

Speakers

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Prepared Remarks

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Disclaimers and safe harbor

Cam Carey, IR

- Hi everyone, and thank you for joining us for Coursera's Q2 2024 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 earnings press release, including financial tables, was issued after the market close and is posted on our investor relations website located at investor.coursera.com, where this call is being simultaneously webcast and where versions of our prepared remarks and supplemental slides are available.
- During this call, we will present both GAAP and non-GAAP financial measures. A reconciliation of non-GAAP measures to their most directly comparable GAAP measure can be found in today's earnings press release and supplemental presentation on 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.
- Actual results and events could differ materially from those expressed or implied in these forward-looking statements due to a number of risks and uncertainties, including those discussed in our earnings press release, supplemental presentation, and our most recent SEC filings.
- And with that, I'd like to turn it over to Jeff.

Opening remarks

Jeff Maggioncalda, CEO

- Thanks, Cam -- and good afternoon, everyone.
- It's great to be with you all.
- I'm pleased to share that we delivered a solid set of operating and financial results as we execute on our growth initiatives.
 - We surpassed more than two million enrollments in our generative AI catalog of courses, credentials, and hands-on projects.
 - We welcomed nearly seven million new learners to our platform, one of our highest quarterly increases since 2020.

- We launched more entry-level Professional Certificates in any single quarter in our history — in fact, more than the entirety of 2022 -- with new titles coming from leading partners like Google Cloud, IBM, Meta, and Microsoft.
- We have made significant strides in introducing and enhancing AI-powered product innovations, including Coursera Coach, Course Builder, GenAI Academy for Teams, and a new suite of academic integrity features.
- And importantly, we are reaffirming our full year 2024 outlook ranges for revenue and Adjusted EBITDA.
- Now, I'd like to begin with a brief overview of how the landscape is evolving before focusing on how we are executing to address the evolving opportunity in education.

Trends

Jeff Maggioncalda, CEO

- As we've discussed, Coursera's platform sits at the intersection of several long-term, secular trends --
 - The digital transformation of every institution in our society.
 - The urgent need for skills development.
 - And the evolution of higher education to better meet demands of a changing economy, shifting demographics, and the globalization of talent.
- Navigating these trends is not an easy task.
- As the generative AI revolution unfolds, individuals are anxious about displacement and job security — and businesses are struggling to adapt.
 - And we see this outlined in almost every study to date.
- Microsoft and LinkedIn recently published their 2024 Work Trend Index Annual Report.
 - They found that nearly 80 percent of leaders agree that their company needs to adopt AI to stay competitive, but 60 percent worry their organization's leadership lacks a plan and vision to implement AI.
 - And these dynamics are affecting their talent strategy.
 - 66 percent of leaders say they wouldn't hire someone without AI skills.
 - And 71 percent said that they'd rather hire a less experienced candidate with AI skills than a more experienced candidate without them.
- In June, we published Coursera's sixth annual Global Skills Report, drawing on data and insights from our global learning community.
- Several of the key findings reaffirm the Microsoft report.
 - First — AI literacy has emerged as a global imperative, and employees are not waiting for their employers to catch up.
 - Recent trends in our learner demand demonstrate how they are taking skills development into their own hands, for example --
 - In 2023, our generative AI content saw one enrollment per minute.
 - In 2024, it has quadrupled to four enrollments per minute.

- Second — Learners are increasingly turning to industry micro-credentials to gain essential digital skills for jobs.
- And third -- regional skill adoption is not occurring at an equal pace, with countries facing the risk of being left behind.
- Access to a more affordable, relevant, and flexible system of higher education can help ensure that anyone, anywhere has equal access to the skills, credentials, and job opportunities to compete in our fast-changing world.
- And this brings to me the final trend — the transformation of higher education.
- Academic institutions acknowledge their need to evolve.
- In June, we convened nearly 100 higher education leaders from over 20 countries — including campus and government customers, as well as university and industry partners — at our headquarters for our annual Future of Higher Education Summit.
- We asked them what was their institution's biggest challenge in the coming year, and there were three top responses that focused on --
 - One, modernizing curriculum to meet the needs of learners.
 - Number two, adapting quickly to emerging skill demands from employers.
 - And number three, embracing new technology to bolster their teaching and learning.
- As university decision-makers, workforce development leaders, and industry experts, their feedback continues to reinforce my conviction in —
 - Our vision for the future of higher education.
 - The strategic assets that differentiate our ecosystem with quality and trust.
 - And the global need for a platform like Coursera.

Platform advantages

Jeff Maggioncalda, CEO

- Now, let's discuss how we are executing on this vision with recent progress across each of Coursera's platform advantages.
- The first advantage is our educator partners -- and the premium credentials that they create.
- When Coursera's founders put their first course online, the global receptivity they experienced was driven by two important elements --
 - First, Andrew and Daphne were professors at Stanford University, a trusted institution with global authority and brand recognition.
 - And second, they provided expertise and skills development in emerging technologies that were desired by the labor market.
- Over a decade later, the same value proposition continues to power Coursera's content engine -- with many of our educator partners focused on ensuring equitable access to critical skills in order to thrive in today's digital economy.
 - Across our catalog -- from short, hands-on projects to longer forms of study and credentials, including a new degree from Clemson University -- generative AI is being infused into the

curriculum so that every learner, no matter the stage of their journey, can acquire the skills necessary and the branded credentials necessary to acquire, retain, and advance their career.

- Now, let's discuss highlights for several of our recent announcements, starting with the entry-level Professional Certificates.
 - It was a record quarter for our content engine.
 - In Q2, we added 15 new certificates from leading technology brands like Google Cloud, IBM, Meta, and Microsoft.
 - The programs are designed for learners looking to start or switch into high-demand careers like cloud support, cybersecurity, data analyst, JavaScript developer, product manager, project manager, and many more.
 - We now offer more than 60 entry-level Professional Certificates, with a strong pipeline of additional titles coming later this year.
 - But our efforts to enhance this catalog are not solely focused on new launches.
- Recently, we announced that eight certificates from IBM, Meta, and Microsoft have been upgraded with job-specific, generative AI content.
 - This is the start of a broader initiative to enhance our existing certificate catalog, ensuring that these credentials keep pace with transforming job roles and emerging skill requirements.
 - As the industry experts that develop and deploy these technologies, our partners are uniquely positioned to help individuals navigate a rapidly evolving labor market — and ensure businesses are equipped with the tools and training to transform their technology and their talent.
 - And we are leveraging new capabilities, like Course Builder, to dramatically reduce the time and cost of content production, without sacrificing quality.
- Next, we now have more than 250 generative AI courses and guided projects.
 - Short-form content plays an important role in introductory learning, as well as rapid skills development.
 - However, we know that individuals and institutions also value longer forms of study — to build a deeper level of expertise, earn academic credit with verified learning, and critically important, stand out to employers in order to retain or secure a job.
 - This is the value of a branded credential.
- Our generative AI catalog started with high-quality, short-form content, but we are excited about a growing selection of generative AI credentials that can create more value for our learners and Enterprise customers.
 - Recently, we announced several new Specializations and certificates from top partners like DeepLearning.AI, Vanderbilt University, the University of Michigan, and the University of Colorado Boulder.
- Additionally, we launched the third pillar of our GenAI Academy offering — GenAI for Teams.
 - Our earlier programs focused on foundational AI literacy for all employees, as well as executive education to help leaders formulate an AI strategy.

- But GenAI for Teams curates the use of generative AI to specific job roles and functions, offering real-world applications and secure, hands-on practice right inside the courses.
- We are starting with the Software and Product, Data, and Marketing teams, as these functions are estimated to have outsized initial benefits from the innovation unlock and productivity gains created by integrating generative AI into their daily operations.
- Individuals and institutions are looking to harness the potential of emerging technologies — and these new course offerings are the initial stages of a strategic initiative to help our educator partners create a broad portfolio of generative AI credentials.
- We are creating a leading destination for learners looking to discover, develop, and demonstrate generative AI skills for career advancements — and for businesses looking to transform their talent.
- This brings me to our second major advantage — the global reach of our platform.
- As I referenced earlier, we added nearly seven million new registered learners, growing our global base to 155 million by the end of June.
- We grew the number of Paid Enterprise Customers by nearly 20 percent to over 1,500, with recent additions coming from all verticals, especially businesses.
- And to serve the broad needs of our rapidly expanding ecosystem, we continue to invest in our platform's third advantage — which is product innovation.
- Our innovation efforts continue to be focused on how we can uniquely leverage generative AI across our platform, including content, data, technology, and marketing.
- For today's updates, I'd like to start with Coursera Coach.
 - Earlier this month, we were pleased to announce the general availability of Coach for our paid Consumer learners and all Enterprise Customers.
 - We also unveiled an updated visual identity for Coach, along with a redesigned, more integrated user experience.
 - As a reminder, Coursera Coach is our interactive, AI-powered guide that is tailored to learners' unique goals and anchored in the expert content on Coursera.
 - To date, Coach has been used by more than 700,000 learners and can currently respond in 21 languages, supported by the underlying large language models.
 - Today, Coach enables learners to --
 - Ask questions to clarify material and stay on track.
 - Summarize key takeaways for better note-taking.
 - Practice for quizzes and tests to solidify knowledge and identify gaps.
 - And explore how their learning aligns with current or future career goals.
 - In the future, we expect Coach will play an increasingly prominent role throughout Coursera's platform — from personalized learning and discovery, to career counseling and guidance.
- Next is Course Builder, which we introduced to our Enterprise customers earlier this year.
 - Our AI-assisted authoring tool allows any business, government, or campus customer to easily and quickly produce high quality courses at scale.

- Additionally, Course Builder can blend learning modules from our catalog of university and industry partners with internal content, training, and expertise in order to create custom, private courses that are tailored to the unique needs of each organization.
- We have a number of enhancements planned for the coming quarters, but I am excited about the positive early feedback we are receiving from the nearly 100 institutions that have started using Course Builder.
- And for my final product update, I'd like to discuss our recent advancements in AI-powered academic integrity.
 - Online learning has become a powerful tool for institutions to better prepare students for a rapidly changing world, and it plays an important role in both affordability and accessibility.
 - However, universities must ensure that it meets the rigorous standards required for academic credit.
 - While generative AI introduces new risks for student misconduct and cheating, it also provides unprecedented opportunities for universities to enhance academic integrity at scale.
 - Our platform is utilized by universities in several ways — as educator partners, Campus customers, and Degree providers — which is why I was particularly excited to announce a new suite of generative AI-powered features designed to help scale assessment creation and grading, strengthen academic integrity, and enhance learning and evaluation.
 - The features include broad capabilities like AI-assisted grading, assessment generation, automated peer review, proctoring, plagiarism detection, viva exams, and more.
 - This launch builds on our recent recognition as the first online learning platform to receive the American Council on Education's Authorized Instructional Platform designation, helping ensure student outcomes genuinely reflect their effort, mastery of course material, and their skills.
 - These are major steps in protecting the reputation and value of online learning and industry micro-credentials, making it easier --
 - For universities to recognize them for academic credit and for employers to validate a candidate's qualifications for employment.
 - It also helps individuals and institutions everywhere benefit from trusted, verified learning on Coursera.

Long-term strategy

Jeff Maggioncalda, CEO

- To wrap up my opening remarks, a reminder of the most important initiatives we are focused on in the second half.
 - First -- We are broadening our catalog of entry-level Professional Certificates, including new launches and upgrades to existing titles.
 - Second — We're focused on growing our Enterprise segment, helping our business, government, and campus customers keep pace with generative AI and labor market demands.

- And third -- We're focused on scaling our Degree programs with a focus on flexibility, affordability, and credit pathways from our Consumer catalog.
- Finally — we are investing in product innovation that can deliver more value and a differentiated experience for the millions of learners coming to Coursera every quarter.
- I'd like to now turn it over to Ken.
- Ken, please go ahead.

Financial performance

Ken Hahn, CFO

- Thank you, Jeff -- and good afternoon everyone.
- I am pleased to report solid second quarter results for Coursera.
- In Q2, we generated total revenue of 170.3 million dollars, which was up 11 percent from a year ago.
- Our platform's ability to address the diverse needs of customers around the world — from individual learners to large institutions — continues to serve us well as we navigate the trends reshaping higher education.
 - In addition to providing a broad, global lens, this approach allows us to target our growth opportunities with a common set of assets and shared investments — including content, product, data, and marketing.
 - And this creates operating leverage in our model, which we continue to demonstrate with the strong bottom-line and free cash flow performance we delivered once again this quarter.
- Please note that for the remainder of this call, as I review our business performance and outlook, I will discuss our non-GAAP financial measures, unless otherwise noted.
- For the second quarter —
 - Gross profit was 92.3 million dollars and a 54 percent gross margin, up from 53 percent in the prior year.
 - Total operating expense was 86.8 million dollars, or 51 percent of revenue, an improvement of 7 percentage points from the prior year period on continuing operating discipline in our R&D and G&A functions.
 - Net income was 13.8 million dollars, or 8.1 percent of revenue -- and Adjusted EBITDA was 10.4 million dollars, or 6.1 percent of revenue.
 - While we do not optimize for EBITDA in any single quarter, our first half performance has continued to demonstrate the leverage inherent in our model -- and provided us with a strong start toward achieving our 2024 Adjusted EBITDA margin target of approximately four percent.

Balance sheet and cash

Ken Hahn, CFO

- Now, let's discuss cash performance.

- We generated strong Free Cash Flow of approximately 17 million dollars -- which I'll remind you -- is inclusive of more than two million dollars in purchases of content assets, which we now treat similarly to the other categories of capital expenditures, effectively lowering our Free Cash Flow computation.
 - As Jeff mentioned, partner receptivity to this type of strategic content arrangement has been exciting -- particularly due to the important role we believe trusted brands and verified credentials will play in the future of learning, skills development, and career advancement.
- Moving to the balance sheet.
- In Q2, we repurchased 2.7 million shares of our common stock for approximately 31 million dollars, excluding commissions.
 - This was inclusive of the 16 million dollars we bought back in April, which I discussed on our prior call, as well as the remaining 15 million dollars we expected to complete in the weeks that followed.
 - This resulted in us ending the quarter with approximately 709 million dollars of unrestricted cash and cash equivalents -- with no debt.
 - And over the past year, we returned 95 million dollars to shareholders through stock repurchases while preserving the primary focus of our capital allocation strategy -- which emphasizes growth.
- We believe that our strong financial position is an asset that provides resilience and strategic optionality, which is particularly valuable during a period of rapid technological change — and the focus on prioritizing growth in terms of our capital allocation strategy has not changed.
- But we also believe it is important to address future dilution concerns of our investors, so management has recommended, with the compensation committee approval, the introduction of a price floor of ten dollars per share for all future employee grants, effectively limiting the number of shares issued for dollar-denominated stock based compensation.
 - This action, along with our completed repurchase program, are a direct reflection of the value we place on shareholder equity.
- As we navigate near-term trends to better position ourselves for future growth opportunities, we remain focused on executing on our long-term strategy to lead our large, early, and dynamic markets.

Segment results

Ken Hahn, CFO

- Now, let's discuss the performance of our segments in more detail, starting with Consumer.
- Consumer revenue was 97.3 million dollars, up 12 percent from the prior year on growth in Coursera Plus, driven by ongoing demand for entry-level Professional Certificates and generative AI courses and credentials.
- Segment gross profit was 52.4 million, or 54 percent of Consumer revenue, up from 52 percent in the prior year period.
- And our top-of-funnel activity remained robust, with approximately seven million new registered learners this quarter, which did include a higher mix coming from regions outside of North America.

- I was pleased by our execution in Consumer this quarter, particularly the number of high-quality, branded credentials we launched — including several that were created under our new content production arrangements that can include more favorable revenue share economics and in many cases, exclusivity.
- Moving on to our Enterprise segment.
- Enterprise revenue was 58.7 million dollars, up eight percent from a year ago on growth across our business, campus, and government verticals, including some signs of stabilization in the corporate learning market.
- Segment gross margin was 39.9 million dollars, or 68 percent of Enterprise revenue, compared to 71 percent a year ago.
 - As a reminder, Q2 of last year was slightly higher-than-expected due to a one-time benefit of a contract amendment with one of our educator partners, which had the effect of increasing our Enterprise segment margin by 4 percentage points for that historic quarter.
 - Removing the one-time variance, Enterprise segment margin would have been up slightly year-over-year.
- The total number of Paid Enterprise Customers increased to 1,511, up 17 percent from a year ago.
- And our Net Retention Rate for Paid Enterprise Customers was 93 percent as we continue to work through some government partnerships with more transitory budgets.
- And finally, our Degrees segment.
- Degrees revenue was 14.3 million dollars, up 14 percent from a year ago on growth in new students and scaling of recent programs.
- The total number of Degrees Students grew 19 percent from a year ago to 22,600.
- As a reminder, there is no content cost attributable to the Degrees segment, so Degrees segment gross margin was 100 percent of revenue.

Outlook

Ken Hahn, CFO

- Now, onto our financial outlook.
- For Q3 --
 - We are expecting revenue to be in the range of 171 to 175 million dollars.
 - For Adjusted EBITDA, we are expecting a range of breakeven to positive four million dollars.
- For the full year 2024, we are reaffirming our ranges.
 - We anticipate revenue to be in the range of 695 to 705 million dollars.
 - For Adjusted EBITDA, we are expecting a range of 24 to 28 million dollars -- maintaining our Adjusted EBITDA Margin annual target of approximately four percent.
 - We have a strong record of successfully managing to the annual Adjusted EBITDA margin target we commit to at the beginning of the year — and I have been pleased by our ongoing discipline, demonstrated by the strong operating leverage we delivered in the first half of 2024.
- I'll now turn the call back to Jeff for closing comments.

Closing remarks

Jeff Maggioncalda, CEO

- Thanks, Ken.
- Increasing equitable access to high-quality learning is the reason why we were founded — and it is also the reason why many leading companies choose to join us in our mission.
- One of these important partners is Microsoft — and I'm thrilled with how our relationship continues to deepen and grow.
- In addition to announcing their latest certificates in May, we are thrilled to share that Coursera has partnered with Microsoft and a community organization called Women in Cloud to launch the Universal Access to Microsoft Skills Scholarship.
 - This scholarship — open to everyone — provides five thousand recipients access to all Microsoft Specializations and Professional Certificates on Coursera.
 - Learners who successfully complete a Professional Certificate through this scholarship will be awarded a complimentary voucher for the industry-recognized Microsoft certification exam.
 - It is part of our shared commitment to providing equitable access to the essential skills and branded credentials that can empower learners to start, switch, or advance their careers -- while also filling critical skill gaps in the evolving economy.
- Generative AI can act as both a disruptor and an enabler.
- Whether it widens or narrows the opportunity gap depends on our ability to make education and skilling equally accessible on a global scale.
 - Leading partners like Microsoft — who are creating the next generation of technology, tools, and services that will fundamentally reshape work and the labor market more broadly -- are embracing their collective responsibility to harness the potential of generative AI, turning it into an engine of opportunity for everyone.
- We are proud of Coursera's role -- and especially our partners who we work with -- in recognizing the importance of turning this threat into an opportunity through education.
- Now, let's open up the call for questions. Thank you.