

Chegg[®]

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Company	Chegg
Ticker	NYSE: CHGG
Current Price	\$89.20
52 Week High/Low	\$115.21/\$25.89
Founded	2005
Headquarters	Santa Clara, CA
Employees	2,594



Investment Thesis



Unique and Growing Product and Service

Direct-to-student, subscription-based ecosystem providing students with the tools needed to succeed



Favorable Industry Tailwinds

Increased emphasis on virtual learning and growing numbers of STEM graduates



International Growth Prospects

Education services are highly transferable across borders, enabling higher TAM estimates

Entry Price

\$89.20

1-year Bull Case

\$128.11
(53% upside)

3-year Bull Case

\$189.87
(113% upside)

Thesis Point 1: Unique and Growing Product

Chegg Services

Academic



Chegg Study
Homework help learning service



Chegg Writing
Online writing tools



Chegg Math Solver
Step by step math problem solver

Chegg Study Pack

Skills



Thoughtful

High quality on-line skills-based courses

- Data Science
- Data Analytics
- UX/UI Design
- Technical Project Management
- Digital Marketing
- Software Engineering

Required Materials



Textbooks
Rent or buy print textbooks or eTextbooks

Additional Services



Chegg Tutors

Will be incorporated into main offerings in 2021



Mathway

Will expand and enhance their Math Services

Management & Company Culture



Esther Lem - CMO

- Previous work: As VP, completed one of the largest men's personal care launches in US history for Unilever
- Awarded Ad Age's Women to Watch, Marketer of the Year, and various other marketing/advertising awards



Heather Porter - CCO

- Previous VP of Marketing, built the foundation for Chegg's Brand narrative
- Founded the Chegg Foundation in 2013: a social impact, grant-giving, and advocacy arm of Chegg
- Supports policy efforts like the "Unlocking the American Dream" student debt policy report

Company Awards

Fortunes' Awards:

- Best Small and Medium Workplaces
- Top 50 Best Workplaces in Technology
- Best Workplaces in the Bay Area
- Top workplaces for parents
- Top 100 small and medium-sized workplaces

Comparably's Awards:

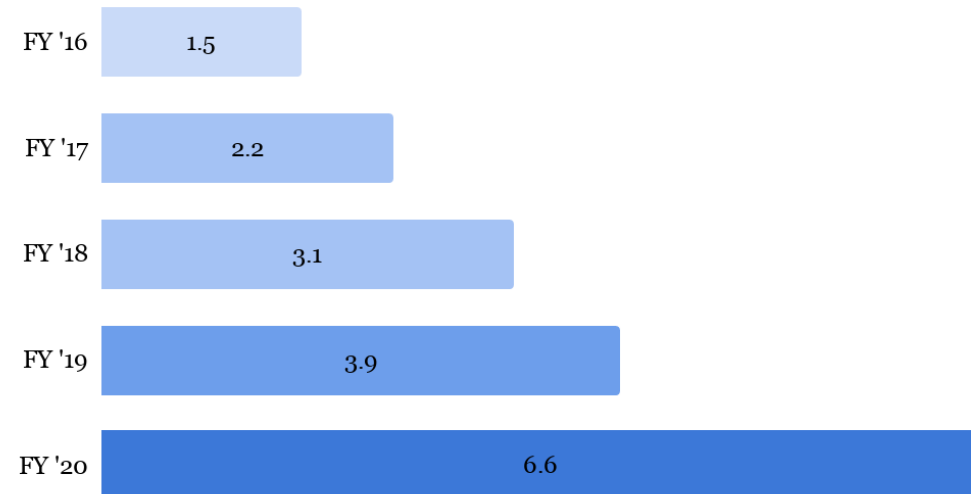
- Best Company Culture,
- Best Company for Diversity and CEO

Historical Performance

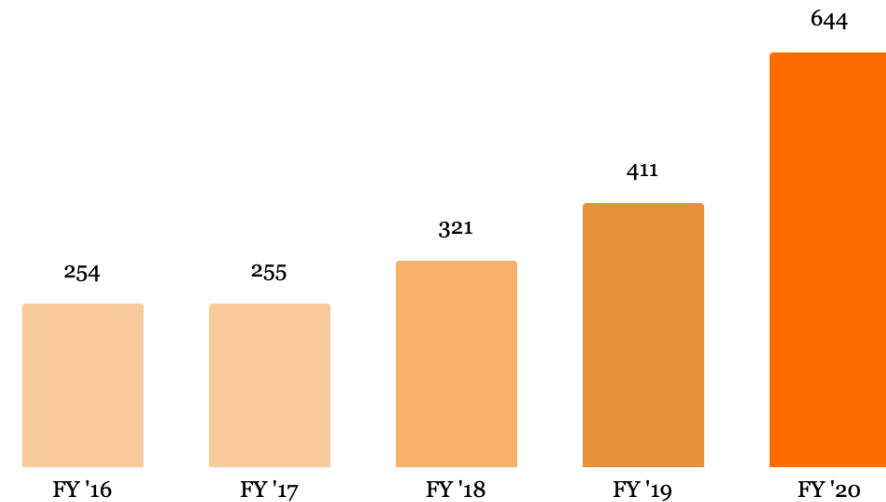
Highlights

- **Subscriber Growth: 67% yoy, 39% 5-year CAGR**
- **Revenue Growth: 57% yoy, 20.5% 5-year CAGR**
- **High Margin Business Model: Since 2017, +68%**

Annual Chegg Services Subscribers (in millions)



Chegg Revenue Growth (in millions)



Thesis Point 2: Favorable Industry Tailwinds

Increased Emphasis on Remote Learning

1 COVID-19 Pandemic

COVID-19 has generated lasting increased demand for remote learning products and services. Initial studies show students retain 25%-60% of material when learning online, compared to 8-10% in-person. Plus, e-learning requires 40-60% less time to learn than in a traditional classroom setting.



2 In the past year, Chegg subscribers have grown by 67%. Even when students return to in-person learning, students will continue to benefit from Chegg's online homework helper, online textbook, and virtual tutoring resources.



Rising focus on STEM Education

1 STEM Education

Students graduating with a bachelor's degree in science, technology, engineering, or math (STEM) has risen dramatically in the past decade. From 2008-2019 the number of college students graduating with a bachelor's degree in a STEM field grew by 70%.



2 Though Chegg services are used by students across several fields of study, over 2/3 of Chegg subscribers have an academic emphasis on STEM.

Competitive Landscape/Moat



Chegg



BARNES & NOBLE

	Grammarly	Quizlet	Khan Academy	Chegg	Course Hero	Symbolab	2U	Barnes & Noble
Expert Answers & Textbook Solutions		✓		✓	✓			
Writing Support	✓			✓				
Synchronous and Asynchronous Tutoring			✓	✓	✓		✓	
Math Solver				✓		✓		
Coursework			✓	✓	✓		✓	
Print/Online Textbooks				✓				✓

Competitive Advantages --> maybe comps slide

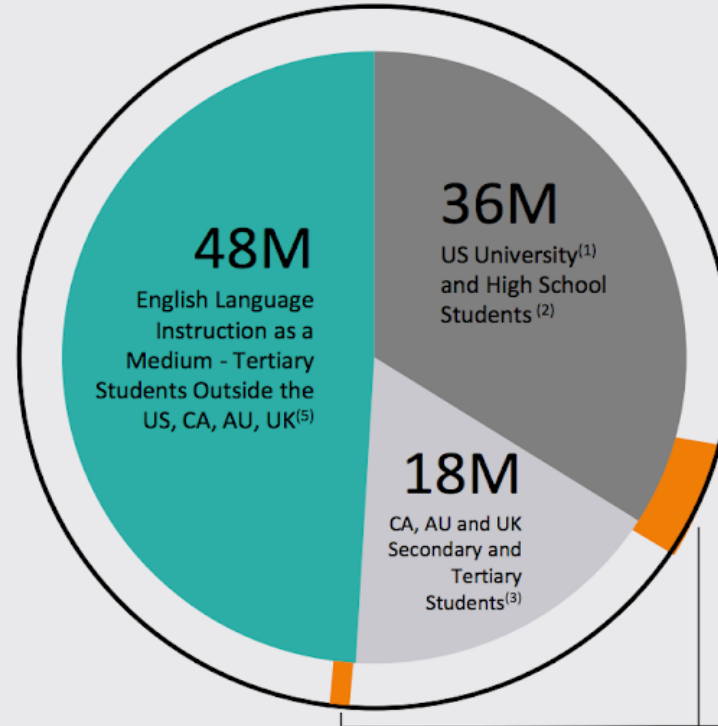
Inputs	LTM Total Revenue	LTM Net Debt	Market Capitalization	Total Enterprise Value	Total Subscribers	Total Addressable Market	Stock Price
2U (NYSE: TWOU)	1,273.20	-134.2	2,752.60	2,618.40	300,000	102,000,000	37.2
Stride (NYSE: LRN)	774.5	201	992.8	1,193.80	NA	102,000,000	24.84
Netflix (NYSE: NFLX)	24,996.10	10,305.30	223,458.40	233,763.70	203,670,000	1,500,000,000	512.2
Spotify (NYSE: SPOT)	9,369.80	-1,280.60	51,393.60	50,076.20	144,000,000	800,000,000	276.01
Chegg (NYSE: CHGG)	644.3	387.4	11,862.20	12,249.60	6,600,000	102,000,000	87.43
Mean	7817.096	3363.808	66146.592	69513.344	85192500	503040000	165.2552

Valuation Multiples	TEV/Total Revenue LTM	LTM Gross Margin %	LTM Total Revenue 1 Year CAGR	Subscription Growth Rate YoY	(Average Revenue per Subscriber)*100	Customer Penetration Rate %
2U (NYSE: TWOU)	3.4x	69.80%	34.78%	NA	0.424	0.29%
Stride (NYSE: LRN)	0.9x	32.90%	24.31%	NA	NA	NA
Netflix (NYSE: NFLX)	9.4x	38.90%	24.01%	4.17%	0.012	13.58%
Spotify (NYSE: SPOT)	5.3x	25.60%	16.50%	24%	0.007	18.00%
Chegg (NYSE: CHGG)	22.05x	68.10%	56.80%	69.00%	0.010	6.47%
Mean	8.21x	47.06%	31.28%	32.39%	0.113	9.59%

Thesis Point 3: International Growth

Market Opportunity

102 Million Total
Students Can Benefit from
Chegg®



6.6 Million⁽⁴⁾

Chegg Services Subscribers in 2020
Y/Y growth of 67%

Domestic TAM = Total high school and college students

Current international customer penetration < 1%

Will acquire 1m international customers in 2021

3-Year DCF

		Historical Performance				
Year		2016	2017	2018	2019	2020
Subscribers	(in millions)	1.5	2.2	3.1	3.9	6.6
YoY Growth			47%	41%	26%	69%

		Revenue Assumptions			
		2021	2022	2023	2024
Base		9.1	12.6	17.3	23.9
		38%	38%	38%	38%
Bull		9.6	14.1	20.5	30.0
		46%	46%	46%	46%
Bear		8.3	10.5	13.2	16.6
		26%	26%	26%	26%

- ### Rationale for 3-Year Revenue Cases
- Chegg Services Revenue is growing at a higher rate
 - Subscriber Growth
 - Base: Pre-pandemic growth rate excluding pandemic-induced tailwinds
 - Bull: Weighted average of international and domestic growth
 - Bear: Lowest growth rate they had in the last 4 years
 - Terminal Value Growth
 - 3.5%: Chegg is a high-growth company in an essential industry

1-Year DCF

Revenue Assumptions

	2021	2022
Base	11.2	18.9
	69%	69%
Bull	11.7	19.7
	77%	69%
Bear	9.6	14.1
	46%	46%

Rationale for Subscriber Growth Rates

- Base: Retaining pandemic subscriber growth rate = 69%
- Bull: Slightly exceeding pandemic subscriber growth rate
- Bear: Average 4-year subscriber growth rate = 46%

	1-Year Upside	3-Year Upside
Base	44%	66%
Bull	59%	119%
Bear	-3%	1.65%

Risks and Mitigants

Risks

- Decreased consumer spending power due to **Covid-19 pandemic eroding students' willingness** to subscribe to Chegg Services
- Scrutiny from professors and **stricter policies** aimed at minimizing students' use of study tools
- Potential **threat from expansion** of discount/freemium vendors

Mitigants

- Income is not a factor affecting Chegg subscriptions, as it is **income inelastic and recession resistant**
- Chegg pledges to **alert schools** if there are plagiarism suspicions, thus **disincentivizing cheating**
- Chegg's **unique business model** is hard to replicate, and its existing brand presence stands



Summary

Chegg is a strong BUY because of...

Unique and growing product and ecosystem

Favorable secular trends

International growth without shrinking margins

Current Price: \$89.20

1-Year Bull Case: \$128.11

3-Year Bull Case: \$189.87

53% Upside

113% Upside



Thank you.

We are happy to take any questions.



Claremont McKenna College

Chegg (NYSE: CHGG)

Executive Summary

March 16, 2021



Chegg Study

Study smarter, not harder

Team Members

Brooklyn Button

Rachana Muvvala

Vedika Vishweshwar

Jessica Cuna Zamora

Company Overview

Founded in 2005, Chegg is an online direct-to-student learning platform that helps high school and college students learn course material, save money on required materials, and acquire in-demand skills. Chegg Study Pack is a subscription-based platform that encompasses Chegg Study (step-by-step textbook answers by experts), Chegg Writing (grammar and citation help), Chegg Math Solver (step-by-step math solver), and Chegg Tutors. Their Required Materials segment sells and rents print and online textbooks.

Investment Thesis

Our 3-pronged thesis encompasses Chegg's future prospects and drives our valuation of a maximum 113% upside (in the 3-yr Bull case), and supports our BUY position.

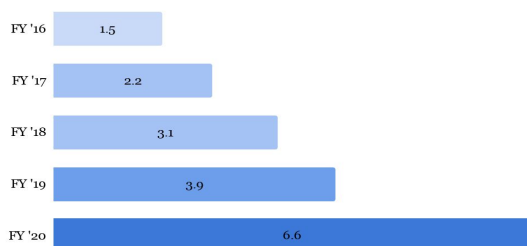
- **Unique and Growing Product and Service:** Chegg is unmatched in the educational technology space by combining textbook solutions, a math solver, writing help, and tutoring services into a single affordable subscription. We expand on this in the Competitive Advantage Section.
- **Favorable Industry Tailwinds:** COVID-19 has generated lasting increased demand for remote learning products and services. Moreover, Chegg will benefit from rising emphasis on STEM education, since over ⅔ of Chegg users study STEM.
- **International Growth Prospects:** Education services are highly transferable across borders and allows for higher TAM estimates. Chegg has only captured 1% of their global TAM and will acquire 1m customers across 190 countries in 2021.

Historical Financial Performance

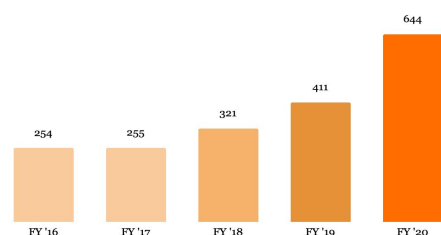
Chegg's business structure relies on sustained user growth in order to generate revenue. In 2020, there were 6.6mm subscribers to Chegg Services, representing a 67% yoy increase and a 5 year CAGR of 39%. Revenue levels consequently increased 57% yoy to \$644mm and a 5 year CAGR of 20.5%.

Although the company is not currently profitable on the bottom line, their EBITDA and EBIT values have been historically positive. Additionally, their business continues to be high-growth and high-margin due to previous investments into content and platform creations paying off.

Annual Chegg Services Subscribers (in millions)



Chegg Revenue Growth (in millions)



Competitive Advantage and Comparables Analysis

Chegg has no pure-play competitors to their overall business, however there are smaller companies that compete with different portions of their offered services.

- Chegg Study: Khan Academy, Quizlet, CourseHero, Bartleby
- Chegg Writing: Grammarly
- Chegg Math Solver/Mathway: Photomath, Symbolab
- Thinkful: General Assembly, DataCamp, Galvanize
- Required Materials: college bookstores, Barnes & Noble, Amazon

Chegg's competitive edge arises from their ecosystem approach to combine everything students need into 1 subscription package. Additionally, Chegg provides lower subscription fees of \$15-20/month compared to the \$10-40/month fees from other platforms and for more offerings put together.

Since Chegg does not have any pure-play competitors, for comparables we chose companies that matched general operations, business model, and subscriber amount. 2U (NYSE:TWOU) contracts with nonprofit colleges to offer online degree programs via a subscription service. Stride (NYSE: LRN) is a for-profit education company that sells online schooling and curricula in lieu of traditional in person instruction. The lack of true comparable companies further supports our thesis that Chegg is a truly unique product.

Valuation Assumptions

Our DCF assumptions reflect Chegg's international expansion and pandemic-related tailwinds. Additionally, we assume that Chegg Services' Revenue will grow at a faster rate.

1-Year Base Case: Retaining pandemic

subscriber growth rate

1- Year Bull Case: Slightly exceeding

pandemic subscriber growth rate

1- Year Bear Case: Average subscriber

growth rate over the last 4 years

	1-Year Upside	3-Year Upside
Base	44%	66%
Bull	59%	119%
Bear	-3%	1.65%

Risks and Mitigants

One key risk is that economic downturns can decrease student income and reduce their willingness to subscribe. However, 34% of existing subscribers have a family income <\$35k, showing that subscription is largely income inelastic.

Another risk is that teachers and professors increasingly implement policies that limit students' use of study tools such as Chegg. However, Chegg plans to alert schools if there are plagiarism concerns, thus disincentivizing cheating.