Company Participants

Jeff Maggioncalda, *Chief Executive Officer*
Ken Hahn, *Chief Financial Officer*
Cam Carey, *Director of Investor Relations*

Cam Carey

Disclaimers & Safe Harbor

- Hi, everyone, and thank you for joining our Q2 earnings conference call. With me today is Jeff Maggioncalda, Coursera's chief executive officer, and Ken Hahn, our chief financial officer. Following their prepared remarks, we will open the call for questions.
- Our press release, including financial tables, was issued after market close and is posted on our investor relations website located at investor.coursera.com, where this call is being simultaneously webcast and where versions of our prepared remarks and supplemental slides are available.
- During this call, we will present both GAAP and non-GAAP financial measures. A reconciliation of non-GAAP measures to their most directly comparable GAAP measure can be found in today's press release and supplemental presentation, which are distributed and available to the public through our investor relations website.
- Please note that all growth percentages refer to year-over-year change unless otherwise specified.
- Additionally, all statements made during this call relating to future results and events are forward-looking statements based on current expectations.
- These forward-looking statements include, but are not limited to, statements regarding trends and their potential impact on our industry and our business; our ecosystem, platform, content, and partner relationships; our strategy and priorities; and our business model, mission, opportunities, outlook, and long term financial framework.
- Actual results and events could differ materially from projections due to a number of risks and uncertainties discussed in our press release, SEC filings, and supplemental materials. These forward-looking statements are not guarantees of future performance or plans and investors should not place undue reliance on them.

- We assume no obligation to update our forward-looking statements.
- And with that, I'd like to turn it over to Jeff.

Jeff Maggioncalda

Opening Remarks

- Thanks, Cam, and good afternoon everyone.
- Several days after our first quarter call, we held our tenth annual Coursera Conference.
- Over 3,000 live attendees from nearly 150 countries -- including leaders from higher education, business, and government -- came together to discuss, debate, and most importantly - collaborate - on the most pressing issues facing the future of learning and work.
- We believe that cross-sector collaboration -- between businesses, governments, and academic institutions -- will be critical to addressing the scale of the skills gap crisis -- and lay the foundation for the future of higher education amid rapid transformation.
- We shared concrete examples of the innovation and collaboration that is occurring amongst institutions in the Coursera community, demonstrating incredible progress toward creating more equal access to education.
- And I was personally excited to introduce new offerings like Career Academy for institutions.
- This career training academy leverages our entry-level Professional Certificates and Guided Projects, created by the world's leading companies and experts, to deliver the skills and credentials that prepare learners for in-demand, digital jobs -- even those with no college degree or prior work experience.
- It's one of the ways that we are focused on creating greater access to high-quality education that can be delivered through institutions at accelerated speed and scale to unlock economic opportunity for learners around the world.
- And now turning to our results.
- In Q2, we grew total revenue 22 percent to 125 million dollars.
- Our Enterprise segment delivered strong revenue growth across business, campus, and in particular, government customers, and our growing catalog of entry-level Professional Certificates continue to see strong demand from both individuals and institutions.

- Nonetheless, our overall revenue growth was lower-than-anticipated, particularly the performance in our Consumer and Degrees segments.
    - In Consumer, we saw somewhat weaker conversion rates in several markets outside of the U.S., with a more pronounced impact in EMEA, along with a negative impact from several pricing and payment-related tests that we ran.
    - In Degrees, we are seeing lower-than-expected student enrollments, particularly in mature U.S. and European degree programs where our revenue is concentrated today.
- Ken will cover each in more detail during the discussion of our financial results and our outlook for the remainder of the year.
- But in this dynamic environment, it is advantageous that we have a differentiated business model given our three-sided platform.
- Our diverse offerings, unique assets, and global distribution provide us with multiple opportunities for growth -- and allow us to navigate the long-term trends shaping higher education and adult learning more broadly.
- Let's briefly discuss the latest on the 3 key trends that we see at play.

Trends

- The first trend is digital transformation.
- The forces of technology, globalization, and increasingly -- remote and hybrid work -- are transforming industry after industry.
- The impact of these forces:
    - has amplified the criticality of technology and digital tools,
    - has caused businesses, governments, and campuses to redefine the way that they operate,
    - and has reshaped both the supply and demand for jobs globally.
- At its core, this ongoing transformation has created an accelerated rate of change that we believe will be a permanent feature of our increasingly digital world and a long-term driving force of Coursera's growth.

- The requirement for us all to keep pace with this accelerating change leads to my second major trend -- skill development.
- In the past, we've discussed the ways in which institutions are adapting to a changing skills landscape, but this quarter, I wanted to share the most prevalent feedback I was able to hear directly from our Coursera for Business, Government, and Campus customers around the world:
    - Businesses are investing to upskill and reskill their talent, but they want the ability to drive and measure the ROI of skill programs -- and to better understand the skill proficiencies of their workforce.
        - Additionally, as automation reduces the need for jobs that are repeatable and predictable, businesses are focused on reskilling existing employees into new roles that better align with their future business needs.
    - Governments said that reducing unemployment and underemployment, especially among young people, was a key priority -- and they are looking to help higher education create more employable graduates.
    - And campuses -- or higher academic institutions -- they told us that they need to bridge the gap between employer needs and the skills students graduate with -- while finding ways to attract and retain new students.
- Each of these use cases will require a flexible, affordable, and responsive system of higher education that can keep pace with skill requirements as they evolve.
    - We believe that Coursera's offerings are suited to meet these needs.
    - This leads me to the third trend driving our business -- the transformation of higher education and adult learning more broadly.
    - As technology and automation accelerate a changing skills landscape, a new and inclusive lifelong learning model must meet this challenge with rapid speed and scale.
- Adapting to this change will require institutional collaboration -- between academic institutions, industry leaders, and government -- to meet the needs and pace of this new digital world.
- One example of this is a recent Coursera for Campus partnership.

- Louisiana Tech University, along with the University of Louisiana System, is launching a system-wide, for-credit initiative in partnership with Coursera and Google.
- Beginning with a summer programming series open to faculty, the Louisiana Tech University Office of Professional Education Outreach is offering Google's entry-level Professional Certificates on the Coursera platform as a complement to their regularly scheduled professional development.
- Later this year, they plan to expand the initiative to other universities in the University of Louisiana System to reach faculty via their Bridging the Divide program -- and more broadly to students who are interested in gaining the in-demand skills for high-growth jobs like Data Analyst and UX Designer.
- We believe that innovative programs like these from forward-thinking institutions demonstrate the future of higher education:
    - The future is not universities or industry -- it is the collaboration between universities and industry.
    - Critical thinking, coaching, and community are all hallmarks of the university experience that higher education institutions do exceptionally well.
    - But at the pace of digital transformation, many universities and colleges lack a connection to industry, the fast-changing skills landscape, and evolving employer demands.
    - This is the power of Coursera's three-sided platform -- and innovations like Career Academy -- connecting learners, educators, and institutions in a global learning ecosystem designed to keep pace with our rapidly changing world.

Platform Advantages

- Our platform has three distinct advantages that we continue to reinforce:
    - First are the leading educator partners who have created a broad catalog of branded content and credentials.
    - Second is the global reach of Coursera.

  - And the third is the data, technology, and ongoing product innovation that powers our unified platform.
- Let's discuss recent highlights for each of these.
- First, our educator partners.
- We now have more than 275 educator partners on Coursera, including world-class universities and globally recognized industry leaders.
  - Recently, we welcomed 4 premier Indian university partners, including the Indian Institute of Management Ahmedabad, the Indian Institute of Management Indore, the Indian Institute of Science, and the International Institute of Information Technology -- or IIIT – Bangalore.
  - Additionally, we announced 11 new industry partners at Coursera Conference that will continue to expand our catalog of high-quality, job-relevant content.
  - These industry partners include Accenture, ADP, Coinbase, Genentech, Goodwill, Hero Mindmine, PwC India, SAP, and Tally Education.
- Our broad catalog of content and credentials created by these educator partners continues to grow.
- We announced 10 new university certificates from the Indian Institute of Technology, the Indian Institute of Technology Roorkee, and the University of Colorado Boulder.
  - These programs generally take 6 months or less to complete, and help learners develop expertise in cutting-edge fields like machine learning for finance, supply chain management with AI, and natural language processing.
- Additionally, we unveiled 3 new master's degree programs expected to start their first student cohorts later this year.
- They include a Master in Data Science from the International Institute of Information Technology Bangalore, an Executive Master in Business Administration from the Indian Institute of Technology Roorkee, and our first-ever university and industry collaborative degree on Coursera with the Master in Management in Digital Healthcare Transformation from Northeastern University and Mayo Clinic.
  - This new program combines a top academic research institution with the expertise of one of the world's best hospitals.

    - We believe this type of partnership demonstrates the promise of cross-sector collaboration -- students benefit from the cutting-edge skills of Northeastern's faculty, along with the real-world expertise, case studies, and hands-on projects drawn directly from Mayo Clinic.
- Finally, we announced a significant expansion of our entry-level Professional Certificate catalog.
- For existing partners, these new certificates include:
    - Google's fifth certificate, designed to prepare learners for a career in digital marketing and e-commerce.
    - 5 new certificates from Meta for in-demand careers in the field of software engineering, including Front-end, Back-end, Android, and iOS developer -- as well as Database Engineer.
    - And 3 new certificates from IBM in Technical Support, Supply Chain, and Operations.
- We also previewed the first entry-level Professional Certificates expected from several new partners, including Akamai, HR Certification Institute, and Microsoft.
- In total, we have announced 32 entry-level Professional Certificates across 9 industry partners.
    - 23 are live on the platform today -- and 12 have secured American Council on Education or "A-C-E" credit recommendation, which enables more universities to accept the certificates for credit toward a degree program.
- These entry-level professional certificates provide online job training for high-demand entry-level digital jobs that don't require a college degree or any prior work experience.
- They are well-suited for the millions of career starters and career switchers looking to land a high-paying digital job.
- The second major advantage is the global reach of our platform.
- Our large, growing learner base attracts educator partners looking to teach both individuals and institutions around the world.
- Once again this quarter, we added approximately 5 million new registered learners, growing our global learner base to 107 million by the end of June.

    - Learner growth continues to be broad-based, with double-digit increases in all regions and the fastest growth coming in the Asia-Pacific region.
- Additionally, we've grown the number of Paid Enterprise Customers by 64 percent this quarter to 958, with the majority of new additions coming from Coursera for Business customers.
- Our final advantage is the ongoing product innovation on our unified platform.
- Our product team continues to introduce a number of new capabilities to better serve our learners, educators, and institutions.
- As I mentioned earlier, I was thrilled to announce Career Academy for institutions at the Coursera Conference in May, and we are excited about the early feedback we are getting from our Enterprise customers.
    - Career Academy enables higher education institutions, governments, and businesses to offer a co-branded, turnkey solution to upskill and reskill entire populations of students, workers, and employees for new economy careers at rapid speed and scale.
        - Campuses can help attract and retain students by offering industry-recognized certifications and micro-credentials, along with skills development that helps graduates enter in-demand careers.
        - Governments can provide job seekers a path to a better career and help them gain the skills they need to achieve it.
        - And businesses can become a career destination to attract frontline workers and expand their talent pools, while reskilling and redeploying their current workforce.
    - Career Academy leverages our entry-level Professional Certificates and Guided Projects, which equip learners -- particularly those with no college degree or prior work experience -- with two critical elements designed to help them in landing a good job.
        - First is a branded credential, created and endorsed by an industry leader, that provides employer signaling value --
        - And second is the ability to build a portfolio of hands-on projects using the software, applications, and tools of the trade to demonstrate their skills proficiency.

        - For example, an aspiring data analyst can practice SQL, Python, and Tableau, while UX designers can build projects using Figma and Adobe Creative Cloud.
        - And they can do this in a cloud-based desktop browser without the need for a license or local installation on their device.
    - As we continue to expand our catalog with the announcements I highlighted earlier, institutions will be able to offer learners a more diverse selection of roles from a wider range of industries, brands, and languages.
- Next, we introduced Clips for Coursera for Business customers starting in May.
    - Clips allows companies to make the most valuable, in-demand skill development content more easily accessible to their employees.
    - Leveraging existing Coursera content, Clips delivers short 5- to 10-minute videos and lessons that address in-the-moment learning needs.
    - Videos and lessons are surfaced within the context of our longer courses, providing a clear path to deeper skills development when the learner is ready to enroll in the full course.
    - We launched with over 10,000 Clips that we expect to scale to more than 200,000 Clips by the end of the year using our existing catalog of content and credentials.
- Finally, innovations for learners.
    - Our team has been focused on creating a more personalized, engaging learning experience to better serve the unique needs of each individual learner.
    - At Coursera Conference, we introduced a number of new tools and features focused on the motivation and support of learners.
    - These include --
        - The ability to input a personalized schedule into a course and receive data-driven deadlines for each item based on the real experiences of prior completers.
        - AI-powered nudges and in-course coaching, with features like highlighting key lectures and content that other learners reviewed prior to an assessment.

- And machine learning generated summaries of key lecture videos, providing learners with an easy way to review prior course material, gain a quick understanding of a topic, and progress more quickly through their studies.

Long-term Strategy

- Before I turn the call over to Ken for a closer discussion of the financial results, let me remind you of several of the key priorities that we are focused on to grow in the years ahead.
  - First, we will continue to invest in our fast-growing Enterprise segment, focusing on both new customer acquisitions and expanding existing relationships.
  - Second, we are still in the early stages of our Degrees segment and are focused on expanding our program catalog, including the types of degrees offered and a greater variety of subject matters and languages from new and existing partners.
  - Third, we will broaden our entry-level Professional Certificate catalog, sourcing new partners, expanding with existing leaders, and offering learners a greater variety of roles, industries, and languages to choose from.
  - And finally, we will continue to scale the Coursera platform:
    - Investing in growing our registered learner base,
    - Increasing our network of educator partners and their content and credentials,
    - And expanding our reach -- into more countries -- more institutions -- and more learners -- around the world.
  - And now, I'd like to turn it over to Ken.
  - Ken, please.

Ken Hahn

Financial Performance

- Thanks, Jeff -- and good afternoon, everyone.
- We continue to demonstrate strong progress across our platform:
    - Expanding our number of educator partners and their catalog of job-relevant content and credentials,
    - Growing our global reach with individuals and institutions,

    - And delivering new innovations for learners, educators, and our Enterprise customers.
- In Q2, we generated total revenue of 124.8 million dollars, which was up 22 percent from a year ago on strong demand for our entry-level Professional Certificates and sustained momentum across our Enterprise segment.
- As Jeff mentioned, our revenue performance was mixed this quarter, with strength in Enterprise offset by lower-than-expected growth in Consumer and Degrees, which I'll cover in more detail shortly during the discussion of our segment results.
- Nonetheless, the long-term, structural trends driving our business have not changed.
    - First -- individuals and institutions are increasingly turning to online learning to supply the digital skills required in today's economy.
    - Second -- we have a powerful combination of university and industry content that delivers the in-demand skills and branded, recognized credentials required by learners no matter the stage of their career.
    - And third -- our three-sided platform provides us with global reach and the ability to leverage our strategic assets across our segments to compete differently.
- Please note that for the remainder of the call, as I review our business performance and outlook, I will discuss our non-GAAP financial measures, unless otherwise noted.
    - Our non-GAAP adjustments remove only stock-based compensation and related payroll tax -- nothing else.
- Gross profit was 79.2 million dollars, a 63.5 percent gross margin, up 28 percent from a year ago.
    - This margin was approximately 3 percentage points higher than the prior-year period due to the ongoing drivers we've discussed the past several quarters, particularly the positive changes in our segment content margin for both Consumer and Enterprise.
    - Our Consumer segment's content margin rate increased from 66 percent in the prior year period to 73 percent this quarter -- and our Enterprise segment's content margin rate increased from 67 percent in the prior year period to 71 percent this quarter.
    - This expansion continues to be driven by learners consuming a larger proportion of industry partner content, which tends to have lower-than-average content cost.

- Total operating expense was 99.3 million dollars, or 80 percent of revenue, compared to 67 percent in Q2 of last year.
- The increase was partially driven by one-time impairment expenses associated with the subleasing of a portion of our Mountain View office.
- As a reminder, during our outlook last quarter we discussed our expectations around a likely partial sublease of our Mountain View headquarters, which was consummated in a lease during Q2.
    - This resulted in 3.2 million dollars of additional costs this quarter, which are included in the departmental expenses and account for a portion of the opex increases as we did not pull the cost out as pro forma.
    - As discussed previously, we expect a net benefit to accrue over the coming quarters and years, with much of the savings expected to be redeployed to fuel our talent strategy.
- Now, moving to the expense details.
    - Sales and marketing expense represented 38 percent of total revenue, up from 32 percent in the prior year period as we expanded the capacity of our Enterprise sales force and invested in marketing programs related to higher margin content and credentials.
    - Research and development expense was 26 percent of revenue, up from 22 percent in the prior year period, driven by content development investments associated with our entry-level Professional Certificates.
    - And general and administrative expense was 16 percent of revenue, up from 13 percent in the prior year period.
- Our net loss was 21.6 million dollars, or 17.3 percent of revenue -- and our adjusted EBITDA loss was 15.6 million dollars, or 12.5 percent of revenue.

Cash & Balance Sheet

- Now, turning to cash performance and the balance sheet.
- As of June 30th, we had approximately 783 million dollars of unrestricted cash, cash equivalents, and marketable securities -- with no debt.
- Our free cash flow was a use of 3.2 million dollars, compared to 8.5 million dollars in the prior year.

- The strength of our balance sheet -- in combination with the modest cash requirements for operating needs -- provides us with a strong financial base, positions us well in any environment, and allows us to invest confidently in our long-term strategy.

Segment Results

- Now let's discuss our segments in more detail.
- Consumer revenue was 69.7 million dollars, up 12 percent from the prior year.
- At the start of this year, we communicated that we expected Q2 to be a seasonally light quarter for learners, reflecting the traditional education cycle.
- With that being said, our Consumer growth was lower-than-anticipated.
    - First, we saw softness in several markets outside of the U.S., particularly in EMEA, with new payer conversion rates that were below our seasonal expectations and may reflect ongoing macroeconomic challenges in the region.
    - Second, we conducted several pricing and payment-related tests in markets around the globe that resulted in a negative impact on Consumer revenue.
- To be clear, we continue to see increased demand for our job-relevant portfolio of entry-level Professional Certificates, particularly in North America, and we expect to rapidly expand this category with new and existing industry partners as Jeff highlighted.
- Segment gross profit was 50.7 million dollars, or 73 percent of Consumer revenue, up from 66 percent in the prior year.
- The expansion in our Consumer segment margin demonstrates the ongoing benefit we see from a lower content cost rate associated with higher consumption of industry partner content.
- And we added another 5 million new registered learners for a total base of 107 million.
- Next is Enterprise.
- Enterprise revenue was 43.7 million dollars, up 55 percent from a year ago on strong growth across business, government, and campus customers.
- The total number of Paid Enterprise Customers increased to 958, up 64 percent from a year ago.
- And our Net Retention Rate for Paid Enterprise Customers was 111 percent.

- Segment gross profit was 31.1 million dollars, or 71 percent of Enterprise revenue, up from 67 percent in the prior year driven by higher consumption of industry content that similarly benefited our Consumer segment, although less pronounced.
- And finally, our Degrees segment.
- Degrees revenue was 11.4 million dollars, down 4 percent from a year ago on lower-than-anticipated student enrollments in our mature programs and lower overall student activity.
- The total number of Degrees Students grew 19 percent from a year ago to 17,460.
- Our Degrees performance reflects what we believe to be broader macroeconomic trends at play, particularly with U.S. and European enrollments -- and master's degree programs -- which is where our revenue is concentrated today.
- As we've discussed, our Degrees segment is still in its very early stages.
    - We have a small base of fully-mature, existing programs, which is where we experienced decreased new student enrollments.
- While we remain excited about the momentum in new program announcements that will diversify our Degrees revenue base, it will take time to see their contribution given the extended ramp cycle we've discussed and the lower range of international tuition price points.
- As a reminder, there is no content cost attributable to the Degrees segment, so Degrees segment gross margin was 100 percent of revenue.

Outlook

- Now, onto our updated financial outlook.
- For Q3:
    - We are expecting revenue to be in the range of 126 to 130 million dollars, or 16 percent growth at the midpoint of the range.
    - For adjusted EBITDA, we are expecting a loss in the range of 10.5 to 13.5 million dollars.
- For full-year 2022:
    - We anticipate revenue to be in the range of 509 to 515 million dollars, or 23 percent growth at the midpoint of the range.

    - With a three-sided platform, our business has exposure to the needs of learners, educators, and institutions that affect our 3 operating segments in different ways.
    - Given the revised full-year outlook, we thought it would be helpful to provide new growth expectations by segment for 2022 to reflect our latest view:
        - For Consumer -- We expect to grow in the high teens for full-year 2022, which is slightly lower than our prior expectations given the softer conversion rates seen in Q2.
        - For Enterprise -- we expect our broad momentum to continue, with full-year percentage growth in the mid-40s, inclusive of some macroeconomic headwind related to EMEA Coursera for Business customers.
        - And for Degrees -- we anticipate a mid-single-digit decline on an annual basis given the enrollment challenges witnessed in the first half and forecasted for this fall in our most mature programs.
- For full-year 2022 adjusted EBITDA, we're expecting a loss of 42.5 to 48.5 million dollars -- or a negative 8.9 percent adjusted EBITDA margin at the midpoint of revenue and EBITDA guidance ranges.
    - Our messaging and annual operating framework with regards to EBITDA margin has been consistent over the past 2 years.
    - At the beginning of the year, we set an annual EBITDA margin target and work within that plan to maximize our growth opportunities across the business.
    - With our reset revenue expectations for the second half of 2022, we have adjusted the pacing of our investments to align with the annual EBITDA margin target.
    - Continuing to maintain the same margin target results in a lower adjusted EBITDA loss in dollar terms, for a midpoint of 45.5 million dollars, down from the previous 48.5 million dollar loss.

        - This -- along with our strong cash position and minimal cash burn -- allows us to prioritize near-term growth opportunities, while strategically positioning Coursera for the long-term.

- I'll now turn the call back to Jeff for final comments.

Jeff Maggioncalda

Closing Remarks

- Thanks, Ken.
- We have entered a new and ever-evolving era of work that consistently requires new skills.
- Technology is creating new career opportunities, but students and workers need access to flexible, affordable, and fast-tracked learning and career pathways to transition into well-paying jobs of the future.
- This is particularly true for women and other underrepresented groups, who have been disproportionately impacted by the pandemic and automation.
- With many of our learners based in emerging markets, we partnered with the International Finance Corporation and the European Commission to publish a global study seeking to better understand how these learners, particularly women, have been learning online since the pandemic's onset.
    - During the fourth quarter of 2021, we surveyed nearly 10,000 learners on Coursera in 4 focus countries - Egypt, India, Mexico, and Nigeria - targeting learners that had completed at least 1 graded item between January 2019 to the end of June 2021.
    - And nearly half of the respondents reported earning in their country's bottom 50th percentile of income.
- Our research found women and other underserved populations view online learning as more accessible than in-person education.
    - In fact, 45 percent of women -- and 60 percent of women caregivers -- said they would have had to postpone or stop studies if online learning weren't an option, citing mobility, safety, and family obligations as their top deciding factors.
    - Women also said that they faced more restrictions that limited how and where they learn -- but that online learning had provided an opportunity for them to achieve their goals.

- The study also confirmed links between online learning and career outcomes in emerging markets.
    - The IFC research found that online learning produces gains in the broader economy through direct and indirect effects, with 1 new job created for every 30 people trained on Coursera in our 4 focus countries.
    - About one-third of the women learners surveyed said they found a new job, set up a business, or improved their job or business performance after taking online courses.
    - And 22 percent of women saw an increase in their income, with nearly 40 percent reporting an increase of 10 percent or more.
- Finally, 99 percent of respondents said they plan to continue learning either online or in a blended format after the pandemic.
- These results demonstrate why increasing access to online learning, in combination with broadband connectivity and remote work, have the power to advance equal opportunity in the post-pandemic economy.
- However, it will require significant collaboration from both the public and private sectors to address the scale of the crisis and build competitive, equitable, and sustainable workforces.
- People often say, “Talent is equally distributed, but opportunity is not.”
- With our Coursera community -- encompassing leaders in higher education, business, and government -- we are working together to expand access to economic opportunities for learners around the world.
- Now, let’s open the call to questions.