretty consistent cohort trends, when you look at the cohorts we added and the percentage of that are paying within those cohorts, you've added subscription packages, you've significantly expanded the breadth of content. How do you think about your ability to drive more paid engagement? And kind of ties into, I think some of the things you just talked about, which is maybe talk about that content.

Jeff Maggioncalda

It does, but I'm also, Steve, I didn't answer all of your questions, because one of the questions you asked was how important is it to grow the registered learners. And what I talked about is lifelong learning. So I do think that the value of a registered learner is very high. The expected value of registered learner increases with the breadth of selection. It also increases with the price points of the selection, the probability that someone buys such a price point.

So we had a certain expected lifetime value of a customer when we only had open courses in \$49 certificates. Once we started putting university degrees for \$20,000 on the platform, the expected lifetime value of a customer went way up because some small percentage started buying \$20,000 products. As we've continued to expand the number of degrees, the chance that one of those degrees is going to be a good match for one of those 82 million people, even if they've never bought anything goes up.

So expanding selection, especially of the premium credentials, which are most distinctive to Coursera, by the way, is a way to improve – to boost expected LTV. As we think about what category of product we're going to be expanding most aggressively, it's going to be degrees from top universities. That's going to provide, we think a nice boost to expected LTV. And as we think about growing the top of the funnel, which is the registered learners versus growing selection is a balancing act. I mean, ultimately, what you're trying to do is maximize revenue, which is number of people, in terms of probability, in terms of price that they pay. So it's really a balancing act.

We think that with fairly modest improvements in the increase in register learners with a selection of higher price points of premium credentials, we can grow revenues considerably faster than the growth rate of registered learners. We also see no reason why we can't grow register learners at a pretty high clip in a world where more people are learning online. And the value of learning is increasing as the world's demand for cutting edge skills goes up.

Stephen Sheldon

Yeah, it's really helpful. Maybe moving onto the enterprise business, and I think you've kind of touched on this a little bit through different answers that you've had, but – and I've heard this from investors, if most of the courses in content are free for consumers, why would enterprise kind of pay for this on a per seat basis? So can you talk some about the incremental value that you're actually providing to enterprises and probably mostly Coursera for Business and Coursera for Government?

Jeff Maggioncalda

Sure. Yeah. So the – this was tricky in the beginning and we've now kind of figured it out. The fact that you can watch course lectures for free to some businesses, if they want to, they can say to their employees, hey, go watch these course lectures for free. There's no assessments, there's no credential, there's no proof that an individual completed the course and as we move more and more towards skills, which I already touched on. The ability to be intentional as a business to say, we need these skills for this role.

And not only do we need these skills, we need to be able to express to our employees that if you are a marketer, you need to know digital marketing. And in particular, you need to know how to use Marketo, you need to know how to do AB test, you need to know the basics of UX design.

Let's just say that that's a skill set that you want your marketers to have. The ability to express for your company, these roles need these skills and be able to curate the kinds of courses that are attached to those skill development programs is valuable. But also importantly, when you watch the free lectures, it's just the videos. You don't take assessments, there's no measure of whether or not you're actually building skills.

And so employers also really like the idea that when their employees are going through courses to build a skill embedded into these courses is over 4,000 in course assessments that were authored by those university professors, whenever the course was created. What this allows us to do to an enterprise customer is to say, if you buy these courses, we can help you set them up as skill sets, your employees can take parts of courses, including those assessments. This allows us to measure skill development and also benchmark the skills of your employees against the skills of learners around the world, including learners who have the same job has that job role.

So if you want to say, do my software engineers know machine learning, as well as other software engineers in Europe in the telecom industry, we can benchmark at the skill level, because their engineers have gone through courses that include these assessments. So this hands-on learning assessments is really important for skills ROI, and that's a lot of what businesses are really focused on is capability and skill development.

Stephen Sheldon

Got it. And really that's helpful. I guess, what we wanted to touch on you responded – Coursera responded pretty quickly during the pandemic to provide a lot of free resources to enterprises, universities, governments. And I think it – I think it did within weeks the start of the lockdown measures. So I think that built a lot of report across the ecosystem, what could – if you thought about what these initiatives could mean for Coursera over the next few years, after showing more participants the value of what you're doing, I guess. How do you think about that? Is there a large opportunity to convert some of these free users, however, you want to call them to paid entities?

Jeff Maggioncalda

Yeah. So just a quick recap in terms of what happened during the pandemic. We saw pretty immediately that universities were going to close. We started seeing our servers get absolutely hammered by individuals, when they come into lockdown. You could see a country by country by country, you could see all the volumes going up. And so we knew there was a big need to serve the world with learning and also opportunity to grow relationships.

And the way we really thought about is how can we use this opportunity to both serve individuals institutions and also create relationships that we might be able to monetize for value over the longer term. The way that we did this is we offered a number of courses for free that were not previously free. Things like the science of wellbeing, finding purpose in your life, psychological first aid, a lot of mental health courses did very well during the pandemic. And that helped bring in a lot of learners there where we started creating a relationship to serve them.

We took Coursera for Campus and on March 12 of 2020, we launched what we called the campus response initiative and what this was is a free version of Coursera for Campus for any of the 26,000 universities, our academic institutions in the world. We had 30 institutions using Coursera for Campus in February of 2020, within seven months, we had 4,000 institutions using Coursera for Campus, it was all free. What that allowed us to do, think of it as a free trial. I mean, essentially allowed the universities to see this new thing called online learning. It allowed professors to start integrating online learning into their courses because the campuses were shut. I mean, firstly, every campus in the world was shut.

And allowed students to see that even as the pursuing a course of study, say liberal arts in a country, say in Columbia, they could have also available to them cutting edge courses in more job relevant domains. So it was an introduction that really has, I think, set us up nicely. We are seeing pretty good conversion from those Coursera for Campus customers, where we ran the free trial period through September 30 of 2020. It's not like a 100% of them convert within 90 days. So I was, yeah, frankly, during the summer of 2020, I was like, who knows? This might be absolutely watershed. It wasn't that much, but it's definitely providing nice sort of forward look at where the growth is going to come from on the Coursera for Campus side. The other thing that we did is we offered what we called the workforce recovery initiative.

This was Coursera for Government free to any government for use by their – by anyone who's unemployed in their countries. So we ended up serving about a million learners, they did about 10 million course enrollments with 300 government agencies that program that free trial period wrapped up at the end of 2020. We are seeing an appetite for online learning from governments that frankly is exceeding what we thought from 2020. And a lot of it is once you start – once you can get beyond the hospital capacity, flatten the curve issue, then you got to start talking about how do you get people back to work.

And a lot of the jobs that people had or not the job they're going to go back to, some of those jobs won't exist and if they do exist, there'll be fairly short lived. How do I get more of my population into entry-level digital jobs to start careers that will be the jobs and careers of the future? And so we're seeing really nice interest and uptake among Coursera for Government customers as well.

Stephen Sheldon

That's great. Well, we are almost out of time here. I'll just end, if we thought five years down the road, what do you hope Coursera looks like five years from now?

Jeff Maggioncalda

Every year in the spring we update our three-year vision. I've noticed over the years as a CEO, you're so heads down, if you don't create intentional time-space and process to pull back, look outside the company where things are heading, look inside the company, the strengths and weaknesses. It's hard to really know what the alignment looks like. We just finished our three-year process and we updating it. I just presented the board two weeks ago. It was great. It was – everyone's very excited.

And when we look at it, one of the things I really love is our business model is probably not going to look very different. It's probably not going to look very different. It's going to be a lot more of what we have, but we don't see a reason why we cannot organically grow with this business model. What I mean by the three-sided platform, learners, educators, and institutions with this portfolio products from guided projects to degrees, we think that's pretty much it. And the TAM is so large. And if we execute on the mechanism that seem to be driving growth, we don't think there's going to have to be any major innovations to the business model.

The one thing I'll kind of say is, there – we have a strong link between educators and learners, educators and institutions, connecting learners to jobs directly collect connecting learners to jobs will be one of the things that perhaps might look a bit different when you look at finders.

Stephen Sheldon

Got it. That's really helpful. Well, Jeff, this is way too short 30 minutes, way too short to dig into as many things as I wanted to. But really appreciate the time. We're excited to watch how things progress over the next three to five years and beyond and really appreciate your time today.

Jeff Maggioncalda

Thanks for the time Steve.

Stephen Sheldon

Thanks. And thanks everyone for watching.