Coursera, Inc.

Third Quarter 2022 Earnings Call

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CORPORATE PARTICIPANTS

Cam Carey, *Director of Investor Relations*

Jeff Maggioncalda, *Chief Executive Officer*

Ken Hahn, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Brian Peterson, *Raymond James*

Stephen Sheldon, *William Blair & Co.*

Thomas Singlehurst, *Citi*

Ryan MacDonald, *Needham & Co.*

Matthew Saltzman, *Morgan Stanley*

Brett Knoblauch, *Cantor Fitzgerald & Co.*

PRESENTATION

Operator

Ladies and gentlemen, welcome to Coursera's Third Quarter 2022 Earnings Call.

Please be advised that this call is being recorded. After the speakers' prepared remarks, there will be a question-and-answer session.

I'd like to turn the call over to Cam Carey, Head of Investor Relations. Mr. Carey, you may begin.

Cam Carey

Hi everyone and thank you for joining our Q3 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 the 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 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 and beliefs. These forward-looking statements include but are not limited to statements regarding the potential impacts of trends affecting our industry and uncertainties in the current economic and educational environment; our ecosystem, platform, content and partner relationships; our anticipated plans and the anticipated benefits thereof; our strategy and priorities; and our business model, mission, opportunities, outlook, and future intentions. 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.

With that, I'd like to turn it over to Jeff.

Jeff Maggioncalda

Thanks, Cam. Good afternoon, everyone. We appreciate you joining us.

I'm pleased to report solid third quarter performance with revenue growth of 24% to $136 million, reflecting our growing prominence among both individual learners and institutions. Learners are coming to Coursera from around the world, seeking job-relevant skills and branded credentials that can unlock the next stage of their career. We added more than 6 million registered learners in Q3. We also grew our paid enterprise customers, including businesses, campuses and governments, who are looking to drive powerful cross-sector collaboration to better meet the needs of an increasingly digital economy.

One of the critical components of our recent success has been the growing relevance of industry micro-credentials across our business. In 2018, we had initial success with the launch of our first two entry-level Professional Certificates. In the time since, we've grown this category in both breadth and depth, adding new partners and job roles while creating stronger connections with career and degree pathways.

This year, our catalog's expanded scope became the foundation for Career Academy, an institutional offering that brings together our Professional Certificates and Guided Projects into a solution that businesses, governments, and campuses can deliver at scale to help individuals with no college degree or prior work experience start a new career or switch careers into an entry-level digital job. As we navigate the trends shaping higher education, we believe that industry micro-credentials provide a turnkey way for higher education systems to upgrade their curriculum and produce graduates who have the skills and abilities that employers are looking for.

Let's discuss our latest views on the trends at play and their potential impacts on the reinvention of higher education and adult learning.

The first trend is digital transformation. The forces of technology and globalization have been accelerating the transformation of every institution in our society, requiring businesses to retool the systems, processes, and talent required to stay competitive; pushing campuses to modernize their curriculum and make quality education more accessible; and driving governments to deliver job training programs at the speed and scale needed to keep pace with job dislocation and unemployment challenges. The pandemic served to fast forward these trends, but we believe its lasting impact may be defined in how it has reshaped both the supply and demand for jobs globally.

The expansion of online learning has enabled more equal access to higher-quality education for millions of learners around the globe. With remote and hybrid work, learners that acquire the knowledge, skills, and credentials to unlock these job opportunities are met with a supply of digital careers no longer confined to a specific city, state, or even country. Simply put, we believe that the rise of remote work, digital jobs, and broadband connectivity have increased the ROI of education. This benefit extends beyond individual learners. Forward-thinking institutions, including businesses, governments, and campuses, are harnessing the opportunity to adapt to the fast-changing skills landscape and to build workforces and economies of the future.

This leads me to my second major trend: skills development. In times of rapid change, I find it critical to stay close to the needs of our learners, customers, and partners, understanding how their needs are evolving and how we need to evolve to better serve them. That's why over the past several weeks, I've spent time with Coursera for Business, Government, and Campus customers across the U.S., Europe, the Middle East, and Central and Southeast Asia, hearing how these institutions are adapting to a changing skills landscape.

This is what I'm hearing. Businesses are investing in their human capital to address a diverse set of needs, using online learning to deliver measurable role-based skill development programs to support strategic transformation initiatives, and they're increasingly positioning learning programs as a career development benefit in order to attract and retain talent in a competitive labor market. Governments said that reducing unemployment and underemployment and building a more resilient workforce were key priorities and that they are looking to help higher education systems create more employable graduates.

Campuses are telling us that they need to bridge the gap between evolving employer needs and student skill sets upon graduation, recognizing the value of offering industry micro-credentials alongside their core academic curriculum. Each of these use cases will require a flexible, affordable, and scalable system of higher education and workforce development designed to keep pace with changing skill requirements as they evolve.

This leads me to the third trend that's driving our business: the transformation of higher education, and adult learning more broadly. As technology and automation accelerate, we believe a new and inclusive lifelong learning model is required to meet this challenge with rapid speed and scale. In the past quarter, we conducted a third-party survey of over 2,400 students and recent graduates as well as 1,200 employers across eight countries including Australia, India, France, Germany, Mexico, Turkey, the U.K., and the U.S.

We learned that students, like their parents, are thinking more critically about the ROI of traditional three- and four-year degree programs. Eighty-nine percent of students and recent graduates agree or strongly agree that earning an entry-level professional certificate alongside their diploma will help them stand out to employers and secure jobs when they graduate, and 88% said that including industry micro-credentials in an academic program would make them more likely to enroll in that program.

From employers, we heard that industry micro-credentials help hiring decision-makers solve their top two challenges: identifying and validating applicants' skills. Ninety-two percent of employers agree or strongly agree that a professional certificate strengthens a candidate's application for an entry-level job role, and on average, three-quarters are more likely to hire a candidate who has earned a professional certificate.

Platforms like Coursera are able to address both of these challenges side by side by linking skills-based learning to skills-based hiring. Our ecosystem was designed to foster institutional collaboration between academic institutions, industry leaders, and governments that is required by students and employers in an increasingly digital world.

We believe that the Coursera platform has three distinct advantages that we continue to reinforce. First are our leading educator partners, who have created a broad catalog of branded content and credentials. Second is our global reach and distribution, and third is the data and technology that powers our unified platform. Let's discuss recent highlights for each of these.

First, our educator partners. Coursera's global learning ecosystem includes the powerful combination of both university and industry partners. Universities play an integral role in durable skills. Critical thinking, collaboration, and community are all hallmarks of the campus experience, but with the pace of digital transformation, industry partners can often complement traditional learning with practical hands-on learning aligned with specific job roles. Today, more than 175 world-class universities and more than 100 industry leaders continue to expand our catalog of content and credentials.

In September, we announced our first bachelor's degree program from an Indian university. The Birla Institute of Technology and Science, or BITS Pilani, is a premier engineering institution that is reimagining their highly sought-after computer science program to expand access for Indian and international students. This includes broad learner eligibility with no entrance exam or background in science or mathematics; a job-relevant curriculum that's designed with inputs from industry experts; and a flexible, affordable structure that allows students to pursue the program while they're working. We continue to see demand among working adults for degrees that are affordable, have convenient admissions and flexible schedules, and to develop knowledge and skills that are in high demand from employers.

Next, I continue to be impressed by the progress and pace at which our partners are expanding our catalog of entry-level Professional Certificates. Since launching the category in 2018, we've announced 35 of these certificate training programs, including nearly 20 new titles so far this year from new and existing partners. Recently we announced our first entry-level Professional Certificates from industry partners in India, who are excited to serve learners in our second largest market. The three job roles include PwC India Goods and Services Tax Executive, PwC India Direct Tax Executive, and Tally Bookkeeper. Additionally, we continue to enhance some of our most popular certificates with new language translations, launching versions in Arabic and Spanish.

Finally, in partnership with Google, we announced an exciting new offering that brings the benefits of university and industry collaboration to our entry-level Professional Certificates. Google has collaborated with five of our university partners to pair several of their most popular certificates with specializations from leading academic institutions in high-growth industries, including Data Analytics in Finance from the University of Illinois, Data Analytics in the Public Sector from the University of Michigan, Project Management in Construction from Columbia University, Project Management in Sustainability from Arizona State University, and Healthcare IT from Johns Hopkins University.

Historically, collaborations between industry and academia have been slow and piecemeal, but by integrating industry expertise into university curriculum, we are beginning to witness what our ecosystem can make possible. The future is not universities or industry. It is the collaboration between universities and industry, which is increasingly taking place on Coursera's platform in multiple forms.

This includes entry-level Professional Certificates that stack into degree programs, especially with ACE credit recommendations. It includes degree programs, like BITS or Northeastern and Mayo Clinic that incorporate training and expertise from industry leaders into college degrees, and Career Academy delivered through the Coursera for Campus program, where industry micro-credentials are offered alongside and incorporated into core university curriculum.

Our second major advantage is the global reach of our platform. We have a large, growing learner base that attracts educator partners looking to teach both individuals and institutions around the world. We added more than 6 million new registered learners, growing our global learner base to 113 million by the end of September. 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 53% this quarter to 1,086, which includes new additions across Coursera for Business, Coursera for Campus, and Coursera for Government customers.

The final advantage is the ongoing product innovation on our unified platform, and I'd like to provide updates on two recently announced offerings. The first is Clips. There are more than 5,400 courses on Coursera today, and these courses are comprised of more than 200,000 individual video clips which are typically five to 10 minutes long. Our new Clips feature enables enterprise learners to directly access Clips in a course without having to take the entire course. The videos and lessons are surfaced in the context of our longer courses, so learners can quickly access Clips and then continue to the full course for deeper skills development. Our initial data show that over one-third of learners that viewed Clips for immediate needs have gone on to enroll in at least one course.

We launched in May with over 10,000 clips, primarily focused in business, technology, and data. In September, we expanded the offering with a more comprehensive library of content, including nearly 200,000 short videos and lessons. Customers like Google, Bosch, and the New York State Department of Labor were early adopters and we look forward to bringing our expanded Clips offering to more enterprise customers.

I'd like to also provide an update on Career Academy. We announced Career Academy at our annual conference earlier this year and continue to see promising signals from our early customers. Career Academy leverages our entry-level Professional Certificates, benefiting when our industry partners create and launch new job roles. For example, in Q3, we launched five new certificates from Meta, allowing us to expand the scope of roles offered with new additions in software engineering. These roles include front-end developer, back-end developer, database application developer, iOS mobile developer, and Android mobile developer Professional Certificates.

Additionally, we are bringing the new career discovery benefits to our learners to help them better understand the prospects and ROI of their education decisions. For example, individual learners in the U.S. using Career Academy see key economic data alongside the career choices, including the median entry-level salary, the number of job openings, and the recommended Professional Certificates that are aligned with specific careers.

Before I turn the call over to Ken, let me remind you of several key priorities we're focusing on in the coming years. We're focused on growing our Enterprise segment across business, government, and campus customers, including new customer acquisitions and expanding existing relationships. We're focused on expanding our portfolio of degree programs, especially those tailored to meet the particular needs of working adults. We are broadening our entry-level professional certificate catalog, expanding with new roles, new partners, and additional languages. Finally, we are deepening our advantages, including expanding our educator partners and their content and credentials, and improving and broadening our global scale and reach, and the technology and data that underpins our platform.

Now I'd like to turn it over to Ken. Ken, please go ahead.

Ken Hahn

Thanks, Jeff. Good afternoon, everyone.

We are pleased with our third quarter results, which continued to reflect a diversified business model that benefits from its exposure to multiple levers of growth.

In Q3, we generated total revenue of $136.4 million, which was up 24% from a year ago, with strong performance in our Enterprise and Consumer segments. For our enterprise consumers, including

businesses, governments, and campuses, we are helping their learners adapt to a fast-changing skills landscape and evolve with employer needs, as well as producing job-ready graduates. For consumers, we are increasingly becoming a global destination where learners can secure the digital skills that allow them to remain relevant in the workforce and acquire the branded credentials that can unlock their next career opportunities.

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.

Gross profit was $88.3 million, a 64.7% gross margin, up 29% from a year ago. This margin was approximately 3 percentage points higher than the prior-year period due to the positive changes in our segment content margin rates. Our Consumer segment's content margin rate increased from 68% in the prior-year period to 73% this quarter. Our Enterprise segment's content margin rate increased from 67% in the prior-year period to 71% this quarter.

The margin expansion we experienced was driven by learners consuming a larger proportion of industry partner content, which on average can have lower content costs depending on the partner's goals, sometimes with associated additional spend in promoting partner brands as part of our sales and marketing efforts.

Total operating expense was $98.1 million or 72% of revenue compared to 69% in Q3 of last year. Sales and marketing expense represented 37% of total revenue, up from 35% in the prior-year period due to investments in sales force capacity and marketing programs associated with the higher-margin content. Research and development expense was 20% of revenue, and general and administrative expense was 14% of revenue. Both were generally in line with the prior-year period.

Our net loss was $9.5 million or 7% of revenue. Our adjusted EBITDA loss was $4.9 million or 3.6% of revenue.

Now, turning to cash performance and the balance sheet. This quarter, we had a positive free cash flow of $1.3 million compared to $7.1 million in the prior year, and we ended Q3 in a strong cash position. As of September 30, we had approximately $786 million of unrestricted cash, cash equivalents, and marketable securities, with no debt. We believe the strength of our balance sheet, in combination with the modest cash requirements for operating needs, is an asset that provides us stability and strategic flexibility to execute against our long-term strategy.

Next, let's discuss our segments in more detail. Consumer revenue was $78 million, up 17% from the prior year. We continue to see strong demand for our portfolio of entry-level Professional Certificates, particularly in North America, which we continue to expand with new partners and job roles at a rapid pace. Segment gross profit was $57.1 million or 73% of Consumer revenue, up from 68% in the prior year, given the higher consumption of industry partner content. Finally, we added 6 million new registered learners, for a total base of 113 million. Our learner growth continues to be broad-based, with double-digit year-over-year growth across all regions.

Now turning to Enterprise. Enterprise revenue was $48 million, up 51% from a year ago on growth across business, government, and campus customers. In particular, we continued to see strong momentum within Coursera for Government, where our catalog of world-class brands and job-relevant credentials are well-suited for workforce development use cases. The total number of paid enterprise customers increased to 1,086, up 53% from a year ago, with the majority of additions coming from Coursera for Business customers. Our net retention rate for paid enterprise customers was 111%. Segment gross profit was $34 million or 71% of Enterprise revenue, up from 67% in the prior period due to the content consumption mix similar to our Consumer segment.

Finally, our Degrees segment. Degrees revenue was $10.3 million, down 11% from a year ago on lower student enrollments, which we anticipated in our forward-looking commentary provided on the Q2 call. We believe these enrollment headwinds, primarily in our mature U.S. degree programs where our revenue is concentrated today, are associated with broader macroeconomic trends at play. The total number of Degrees students grew 10% from a year ago to 17,723. As a reminder, there's no content cost attributable to the Degrees segment, so Degrees segment gross margin was 100% of revenue.

Now on to our updated financial outlook.

For Q4, we are expecting revenue to be in the range of $135.5 million to $139.5 million or 20% growth at the midpoint of the range. For Adjusted EBITDA, we're expecting loss in the range of $13.5 million to $16.5 million.

For Full Year 2022, we anticipate revenue to be in the range of $517 million to $521 million or 25% growth at the midpoint of the range. For Adjusted EBITDA, we're expecting a loss of $44.5 million to $47.5 million or a negative 8.9% Adjusted EBITDA margin at the midpoint of revenue and EBITDA guidance ranges.

As a reminder, our messaging and annual operating framework with regard to EBITDA margin has been consistent. At the beginning of the year, we set an annual EBITDA margin target. We manage within that plan, based on the trajectory of our business, which we demonstrated last quarter with our revised outlook. Following our annual planning cycle, we intend to share our 2023 expectations on our Q4 call.

We remain committed to building a viable, long-term business and demonstrating leverage over time. We intend to continue pacing our investments appropriately, increasing our focus and aligning our cost structure, including our consideration of current economic trends and uncertainties. Importantly, we operate from a position of financial strength, and the long-term structural trends driving our business have not changed. Individuals and institutions are increasingly turning to online learning to supply digital skills.

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. Our three sided platform provides us with global reach and the ability to leverage our strategic assets across our segments to compete differently.

Now I'll turn the call back to Jeff for closing remarks.

Jeff Maggioncalda

Thanks, Ken.

Before we open the call for questions, I'd like to expand on an example I shared last quarter as it demonstrates the progress, speed, and scale of what is possible on Coursera's platform with system-wide collaboration.

In July, I highlighted a recent partnership with Louisiana Tech University and the University of Louisiana Systems. Our initial partnership with Louisiana Tech started as a social impact initiative with the Office of Student Financial Assistance via the Louisiana Board of Regents. It was designed to provide low-income high school students and graduates access to Coursera's entry-level Professional Certificates from Google in order to prepare them for college or to begin a digital career.

This was followed by a Louisiana Tech summer programming series open to faculty and staff that has expanded to include professional development opportunities for employees across all campuses within the University of Louisiana System. Now the Louisiana Workforce Commission, a state agency

responsible for enhancing workforce growth and well-paying jobs for Louisiana residents, is partnering with Coursera to launch Tech Ready Louisiana, a statewide workforce development initiative providing training to thousands of Louisianans.

The centerpiece of the program is Career Academy, as our entry-level Professional Certificates were specifically designed to prepare workers without a college degree or prior work experience. Using Career Academy, Louisianans can explore careers, develop key skills and competencies, build a portfolio of hands-on projects using actual workplace tools, and earn industry-recognized credentials. Many of these credentials have ACE credit recommendations, which make it easier for learners to earn credit towards a local or online degree program when they're ready to continue their education. Finally, in recognition of the connectivity challenges that present a real barrier today, the Workforce Commission is making reliable Internet access at nearly 60 sites across the state for learners to complete their Coursera courses.

Traditional university degree programs and workforce development initiatives often lack a solid connection to today's in-demand jobs and are often not equipped to adapt to the fast-changing skills landscape and evolving employer expectations. By leveraging Coursera, an entire system of higher education, in coordination with government institutions, can foster stronger collaboration with industry by unlocking new development opportunities for students, faculty and staff; by diversifying and expanding talent pipelines for employers; and by building a more competitive workforce. This is the vision of Coursera's three-sided platform at scale, connecting learners, educators, and institutions in a global learning ecosystem designed to keep pace with our rapidly changing world.

Now let's open up the call for questions.

Operator

Your first question today comes from Brian Peterson with Raymond James. Your line is now open.

Brian Peterson

Hey, guys. Thanks for taking the questions.

I wanted to start on the Enterprise segment, and I'm just curious kind of how the linearity played out through the quarter. It sounds like you called out some strength in multiple areas. I'm curious if there's any one or two that kind of outperformed versus some other areas of that segment.

Jeff Maggioncalda

Hi Brian, this is Jeff.

Yes, generally speaking, I would say that we are seeing what some of the other companies who have announced early in the quarter have also been seeing, which is a bit of cyclicality on enterprise spend, especially in more developed markets like Europe and to some degree in North America. What we're seeing though, as I kind of mentioned in a couple of the examples there, we're seeing the government sector continue to go pretty strongly. I think that there's some countercyclicality there.

We're seeing a lot of interest as well from educational institutions, who are just kind of realizing there might be some countercyclicality there. They're thinking about, "How can we upgrade our curriculum for better graduate placement rates?" So it's nice to have some diversification there. We are definitely seeing a lot of the same macroeconomic things that others are seeing, but I think our diversified model is helping us a bit.

Brian Peterson

Understood.

Just maybe a longer-term question on degrees. I appreciate the macro sensitivity here, but in terms of a lot of your university partners looking at different ways to do this, are we having the conversations now and we should start to see significantly more programs come in the next few years? How should we think about maybe the longer-term growth rate in that business? Maybe it's hard to say, but I'm just curious to think about the longer-term lens there. Thanks, guys.

Jeff Maggioncalda

Yes, my sense of this one is there's an overall question about the relative value and demand for the college degree as a credential. I suspect it will be different by region. We're definitely seeing it's different by region. I'm in Bangalore right now and I've spent the last 10 days here in India. There is a demand. The government is trying to shoot gross enrollment ratio up to 50% by 2035. They need 3.3 million more professors to serve 35 million more students. So a lot of the demographics that folks are seeing in the U.S. is not consistent with what some of the demographic trends are in other parts of the world.

We are seeing college degrees globally be as revered as they have been historically, so when we look at this on a global basis, I think a lot of it is going to be driven by demographic trends. I think that, especially when you have rising middle classes with a real premium on education, you're going to see, we're going to see a lot of demand for this, so we're very bullish on the future value of a college degree.

Another thing is college degrees are not sitting still. I don't know, there might have been five or six examples in the scripts about universities putting Career Academy literally into their curriculum so that, when someone graduates, they don't just have a degree, they've got a degree and an industry certificate. I think a lot of people think of college degrees as this static thing that's not going to change, but really the competition among job seekers is going to be those who have maybe micro-credentials and those who have a college degree and micro-credentials. So I think it's going to almost always be worth it.

On the affordability side, we see affordability really being driven by technology and, frankly, competition, so I think degrees are going to come down in price, they're going to be a lot more job relevant, they'll be much more broadly available, and especially because they're online, open up to the working adult population, which is a much, much bigger market than just young people who are between the ages of 18 and 24. So, we're still very bullish on the long-term opportunity for degrees. Today, we do have a concentration in North America, where the labor market continues to be tight. It's a few programs, but over time and as you've seen us announce more and more degrees, there's a broadening catalog that's coming online.

One final thing. Sorry, the answer is so long, but it's obviously an important question. In terms of what model will universities use to put degrees online—I mean, clearly universities are putting degrees online. That's definitely the case because they want to serve working populations and growing populations of people who need degrees. Will they do it themselves with no real help from third parties? Will they use a traditional model, a sort of an OPM model where 70% of the revenue goes to the provider, the OPM? Or will it be some kind of a blend?

I think to some degree that depends on regionally where we are in the world. I think North America right now is certainly seeing a trend towards universities who have the resources, at least, to say, "Let's try to do this ourselves." When we look more globally, we see a lot less of that, and so it's going to be a mix by region as well. I think by playing in multiple regions, we get a pretty good sense of where the opportunities are to help universities who are going to be bringing their degrees online and want a scalable platform to help them do that.

Brian Peterson

Appreciate all the color. Travel safe, Jeff.

Jeff Maggioncalda

Sure.

Operator

Your next question comes from the line of Stephen Sheldon with William Blair. Your line is now open.

Stephen Sheldon

Hey. Thanks, and nice results here.

On the fourth quarter, it looks like your guidance hasn't changed much for revenue relative to the midpoint of prior guidance, and it also assumes a bigger loss. Is that mainly conservatism and maybe factoring in some increased uncertainty? Then, have your investment plans changed at all where you're maybe ramping investments more than you had previously forecast at the end of the year?

Ken Hahn

Thanks, Stephen.

Firstly, we were happy with the results. As we look to Q4 versus the implied guidance last time, it's consistent as you said with our implied guidance, so we haven't forecast anything above that. As you know, we've generally done a good job of hitting our guidance, so we're thoughtful in that selection. From an EBITDA and profitability standpoint, we target an annual number as we always remind people, and we spend more at the end of a particular year.

Now, we're mindful of costs and especially the operating structure and fixed costs as we enter the new year because we're setting up for the new year always, but where we have opportunities to do things and enhance revenue for the future, we tend to keep investing. If you will, when we have a beat one quarter, you should expect us to guide lower to the same annual target. That's been something we've done consistently, but as a public company, this is—I know you understand this, Stephen, but for everybody on the call—something we've done consistently since we've been public, as well as pre-public. We've been doing this for a long time. It's the way we the Company operationally to try to maximize growth, and to grow and win our markets for the long term.

So that's what you're seeing there, that mechanical action between the current quarter and then still keeping the same annual guidance for the year. We'll, of course, update that for '23 this coming quarter. Once again, one of the very important things to understand is the way we manage our fixed costs so that we're set to spend appropriately and have flexibility for the following year. That's something that's near and dear to our processes internally.

Stephen Sheldon

Got it, yes. That's helpful.

Then it sounds like you're pretty optimistic about the opportunity with Career Academy, so just curious what engagement has looked like so far with them, although clearly it's early since you just launched it this year. Have you seen stronger traction with certain types of institutions relative to others?

Jeff Maggioncalda

Yes. Stephen, this is Jeff.

We're pretty excited about it. We are certainly seeing different levels of traction across different types of institutions. For the last—since we've been public, we've seen the Professional Certificates themselves drive a lot of the growth in the Consumer segment. I think it just speaks to the basic learner demand for this type of learning product. Then when we think about institutions, we think about, well, they're kind of conduits to deliver that kind of learning experience and credential to learners through a channel.

When we think about what types of institutional channels have the kind of learner audience that's looking to start a career or switch a career, it kind of goes, governments, for sure. They're really helping in workforce development programs. They're trying to help people get a bridge to all the incredible job and career opportunities that are being created by digital technology even as that technology is automating jobs and creating dislocation. So, I think it's kind of governments saying, "Well, look, we're going to have more dislocation than we thought because of technology, but maybe with these types of industry credentials, we can help more of our people take advantage of and get a share of the kind of opportunity that's coming from that technological change."

The second I would say is campuses, where maybe for years, maybe decades, employers have been saying to educational institutions and systems, frankly, "Hey, it'd be really nice if your graduates have some more job-relevant skills when they graduated," but effecting the change, helping these educational institutions have the agility to figure out how might we create curriculum that can help produce those types of graduates, to some degree, Career Academy provides a pretty turnkey mechanism to do it, so we're seeing a lot of interest.

It's still early days and we're kind of creating a market, so it will probably take a little bit of time, but it seems to be a pretty effective way to help educational institutions bridge that gap between what graduates have and what employers are looking for them to have. Then I think on the Coursera for Business side it's still earlier days, but what we're seeing in the U.S. is a number of employers who are saying, "I want to attract more frontline workers. They're looking for a career development benefit. They're looking for some signal that we're going to invest in them and we're going to create a career that's beyond just that frontline retail job or being a barista in the coffee shop. We want to provide something to attract and retain our frontline talent."

In Europe, frankly we're hearing a little bit around the need to re-skill and redeploy people where it's harder to exit employees in some of the regulatory environments there. So, they're thinking, "We're going to have to re-skill and redeploy people. What's a way to take someone from job A and freeing them up and get them productive in a higher value added role job B?" It feels like Career Academy is starting to resonate with that too. That's kind of the order that I would go.

Stephen Sheldon

All right. Great. Thank you.

Jeff Maggioncalda

Sure.

Operator

Your next question comes from the line of Tom Singlehurst with Citi. Your line is now open.

Thomas Singlehurst

Thanks. It's Tom here from Citi. Thanks for taking the questions and congrats on the results. One question and then a follow-up.

Actually I was going to start with Consumer. Obviously it just keeps on getting better and better, and micro-credentials and professional qualifications is the main driver of that. I'm just interested in what's happening sort of behind this with more plain vanilla university partner content. Is this still performing how you'd expect? Is there any sort of obvious cyclicality or any sort of changes in how the content is consumed and sort of purchase rates and things like that? That's the first question, if that's okay.

Jeff Maggioncalda

Yes. Hey, Tom, this is Jeff. I'll take this one.

Yes, I think it sort of depends on the segment. In the Consumer channel, we clearly still have a lot of people who are coming and taking university courses, but often those are not as career-relevant courses and more often taken without paying for it so you just sort of get the videos, but you don't get the credential. Most of the consumers, I think, are more career focused, and they're looking for that job training, and so disproportionately what they're paying for in the Consumer channel is the industry content. When you look at other channels, though, and notably the Coursera for Business channel, there are a lot more advanced topics in business, technology, and data science from universities. They’re a bit more cutting edge and they are doing pretty well, so I would say that what universities are generally doing well at is some of the more advanced content in business and technology and data science in Coursera for Business.

Frankly, in the Coursera for Campus channel, some of those advanced courses are being used as stand-alone electives where maybe a university doesn't have a large data science staff. I mean, imagine a university, say, in Indonesia, and they haven't really hired up a really big—a data science staff. Maybe there's nobody on faculty who understands the intricacies or doesn't offer a course on deep learning. Well, the university courses on Coursera often touch on these sort of advanced courses. They could be pretty handy to offer stand-alone electives as part of a university curriculum because they come from a notable university and they're in a cutting-edge field that's not currently part of the course offerings of that university.

Thomas Singlehurst

That makes a lot of sense. I guess that possibly explains why the gross margins for Consumer tickled above Enterprise. Maybe that's one of the factors...

Jeff Maggioncalda

I think that's fair, Tom, yes, yes.

Thomas Singlehurst

Second question, on degrees. I suppose the obvious implication is that the sort of relative weakness in degrees is the other side to the coin of super strong growth in industry market credentials, especially in—or at least in the U.S. The question is really this. You made a very eloquent point about the opportunities internationally, which I totally agree with, but in the U.S., is there any need to sort of pause the rollout of degree programs? I'm just interested in whether it's soaking up disproportionate amounts of capital that—

to put your shoulder to the wheel on the degrees side? Or is that something that can sort of be developed without necessarily sucking in too much capital?

Jeff Maggioncalda

Yes. Tom, I think, since the time that we have gone public, obviously through COVID, there were a lot of atypical phenomenon and signals being sent. It's often hard to parse out what's going to be more enduring and what's going to be more temporary. During that time, unprecedented time, we brought a lot of degrees on platform. We are learning about, well, which ones resonate with learners and which ones don't resonate so much. What features of degrees are resonating with learners, and frankly, which features of degrees are not?

I don't think that it's so much about slowing the pace of bringing degrees on platform, but I do think that there are certain types of degrees and certain types of features that we are understanding are very attractive, especially to working adults. In the script, we mentioned BITS Pilani. The features that we described there are the kinds of features that working adults are looking for. A lot of that has to do with affordability, in-demand skills, integration of industry content, a convenient ability to start the degree so you can start at any time online, the way that you have to go through the application process. Can it be more performance-based?'

That's what we're finding is degrees that have those features are performing better than degrees that don't. So what we're really doing is focusing more of our attention on degrees that have those features currently on platform, on changing degrees that are on platform to adopt more of those features, and then sourcing new degrees that have those features. Because we're hearing learners tell us—we've done quite a bit of research on this in the last six months or so—working adults are looking for something a bit different than the traditional on-campus degree.

I think what we're going to see is that Phase 1 of online degrees was kind of just take what was on campus and put it online. I think Phase 2 is going to be add some additional features that really work better for working adults. As those types of degrees come online, I think they're going to better meet the need of a large portion of working adults who want to get a degree but the degree has go to really kind of work for them.

Ken, I don't know if you'd want to add anything to that.

Ken Hahn

Yes, I would just a little bit. Your's was the more interesting part, but to get to the capital part of the equation, which is very important and a differentiator on our approach to the business, which is that, yes, while we're investing in go-to-market on degrees, it's not that expensive, we believe in the long-term outlook, to say the least, as Jeff was talking about, but very importantly, in the near term, there's not a huge capital burden.

There's a misconception out there due to the OPM, the traditional OPM industry historically, that would have huge capital commitments before implementing these various programs, the programs, the degree programs. From a marketing cost standpoint, we are much lower priced because we generate our own users, 75% of which are free, as we've talked about ad nauseam, almost since the IPO, but super important to understand that differentiation. Secondly, the servicing costs for us are much lower because we act as a platform. We're not doing the production, and that's what's enabled us to compete the way we do. It also keeps the degrees program from sucking up a lot of working capital and net capital, so we don't share the problems that some of the traditional OPMs did earlier in their existence and perhaps to some degree today.

Thomas Singlehurst

That's very clear. Thank you very much.

Operator

Your next question comes from the line of Ryan MacDonald with Needham. Your line is now open.

Ryan MacDonald

Thanks for taking my question. Congrats on a great quarter.

Jeff, perhaps to start with you. On Coursera for Business, it was interesting the comment you made about North America, really the platform being focused as a career development benefit, whereas versus Europe being more of a sort of a re-skilling tool. I'm curious how that's evolved over the last six months. As you think about those use cases, when you speak to CHROs, what sort of level of prioritization are they putting on those types of initiatives, especially given that they're in their budget planning process for next year?

Given the macro, we tend to see some budget cuts on the L&D side of things, but would really like to know sort of from your viewpoint and from your conversations, where does the prioritization lie in terms of investing in expansion of those types of initiatives going into next year? How do you feel position-wise if we start to see some consolidations or some tighter budgets?

Jeff Maggioncalda

Ryan, great question. It's evolving. It's evolving. The Career Academy offering is fairly recent for us and so it's pretty new, and we're only getting some, I'd say, early indications of how this offering will fit into the greater agenda for learning and development departments. I think you're right, though. I mean L&D budgets are tightening. Generally speaking historically, it's been a fairly discretionary spend. Generally speaking, I think it's continued to be more discretionary and cyclical than other parts of our business, some of the other segments. At least that's what we're seeing.

In terms of where their priorities are going to be, it feels to me—and I do talk to a lot of CHROs—Europe is really holding onto their purse strings, it seems, which is interesting because during COVID, I think there was a lot of emphasis on just generally putting a lot of online learning and development programs out there to support workforces who were going through the whole shutdown process, at least office closures in Europe.

I think that what's happening in Europe now is causing a contraction of the L&D spend. When we think about, "Well, when they take those dollars that they're going to spend, what are they doing with them?" I do feel like they're focusing on consolidating to fewer players, and I think it's going to be harder for smaller players and more niche players to be as successful. There is competing demand. There's a lot of things that L&D folks have to figure out or try to put their spend against. One is continuing to build tech talent and data science talent. I mean that's really important, and I think that's some of the least-discretionary money that needs to be spent.

So I don't see that really going away as much. I think that general, broad-based learning programs that aren't really role specific and don't really dial into critical job roles that need critical skills, I think those are on the more discretionary side. So, I think L&D is kind of putting the money against what job roles need which skills to drive the business agenda that the CEO and the C-suite execs are talking about. I think that's generally data science, technology, and also some of these workforce re-skilling programs. That re-skilling is I think they're just starting to see how they might do that at greater scale.

Ryan MacDonald

That's really helpful.

Maybe as a follow-up, and this is more focused on the collaborations you talked about between the industry and university partners. What is the strategy there in terms of is this really a goal of trying to drive sort of more of the professional certification-type learners into degree programs over time? If so, how do you think you bridge that gap or sort of shift that learner into sort of that more longer duration program over time? And then if it works, what sort of efficiency could this create in terms of your sales and marketing line item?

Jeff Maggioncalda

Yes. I think this is—the answer that I'll provide is a bit of a continuation to an answer that I provided earlier to, I think it was, Brian when he asked. When Coursera started 10 years ago, it was all about MOOCs, massively open online courses. I think that what people said was, "Oh, my gosh, these MOOCs are going to threaten degrees. Maybe they'll replace degrees." And even today, boot camps and all these other types of micro-credentials, people often think, "Oh, these might replace degrees."

We've always had the opinion, perhaps because we were started by two university professors, that there was going to be a much more nuanced portfolio of credentials out there. The way that people learn and the credentials that matter to employers is going to broaden. It's not like one credential is going to beat all the other ones. That's what we're seeing. We're seeing not only a portfolio of credentials, some very quick and cheap and have less employability signal and some that are longer and more robust and have more employability signal. So not only are there more credentials out there, but I would also say that the way that those credentials stack into each other; how one credential, say, from an industry can count towards another credential from the university.

I think that really it's been quite some time really I think since we launched our first degree with University of Illinois. This idea that you can go from a MOOC to a degree has been something we've been working on quite a bit. I think that what's happening in the last year or two is that we're just formalizing and building out that capability so it's not just a MOOC to a degree. It's a credential which is a professional certificate that can be integrated with degrees for credit. Right now, 12 of the Professional Certificates in the Career Academy have ACE credit recommendations. This is the American Council on Education, where the ACE is recommending to every college and university in the United States that any learner who finishes this professional certificate could be, should be awarded credit and this many credit hours towards a degree.

A lot of universities are starting to pick up on this and say, "Wow, this is not only a way to improve the employability of my graduates, but it's actually a funnel where I can get some leads into my degree program. If I can reach out to all those learners earning the industry micro-credentials and say, 'Hey, you're already on the way towards earning your degree from my institution,' I can improve my curriculum and get a source of new learners, namely working adults."

When you look at the demographics in the U.S., the 18-year-old population is getting smaller, post millennials. Universities need to go after working adults. Well, if you can get working adults to start with an industry micro-credential and then have that be the on-ramp to an online degree that people can take while they're working, that's a system that benefits Departments of Labor because they could help retrain their working adults, and universities so that they can recruit and serve a population of learners who traditionally they just didn't serve before.

Ryan MacDonald

Thanks for the color. Congrats again.

Jeff Maggioncalda

Sure.

Operator

Your next question comes from the line of Matt Saltzman with Morgan Stanley. Your line is now open.

Matthew Saltzman

Hey, guys. Thanks for taking the question. My question is around Coursera for Business and just kind of the go-to-market motion. I'm curious if there's anything that you all can share on how big the web-enabled sales component is today, and if you expect kind of the mix of leads to change over time, and also just anything you can share on how that performance has differed from the direct sales effort. Thanks.

Ken Hahn

Sure, Matt.

You've been close to the model, to WES. WES has not been a big area of emphasis. It's a different way to serve smaller purchases, departmental, so just to eliminate PO, the hassles often of dealing with bigger companies. So WES is something that's kind of a natural offshoot of what we do anyway. We have the platform because of Consumer and then we capture WES independently.

WES has been steady for some quarters and years. It's not a huge part of the business. It's a part of the business that's still important to us, so we continue to serve it. There's still ongoing investment to allow that infrastructure, but we keep it to minimum. It serves as a gateway and an ability to upgrade, so it can be part of a land-and-expand strategy but not something that we hit directly as an investment. We enable it, but it's a smaller part of the business and serves the broader needs.

Matthew Saltzman

Got it. Just to make sure I'm understanding correctly: Direct sales, you guys are typically going more at kind of the higher level—I don't want to necessarily say C-suite but higher level of the organization, and then at the more departmental, call it, HR level that might manage a separate learning and development budget, that's kind of where web-enabled sales can come into play more often.

Ken Hahn

Yes, there could be a couple of different possibilities. It's really just smaller departmental. When you're doing something for the whole entity, that tends to be more of an enterprise sale. The vast majority of deals are multi-hundred thousands. They're six figure deals, sometimes seven figure. WES tends to be a much smaller price point. It could be a head of engineering ordering for his group of 12 people, or a departmental engineer. It could be someone in L&D, but the L&D deals tend to be bigger deals. They're corporate-wide, so really more departmental and operational. Sometimes they're trials. They're samples they're looking at evaluating.

Matthew Saltzman

Understood. Thanks so much.

Ken Hahn

Sure, Matt.

Operator

Your next question comes from the line of Brett Knoblauch with Cantor. Your line is now open.

Brett Knoblauch

Hi, guys. Thanks for taking my question.

Just on the industry content, that is higher from a content or segment margin perspective, but it also sounds like you guys then have to invest more on the marketing front to drive demand for the industry content. I guess if you account for that incremental marketing investment, what is the margin differential between the industry and I guess the university content?

Ken Hahn

Brett, it's an important question actually because it's something we're very focused on. The industry credentials have been great for us across all the different parts of the business. It's part of what Jeff talked about even as it relates to degrees. It's the stackable portion, so it's something we're focused on. It's also been very successful, so the margin profile matters. As we've discussed regularly, they tend to have a higher gross margin profile because the objective of the industry partners is often for their publicity purposes, for pushing for their platforms. Their business, how they make money, that's what they care about. They're not as focused on revenue dollars from learning. It's not what they do. It's not their primary business.

That said, the numbers are a little bit across the board, but it tends to even out not far from where they do for the standard media. They'll want us to invest at a reasonably heavy level where we're using their brand and to market and promote what they do. That's why they're doing it. So the overall economics, when you drop it down to say an EBIT line are relatively similar. That's very broad brush, to be clear. It varies quite a bit depending on the partner, but in generalities, you can expect we're investing a fair amount below the line as well.

Brett Knoblauch

Perfect. Understood.

I guess, what would be the pathway to generate leverage there if there's a constant need for additional marketing spend to drive demand for either the academia or the industry content? I guess a broader question is can you just give some longer-term thoughts on how we should be thinking about your guys' path to profitability.

Ken Hahn

Sure. Well, path to profitability is something we think about, and it's pretty complicated. We look at how we're scaling, which is part of your question here. You do get more scale over time. It's hard to answer your question discretely just because of the way the expenses do flow. We invest in the different programs for the industry partners and sometimes for the university partners. We also invest even when there isn't a mandate, if we're just being paid as a rev share to maximize and grow those revenues, so it's looking for continued areas where we get leverage over time. As we grow the Company, as our brand

grows, it helps. We won't have to invest at the same rate going forward, and I expect you're going to start to see some of that scaling relatively soon.

As we've said, we focus on EBITDA and we focus on leverage. I think you're going to start to see some more leverage. We're not providing guidance for '23 yet, but consistent with how we've been thinking about it, we're getting closer to a point where we really start to show some leverage. Profitability matters to us. If you will, it's in vogue right now with Wall Street, with interest rates. So it's not how we run our Company quarter to quarter, but we're also paying attention. We're also naturally at a point with the Company where I think you're going to see some more drop down towards the bottom line.

Brett Knoblauch

Perfect. Thanks very much, guys. Appreciate it.

Cam Carey

Thanks, Brett. That wraps the Q&A for today. A replay of this webcast will be available on our Investor Relations website, along with the transcript, in the next 24 hours. We appreciate you joining us. Take care.

Operator

This concludes today's conference call. You may now disconnect.