



# An Investment In Improving Student Outcomes

August 1, 2016

**Chegg**<sup>®</sup>  
The Student Hub<sup>SM</sup>

# Safe Harbor Statement



## Forward-Looking Statements

This presentation contains forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. In some cases you can identify forward-looking statements by references to future periods and use of terminology such “outlook,” “non-GAAP”, “as if,” “projected,” “new,” “transition,” or similar words or phrases which are predictions of or indicate future events or trends and which do not relate solely to historical matters. These forward-looking statements include, without limitation those regarding Chegg’s new digital business model to result from the transition of its print textbook rental business to Ingram, the non-GAAP presentations of Chegg’s results of operations as if the transition of its print textbook business to Ingram were complete, and all statements about Chegg’s financial outlook. These statements are not guarantees of future performance, but are based on management’s expectations as of the date of this presentation and assumptions that are inherently subject to uncertainties, risks and changes in circumstances that are difficult to predict. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievements. Important factors that could cause actual results to differ materially from those expressed or implied by the forward-looking statements in this presentation include the following: Chegg’s ability to attract new students, increase engagement and increase monetization; competitive developments, including pricing pressures; Chegg’s ability to build and expand its digital offerings; Chegg’s ability to develop new products and services on a cost-effective basis and to integrate acquired businesses and assets; the impact of seasonality on the business; Chegg’s partnership with Ingram and the parties’ ability to achieve the anticipated benefits of the strategic alliance, including the potential impact of the economic risk-sharing arrangements

between Chegg and Ingram on Chegg’s results of operations; Chegg’s ability to effectively control operating costs; changes in Chegg’s addressable market; changes in the education market; and general economic and industry conditions. All information provided in this presentation is as of the date hereof and Chegg undertakes no duty to update this information except as required by law. These and other important risk factors are described more fully in documents filed with the Securities and Exchange Commission, including Chegg’s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 3, 2016, and could cause actual results to vary from expectations.

## 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 non-GAAP 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 financial measures, are contained in the Appendix to this presentation.



**Chegg's direct-to-student learning services** reach over **40 MM<sup>1</sup>** unique visitors annually and **10 MM<sup>2</sup>** monthly, delivering services that are both popular and useful for students from middle school to the start of their careers



NYSE: **CHGG**

Publicly traded since 2013

700+ employees as of 8/1/2016

HQ  
Santa Clara, CA

## 2Q 2016 Y-o-Y HIGHLIGHTS

**33%** Increase in Chegg Services Revenue

**41%** Increase in Chegg Services Subscribers



## Chegg Services

Students subscribe to our learning services:

- Chegg Study
- Chegg Tutors
- Chegg Writing Tools
- Chegg Test Prep

Get help navigating college through outcome services:

- Enrollment
- Brand Partnership
- Careers



## Required Materials

Purchase or rent required class materials for less:

- Print Textbooks & eTextbooks

1 Source: Annual comScore U.S. Annual Unique Visitors (Custom Analytics), April 2015 - March 2016

2 Source: Monthly comScore U.S. Monthly Unique Visitors (Custom Analytics), March 2016

# An Investment in Improving Student Outcomes



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Higher Education Is at an Inflection Point

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Compelling Market Trends Support Our Belief that Chegg Offers a High Value Proposition

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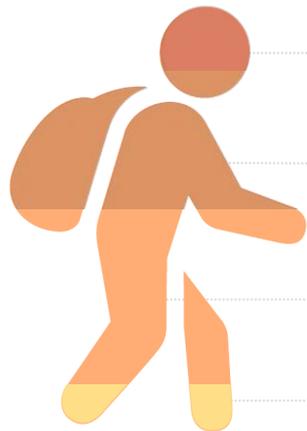
A Market Leading Direct-to-Student Connected Learning Platform in Higher Education

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Expected to Complete Transition to All Digital, High Growth, High Margin Model by Year-End 2016

# Sizable Student Market Opportunity

In the fall of 2016, there are projected to be approximately:<sup>1</sup>



**11 million** MIDDLE SCHOOL STUDENTS

**16 million** HIGH SCHOOL STUDENTS

**20 million** COLLEGE and GRAD STUDENTS

Approximately 15%<sup>1</sup> of the entire U.S. population is a student in middle school and above and there are expected to be 5.2 million more college students today than in 2000<sup>4</sup>



Education comprises ~7% of US GDP<sup>2</sup> or \$1.3 trillion annually<sup>3</sup>



Over 47 million students enrolled in middle school or higher



<sup>1</sup> Source: National Center for Education Statistics and US Census Bureau, 2015

<sup>2</sup> Source: [www.data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=US](http://www.data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=US)

<sup>3</sup> Source [https://www.whitehouse.gov/sites/default/files/unleashing\\_the\\_potential\\_of\\_educational\\_technology.pdf](https://www.whitehouse.gov/sites/default/files/unleashing_the_potential_of_educational_technology.pdf)

<sup>4</sup> Source: [http://nces.ed.gov/programs/digest/d14/tables/dt14\\_105.20.asp?current=yes](http://nces.ed.gov/programs/digest/d14/tables/dt14_105.20.asp?current=yes)

# Compelling Macro Trends

## Introducing the class of 2020...

Born the same year as Google...



into a world where on-demand is the norm...

NETFLIX



and learning happens on their own schedule

**62%**  
use online tutorials for school<sup>1</sup>

**81%**  
use a device in class everyday<sup>1</sup>

**70%**  
“prefer classes & programs at their own pace”<sup>1</sup>

**Today's students want learning solutions that are customized and available on-demand**

**These trends will only continue to accelerate with each successive class**

# Existing System Outpaced by Technology & Students



Chegg's existing services and vision fills in the gaps for students, starting in middle school and staying with them into their early careers.

**Direct-to-student services include writing help, test prep, college matching, required materials for less, online homework help, on-demand live tutoring, internship search and more.**

Average state education funding cut by **20% since 2007**<sup>1</sup>

Tuition and fees at public 4-year schools have **risen 110% since 1994**, outstripping inflation, housing prices, and median incomes<sup>2</sup>

**Poor outcomes driving critical need for affordable, high-quality, learning services**

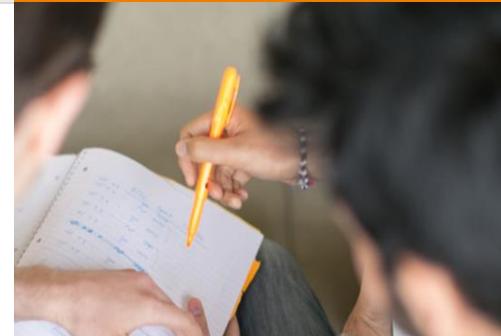


## THE RESULT

**41%** college drop-out rate<sup>3</sup>

**\$37K** average debt upon graduation<sup>4</sup>

**46%** in jobs not requiring 4-year degree<sup>5</sup>



<sup>1</sup> Source: [www.cbpp.org/research/state-budget-and-tax/years-of-cuts-threaten-to-put-college-out-of-reach-for-more-students](http://www.cbpp.org/research/state-budget-and-tax/years-of-cuts-threaten-to-put-college-out-of-reach-for-more-students);

<sup>3</sup> Source: National Center for Education Statistics, 2015

<sup>4</sup> Source: <http://blogs.wsj.com/economics/2016/05/02/student-debt-is-about-to-set-another-record-but-the-picture-isnt-all-bad/?mod=e2tw#:Xhy9NQoFzvDA>

<sup>5</sup> Source: <http://libertystreeteconomics.newyorkfed.org/2014/09/are-the-job-prospects-of-recent-college-graduates-improving.html#.V47H5ZMrKEI>

<sup>2</sup> Source: [www.cncb.com/2015/06/16/why-college-costs-are-so-high-and-rising.html](http://www.cncb.com/2015/06/16/why-college-costs-are-so-high-and-rising.html) (BLS and Delta Cost Project)

# On-Demand Learning Services Drive Rapid Growth



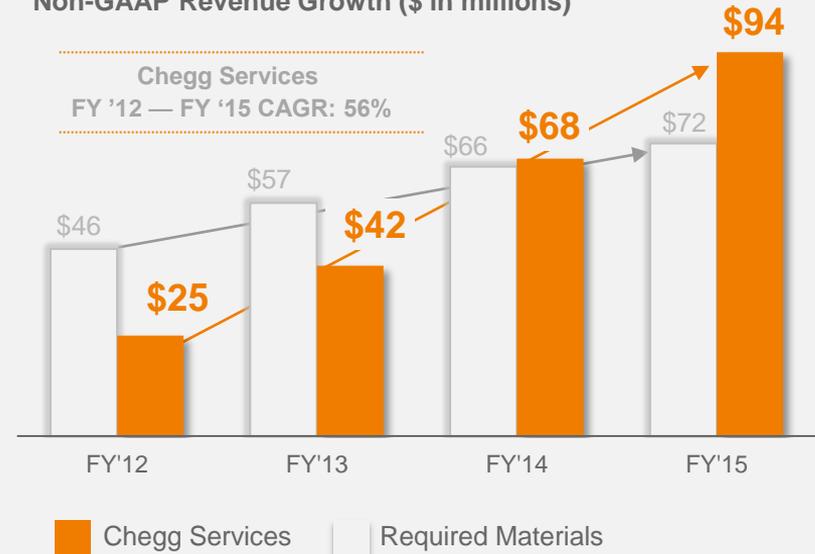
**Chegg Services Subscribers have tripled in 3 Years**

Chegg Services Subscriber (in millions)



**Fast Growing Chegg Services Comprise >50% of Revenue**

Non-GAAP Revenue Growth (\$ in millions)<sup>1</sup>



<sup>1</sup> Shown as if textbook transition to Ingram Commission model was in place in all periods. Transition to 100% digital revenue expected to be complete by 2017

Reconciliation of non-GAAP revenue to revenue set forth in the Appendix hereto.

# Well Positioned to Capture Big Market Opportunity



Significant  
upside  
potential

~ 47 million  
students in middle  
school and above<sup>1</sup>

1 million+  
Chegg Services  
subscribers



Chegg's Services subscribers represent  
~ 2% of the total addressable market

Chegg is an  
established  
brand<sup>2</sup> in a  
nascent  
market with  
lots of  
greenfield



1 Source: National Center for Education Statistics and US Census Bureau, 2015

2: Source: Hall and Partners N=1221 College students; N=302 High School students (sample weighted to reflect student population), fielded Oct 22 – Nov 9, 2015

# Supporting Every Step of the Educational Journey



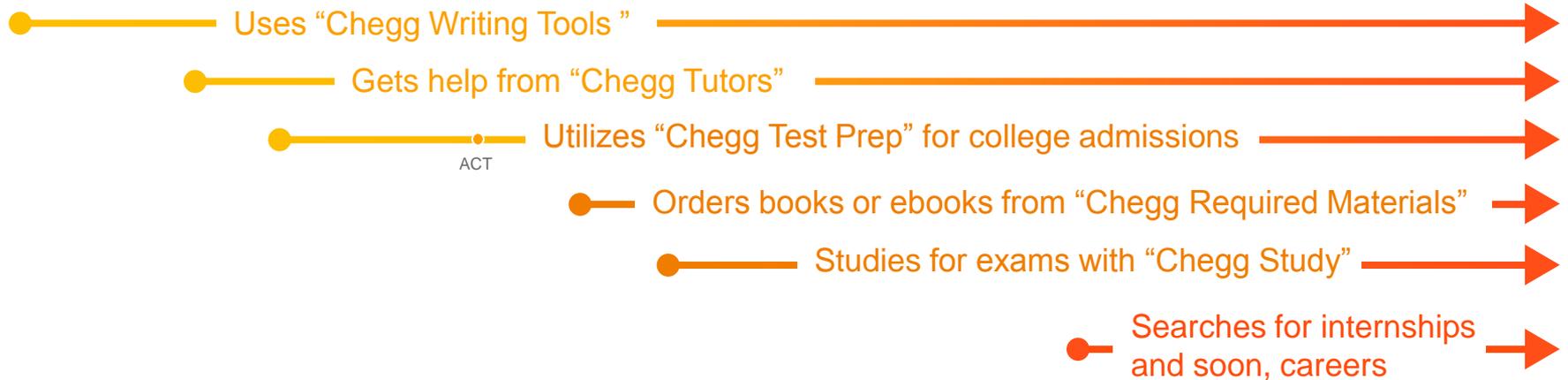
## High School Student



## College Student



## Post-Graduate



# Writing: Helping Students from Middle School On



Online writing instruction from a human tutor, on-demand or as a subscription service

Imagine Easy Solutions (acquired in 2016) is a leading provider of online writing tools, relied upon by millions of students and their teachers every year

With nearly 25% of college freshman required to take non-credit remedial writing courses<sup>1</sup>, Chegg has the opportunity to impact this outcome before students enroll and save everyone time and money

Writing Tools that students engage: Average session time of 8 minutes<sup>3</sup> and 240 MM citation sessions<sup>3</sup> logged in 2015

Market Opportunity

**\$3B**<sup>2</sup>

spent annually on remedial courses at the college level

**>30%**

revenue growth similar to other Chegg Services



1 Source: <https://edreformnow.org/policy-briefs/out-of-pocket-the-high-cost-of-inadequate-high-schools-and-high-school-student-achievement-on-college-affordability/>

2 Source: <http://completecollege.org/wp-content/uploads/2014/11/4-Year-Myth.pdf>

3 Source: Imagine Easy Solutions session log data (past 12 mo - March 2016)

# Tutors: On-Demand Personalized Instruction



Chegg Tutors allows students to instantly match with a human tutor and receive **one-on-one help**.

It's **simple, reliable and affordable**; as low as \$0.40/min.

In Q2 2016, Chegg tutoring minutes grew over 65% y-o-y, teaching students math, writing, physics, chemistry and computer science

**Nearly 3x as many computer science students on Chegg Tutors in H1 2016 than CalTech's total enrollment**

Market Opportunity

**\$5-7B**<sup>1,2</sup>

Total tutoring market for all subjects

**>85%** of all student requests for a tutor fulfilled within five minutes (in H1 of 2016)

**>175** subjects tutored and growing (in FY 2015)



<sup>1</sup> Source: <http://www.cnbc.com/2014/08/29/high-tech-tutoring-big-media-big-start-ups-big-money.html>

<sup>2</sup> Source: [http://www.nytimes.com/2010/08/21/your-money/21wealth.html?\\_r=0](http://www.nytimes.com/2010/08/21/your-money/21wealth.html?_r=0)

# Test Prep: Personalized, Adaptive and On-Demand



Chegg Test Prep gives students immediate access to online sample tests, adaptive courses and live human tutors, providing them the resources they need to **improve test scores**

Investing in the business in 2016, expecting to **build scale in 2017 and anticipate meaningful revenue in 2018**

Market Opportunity

**\$8B<sup>1</sup>**

Retail price of The Official ACT Prep Guide 2016 - 2017:

**\$32.95**

**Chegg's high value proposition: personalized course & human help as low as \$29.95 per month, comparable to cost of a test prep book**



# Required Materials Drive Brand Awareness & Loyalty



Chegg provides students with a **comprehensive selection** of textbooks and ebooks to rent or buy in a stress-free way, at an **affordable price**

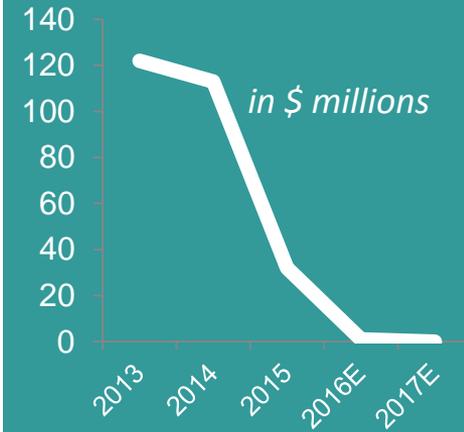
Steady business anticipated to generate **\$50-60M** per year

Win-win Ingram relationship—Chegg collects **~20% commission per transaction**: Beneficial partnership allows Chegg to invest more rapidly in its digital services

Gateway to Chegg: builds **brand awareness, maintains the direct-to-student relationship** and creates numerous new **opportunities for students to attach** to Chegg's other businesses

.....  
**~\$550 MM<sup>1</sup>**  
annual savings for  
students from 6 MM  
books delivered in 2015  
.....

**Chegg's Textbook Purchases**



<sup>1</sup> Source: Savings calculated based on the difference between print textbook list price and rental price

# Chegg Study: A Powerful Learning Tool for STEM



Chegg Study connects students to guided textbook solutions created by Chegg experts, **expanding their learning and improving outcomes**, particularly in science, technology, engineering and math (STEM)

In H1 2016, students asked and accessed more Qs and As than they did in all of 2015

# of STEM bachelors degrees grew **2X** as fast as non-STEM degrees between 2009 to 2013<sup>1</sup>

**>22,000**

textbook ISBNs in Chegg Study database as of June 2016

**80**

content pages consumed per student (in Q2 2016)



<sup>1</sup> Source: [www.usnews.com/news/articles/2015/01/27/more-students-earning-degrees-in-stem-fields-report-shows](http://www.usnews.com/news/articles/2015/01/27/more-students-earning-degrees-in-stem-fields-report-shows)

# Market Opportunities for Outcome Services



## Brand Partnerships

8MM free samples/deals sent to students in 2015



## Enrollment Services

\$4B<sup>1</sup> Market Opportunity



## Careers

\$5B<sup>2</sup> Market Opportunity

1 Source: <http://www.alixpartners.com/en/LinkClick.aspx?fileticket=um2rld4ibDE%3D&tabid=2390>, <http://nces.ed.gov/fastfacts/display.asp?id=372>

2 Source: Chegg estimate based on sources from US Census, NACE and CERl

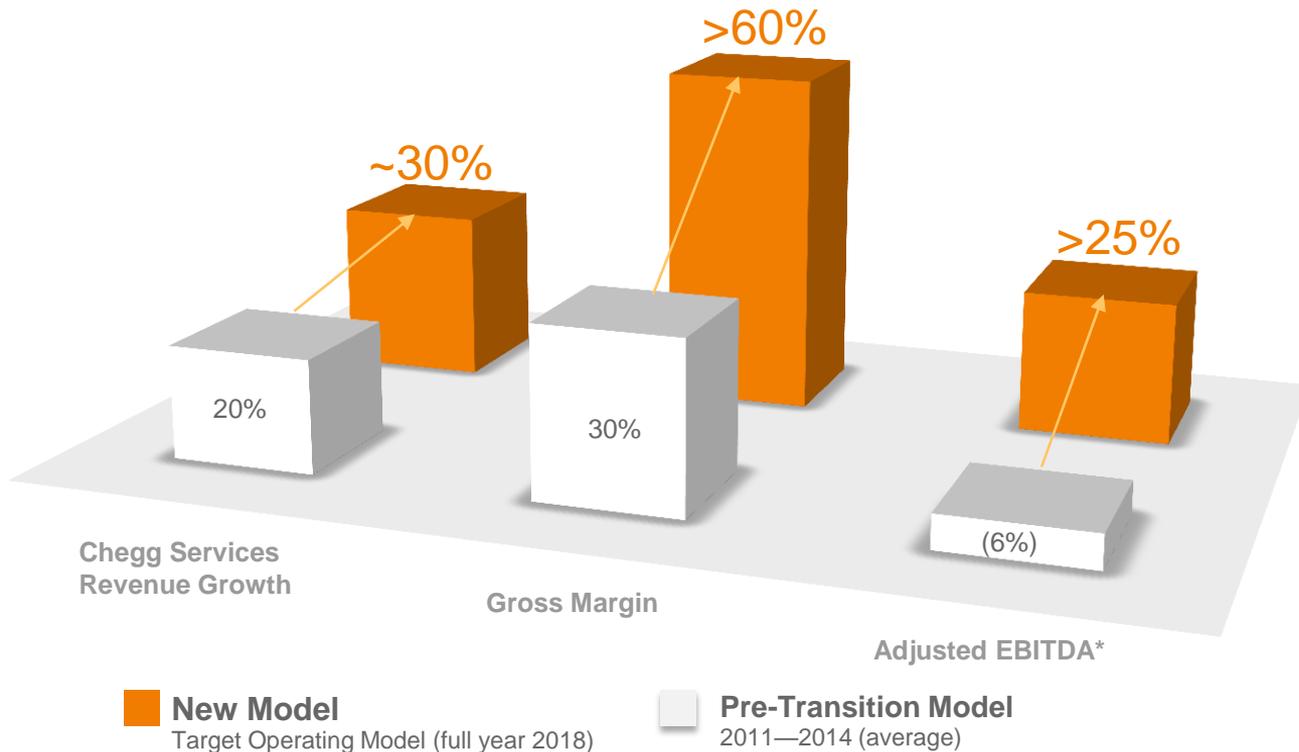
# Business Outlook: 2016



	<b>Q2 2016 Results</b>	<b>Q3 2016 Guidance</b>	<b>Fiscal 2016 Guidance</b>
Total Net Revenue	\$53.0m	\$65m to \$70m	▶ \$240m to \$255m
Non-GAAP Revenue*	\$40.7m	\$48m to \$52m	▶ \$182m to \$192m
Chegg Services Revenue	\$29.9m	\$28m to \$30m	▶ \$124m to \$132m
Gross Margin %*	59.7%	38% to 40%	▶ 49% to 51%
Adjusted EBITDA*	\$7.2m	(\$2m) to breakeven	▶ \$16m to \$21m

\*Metrics include Non-GAAP financial measures. Reconciliation of non-GAAP revenue to revenue set forth in the Appendix hereto.

# Evolving to Pure Digital, High Margin Model



We expect Chegg's all-digital model to fuel sustainable high-growth and profitability while better serving student needs and delivering enhanced value to shareholders

# An Investment in Improving Student Outcomes



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Higher Education Is at an Inflection Point

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Compelling Market Trends Support Our Belief that Chegg Offers a High Value Proposition

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A Market Leading Direct-to-Student Connected Learning Platform in Higher Education

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Expected to Complete Transition to All Digital, High Growth, High Margin Model by Year-End 2016

# Appendix

# A Driven, Experienced Executive Team



**Dan Rosensweig**  
Chairman, President  
and Chief Executive  
Officer



**Andy Brown**  
Chief Financial Officer



**Esther Lem**  
Chief Marketing Officer



**Nathan Schultz**  
Chief Learning Officer



**Chuck Geiger**  
Chief Product Officer



**Mike Osier**  
Chief Outcomes Officer



**Dave Borders Jr.**  
General Counsel

# 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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Total net revenues	\$ 53,036	\$ 67,061	\$ 119,690	\$ 151,933
Adjustment as if transition to Ingram is complete	(12,333)	(33,257)	(32,188)	(72,337)
Non-GAAP total net revenues	<u>\$ 40,703</u>	<u>\$ 33,804</u>	<u>\$ 87,502</u>	<u>\$ 79,596</u>
Gross profit	\$ 31,629	\$ 30,805	\$ 59,360	\$ 50,184
Share-based compensation expense	41	81	69	215
Transitional logistic charges	—	707	—	3,190
Non-GAAP gross profit	<u>\$ 31,670</u>	<u>\$ 31,593</u>	<u>\$ 59,429</u>	<u>\$ 53,589</u>
Gross margin %	59.6%	45.9%	49.6%	33.0%
Non-GAAP gross margin %	59.7%	47.1%	49.7%	35.3%
Operating expenses	\$ 40,004	\$ 40,502	\$ 83,025	\$ 88,144
Share-based compensation expense	(11,180)	(7,750)	(22,422)	(22,636)
Amortization of intangible assets	(1,186)	(1,437)	(1,814)	(2,997)
Restructuring credits (charges)	154	(464)	198	(2,978)
Acquisition related compensation costs	(1,000)	(660)	(1,988)	(1,455)
Non-GAAP operating expenses	<u>\$ 26,792</u>	<u>\$ 30,191</u>	<u>\$ 56,999</u>	<u>\$ 58,078</u>
Operating expenses as a percent of total net revenues	75.4%	60.4%	69.4%	58.0%
Non-GAAP operating expenses as a percent of total net revenues	50.5%	45.0%	47.6%	38.2%
Operating loss	\$ (8,375)	\$ (9,697)	\$ (23,665)	\$ (37,960)
Share-based compensation expense	11,221	7,831	22,491	22,851
Amortization of intangible assets	1,186	1,437	1,814	2,997
Restructuring (credits) charges	(154)	464	(198)	2,978
Transitional logistic charges	—	707	—	3,190
Acquisition related compensation costs	1,000	660	1,988	1,455
Non-GAAP operating income (loss)	<u>\$ 4,878</u>	<u>\$ 1,402</u>	<u>\$ 2,430</u>	<u>\$ (4,489)</u>
Net loss	\$ (9,008)	\$ (10,131)	\$ (24,693)	\$ (38,673)
Share-based compensation expense	11,221	7,831	22,491	22,851
Amortization of intangible assets	1,186	1,437	1,814	2,997
Restructuring (credits) charges	(154)	464	(198)	2,978
Transitional logistic charges	—	707	—	3,190
Acquisition related compensation costs	1,000	660	1,988	1,455
Non-GAAP net income (loss)	<u>\$ 4,245</u>	<u>\$ 968</u>	<u>\$ 1,402</u>	<u>\$ (5,202)</u>
Weighted average shares used to compute net loss per share	90,416	86,741	89,767	85,771
Effect of dilutive options, restricted stock units and warrants	2,468	5,863	3,291	—
Non-GAAP weighted average shares used to compute non-GAAP net income (loss) per share	<u>92,884</u>	<u>92,604</u>	<u>93,058</u>	<u>85,771</u>
Net loss per share	\$ (0.10)	\$ (0.12)	\$ (0.28)	\$ (0.45)
Adjustments	0.15	0.13	0.30	0.39
Non-GAAP net income (loss) per share	<u>\$ 0.05</u>	<u>\$ 0.01</u>	<u>\$ 0.02</u>	<u>\$ (0.06)</u>

# Reconciliation of GAAP to Non-GAAP Financial Measures



**CHEGG, INC.**  
**RECONCILIATION OF GAAP NET LOSS TO EBITDA AND ADJUSTED EBITDA**  
**(in thousands, except percentages)**  
**(unaudited)**

	2011	2012	2013	2014	2015
<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
EBITDA	27,937	23,352	23,447	17,051	(2,420)
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	-
Adjusted EBITDA	<u>\$ (17,135)</u>	<u>\$ (15,803)</u>	<u>\$ (3,995)</u>	<u>\$ (12,952)</u>	<u>\$ 5,358</u>
<i>Adjusted EBITDA margin %</i>	-10%	-7%	-2%	-4%	2%
<i>2011-2014 Average Adjusted EBITDA margin %</i>	-6%				