

# Improving Student Outcomes

Investor Presentation

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**Chegg**<sup>®</sup>

NYSE: CHGG



# Safe Harbor

## Forward-Looking Statements



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## Use of Non-GAAP Measures

In addition to financial results presented in accordance with generally accepted accounting principles (GAAP), this presentation includes certain forward-looking non-GAAP financial measures of financial performance, including free cash flow, adjusted EBITDA and pro forma revenue. These non-GAAP financial measures are in addition to, and not a substitute for or superior to, measures of financial performance prepared in accordance with GAAP, and may be different from non-GAAP financial measures used by other companies. In addition, these non-GAAP measures have limitations in that they do not reflect all of the amounts associated with Chegg’s results of operations as determined in accordance with GAAP. Reconciliations of these non-GAAP financial measures to the most directly comparable GAAP financial measures are contained in the press release that accompanies this presentation.

# Student outcomes need to improve



41%

Drop out of college <sup>(1)</sup>



45%

Grads in jobs not requiring  
4-year degree <sup>(2)</sup>



\$40k

Average debt of 2015 grad class <sup>(3)</sup>



43%

In default or behind on  
Federal student loan repayment<sup>(4)</sup>

**\$1.3 Trillion+**

Student Loan Debt <sup>(5)</sup>

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Sources: (1) National Center for Education Statistics; (2) Voice of the Graduate (McKinsey and Chegg) ; (3) Citizens Bank Millennial Graduates in Debt Survey Data Report, Feb 2016; (4) Dept. of Ed, NY Federal Reserve; (5) NY Federal Reserve



# Incoming freshmen will be different from any generation before

Born the same year as Google

Google

Only 6% complete homework by hand<sup>(1)</sup>



1 in 5 recall ever using a landline<sup>(1)</sup>.  
But they send  
~ 60 texts/day<sup>(2)</sup>



70% will have more than \$40k in debt at graduation<sup>(3)</sup>



# They are emerging as the “on-demand” generation

“I want it now.”

SMS or  
Snap Me  
Not email



Binge  
watch

NETFLIX  
hulu

Uber  
everywhere



Stream  
anything

PANDORA®  
Spotify®

# With different expectations on how to learn

62% **Chegg**<sup>®</sup>  
YouTube  KHAN  
ACADEMY

Use online tutorials for school\*

49%



Can learn a new subject effectively online or offline\*

81%



Use a device in class every day\*

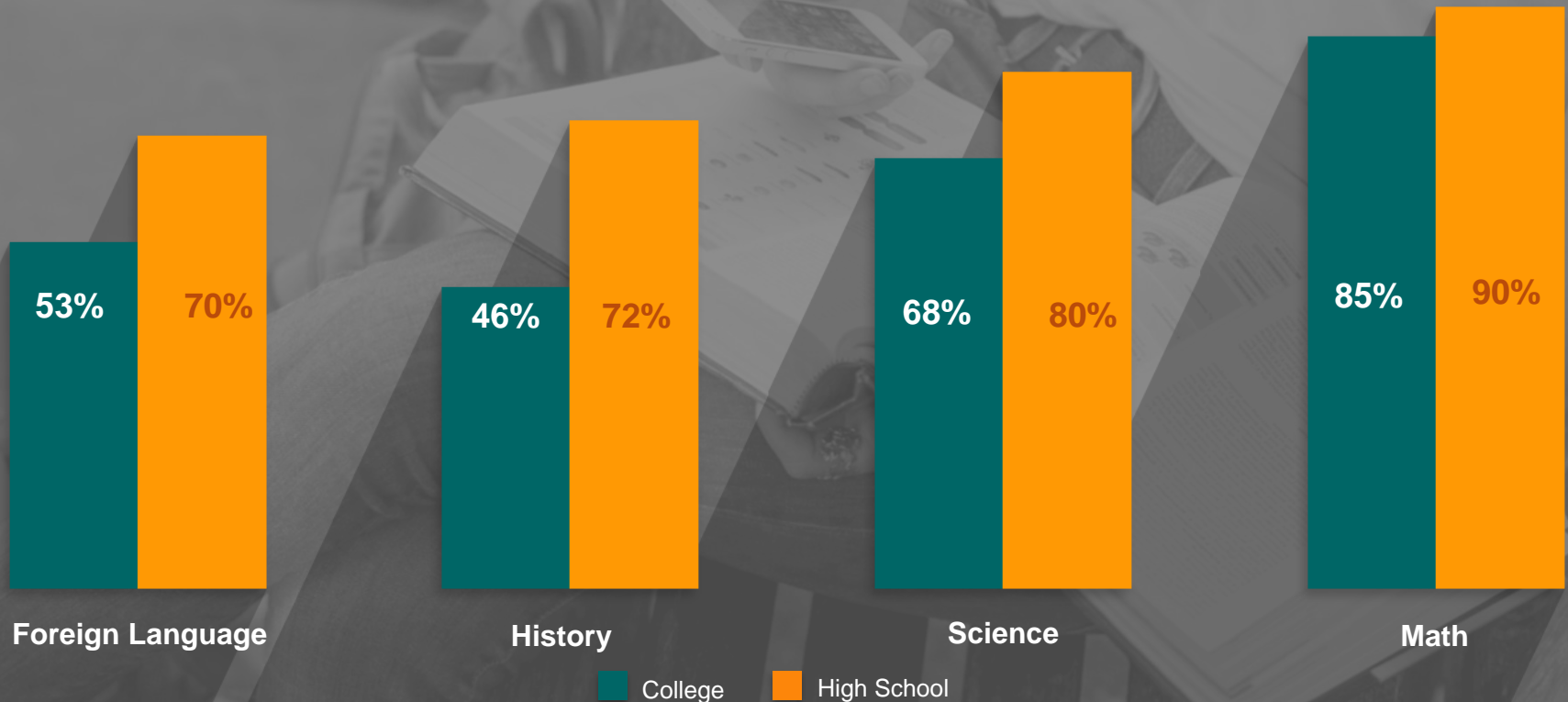
70%



“Prefer classes & programs at my own pace”\*



# The younger they are, the more likely they will learn online



# Chegg Services help improve student outcomes



**LEARN**  
more  
subjects



**BETTER**  
comprehension  
of course content



**HIGHER**  
test scores  
and grades



**MORE  
RELEVANT**  
internships  
and jobs



**ON-DEMAND**  
when, what  
and how



# On-demand learning is getting bigger and Chegg is just getting started



Pre-college



College



Career

“How do I study for the SAT/ACT?”

“How do I improve my GPA?”

“How do I apply to college?”

“Should I go to college?”

“Which materials do I need for classes?”

“How can I find writing help?”

“Which major should I study?”

“How do I pay for college?”

“How can I get live help now?”

“How do I prepare for finals?”

“How do I find a tutor when I need one?”

“Which careers match my skillset?”

“How do I find an internship?”

“How do I connect with potential employers?”

“How can I find a job?”

“How do I prepare for the GMAT / GRE?”



# Chegg offers services to solve the biggest student pain points

Direct-to-consumer



## Study

Subscription-based textbook solutions and expert answers



## Tutors

Subscription and a-la-carte online tutoring marketplace



## Test Prep

Online courses preparing students for SAT and ACT



## Writing Tools

Citations, bibliography, writing structure and anti-plagiarism tools



## Required Materials

eTextbooks and print available through Chegg's partnership with Ingram

Business-to-business



## Enrollment

College admission and scholarship matching services



## Brands

Helping brands surprise and delight students with unique and differentiated campaigns

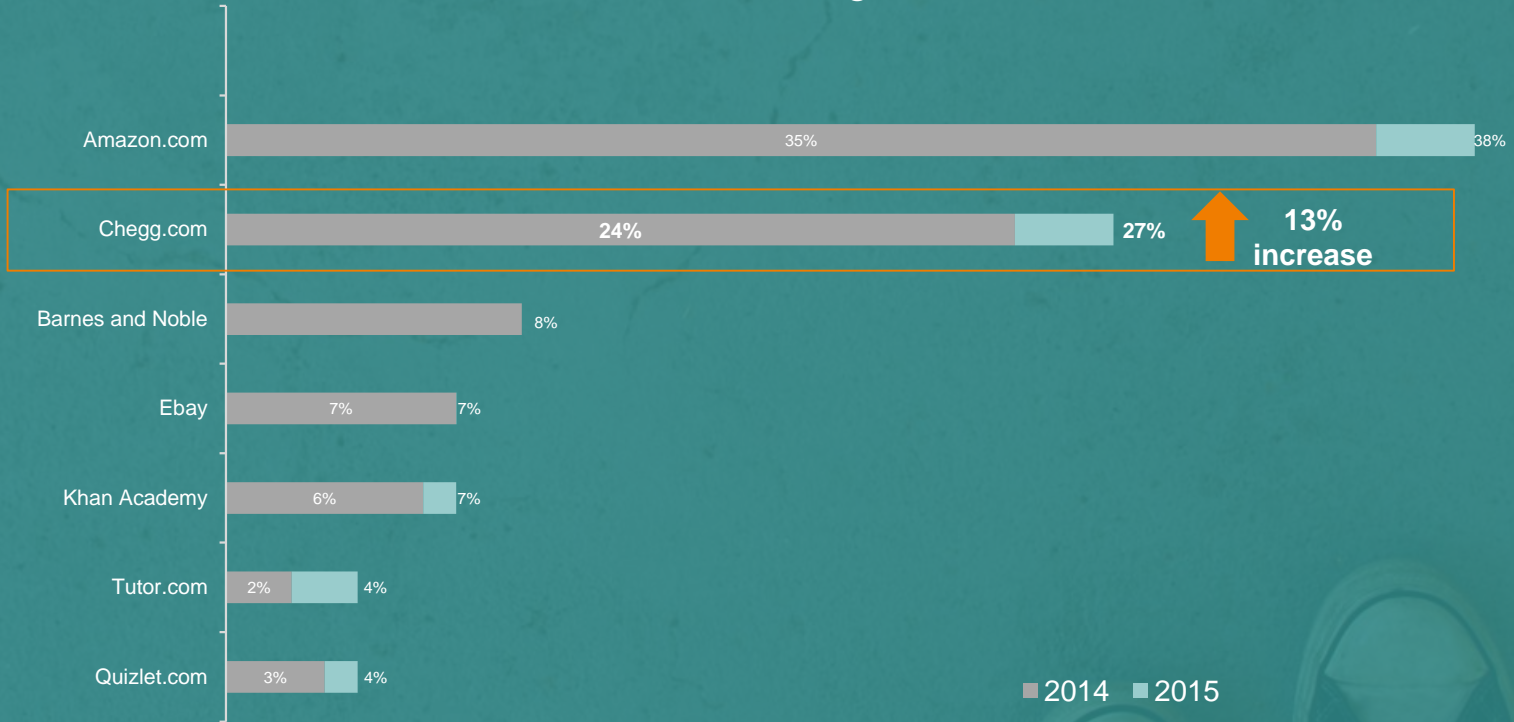


## Careers

Internship marketplace connecting students with employers

# Chegg is one of the most popular brands among students

Unaided Awareness – College Students



Q: What companies, websites, and resources can you think of that provide students with support with their studies and their lives around school (such as buying/renting textbooks, getting tutoring, homework help, and test prep, exploring career opportunities and finding internships)?

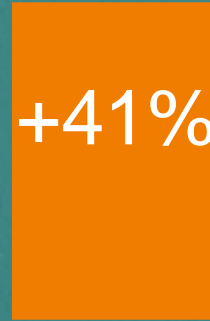


# Chegg has transitioned to a high growth, high margin business

## Business Highlights



2015 Chegg Services Revenues % Growth YoY



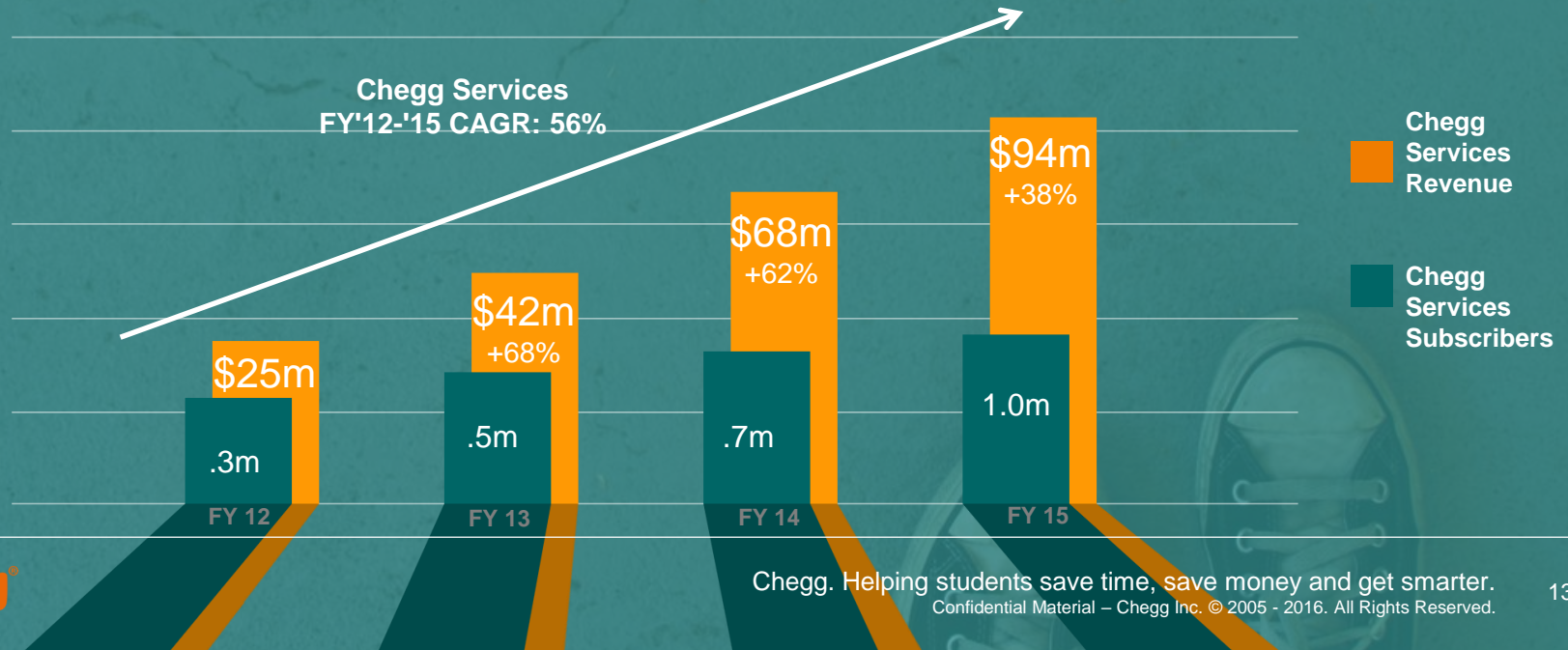
2015 Chegg Study Subscribers % Growth YoY



Chegg Services Gross Margins

# Students increasingly embrace Chegg Services

Leading to great results



# Chegg Digital Model: Higher Growth, Margins & Profits

On track to become a 100% digital business

Textbook Rental Model

Pure Digital Model



## 2011 – 2014 (average)

REVENUE GROWTH 20%

GROSS MARGIN % 30%

ADJUSTED EBITDA MARGIN % (6%)\*

## Target Operating Model (full year 2018)

CHEGG SERVICES REVENUE GROWTH ~30%

GROSS MARGIN % 60%+

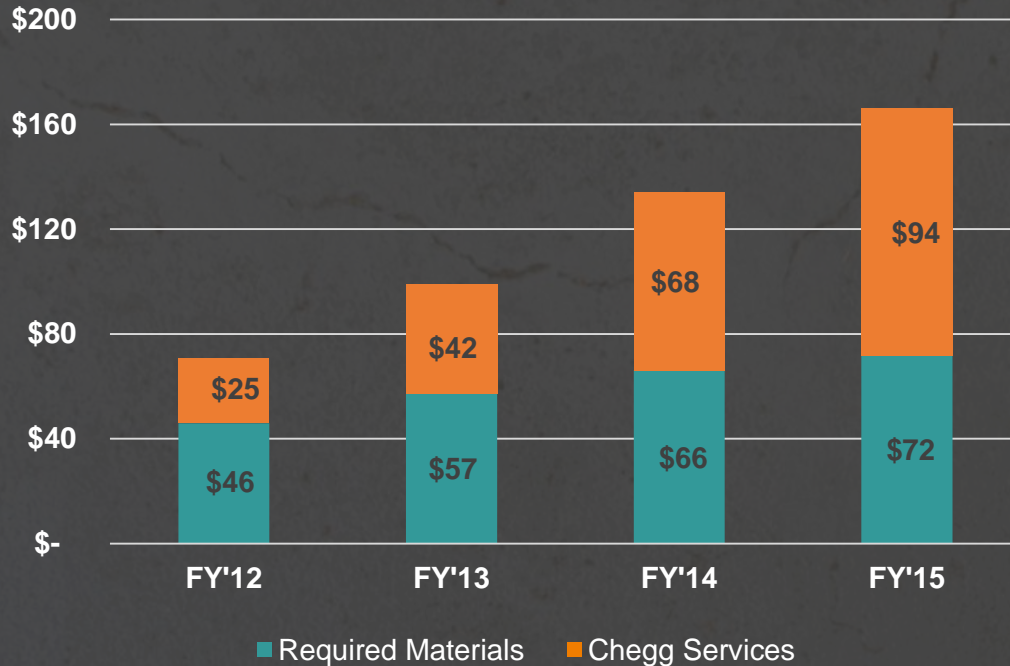
ADJUSTED EBITDA MARGIN % 25%+\*

\*Non-GAAP financial metric. For a reconciliation of EBITDA to GAAP Net Income (loss) 2011 – 2014 (average) see Appendix



# Pro Forma Revenue Growth

(\$ in millions)



**Pro Forma Revenue:** consists of Chegg Services Revenue and Required Materials Pro Forma Revenue

## Chegg Services Revenue

consists of:

1. Learning Services
  - a. Chegg Study
  - b. Chegg Tutors
  - c. Test Prep+
  - d. Writing Tools+
2. Marketing Services
  - a. Enrollment Services
  - b. Brand Partnerships
  - c. Careers+

## Required Materials Pro Forma Revenue

consists of:

1. eTextbooks
2. Chegg's Legacy Print Textbooks (as if commission based)
3. Ingram Commissions

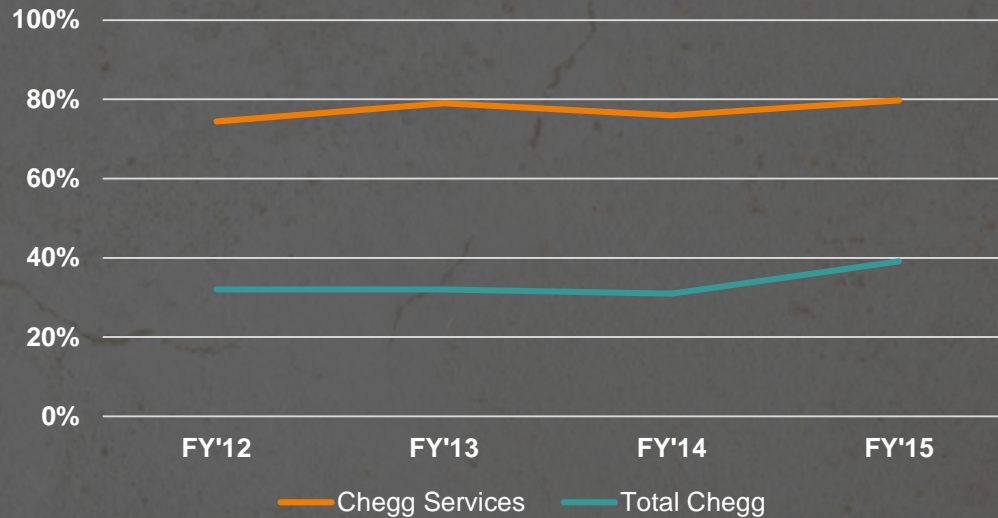


\* Shown as if Textbook transition to Ingram Commission model was in place in all periods  
\*\* Transition to 100% Digital GAAP Revenue in 2017  
+ Newly acquired and currently unmonetized services are not reflected in 2012 – 2015

Chegg. Helping students save time, save money and get smarter.

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# Non-GAAP Gross Margin %\*



**Chegg Services Platform is Highly Profitable  
on a Non-GAAP Basis**

# We are increasing our organic guidance and adding \$7M revenue and \$2m adjusted EBITDA from Imagine Easy

	Q1 2016 Results	Q2 2016 Guidance	Fiscal 2016 Guidance
Total GAAP Revenue	\$66.7m	\$48m to \$52m	\$239m to \$257m
Pro Forma Revenue*	\$46.8m	\$36m to \$40m	\$179m to \$192m
Chegg Services Revenue	\$25.6m	\$28m to \$30m	\$124m to \$132m
Gross Margin %*	41.6%	56% to 58%	48% to 50%
Adjusted EBITDA*	(\$0.5m)	\$5m to \$7m	\$13m to \$22m

## Chegg's 2016 Results and Outlook



# Imagine Easy addresses writing deficiency among students

## Additive to Chegg's learning services portfolio

- Extends reach to middle school and high school users
- Strong brands and user engagement
- More than 7m users in March\*
- Logged 240m+ sessions in last 12 months
- Average session length 8+ minutes
- 1.4 B citations created since launch
- Accretive to 2016 revenue and EBITDA



Cite This For Me  
Normas APA



imagine easy  
scholar



imagine easy  
academy

Tools for writing structure, citations, bibliographies, plagiarism checks

# Summary

- Higher education is ripe for disruption
- Chegg is one of the most popular student brands
- Transitioning to a high growth, high margin, pure digital business
- The leading student-first connected learning platform
- Improving student outcomes



# Appendix

**Chegg**<sup>®</sup>





# Payment Terms for Imagine Easy Solutions Acquisition

	Q2'2016	Q3'2016	Q4'2016	2017	2018	2019	Total
<b>Purchase Price</b>	\$25.00m			\$17.00m			\$42.00m
<b>Contingent Consideration*</b>			\$3.00m	\$7.35m	\$5.40m	\$2.25m	\$18.00m
	\$25.00m	\$0.00m	\$3.00m	\$24.35m	\$5.40m	\$2.25m	\$60.00m

\* Subject to contingencies which may be settled by cash or common stock at the discretion of Chegg

# Reconciliation of GAAP to Non-GAAP Financial Measures

CHEGG, INC. RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES (in thousands, except percentages) (unaudited)		
	Three Months Ended March 31,	
	2016	2015
GAAP total net revenues	\$ 66,654	\$ 84,872
Adjustments	(19,855)	(39,080)
Non-GAAP total pro forma net revenues	<u>\$ 46,799</u>	<u>\$ 45,792</u>
GAAP gross profit	\$ 27,731	\$ 19,379
Share-based compensation expense	28	134
Transitional logistic charges	—	2,483
Non-GAAP gross profit	<u>\$ 27,759</u>	<u>\$ 21,996</u>
GAAP gross margin %	41.6%	22.8%
Non-GAAP gross margin %	41.6%	25.9%
GAAP operating expenses	\$ 43,021	\$ 47,642
Share-based compensation expense	(11,242)	(14,886)
Amortization of intangible assets	(628)	(1,560)
Restructuring credits (charges)	44	(2,514)
Acquisition related compensation costs	(988)	(795)
Non-GAAP operating expenses	<u>\$ 30,207</u>	<u>\$ 27,887</u>
GAAP operating expenses as a percent of net revenues	64.5%	56.1%
Non-GAAP operating expenses as a percent of net revenues	45.3%	32.9%
GAAP operating loss	\$ (15,290)	\$ (28,263)
Share-based compensation expense	11,270	15,020
Amortization of intangible assets	628	1,560
Restructuring (credits) charges	(44)	2,514
Transitional logistic charges	—	2,483
Acquisition related compensation costs	988	795
Non-GAAP operating loss	<u>\$ (2,448)</u>	<u>\$ (5,891)</u>
GAAP net loss	\$ (15,685)	\$ (28,542)
Share-based compensation expense	11,270	15,020
Amortization of intangible assets	628	1,560
Restructuring (credits) charges	(44)	2,514
Transitional logistic charges	—	2,483
Acquisition related compensation costs	988	795
Non-GAAP net loss	<u>\$ (2,843)</u>	<u>\$ (6,170)</u>
GAAP and Non-GAAP weighted average shares used to compute net loss per share	<u>89,118</u>	<u>84,794</u>
GAAP net loss per share	\$ (0.18)	\$ (0.34)
Adjustments	0.15	0.27
Non-GAAP net loss per share	<u>\$ (0.03)</u>	<u>\$ (0.07)</u>

# Reconciliation of GAAP to Non-GAAP Gross Margin

	2012	2013	2014	2015
<b>Chegg Services</b>				
GAAP net revenue	\$ 24,644	\$ 41,829	\$ 68,117	\$ 94,285
GAAP gross profit	\$ 18,334	\$ 33,051	\$ 51,734	\$ 75,167
Share-based compensation expense	9	-	-	-
Non-GAAP gross profit	<u>\$ 18,343</u>	<u>\$ 33,051</u>	<u>\$ 51,734</u>	<u>\$ 75,167</u>
<i>GAAP gross margin %</i>	74.4%	79.0%	75.9%	79.7%
<i>Non-GAAP gross margin %</i>	74.4%	79.0%	75.9%	79.7%
<b>Total Chegg</b>				
GAAP total net revenue	\$ 213,334	\$ 255,575	\$ 304,834	\$ 301,373
Adjustments	(142,765)	(156,554)	(170,606)	(135,270)
Pro forma net revenue	<u>\$ 70,569</u>	<u>\$ 99,021</u>	<u>\$ 134,228</u>	<u>\$ 166,103</u>
GAAP gross profit	\$ 67,665	\$ 80,515	\$ 93,849	\$ 111,524
Share-based compensation expense	542	1,185	617	262
Transitional logistic charges	-	-	-	6,033
Non-GAAP gross profit	<u>\$ 68,207</u>	<u>\$ 81,700</u>	<u>\$ 94,466</u>	<u>\$ 117,819</u>
<i>GAAP gross margin %</i>	31.7%	31.5%	30.8%	37.0%
<i>Non-GAAP gross margin %</i>	32.0%	32.0%	31.0%	39.1%



# Reconciliation of GAAP Net Loss to EBITDA and Adjusted EBITDA

<b>CHEGG, INC.</b>					
<b>RECONCILIATION OF GAAP NET LOSS TO EBITDA AND ADJUSTED EBITDA</b>					
<b>(in thousands, except percentages)</b>					
<b>(unaudited)</b>					
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>Adjusted EBITDA</b>					
GAAP Net loss:	\$ (37,602)	\$ (49,043)	\$ (55,850)	\$ (64,758)	\$ (59,210)
Interest expense, net	3,764	4,393	3,818	317	247
Provision for (benefit from) income taxes	(200)	29	642	186	1,479
Textbook library depreciation expense	56,142	57,177	64,759	70,147	43,553
Other depreciation and amortization	5,832	10,796	10,078	11,159	11,511
<b>EBITDA</b>	<b>27,937</b>	<b>23,352</b>	<b>23,447</b>	<b>17,051</b>	<b>(2,420)</b>
Textbook library depreciation expense	(56,142)	(57,177)	(64,759)	(70,147)	(43,553)
Share-based compensation expense	13,132	18,045	36,958	36,888	38,775
Other income, net	(2,061)	(634)	359	(879)	(216)
Restructuring charges	-	-	-	-	4,868
Transitional logistic charges	-	-	-	-	6,033
Acquisition related compensation costs	-	-	-	2,583	1,871
Impairment of intangible assets	-	611	-	1,552	-
<b>Adjusted EBITDA</b>	<b>\$ (17,135)</b>	<b>\$ (15,803)</b>	<b>\$ (3,995)</b>	<b>\$ (12,952)</b>	<b>\$ 5,358</b>
<i>Adjusted EBITDA margin %</i>	<i>-10%</i>	<i>-7%</i>	<i>-2%</i>	<i>-4%</i>	<i>2%</i>
<i>2011-2014 Average Adjusted EBITDA margin %</i>	<i>-6%</i>				

**Chegg**<sup>®</sup>

The Student Hub<sup>SM</sup>

