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**Coursera, Inc.** NYSE:COUR

*Earnings Call*

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# Call Participants

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# Presentation

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## Operator

Ladies and gentlemen, thank you for standing by, and welcome to Coursera's Second Quarter 2023 Earnings Call. [Operator Instructions] Please be advised that this call is being recorded. [Operator Instructions]

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

## Cam Carey

*Head of Investor Relations*

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 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 environments, our ecosystem, platform, content and partner relationships, our anticipated plans and the anticipated advantages and benefits thereof, our strategy and priorities, our share repurchase program and capital and cash allocation 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.

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

## Jeffrey Maggioncalda

*CEO, President & Director*

Thanks, Cam, and good afternoon, everyone. We appreciate you joining us today. I'm pleased to share that Coursera had a strong second quarter with momentum in several key growth initiatives that provide us with confidence as we enter the second half of the year. We grew revenue 23% over the prior year. We delivered double-digit growth in each of our segments. We welcomed 5.7 million new learners to our platform. And today, we're raising our outlook on revenue and adjusted EBITDA for the year.

The macro environment remains dynamic, but one thing that has not changed is our ability to navigate given our diversified platform. Of course, there is prominence as a global destination for individuals looking to start, switch or advance their careers continues to grow. Learners are coming to Coursera around the world, seeing the skills, branded credentials and pathways that can transform their lives. In particular, we continue to see strong demand for our entry-level professional certificates, a strategic asset that has been created in collaboration with the world's best-known companies.

And despite challenges in the corporate spending environment, institutions are looking to provide their employees, citizens and students with job relevant skills and training that make them more relevant in a rapidly changing workforce. We believe the long-term structural trends driving our business are proving sustainable.

For today's call, I'd have discuss our latest views on these trends, digital transformation, skill development and the transformation of higher education. I'd like to share several key findings from our recent World Economic Forum report as well. In June, the World Economic Forum, or WEF, published the latest addition of their future of jobs report. The report brings together the perspective of more than 800 companies employing more than 11 million individuals across 45 global economies. The analysis focuses on the impact of current labor market disruptions and reveals the outlook for technology adoption, jobs and skills over the next 5 years. Coursera was a key data contributor alongside companies like Indeed and LinkedIn due to the scale of our global learner base and skilling data.

Let's start with our first trend, digital transformation. The forces of technology, globalization and automation have been accelerating the transformation of every institution in our society. But compared to the historical adoption of general-purpose technologies, it's clear that what we're experiencing now is an unprecedented rate of change. For example, it took decades for innovations like the telephone, electricity and the automobile to reach 100 million global users.

Today, we're witnessing this time horizon compressed dramatically from several years with the Internet and mobile computing to a matter of just months with ChatGPT. We believe that AI will be a general-purpose technology, representing the next major technological shift that will profoundly change how we live, learn and work. Not surprisingly, the web report reinforces technology adoption as a key driver of business transformation, and it also highlights an increased urgency amongst companies looking to address the gap between workers' skills and the future needs of their businesses.

And this leads me to the second major trend skills development. Several key findings in the report express the skilling challenges faced by companies and governments globally. Employers estimate that 44% of worker skills will be disrupted over the next 5 years. Six and 10 workers will require training before 2027. And the skill sets that companies see increasing importance the fastest are not always reflected in corporate upscale and strategies or in the skills that individual learners commonly associated with in-demand careers. For example, cognitive skills, like analytical thinking and creative thinking as well as leadership and social influence are seen as equally important as technical skills in AI and big data. And I hear these challenges directly from our customers.

Over the past 9 months, I visited more than 45 cities in more than 25 countries, hearing from business leaders, government officials and campus presidents. As institutions struggle to navigate change and disruption and take advantage of the opportunities that they create, there is a greater emphasis on building organizational agility into the existing and future workforce. It requires a combination of technical and human skills in order to harness the capabilities of these new technologies. And this leads me to the third trend driving our business, the transformation of higher education. We believe the future of education 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 and demands. Adapting this accelerated pace of change will require institutional collaboration between academic institutions, industry leaders and government to meet the needs and pace of this new digital world. And the West findings report that 45% of businesses see funding for skills as an effective intervention available to governments seeking to connect talent to employment. This rents ahead of traditional methods like flexibility on hiring and firing practices, tax and other incentives and changes to immigration loss.

Last quarter, we highlighted our partnership with Republic of Kazakhstan, where the Ministry of Higher Education and Science is using Coursera to up-level its public higher education system. And I wanted to provide an update on the speed and scale of what national implementation can drive when these institutions are working together. Since launching in March, 20,000 students in faculty have signed up, spending nearly 100,000 hours learning, amassing 40,000 enrollments and completing more than

25,000 courses. And the most popular courses include a combination of technical and human skills like programming and physics as well as entrepreneurship, leadership and communication.

This is the promise of Coursera's 3-sided platform. An examples like these provide a powerful blueprint for the types of innovation that will be required to keep pace with our rapidly changing world. We are able to pursue partnerships like these because of our strategic assets and platform advantages, which include our leading educator partners who've created a broad catalog of trusted and branded content and credentials, our global reach to individuals and institutions, which include businesses, governments and campuses, as well as our data technology and advancements that we leverage across our platform.

Now let's cover our recent progress for each. First, our educator partners. We believe that in a world where machines are increasingly capable of producing content at scale, trusted institutions will play a valuable role in education as learners look for quality and accuracy. The strategic focus of our content engine centers around the in-demand skills and branded credentials that can unlock core opportunities for our learners. And because of our global ecosystem and our platform, we're able to build differentiated value around our catalog with advancements like career pathways using Coursera Hiring Solutions, American Council on Education, or ACE credit recommendations, technology solutions like hands-on projects, ID verification and academic integrity and performance-based emissions from open content to college degrees.

Our catalog is created by a combination of more than 300 trusted university and industry experts, which are attracted to Coursera for many reasons, including our mission, our global distribution to individuals and institutions and our record of being a trusted steward of the world's best brands. These partners continue to rapidly expand our catalog, and I'd like to start with recent updates on our growing selection of entry-level professional certificates.

In Q2, we introduced 11 new entry-level professional certificates from new and existing partners. Roles from new partners include retail customer service from CVS Health, call center customer service, also from CVS Health, network engineering from Akamai, customer consulting and support also from Akamai, human resource associated from HR Certification Institute, cyber security analyst from Microsoft and Power BI data analysts also from Microsoft.

We also launched additional job roles from 2 of our earliest and most successful partners, including cyber security, from Google as well as project manager, IT project manager and front end developer, all from IBM. The entry-level professional certificates on Coursera are able to be leveraged across every segment of our platform. They forge new pathways to well paid digital jobs in our consumer segment. They allow a student to begin and earn credit towards a college degree in our degree segment, and they enable governments and campuses to upgrade entire systems of higher education in our enterprise segment.

Now let's discuss degrees. Last quarter, we announced 10 new programs, many of which take full advantage of the pathway capabilities of Coursera to make these degrees accessible and well suited for working adults. Several of these pathway degrees, including programs from the University of Colorado Boulder, Illinois Tech and Ball State will welcome their first student cohorts starting this fall. And in Q2, we announced 2 new degree programs in artificial intelligence from international universities, including a bachelor's program from the Indian Institute of Technology Guwahati, a top-tier engineering school in India as well as a master's program from Universidad de Los Andes in Colombia.

Finally, in addition to degrees and artificial intelligence, our leading educator partners have been focused on creating new projects, courses and specializations to meet the demand for generative AI learning content. This includes both industry and university partners like deep learning.ai, Google Cloud and Vanderbilt University. Our new content supplements hundreds of existing courses and skills that help equip learners to work with AI more broadly like machine learning, linear algebra, Python and more. So that's an update on our catalog and educator partners.

Now let's move to our second major advantage, the global reach of our platform. In Q2, we added 5.7 million new registered learners growing our global learner base to \$129 million by the end of June. Learner growth continues to be broad-based with double-digit percentage increases across all regions.

We also grew the number of paid enterprise customers to nearly 1,300 with recent additions driven by momentum in our campus and government verticals.

Finally, I'd like to provide some updates on our third advantage, which is the ongoing product innovation across our platform, and I'd like to start with our efforts in generative AI. At Coursera Conference in April, we unveiled Coursera Coach. Coach is a virtual learning partner powered by generative AI and grounded in our expert content. It is designed to allow learners to ask questions and receive personalized explanations and answers, get personalized evaluations and feedbacks on their submissions. We see context relevant examples and practice questions and discover quick video lecture summaries and resources to better understand a specific concept.

We launched a beta version of Coach to Coursera Plus subscribers during the quarter and continue to be excited about the early feedback from these technologies when paired with the trusted authoritative content from our partners on Coursera. Additionally, we introduced a Coursera ChatGPT plug-in for enhanced personalization and discovery across the Coursera catalog. Like an academic counselor, the ChatGPT plug-in allows learners using GPT4 to identify recommended content and credentials based on the subject or career field the learner says they're interested in exploring. It's one example of the initiatives we're working on related to degenerative AI and reimagining the personalized discovery experience.

Finally, we continue to make progress on our machine learning translation initiative. As a reminder, our strategy is to use technology to dramatically reduce the time and cost of producing high-quality trust and content at scale, including localization. In Q2, we delivered the first milestone with subtitle translation for 2,000 courses in 7 different languages. In the coming quarter, we will begin to roll out the full course translations to learner's around the world. We believe that high-quality education from the world's leading experts and brands should be accessible to learners anywhere in the world no matter what language they speak.

To wrap up my opening remarks, let me remind you of several key priorities that we are focused on in the years ahead. First, we are broadening our catalog of entry-level professional certificates, including new partners, roles, languages and credit recommendations to support degree pathways.

Second, we're sourcing and launching new degree programs, especially those tailored to meet the unique needs of working adults, including flexibility, affordability and clear pathways that our open content and industry micro credentials can count as credit towards college degrees.

Third, we're focused on growing our enterprise segment across business, government and campus customers seeking to address their needs in this fast-changing environment. And we're deepening our advantages while driving more scale and leverage over time, including the opportunity to use AI technologies for the benefit of our learners, educators and customers.

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

**Kenneth Hahn**  
*Senior VP, CFO*

Thanks, Jeff, and good afternoon, everyone. Our strong second quarter results demonstrate the differentiated value of our branded job relevant credentials to millions of learners around the world. As a growth company, we continue to benefit from our diversified platform model, including our ability to deliver high-quality learning through multiple channels. That model is also helping us produce financial leverage while we grow with the 3 segments providing each other competitive assets and operational leverage.

In Q2, we generated total revenue of \$153.7 million, which was up 23% from a year ago. Growth was driven by double-digit increases across all 3 of our segments, with particular strength in consumer. Please note that for the remainder of the call, as I review our business performance and outlook, I'll discuss our non-GAAP financial measures unless otherwise noted.

Additionally, I'd like to remind you that our results, particularly the year-over-year comparisons in gross profit and operating expenses continue to reflect the shift in income statement line items associated with the beginning of the year contract extension with our largest industry partner, which we had discussed thoroughly in our prior 2 earnings calls. Cutting through that shift in P&L geography year-over-year, we are driving strong bottom line EBITDA performance. Cost of revenue increased by 11 points as a percentage of revenue, while total OpEx decreased 22 points compared to year ago results. As we'll discuss in a minute, we are raising our 2023 annual EBITDA margin target.

For the second quarter, gross profit was \$81.9 million, slightly up on a dollar basis from a year ago and a 53% gross margin, which was down 11 points from the prior year. Total operating expense was \$88.8 million or 58% of revenue, down 22 points from 80% in the prior year. Looking at the P&L line item components of OpEx, sales and marketing expense represented 29% of total revenue, down 9 points from 38%. Research and development expense was 18% of revenue, down 8 points from 26%. And general and administrative expense was 11% of revenue, down 5 points from 16%.

Net loss was approximately \$300,000 or 0.2% of revenue, and adjusted EBITDA was a loss of \$2.9 million or 1.9% of revenue. Our adjusted EBITDA performance was better than anticipated due to a combination of factors, including overall revenue strength, operating expense discipline and a onetime \$2.3 million benefit associated with the contract amendment with an educator partner. We have a track record of delivering growth with leverage, including each of the past 5 years, and I'm pleased with our ability to invest and execute on multiple growth initiatives while also demonstrating scale and leverage in our operating model.

Turning to cash performance and the balance sheet. Free cash flow was a use of \$11.5 million during the quarter compared to a use of \$3.2 million a year ago. We ended the quarter with approximately \$717 million of unrestricted cash, cash equivalents and marketable securities with no debt.

With regards to our share repurchase program that we announced last quarter is a direct reflection of our confidence in our business and the value we place on shareholder equity. I'm happy to report that during the second quarter, we bought back 4.5 million shares, an average price of \$12.06 per share for a total repurchase of \$54.5 million, including commissions. The program a \$95 million authorization amount was designed to reduce the impact dilution from onetime talent grants issued in the prior year.

Importantly, our views on capital allocation remain unchanged. In the context of our belief that we have the right assets and market position to win in our early large growth markets, our capital management focuses on both investments and organic growth and the resilience and strategic optionality provided by a strong balance sheet. We believe our cash, which we hold dear, is a considerable asset that will enable us to execute on our long-term vision for the benefit of our shareholders.

Next, let's discuss in more detail the financial results and progress in each of our segments. Consumer revenue was \$87 million, up 25% from the prior year on strong demand for our entry-level industry partner professional certificates. As Jeff discussed, we introduced 11 new certificates this quarter, including new job categories from new partners as well as additional titles from several of our most successful industry brands. We believe we are seeing the benefits of our strategic focus, which emphasizes job relevant credentials created by world-class brands. It distinguishes our learning platform, the value of our offerings to learners and ultimately, our consumer performance. And it also enhances our top of funnel traffic with 5.7 million new registered learners coming to Coursera in Q2. Segment gross profit was \$45.1 million or 52% of consumer revenue compared to 73% a year ago, reflecting the impact of the industry partner contract extension mentioned previously.

Moving to enterprise. Enterprise revenue was \$54.2 million, up 24% from a year ago on continued growth in our business, government and campus verticals. Segment gross profit was \$38.7 million or 71% of enterprise revenue, which was slightly higher than expected due to a onetime benefit of a contract amendment with one of our educated partners, which had the effect of increasing our enterprise segment margin by 4 percentage points for the quarter. The total number of paid enterprise customers increased to 1,291, up 35% from a year ago. And our net retention rate for paid enterprise customers was 97% with ongoing pressure in our Coursera for Business vertical during the quarter. We continue to see corporate

learning customers exercise caution in their spending priorities as they navigate tighter budgets amidst macroeconomic uncertainty.

And finally, our degree segment. Degree's revenue was \$12.5 million, up 10% from a year ago on increased student enrollments. The total number of degree students grew 9% from a year ago to 19,068. As a reminder, there's no content cost attributable to the degree segment. So degree segment gross margin was 100% of revenue. We remain encouraged by our progress in degrees and the early momentum in programs and partners like the University of Colorado Boulder that leverage our platform's unique capabilities and scale.

In our discussions with current and prospective universities, it is clear a more accessible, affordable and relevant model of education is required for college degrees. And we look forward to welcoming the first student cohorts for several of these newly sourced pathway-focused programs starting this fall.

Now on to our financial outlook. For Q3, we are expecting revenue to be in the range of \$156 million to \$160 million and an adjusted EBITDA loss in the range of \$9 million to \$14 million. For full year 2023, we are increasing our outlook for both revenue and adjusted EBITDA. We now anticipate revenue to be in the range of \$617 million to \$623 million, representing approximately 18% growth at the midpoint of the range. Our full year revenue outlook has increased by \$20 million since the start of the year and \$15 million since the prior quarter driven by our increased confidence in the durable demand we continue to see in our consumer segment.

For adjusted EBITDA, we are now expecting a loss of \$19 million to \$24 million or negative 3.5% adjusted EBITDA margin at the midpoint of the revenue and EBITDA guidance ranges. As you know, our consistent practice, both prepublic and as a public company is to set an annual EBITDA margin target at the beginning of the year and work within that plan to maximize growth based on the trajectory of the business. So this is a notable change for us, driven by both top line performance and operating efficiency for a revised guidance improvement of 150 basis points in full year adjusted EBITDA margin.

Furthermore, in addition to a higher profitability target for the year, I want to reiterate the comments we made at our Investor Day in March of this year. We expect to be EBITDA breakeven in the fourth quarter of this year and to be EBITDA positive for full year 2024. To summarize, we are operating a diversified growth company with multiple levers across our 3-sided platform. We are delivering this growth with increased scale and leverage. And we've built a strong financial foundation that will afford us the resilience and strategic flexibility to lead our large and early markets.

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

**Jeffrey Maggioncalda**  
*CEO, President & Director*

Thanks, Ken. Our mission is deeply rooted in our business, but this is also the case for many of our customers. To wrap up today's remarks, I'd like to share an example of an exciting partnership with one of our largest Coursera for Business customers. BNP Paribas Cardif, a leading insurance and financial services company has had a relationship with Coursera since 2019. In June, we expanded our partnership with a multiyear agreement to provide access to online education to all BNP Paribas Cardif employees as well as over 5 million customers across Latin America. Their insurance policies now include digital education services.

BNP Paribas Cardif uses Coursera as a value enhancement for their customers, where insurance not only protects families, but also provides the necessary skills and credentials to help them access new job opportunities increase their earning potential. It is another example of how businesses are seeing access to quality education as a key strategy to enhance their offerings and their global brands.

And the Coursera ecosystem and our reputation as a trusted steward of their brands is playing an increasingly prominent role to address the rapidly changing needs of our global economies as employers and educators and as enablers of the future workforce. In collaboration with our customers, we are focused on fulfilling our mission so that talent and opportunity can rise from anywhere in the world. Now let's open the call for questions. Thank you.

## Question and Answer

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### Operator

[Operator Instructions] We'll now take our first question from the line of Josh Baer with Morgan Stanley.

### Joshua Phillip Baer

*Morgan Stanley, Research Division*

Was hoping you could really hone in on the strength that you're seeing in consumer in the quarter and then also in your commentary for the rest of the year. Is it more driven by new professional certificates launched? Any sense for like a same-store sales type of look at enrollments for some of the existing certificates? And also wondering if you're able to quantify in any way the contribution from AI-related courses and programs.

### Jeffrey Maggioncalda

*CEO, President & Director*

Yes, Josh, this is Jeff. It's a number of things on the consumer side and broadly, I think, in 3 categories. One is quantity of new content that came on from new partners like Microsoft. They put up their first professional certificates on Coursera for entry-level jobs in Q2, but also certificates like the cyber security analyst certificate from Google that also came in Q2. So new content is definitely a part of that.

But to your point around same-store sales, we do see good growth from existing titles as well. So it's not just new content. It's also apparently higher demand for existing content. There's another piece, too, which is effectiveness of paid marketing. So we don't do a ton of paid marketing, but we just seem to see a better return in this -- I think it's -- in this environment with this product offering, people seem pretty interested in this stuff. And I think it's the brands. I think it's a job orientation. I think it's the credentials. I think it's the credit pathway to a degree. It's like a plurality of things about these certificates, including the flexibility, affordability. I mean it's just a lot of the features that we've been building over the last whatever, 8 years resonating in this environment.

And then I think finally, to that point, the sort of the environment, people often say that college education is countercyclical. I think it might be the case that this as well. And whether or not counter cyclicity means for college degree, it usually -- you see more enrollments in college degrees when unemployment goes up. We're not seeing a lot of higher unemployment right now. But I do think the new job opportunities is going up and so the way to get into those new opportunities, if you're in a career where you don't have the skills and credentials to do that. I think these professional certificates are just kind of resonating as a pathway to a nuclear opportunity that otherwise, I just could have -- I couldn't have had. So I think it's kind of a bunch of different factors, but across the board is still in pretty positive.

Ken, anything that you'd say about the economics of these things or how you see it playing out in the future?

### Kenneth Hahn

*Senior VP, CFO*

No, nothing incremental to add. Now they look like the others and the model is pretty well set. It's all about growth in this environment, as you said.

### Joshua Baer

*Morgan Stanley, Research Division*

Great. That was a great summary. If I could sneak in one more. Just thinking about your balance sheet, it's very strong. I was hoping you could review your M&A philosophy and your strategy, what type of assets could potentially fit into your platform?

### Jeffrey Maggioncalda

*CEO, President & Director*

Sure. Historically, Josh, we've had limited M&A activity. We do believe that the opportunity for us with the right assets in the right markets, and these are huge markets as I know you agree having that dry powder for strategic flexibility is pretty important. On the front end, we've continued to look, assets have been expensive as people are aware, with the previous environment, things are coming down. We remain active. We're doing some investments today as it results in some various partnerships within that corporate development group, and we do continue to look at deals. We haven't found anything at the right price for the right asset.

But in philosophically, we look to things, we're not looking to bolt on more revenue. I think as you see us announce deals in the future, I'd expect things that add to the product portfolio where we actually get leverage on the top line and growth as opposed to just buying revenue. Philosophically, that's not how we

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**Kenneth Hahn**

*Senior VP, CFO*

And what I would add to that, Josh, is sometimes talent comes along and you buy an entity because there's really good talent associated with it. We've done that in the past. We can continue to do that now. Talent is extremely valuable. In elements of job placement where we spend a lot of time on the learning. We just launched Coursera Hiring Solutions. We are building that out. I like the way that's going. We might be able to accelerate that with certain assets in -- that have capabilities and job placement.

I don't think then we buy content, but we might do something in content engine. So it's not so much the current catalog of content. But if there's a way of bringing content on that is novel and complementary to the way that our content engine works, I think that would be great. On AI, people are talking about M&A in AI, frankly, we will probably do it more for the talent on the actual technology because these large language models are moving very quickly. We see early-stage companies, whole products get subsumed into the capabilities of a new base language model. So we're kind of holding back on that a little bit.

And then broadly speaking, technology that makes the content better or the learning experience better is always great, whether that's ID verification, academic integrity, better assessment design, hands on projects. We bought a company a few years ago called Rhyme, that with the virtual machine technology that enabled hands-on projects using desktop software. So it was a technology that supported an enhanced learning experience, and enhance content because of the technology. We're interested in that kind of stuff.

**Operator**

Our next question comes from the line of Thomas Singlehurst with Citi.

**Thomas Singlehurst**

*Citigroup Inc. Exchange Research*

A couple of questions. Maybe starting with that theme of countercyclicality and obviously [indiscernible]. On enterprise, I think it's still really robust in terms of year-on-year, and you've obviously got different parts. I'm interested in your take on the continued [indiscernible].

**Jeffrey Maggioncalda**

*CEO, President & Director*

Yes, Tom, I think I caught that. So when it comes to cyclicity -- countercyclicality, we touched on a little bit with consumer. But as you mentioned in enterprise, when we talk about a diversified revenue model, part of that also is diversified across the enterprise segment. I mean businesses are different from campuses are different from governments, and they all have different exposures to economic cycles. We see the greatest pro-cyclicity in Coursera from business, mostly in Europe and North America, frankly, where L&D budgets and even teams are being reduced.

But we don't really see that so much in universities and governments. And so, blended into that enterprise segment are some differences where we actually see some offsetting of the pro-cyclicity of Coursera for Business with generally, I would say, counter cyclicity or at least neutral on campuses and governments.

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And as those verticals become a bit bigger, we think it could dampen the exposure, the economic cycles of the enterprise segment. And so that's kind of my thinking on that. Ken, I don't if you'd add anything to that.

**Kenneth Hahn**  
Senior VP, CFO

No, it's spot on. Thanks.

**Thomas Singlehurst**  
Citigroup Inc. Exchange Research

And a follow-up is on pricing. I'm just interested whether you have -- clearly you do have pricing power, but whether you are exploiting pricing power across and particularly the consumer side of the business?

**Jeffrey Maggioncalda**  
CEO, President & Director

Yes. I would say -- I think not really. I mean we -- there's sort of pricing power, if you will, against the learner, which basically requires you to be a different solution than they can get anywhere else. There's a lot of content out there on the Internet. We don't think that we are like the only game in town. We do think that this career academy with all these professional certificates is pretty unique. But frankly, we're still very much in growth mode. So we're not sort of trying to flex anything on pricing at this point.

When it comes to sort of economic sharing between us and our partners, we like our arrangements right now. We want to make sure our partners are super motivated to create more content and credentials. These are great brands. So we're also not really flexing anything there. And we think there might be some opportunities in international markets, not so much on pricing, but in payments and currency as kind of payment methods and currency where we think there's still opportunity that we believe that we can unlock probably most on the consumer side.

**Operator**

Our next question comes from the line of Rishi Jaluria with RBC Capital Markets.

**Rishi Jaluria**  
RBC Capital Markets, Research Division

This is Rich [indiscernible] on for Rishi. It's great to see the momentum with the Republic of Kazakhstan partnership as well as the expanded partnership with BNP. Just curious, how should we think about the mechanics of these types of deals and how those new learners get monetized? And then are there any other similar partnerships to call out or that you'd highlight here?

**Jeffrey Maggioncalda**  
CEO, President & Director

Yes. Rishi, this is Jeff. The way that I would categorize this generally, at least the way I think about it and we think about it from a modeling perspective, is that fundamentally enterprise segment, we're selling feet licenses. And so the question is, well, how -- who buys a feet license and for whom. And what we're seeing is what I think are the sort of system-wide deals as with the Republic of Kazakhstan and many other systems, including state Department of Labor Workforce Development Programs and even university systems in the United States and other places.

Oftentimes, you'll find one institution with an intention to up-level the educational capabilities of a system of educators. It could be a school system in what country or a school system within a state or a municipality. The sort of the head institution will buy a certain number of licenses and almost do pilot testing with a number of member institutions, if you will. What we are really thinking about here is sort of an NRR sort of approach. If you can get in with someone who can prove out the model, demonstrate use cases on a smaller buy but to many other institutions where there's a lot more availability for upsell of licenses because they're not buying a license for every single person, we think that could be a really leveraged sales model, where it takes a bit more time to win a government.

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But once you do, you get access to lots and lots of sub institutions and with upsell opportunities. So that's kind of how we think about it. It's a little bit longer sales cycle. We think it's more defensible, and we think it should have positive effects on our NRR over time.

**Rishi Jaluria**

*RBC Capital Markets, Research Division*

That's very helpful. And then just a follow-up on that. It's just you've highlighted good momentum in that campus and government side of the enterprise business. And just trying to think about like, is this the kind of situation where maybe those businesses become large enough in the next economic cycle to make a meaningful difference to offset some of the headwinds you're seeing in the corporate side? Or just how should we think about the -- not only the kind of, I guess, near-term dynamics within the enterprise business, but then also just how you think about like the TAM across like the 3 sub verticals.

**Jeffrey Maggioncalda**

*CEO, President & Director*

Great question. And I think it is not unreasonable to expect that in some future time that's not way out there. They will be big enough, they being Coursera for campus and Coursera for government, will be big enough to offset some of the pro-cyclicality of Coursera for Business. I will generally say if those 2 are not more than together are not more than Coursera for Business. But they're more than 25%. I mean, it's becoming a real thing. And so it's definitely part of our strategy is to say, how do you take the same content credentials, the same technology platform and all the same product marketing sales, et cetera, underneath it and get leverage across a broader TAM.

Will those TAMs be bigger than Coursera for Business? I don't know. It's conceivable. I mean when you think about all of government workforce development programs, they can be pretty big. And the campuses obviously spend a lot of money. I mean it's basically a \$2 trillion market in terms of tuition for all degree-granting institutions in the world, generally speaking, they're about breakeven. So they spend -- I mean, universities worldwide. They spend well over \$1 trillion clearly. And so that could be a meaningful TAM, we think.

**Operator**

Our next question comes from the line of Eric Sheridan with Goldman Sachs.

**Eric Sheridan**

*Goldman Sachs Group, Inc., Research Division*

Maybe coming back to the topic on the enterprise. Given the corporate spending environment, you mentioned earlier, how would you characterize your visibility into whether you want to think about it in terms of the acquisition funnel or the rate of customer growth or NRR going forward and trying to marry mixtures of sort of visibility into trends versus investing behind the growth you want to achieve in the long term? And how we should possibly think about that as an exit velocity for this year?

**Jeffrey Maggioncalda**

*CEO, President & Director*

Eric let me -- I'll give you the very high level how we think about it, maybe, Ken, you can take the harder part of the question, which is exit velocity. I usually do to you. Clearly, when you look at NRR, you say, you got new bookings, not part of NRR well, bookings of new customers, not part of NRR, then you got expansion bookings and then you got your retention of your existing error.

And we don't see the same characteristics among those 3 new bookings versus expansion bookings versus retention. A lot more of the pressure has been in customers who signed bigger deals during COVID, especially in Europe, where budgets were very big companies and government institutions really focused on providing support, including learning support for workers displaced from the office.

Well, things aren't in COVID times anymore. The budgets are tighter, the economy is not looking great with what's happening there. And so there has been more pressure on some of those expansion bookings

as they have -- based on the tightening of the budgets across the board. So what is that -- how does that all play into exit velocity. Ken, I'm going to pump that over to you and what's your artful answer.

**Kenneth Hahn**

*Senior VP, CFO*

Yes. No. Well, I think the important thing. And this is very much a topic on our minds right now because we're beginning our planning cycle, which has been quite early. And as Jeff said, the NRR is the immediate, that's the least laggy because it affects revenue more quickly, both as it relates to renewals, which is immediate revenue impact and expansion deals.

But new bookings, and Jeff said it, new bookings have remained relatively strong. So as we come to the end of the year and we look going forward, they -- as we start to do our budgeting for next year, those bookings, those newer bookings will start to flow in revenue. And then it's a balancing of sales force towards opportunity between C4B, C4G and C4C, which we'll try to do to optimize towards the best opportunity considering where we are from an economy standpoint. So that's how we think about it.

**Jeffrey Maggioncalda**

*CEO, President & Director*

Yes. And I think we kind have already hinted that a bit. But the big NRR headwinds are in Coursera for Business in Europe and North America.

**Operator**

Our next question comes from the line of Ryan MacDonald with Needham & Company.

**Matthew Shea**

*Needham & Co., LLC, Research Division*

This is Matt Shea on for Ryan. And congrats on a nice quarter here. I wanted to start with degrees. Given your expectation for the segment to grow 25% next year, wondering if you guys could talk about what you're seeing in terms of enrollment trends for the upcoming fall cohorts on those door programs and how that's trending relative to your expectations? And then as those enrollments start to come in. Should we see those hit in 3Q or 4Q? or what is kind of your timing expectations around those enrollment numbers?

**Jeffrey Maggioncalda**

*CEO, President & Director*

Great. So I'll talk a little bit about the dynamics of the segment. Ken, maybe you could talk about the timing of the -- and impact of the numbers for next year. We're feeling pretty good about the segment. We're feeling good about what we have told you guys at Investor Day about the 25% growth in 2024 for the segment. And when we look at the opportunity and say, why are we seeing more positive year-on-year improvements in degree segment revenue than we did, say, last year this time. Part of it is perhaps the economy, but a lot of it is the supply of degrees. We have a broader selection. We can find more matches among the learners on our platform. We feel good about that so long as we do a good job with the matching.

And we really are pushing much harder to a certain kind of new degree. These degrees that are built on pathways, notably pathways from these professional certificates. What we hear from working adults is they want them to more affordable. They want something that is more flexible. They want something that is more aligned with a certain job, especially if they want to transition from one career to another. The idea that you can do one of these professional certificates and while you're earning the certificate from an industry player, have a count is credit towards the college degree that you can also earn online that's affordable and flexible people really like that.

So a lot of our strategy is not just like let's sell more degrees that is now online. It's let's offer a product, a solution to working adults who are trying to switch careers that frankly isn't really much in the market today. We sometimes think of them as pathway degrees. The pathways to degrees that are really much better suited. So in early days we talked about University Colorado Boulder. They had that master of science and data science, continue to see good results there. A number of the new degrees coming on in

the fall have these same kind of pathway characteristics, makes us feel pretty positive. But at the same time, it's hard to estimate before something really hits the market and you see the learner demand for exactly what the numbers will be. So Ken, in terms of expectations for Q3 and kind of impact on that.

**Kenneth Hahn**

*Senior VP, CFO*

Sure. And you've already set this up with the right highlight, of course, around the change in strategy or the emphasis in strategy on this new path play degrees, which are at higher volume. We've introduced and we've announced those new degree programs this quarter over the last couple of quarters, and we've been building that capacity to fulfill those new student cohorts. The fall quarter is when you will see. That will be the first indication of how well we fulfill. And so we're looking forward to talking about those numbers as we work very hard in fulfilling those student cohorts. And so -- but you will see that this coming quarter. It will be a fairly immediate feedback loop on how well we're doing.

And we expect that, we gave the 25% guidance for next year back at our Investor Day because we have great visibility on the revenue side. So it's a look forward into next year, which we'll provide an update on as we do our planning going into next year as well. But once again, I'd look to the student ads and some more color this coming quarter, which we're pretty excited about.

**Matthew Shea**

*Needham & Co., LLC, Research Division*

Got it. That is super helpful. And then I wanted to touch on one of your newer initiatives. You recently began to launch more vertical-specific industry certifications like in health care with MedSurg. Curious on the strategy there. How do you guys increase your exposure to learners in the health care segment that might not have previously been engaged with Coursera? And given the workforce challenges in health care market, how large of an opportunity do you think this vertical could be for Coursera over time?

**Kenneth Hahn**

*Senior VP, CFO*

Well, yes, Matt, great question. And I appreciate it because it will allow us to maybe articulate our strategy with respect to labor markets. I mean, a really simple thing, if it's not obvious of what we're trying to do is find out where there are either on the learner side, big job opportunities or on the employer side acute job shortages. And then say, how could you help people move into those opportunities if that's not what they've already been educationally trained and clinicalized to do. Well, clearly, health care is a very, very large market with acute labor shortages, a very high requirement for credentialing that has to come from trusted institutions.

And you noticed that we are putting more of these health care-related professional certificates is not the full degree. But we -- you can imagine, kind of -- we talk about pathway degrees. We're putting out these professional certificates and health. You can imagine where we might be going. And report after report is showing that the number of job opportunities in health care globally is going to grow because of demographics and the aging of the global workforce. And technology is going to change the nature of those jobs and those types of jobs will be some of the least impacted by AI.

So we think it's a really attractive market, especially for Coursera, given the branded credentials, given the whole degree pathways, the value of a degree, the global key changes and the general resilience in the face of AI. I think a lot of people are going to be wanting to go and change their career start going after health care-related jobs because I think there's going to be a pretty attractive set of opportunities there

**Operator**

Our next question comes from the line of Taylor McGinnis with UBS.

**Taylor McGinnis**

*UBS Investment Bank, Research Division*

So Ken, maybe one for you. You raised the full year REV guide this year by more than the 2Q beat, which I think is a little bit different approach than you took last quarter being a little bit more conservative. So

I guess, what happened in the quarter or in the environment that's giving you greater confidence in the back half of the year? And is there a chance that you maybe have a little bit greater visibility? Is there a certain segment you'd call out, something in the pipeline? Would love to get a little color there.

**Kenneth Hahn**  
Senior VP, CFO

Yes, sure. Thanks, Taylor. Of course, as the year progresses, we get better visibility on the revenue for the year. But we have really seen some firming up, particularly on the consumer segment, which is that business is really nicely dialed in. We think we have a handle on how we're doing on these professional search, the machine from a metric standpoint is working. So we have greater operational visibility than we did before. We have some better certainty in some of our marketing programs, which Jeff mentioned previously. And so the ability to dial that in and react to changes in the environment gives us more confidence as we move forward.

As we get closer to the end of the year, both on the enterprise side, the visibility and degrees, particularly degrees we can give forecast a year out that are reasonably reliable, they can increase over time, of course, as we build student cohorts and get more confident. But as we get closer to year-end, there's just the models provide better visibility and so we're more comfortable. We seek to hit our commitments always, of course, as a public company. We try not to be too conservative, to be very clear. But that's let us recognize more of the overachievement, if you will.

**Taylor McGinnis**  
UBS Investment Bank, Research Division

Got it. And my last question is just on the enterprise side, on the enterprise for business. I'd love to hear now that we're into like July, what you're seeing in terms of trends, you talked about you're seeing a little bit of more pressure to expansion. Any changes on churn that you call out and how those have progressed throughout the quarter to today?

**Jeffrey Maggioncalda**  
CEO, President & Director

I would characterize it very broadly, Taylor as compression on budgets and layoffs of teams, of L&D team. I mean it's -- and what's interesting about this, and I wonder what is going to be the sort of response when -- clearly, everybody agrees that we are entering a time of increasing employment change, jobs will be changing, generative AI, I mean, published after publish after publish -- publication after publication. They're all saying almost everybody's jobs are going to change. Part of me says, well, who's going to teach people all these new jobs. I mean I get it that historically, L&D is one of the first discretionary budget cuts.

But I personally, as a CEO of Crosera, we are planning on retaining a lot of people in a lot of jobs because there's -- McKinsey just put out a study a few weeks ago, they suggest-- McKinsey suggests that globally, generative AI alone, generative AI could unlock \$4.4 trillion of productivity gains. Well, what's it going to take, what investment needs to be made to get the \$4 trillion return. Some kind of scaling, obviously, the two open systems have to be upgraded, but people have to learn how to use those. So I don't know like from a first principle point of view, there is a little bit of a incoherence between companies cutting L&D in a time where people are going to need to be retrained in order to unlock productivity gains.

**Operator**

Our next question comes from the line of Robert Simmons with D.A. Davidson.

**Robert Simmons**  
D.A. Davidson & Co., Research Division

I was wondering you could go a little deeper on the color on the net retention number. How much of that decline comes from various factors, in particular I'm thinking about gross logo churn and pricing pressure? And then also kind of what your executions are for the metric from here, what it might turn back up?

**Kenneth Hahn***Senior VP, CFO*

Yes. Thanks, Robert. If you sort of -- if you did a variance analysis of NRR by segment and region, like hypothetically, if you did that and try to attribute where is the change and NRR really coming from in that matrix. What you would find is it really jumps off the page. Coursera for Business in Europe, in North America. And that really explains an off lots. And that grid would be C4G, C4C, C4B and then the different regions highlighting the 2.

**Jeffrey Maggioncalda***CEO, President & Director*

Yes. And that helps me answer, okay, well, when is this going to turn around and at least without giving you unfortunately probably I give you very helpful clarity, I can say it will likely be related to the macroeconomic conditions for businesses in Europe and businesses in North America. In particular, how do companies view and fund learning and development initiatives.

**Robert Simmons***D.A. Davidson & Co., Research Division*

Got it. And I guess within your metrics, though, how are you seeing a show up? Is the customer turning it off? Is it -- are they cutting their usage? Is there a price pressure on renewals? What is it that you're driving it down?

**Jeffrey Maggioncalda***CEO, President & Director*

It looks mostly like pricing pressure on renewals.

**Operator**

Our next question comes from the line of Jason Celino with KeyBanc Capital Markets.

**Jason Celino***KeyBanc Capital Markets Inc., Research Division*

Just a couple. Similar to the question asked of earlier about Ken, you're raising the EBITDA margin guide definitely nice to see. I guess what gives you the confidence to improve the path to breakeven? Because I think in the past, you haven't really guided up on the margin intra-year.

**Kenneth Hahn***Senior VP, CFO*

That's exactly right, Jason. We've never done that, and it's because we intentionally spend to invest because we're a growth company, and we believe the markets are big and there's the opportunity to do that. Frankly, the overachievement on the top line, there's not the opportunity to spend that quick. We're already moving towards profitability. At the Investor Day back in March, we committed to profitability for Q4 and to EBITDA positive for 2024. So we've been on that trajectory. We've done that each of the last 5 years. We can -- it's just a matter of pace of improvement is the conversation.

But we were outpacing our ability to spend productively in year, and we're not going to waste money. That's for sure. And we are simply just seeing more leverage in the model. We've been very focused on doing that and creating leverage within the operating model within the departments. And it's at the point where we needed to raise guidance to be realistic about it.

**Jeffrey Maggioncalda***CEO, President & Director*

And Jason, one of the things I'll just add is probably obvious. But in every previous year, we did not put any Q4 constraints into that. We said, look, we're going to manage to the adjusted EBITDA margin for the year. Well, in 2023, we added that one constraint. We said we're going to manage to this adjusted

EBITDA margin, and we're going to be adjusted EBITDA positive in Q4. When you put the constraint on there, the natural answer that comes out is higher than what we were planning. And so that's where -- and we thought, let's honor the commitment on the Q4, it will set us up nicely for next year. And we feel, by the way, that we can still fund growth initiatives at an appropriate level. I mean we would not -- step one, we would not sacrifice growth in order to post higher profit if we thought that we were really starving the growth opportunities for the company.

**Jason Celino**

*KeyBanc Capital Markets Inc., Research Division*

Okay. Perfect. No, good stuff. And then really quickly on the enterprise side, just competitively, I know it's a tough environment for everybody, but I guess how do you feel you're doing versus everyone else? I know one of your private competitors announced some layoffs, but curious on how you think the market as a whole is doing.

**Jeffrey Maggioncalda**

*CEO, President & Director*

Well, I don't know for sure and the information is a bit hard to get. Clearly, I would expect that if -- as I said to Robert, pricing pressure on renewals is one of the things that we're seeing. I would be surprised if that were like sort of specific to Coursera and others weren't seeing it. And then when I think, well, who would suffer the most from that? Well, we have pretty distinctive premium quality and branded credentials. So arguably, from sort of an economic perspective, we have a more differentiated product than other. So you'd expect we could resist pricing pressure better than others. I don't know what they're really experiencing, but feels like we should be relatively in a better -- relatively in a better position there.

We also see, as you can imagine, that when people are cutting budgets, they're also often rationalizing providers. If you are a smaller niche player, it might be harder. So I can't speak directly to our competitors, but what I can say is in a tough environment, I think we have some relatively speaking attractive features that help us weather it relatively better. But again, I'm not sure exactly what's happening with the competitors.

**Operator**

Our last question comes from the line of Brett Knoblauch with Cantor Fitzgerald.

**Brett Knoblauch**

*Cantor Fitzgerald & Co., Research Division*

Maybe first just on the guide, in size, kind of in the back half of the year, call it, 15%, 16% growth in the third quarter and 13-ish-percent growth in the fourth quarter, and this is coming after we've just seen kind of revenue growth accelerate from Q1 and Q2. So I guess, what assumptions are you factoring in where we would see, call it, a 10-point decel into the revenue growth over the back?

**Kenneth Hahn**

*Senior VP, CFO*

Yes. So we're pretty happy, we've increased the revenue guide by \$20 million since the beginning of the year and just increased at \$15 million this current period, along with an increase in profitability for the first time ever in year. We see continued strength in consumer. I think we see trends along the same pounds we're seeing right now. So we don't provide specific segment guidance during the year. We provide a general guide at the beginning of the year, just to help people get their models right. But yes, that's worth. We're pretty excited that we're announcing the level of growth that we are. We think the investors.

**Brett Knoblauch**

*Cantor Fitzgerald & Co., Research Division*

Got it. And then kind of a similar question on adjusted EBITDA. I know you guys have set that constraint in for the fourth quarter, what we've seen call research R&D, sales and marketing and G&A all decline in

absolute from 1Q levels in 2Q. What should we think about OpEx growth for the remainder of the year? Is there a shot we hit positive adjusted EBITDA in the third quarter?

**Kenneth Hahn**

*Senior VP, CFO*

So we provided a specific guide of course for the third quarter, and we expect we'll be within that range, of course, because it's the guidance we've provided. It's harder for us to spend to invest. There's some very real investments around translation that we have the opportunity to do now with AI and some other things we do that we think will lend a hand towards next year. Again, primarily, we're a growth company. So this -- a lot of this is a focus on setting us up for 2024 and increased leverage and growth in 2024.

So no, I think doing in Q3 would almost be pointless and damaging to the company, I'm not sure people would appreciate it if we did that. We're -- we committed back in March, and we will hit that EBITDA positive in Q4. And the important thing is we're setting up for both growth and leverage on an ongoing basis, which is something we've delivered for the last 5 years. And so that's our model. I think the investors are used to it.

The notable difference, I would say, is we've increased the profitability target in a year instead of trying to invest. And it's kind of, as Jeff described before, a natural outcome of picking a point in Q4 and driving towards that because we think it's important for the street to get that profitability is important to us. And so making progress there with the changed environment is something we're really excited about.

**Cam Carey**

*Head of Investor Relations*

Thank you, everyone. That wraps the Q&A. A replay of this webcast will be available on our Investor Relations website, along with the transcript in the next 24 hours.

**Operator**

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

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