

Udemy

Investing in upskilling

- ▶ **We initiate coverage of Udemy, one of the leading global online learning platforms.** Udemy provides a marketplace for content creators, learners, and corporates helping users to get access to affordable content from expert instructors. Udemy has over 185,000 courses from 64,000 instructors on the platform and reports over 187mn enrollments. The company has two business segments - Consumer and Enterprise. The platform has over 49mn registered users and reports 1.345mn monthly average buyers in the Consumer segment. The number of Enterprise users reached 10,500 in 2021. Following a fast demand growth for educational content during COVID-19, Udemy sees revenue increase at a slower pace of 21% in 2021 compared to 56% in 2020. The Enterprise segment, however, reported a 92% revenue CAGR in 2019-2021, demonstrating sustainable demand of employers for upskilling and re-skilling of the personnel in the post-COVID environment. The dynamics of monthly average buyers showed a 7% YoY decline in 2021 following a 50% growth in 2020, while Udemy Business customer number was up 54% YoY in 2020 and 38% YoY in 2021. The company completed its initial public offering in October 2021, selling 14.5mn shares at \$29.0 per share.
- ▶ **The valuation of Udemy is driven by the revenue vs operating expense dynamics and affected by the US macro and tech sector performance.** Expectations of a slowdown in the Consumer segment and a healthy Enterprise segment growth create an upside for Udemy, in our view. The stock trades at 1.3x EV/Revenue'23, a 64% discount to Coursera, its close peer. The correction of tech stocks on the back of a potential Fed rate increase was one of the reasons for stock underperformance. We believe that Udemy is well-positioned to compete in terms of content and its affordability with peers, attracting more customers in the Enterprise segment. We expect the company to maintain the revenue CAGR of 16% in 2021-2026. Our 12-month fair price is \$18.6 per share based on DCF and \$22.3 per share based on target EV/Revenue'23 of 3.8x. The company's shares trade at a consensus EV/Revenue'2022-23 of 1.3-1.6x. The market consensus does not expect positive EBITDA before 2025. We set a 12-month price target at \$18.6 and rate the stock Buy.
- ▶ **The convenience and affordability of online education support medium-term industry growth prospects despite short-term risks.** The global online degrees and the micro-credentials market may reach \$117bn by 2025, growing with a 17% CAGR (HolonIQ). Udemy stock drivers include growth in a number of individual and corporate customers, new content launches, enrollments increase. Risks: increasing competition, weak monthly buyer dynamics, a slowdown in new Enterprise customer dynamics, higher customer acquisition costs, stock sale by pre-IPO investors after the lockup end, weak peers' performance on the back of Fed rate increase. We believe most of the risks are priced in, given a weak recent performance of Udemy, and a discount of Udemy vs peers.

Report date: **25 April 2022**

UDMY

Main exchange	Nasdaq
Rating	BUY
Current Price, \$	10.6
12M Target price, \$	18.6
Current MCap, \$ mn	1,503

Udemy operates a two-sided marketplace where instructors provide content for learners. The company has over 49mn learners.

*) pricing as of 22/04/2022

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Investment summary

Market opportunity

The technology brought new ways for the education sector, one of the traditional and slow-changing sectors, to communicate with learners. Online access to courses and content allows a learner to benefit from a wider selection of high-quality content in a convenient way at a low cost. The changing corporate environment, on the other hand, pushed companies to re-skill employees, partially due to remote work conditions during COVID-19. The global education market is also affected by a wider offering of experts' courses and P2P learning. The changing educational environment with the emergence of flexible and interactive approaches, as well as potentially wider use of Virtual Reality (VR) in education and training, push the education industry towards new technologies adoption, promising high growth in the Educational Technologies (EdTech) segment of the education market.

The global education market represented an annual opportunity of \$6.1trln as of 2019 and is expected to grow by 2.3% p.a. to \$7.3trln by 2025, according to HolonIQ, including expenses of governments, employers, and consumers. The market demonstrated a significant growth due to COVID-19 influence on the jobs market, required upgrade of skills and home education. Most of the growth was in emerging markets. According to the HolonIQ forecast, the global online degrees and the micro-credentials market may reach \$117bn by 2025, up from \$45bn in 2019, growing with a 17% CAGR. The global post-secondary education segment is estimated at \$2.2trln in 2019 and may reach \$2.3trln in 2025.

The short-cycle re-skilling will be required for around 40% of workers, according to the World Economic Forum. Online education is expanding using technological advancements and serving the needs of individuals and organisations in up-to-date skills and knowledge. Adapting new skills to employees and individuals became a crucial function for the resilience of firms.

Udemy

Udemy (Nasdaq: UDMN) is a marketplace for content creators and learners. The company is offering over 185,000 courses to over 49mn users registered on the platform. There are 187mn enrollments as of end-2021. The company paid over \$177mn to instructors in 2021, with leading instructors earning over \$1mn.

Udemy is operating in two segments: Consumer and Enterprise. The offer to individual learners in the Consumer segment may include a one-time purchase or a subscription, automatically renewed each month. The Udemy Business (UB or Enterprise) offers subscriptions to corporates based on a number of seats and courses enrolled.

In 2020, the pandemic-caused lockdowns resulted in an essential increase in enrollments in the Consumer segment, including 50% YoY growth of Monthly Average Buyers to 1.439mn, and 54% growth in UB customers to 6,614. Udemy demonstrated a 56% revenue growth in 2020. In 2021, Monthly Average Buyers decreased by 7% YoY to 1.345mn, while the number of Enterprise customers soared by 38% YoY. As a result, the Enterprise revenue growth was 81% YoY in 2021, and the total revenue growth of Udemy reached 21% YoY in 2021. The gross margin improved in both operating segments, however, the 2-year CAGR of operating expenses was 33% in 2019-21 compared to 37% revenue CAGR and 28% cost of revenue CAGR. The stock compensation grew at 97% CAGR in 2019-21 and reached 5.8% in total costs of the company in 2021 compared to 2.6% in 2019.

The company has to reach a positive EBITDA yet while maintaining revenue growth in a rather competitive environment. The balance between revenue vs cost growth seems to be

a major challenge for the coming 2-3 years. The focus on Enterprise solutions and wider regional exposure, including an expansion on Asian markets, could be a competitive strategy for Udemy, verified by historical figures. Asia Pacific demonstrated the highest growth for Udemy in 2021 and in 2020, followed by EMEA.

We expect the Udemy Enterprise segment will be the major contributor to the company's growth. Our revenue forecast grows with a 16% CAGR in 2021-2025, driven by Consumer 5% CAGR and Enterprise 29% CAGR. Udemy has a strong platform to expand its business in India, SEA, and other regions. Key investment drivers for Udemy are:

- New Enterprise clients' subscriptions
- New courses additions on the platform
- Registered users' additions
- Share of S&M and other operating costs decline in revenue

Risks for the upside:

- Growth of competition from other content providers
- Demand decline after COVID-19
- The increasing cost of new Enterprise customer acquisition
- The increasing cost of conversion of registered users to paid learners
- Sale of the stock by pre-IPO investors
- Weak peers' performance
- Fed rate announcements

Pros

- Large library of courses
- High-quality content on the platform, verified and rated by users
- Regional diversification of operations
- Strong revenue generation in the Enterprise segment
- Strong management and partners

Cons

- Demand growth deceleration in the post-COVID environment
- Consumer promotion periods may be extended to get new paying customers
- Increasing competition in selected segments
- The growth strategy may result in accelerated cost growth and a margin squeeze

Risks

- Increase of Fed interest rates, which will likely affect Technology sector stocks
- Deterioration or slow growth of Udemy Business operating and financial metrics
- Negative monthly buyers' dynamics due to cancellation of services in Eastern Europe
- Weak post-COVID customer acquisition dynamics

- High customer acquisition expenses, including high sales and marketing expenses
- Weak performance of the peer group

Valuation summary

We have valued Udemy shares based on DCF and target multiple EV/Revenue'23. Our DCF model provides a 12-month fair market value of \$18.6 per share based on 141.7mn shares. Based on the average for Udemy's peer group target multiple of 3.8x EV/Revenue'23 the Udemy fair 12-month valuation is \$22.3 per share. The company's shares trade at 1.3-1.6x EV/Revenue based on 2022-23 Refinitiv estimates. The market consensus does not expect positive EBITDA before 2025. The company's high sensitivity to sales and marketing costs and relatively slow performance in the Consumer segment contributes to weak stock performance. The average peer multiple EV/Revenue for 2022-23 is 3.8-4.4x.

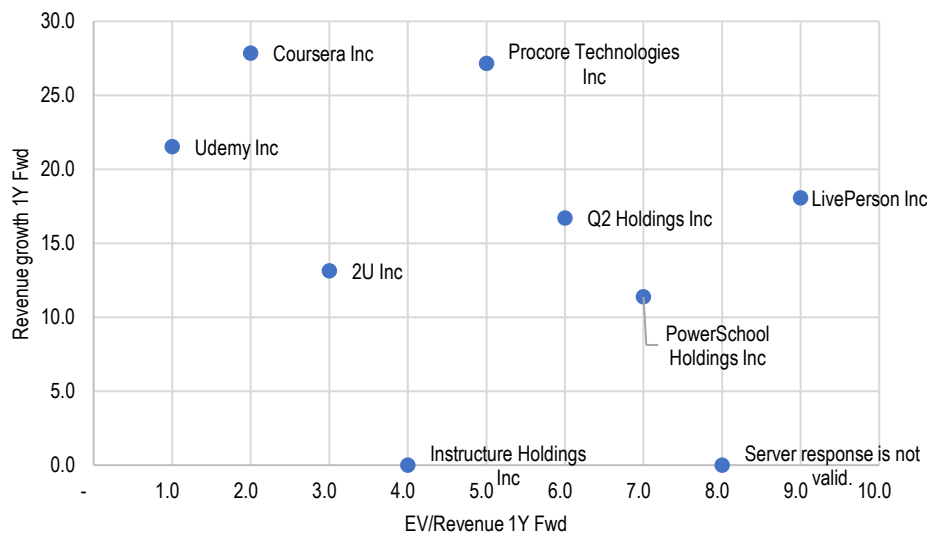
Udemy looks attractive if we compare 1-year forward revenue growth and EV/Revenue'23 multiple for its peer group.

Figure 1. Comparable multiples of education segment companies

Company name	Market Cap., \$mn	EV, \$mn	P/E Fwd 1Y	P/E Fwd 2Y	P/E Fwd 3Y	EV/ EBITDA 1Y fwd	EV/ EBITDA 2Y fwd	EV/ EBITDA 3 fwd	EV/ Revenues 1y fwd	EV/ Revenues 2y fwd	EV/ Revenues 3y fwd
Udemy	1,501	967	NaN	NaN	NaN	NaN	NaN	NaN	1.6	1.3	1.0
Coursera	3,162	2,340	NaN	NaN	NaN	NaN	NaN	NaN	4.3	3.5	2.9
2U	812	1,424	NaN	NaN	26.9	17.6	11.7	7.9	1.3	1.2	1.0
Instructure Holdings	2,488	2,816	17.8	15.5	14.1	17.1	15.0	13.2	6.1	5.5	5.0
Procore Technologies	6,859	6,322	NaN	NaN	NaN	NaN	NaN	199.3	9.5	7.7	6.3
Q2 Holdings	3,018	3,141	141.0	78.0	48.4	73.5	48.5	30.8	5.4	4.6	3.8
PowerSchool Holdings	2,877	4,019	18.8	16.5	14.4	21.9	19.2	14.9	6.4	5.8	5.3
Skillsoft Corp	904	1,291	NaN	NaN	NaN	7.6	6.8	NaN	1.7	1.6	NaN
LivePerson	1,728	1,786	NaN	NaN	NaN	NaN	47.2	27.9	3.2	2.7	2.3
Average			59.2	36.7	26.0	27.6	24.7	49.0	4.4	3.8	3.5

Source: Refinitiv

Figure 2. Education peers EV/Revenue 2Y Fwd vs Revenue growth 1Y Fwd



Source: Refinitiv, Hypothesis Research

Global online learning market

The online learning segment became an essential part of the global education market, reflecting the increasing need for re-skilling, a preference of learners to have a flexible education format, and more affordable content offered by independent providers. Traditional non-profit institutions consider partnerships with for-profit platforms to offer the content. Online learning platforms offer the content of independent providers and reputable traditional institutions.

The adoption of educational technologies was already on the rise before COVID-19. The usage of online learning systems has been on the surge since COVID-19, including language apps, video conferencing, online learning software, and virtual tutoring. There were more than 1.2 billion children in 186 countries affected by school closures due to the pandemic. Online learning platforms widely used during the lockdowns continue to persist post-pandemic, indicating the shift in the global educational market. The changes also affected corporate learning and individual learning with rapid re-skilling required by enterprises.

Figure 3. Selected segments of Education market

Type	Features
Pre-K	<p>Learners' goal: development of personal skills, creativity, reading and writing skills</p> <p>Forms: personal tutors, group courses, interactive learning, educational games</p> <p>Content creators: pre-school educational institutions, tutors, child development experts</p>
K-12	<p>Learners' goal: Exam preparation, Skill development</p> <p>Forms: personal tutor, experts' content, group tutoring, online tutoring platform</p> <p>Content creators: schools, experts, personal tutors, educational games</p>
Undergraduate	<p>Learners' goal: degree, professional skills</p> <p>Forms: university courses, online learning, professional degrees, and learning</p> <p>Content creators: Universities, Colleges, Professional organisations</p>
Postgraduate	<p>Learners' goal: degree, professional skills</p> <p>Forms: university courses, online learning, professional degrees, and learning, online tutoring</p> <p>Content creators: Universities, Colleges, Professional organisations, Experts, Corporates</p>
Micro-credentials, Professional skills, Personal development	<p>Learners' goal: professional skills, personal skills, lifestyle skills</p> <p>Forms: university courses, online learning, professional degrees upgrade, experts' content access</p> <p>Content creators: Educational and Professional organisations, Experts, Corporates</p>

Source: Hypothesis Research

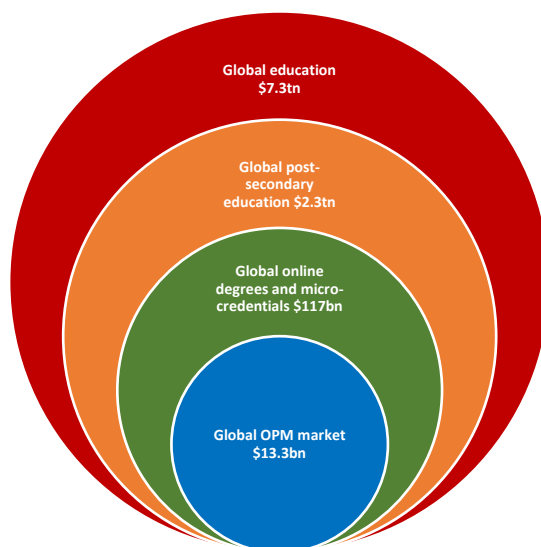
There are several challenges the online educational market may address:

- **The affordability** of the education, when the high cost of traditional educational programs prevents individuals from upgrading their skills.

- **The quality** of traditional programs is difficult to evaluate as educational providers do not provide quality indicators.
- **The access and scale** of educational solutions are limited in the traditional educational system. Individual training is difficult to reproduce in scale.
- **The relevant content** of traditional providers in areas of technical and creative skills needs to be regularly upgraded.

The online educational platforms (EdTech, eLearning platforms) allow individual learners and firms to access affordable and up-to-date content from experts from any field regardless of their location and experts' location.

Figure 4. Global education market in 2025 – HolonIQ estimates

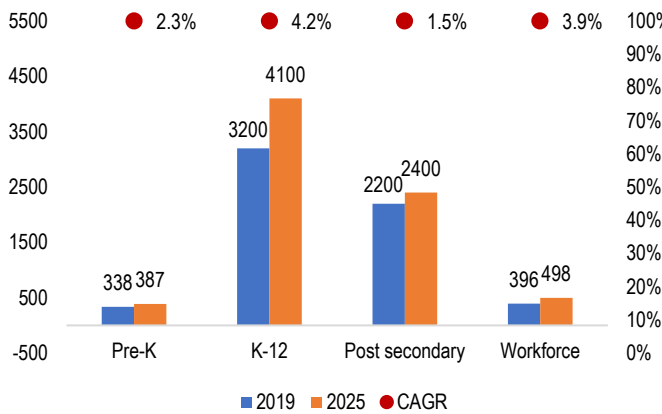


Source: HolonIQ

The global education market is estimated at over \$6 trln in 2019, including expenditures of the governments, employers, and consumers. The market, mostly dominated by the traditional forms of education, accelerated its transformation towards educational technologies during COVID lockdowns. Technology is expected to be the most rapidly growing element of the education market. Pre-K and K-12 segments are driven by schools adopting educational technology, including online classrooms, support for pupils, communication with parents, online homework submission, as well as parents looking for learning support and solutions for kids. In post-school education, Universities and other educational platforms provide online resources and programs replacing in-person education with more time-efficient learning. Employers use online platforms to upgrade skills or re-skill employees remotely.

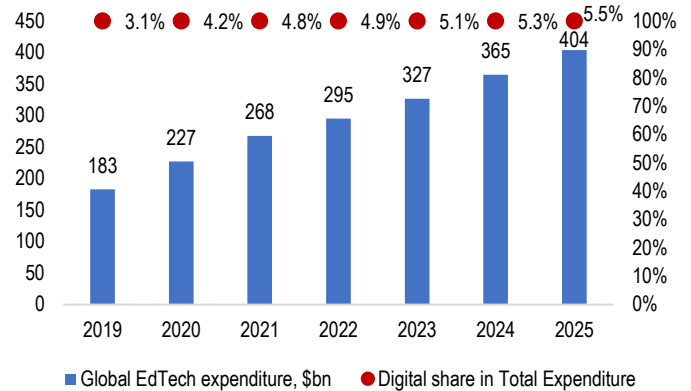
The educational technologies (EdTech) market is expected to grow at 16.3% per year to \$404bn of expenditures globally by 2025, according to HolonIQ. The forecast was earlier upgraded from \$341bn in 2025 and pre-COVID CAGR of 13.1%. The adoption of technologies accelerated driven by COVID-19, however, most of the traditional educational institutions are at the beginning of the technology adoption. The traditional educational models B2C and B2B also expanded via the adoption of C2C models, when skilled instructors provide educational materials used by consumers.

Figure 5. Global Education Expenditure Growth (2019-2025), \$mn



Source: www.holoniq.com

Figure 6. Global EdTech expenditure, \$bn



Source: www.holoniq.com

Peers

Udemy operates in a relatively fast developing segment of online learning platforms. Among the company’s peers are traditional institutions offering short courses via their online platforms, EdTech companies, and offline educational organisations. There are several competitive advantages Udemy has on its platform:

- High-quality content from experts, periodically updated and upgraded.
- A wide offering of courses and content on many subjects, including both professional and personal development.
- Flexible pricing for courses and free courses to maintain interested users on the platform.
- Reliable technology supporting users in different regions, personalising content, and learning approach.

According to Udemy, the competition may include the following, apart from free resources.

Figure 7. Udemy’s competitive landscape

Segment	Competitors
Corporate training	Pluralsight, LinkedIn Learning, Skillsoft
Direct-to-consumer training	Coursera, edX
Specialised content training	A Cloud Guru, Skillshare

Source: company data

The competition among online learning platforms is increasing with many content creators, educational institutions, and customers attracted by the convenience of the online education.

One of the ratings by *verywellfamily* mentioned the following online learning platforms:

Figure 8. Rating of online learning platforms by verywellfamily

Category	Platform	Number of courses	Price	Certificate	Accredited Institution
Best overall	Coursera	3000+	From \$9.99 per course, from \$39 per professional certificate course, from \$2000 for university certificate course	Yes	Yes
Best for Niche Topics	Udemy	185,000+	\$11-200	Yes	No
Best for Creative Fields	Skillshare	35,000+ courses	\$14 per month	No	No
Best for Celebrity Lessons	Masterclass	100+ courses	\$15-23 per month	No	No
Best for STEM	EdX	3,500+ courses	\$50 for verified certificate	Yes	Yes
Best for Career Building	Udacity	200+ courses	\$399/month-\$1995 for 4-month access to some courses	Yes	Yes
Best for Data Learning	Pluralsight	7000+ courses	\$299-499 per year	Yes	No

<https://www.verywellfamily.com/best-online-learning-platforms-5073725>

The online platform *360learning* includes Udemy as one of the leading industry content integrators.

Figure 9. 360learning – Content integrators

Udemy Business	Coursera	LinkedIn Learning
Over 14,000 courses from experts in business catalogue	Over 4,400 courses, including those from over 175 institutions	Learning catalogue of over 16,000 courses
OpenClassrooms	Busuu	Skillsoft
Courses from online schools covering practical skills	Over 3,000 language learning lessons in 13 languages	Expertly curated content for IT, business skills, leadership, and compliance training
Pluralsight	EdX for Business	Fitforbanking
Over 8,000 courses covering skills and technologies including cloud, security, ML and AI	Over 3,000 courses from academic institutions	Over 280 banking and financial courses

Source: <https://360learning.com/integrations/#content-integrations>

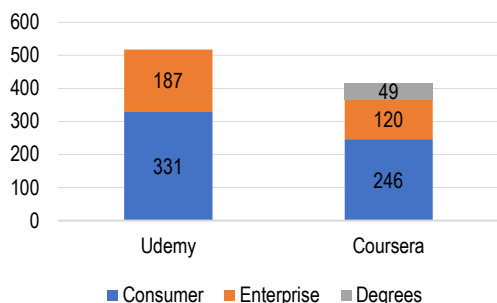
Coursera is a close competitor for Udemy. The core difference of Coursera is the availability of certificates on the Coursera platform, thus better transparency for an employer of skills acquired on the platform. Coursera receives fees for the introduction of learners to universities programs.

Figure 10. Comparison of Udemy and Coursera

Coursera	Udemy
Pros	Pros
Certificates recognised by employers	185k+ courses for professional and personal education
Courses built by universities and educational organizations	Multimedia courses
Over 1,500 free courses	Over 17,700 free courses
Multiplés languages courses	30-day refund guarantee
User-friendly platform	Courses in 75 languages
	No deadlines
Cons	Cons
Courses with strict timelines	No accredited institutions
Additional applications for degree programs	Courses are prepared by instructors without additional check
No certificates for free courses	Instructors are not engaged in Q&A

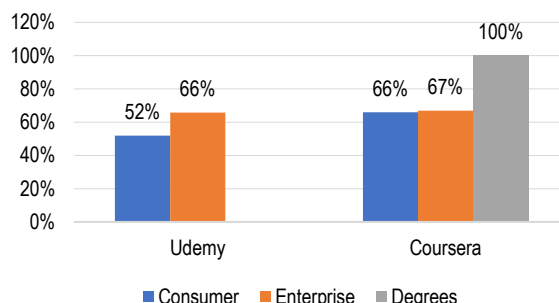
Source: www.verywellfamily.com, Hypothesis Research

Figure 11. Revenue by company in 2021, \$mn



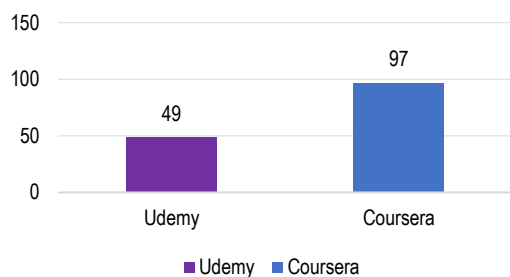
Source: company data

Figure 12. Gross margin by company in 2021, %



Source: company data

Figure 13. Number of registered users, mn



Source: company data

Udemy

Overview

One of the rapidly growing companies in eLearning, Udemy manages the online platform for content creation, engagement, and continuous content updates by expert instructors. The content is available for more than 49mn users globally. There are over 17,700 free courses available and over 28mn users have enrolled in free courses. Free courses help to attract users to the platform making the content affordable and increasing user engagement. Udemy is using ML algorithms to offer learners new courses based on topic, quality, instructor rating, number of enrolments, learners' country of origin. The platform converted over 3.7mn free learners to buyers.

Udemy provides unlimited access to courses through its Consumer, Enterprise, and Team plan subscriptions. Pricing of the subscription begins at \$20-30 per seat per month, depending on the regional market. The Consumer subscription plan provides an access to a catalog of over 5,500 top-rated courses monthly. The Team plan offers organizations access to over 6,000 top-rated courses for 5-20 seats at an annual fee of \$360 per seat. The Enterprise plan starts with 21+ seats and supplements the Team offering with additional insights, learning playbooks, and additional courses. The pricing of Enterprise plans depends on volume, length of contract, and other factors.

Udemy has over 49mn learners on the platform, who have access to constantly updated content. Learners' objectives include technical skills upgrade and reskilling, Business skills development to advance careers and to react on changing business environment, and Personal skills in different areas such as Art, Music, Wellness, and other. Top courses have 1-3mn learners and are rated by learners from 4.5 to 5.0 stars.

Udemy has over 10,500 global business customers, including such companies as Citi, Jaguar Land Rover, Tata Consultancy Services, Booz Allen Hamilton, PayPal, Box, Sapien, and Eventbrite. Business customers looking to upskill and reskill their team to bring innovation and improve productivity.

The company operates in two segments – Consumer and Enterprise.

In the Consumer segment, the company is selling access to course content on the platform directly to individuals. A learner can purchase a single course or a subscription. All contracts require the learner to pay prior to access to any content. In the case of the subscription, a learner gets a seven-day trial period.

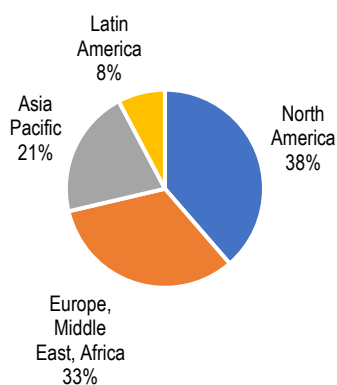
The customer purchasing a single course receives a lifetime access licence to the course content via the platform. The subscription plan offers on-demand access to all courses under subscription terms. Consumer subscriptions are for a one-month period usually, automatically renew after this period, paid in advance. Subscribers retain access to course content for the duration of the subscription period.

In the Enterprise segment, the company is selling subscription licences to corporate and government customers. The subscription has usually annual or multi-annual terms and includes a fixed quantity of seat licenses. Each seat has an unlimited number of course enrollments during the term of the contract. Subscribers retain access to the courses they enroll in for the duration of their subscription. Udemy's standard approach is to invoice upfront annually for contracts with one-year term or longer, and in advance billing.

The largest region for Udemy is North America (38% in revenue in 2021), followed by EMEA (33%) and Asia Pacific (21%). The company has representation in India, one of the potentially large regions for EdTech. Over the past two years, Asia Pacific revenue

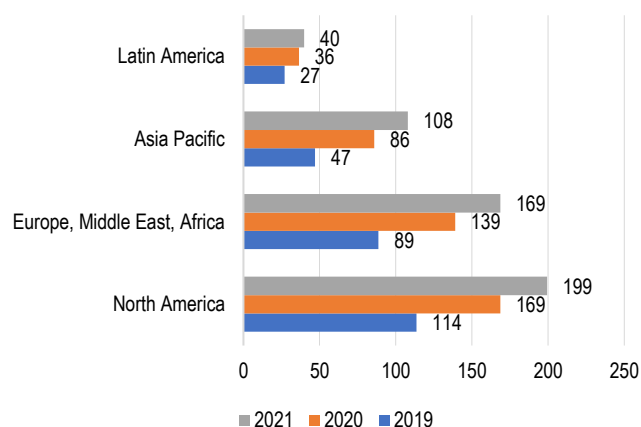
demonstrated the highest growth (26% in 2021 and 51% 2-year CAGR), followed by EMEA (21% in 2021 and 38% 2Y CAGR) and North America (18% in 2021 and 32% 2Y CAGR). Overall, the revenue of Udemy grew by 20% in 2021 after a 56% growth in 2020, when COVID-19 lockdowns accelerated the demand for online courses and content.

Figure 14. Udemy revenue by region in 2021, %



Source: company data

Figure 15. Revenue dynamics by region in 2021, \$mn



Source: company data

Operating parameters

Udemy operating metrics include Monthly Average Buyers and Udemy Business customers reported quarterly. The deceleration of the Monthly Average Buyers by 7% in 2021, while the number of Enterprise customers grew by 38% YoY in 2021. Udemy users are attracted by a wide range of courses covering Technology, Business, Teaching and Academics, Personal Development, Lifestyle, Health & Fitness, and Art & Design. Half of Udemy's courses were in Technology and Business categories in 2020, however, they accounted for 70% of all enrollments.

As of 31 December 2021, the Udemy Business course catalog included 8,400 courses related to technical skills and over 6,100 courses related to business, personal and professional skills. The number of courses added to the platform per month was 500 per month in 2021. The overall course catalog for Udemy Business increased from 2,500 in 2017 to over 14,000 in 2021.

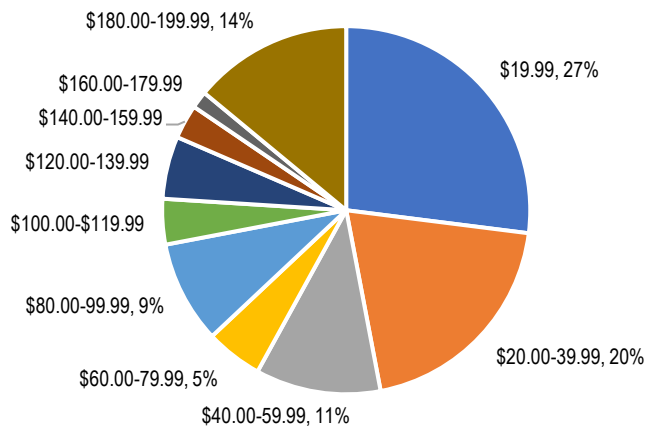
Figure 16. Udemy enrolment by category as of January 2021

	Enrollments	Courses	Average Enrollment
Technology	205,512,778	48,476	4,239
Business	103,041,239	39,066	2,638
Art & Design	50,226,620	19,565	2,567
Teaching & Academics	24,196,374	17,714	1,366
Personal development	25,941,824	16,470	1,575
Health & Fitness	8,117,255	8,563	948
Lifestyle	6,984,230	7,356	949

Source: www.classcentral.com, January 2021

The quality of content is confirmed by course ratings, helping new customers to choose the best option. Udemy’s course had over 32mn ratings at the beginning of 2021. The rating tends to be 4-5 stars for 85% of courses, and 1-2 stars represent only 4% of courses. The affordability of the content is another competitive advantage of Udemy versus other platforms. The platform offers content to a user based on his/her preferences, while the user may choose a new course with a price discount during the promo periods.

Figure 17. Udemy course price without discounts or deals



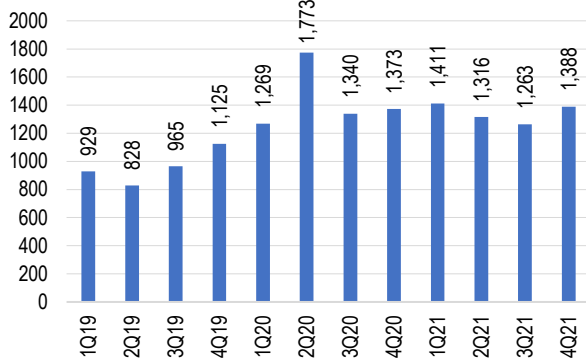
Source: <https://www.classcentral.com/report/udemy-by-the-numbers>

Udemy courses are rarely sold at the list price. There are a lot of promotions that bring the cost of a course for users down.

Udemy courses are available in 75 languages, with over 60% of courses offered in English.

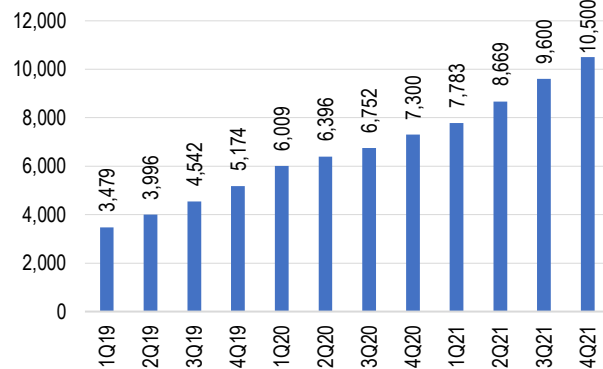
The total number of courses grew from 157,000 to 185,000 over 2021, while the number of enrollments jumped from 425k in 2020 to 680k in 2021. Udemy had 35mn registered users reported as of the end of 2020, and 49mn a year later.

Figure 18. Udemy Monthly Average Buyers, 000



Source: company data

Figure 19. Udemy UB customers

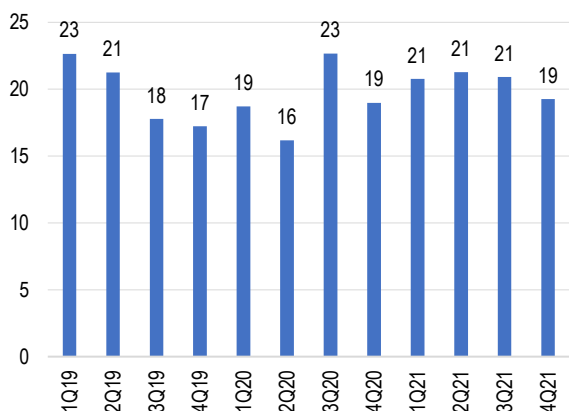


Source: company data

Given the promotion policy, the average revenue per buyer did not change significantly over the last two years for the Customer segment. However, we see a potential to convert free users into paying customers and to attract corporate users on the platform as individual

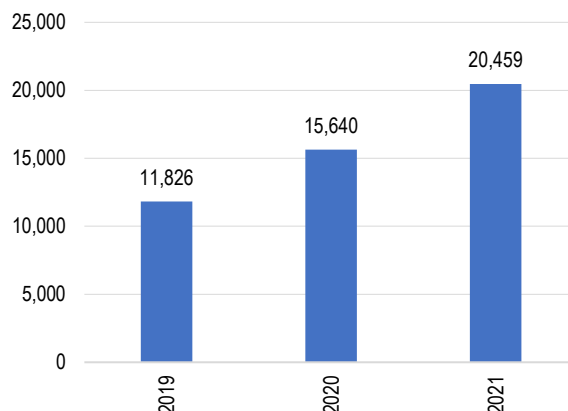
customers for extra curriculum topics. The annual revenue per Enterprise customer was growing in 2020-2021, and we see this segment as the most promising in terms of price appreciation.

Figure 20. Udemy monthly average revenue per buyer in Consumer segment, \$



Source: company data

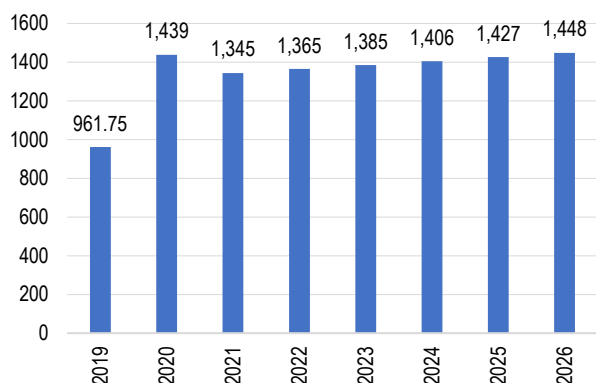
Figure 21. Udemy annual revenue per Enterprise customer, \$



Source: company data

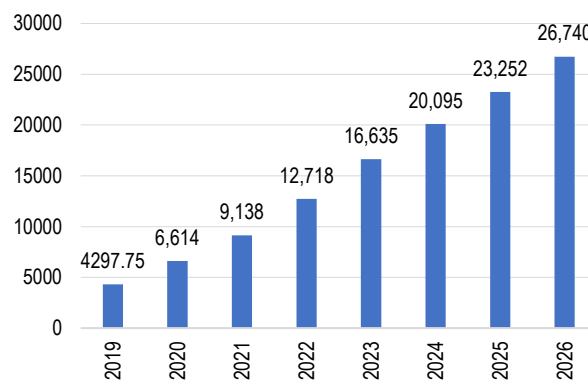
Our forecast for Monthly average buyers and Enterprise users for 2022-2026 is presented below.

Figure 22. Udemy monthly average buyers, 000



Source: company data, Hypothesis Research

Figure 23. Udemy Enterprise customers

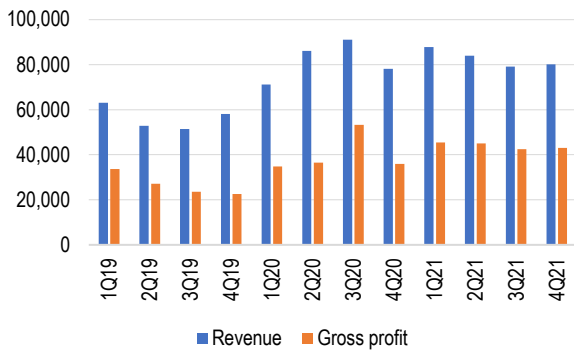


Source: company data, Hypothesis Research

Financials

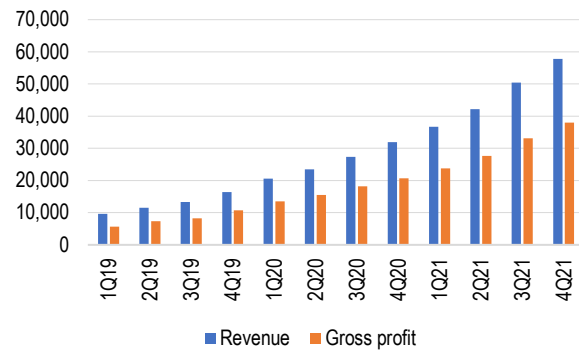
The revenue dynamics of Udemy reflect its monthly buyers' dynamics in the Consumer segment and user growth in the Enterprise segment. Both reporting segments have the number of users as the main driver for the future, and we expect the only a limited impact of the price factor on a revenue stream. However, more favourable pricing in the Enterprise segment due to the subscription-type business model is an incentive for the company to focus on this segment in the future, in our view.

Figure 24. Udemy revenue and gross margin in Consumer segment, \$000



Source: company data

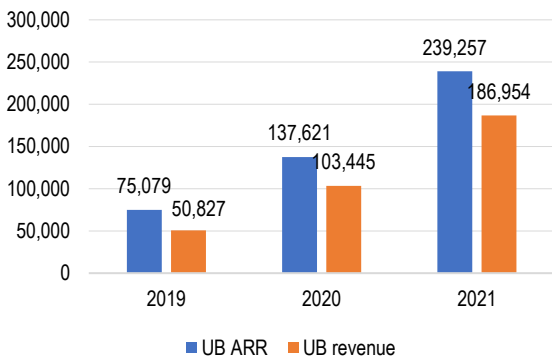
Figure 25. Udemy revenue and gross margin in Enterprise segment, \$



Source: company data

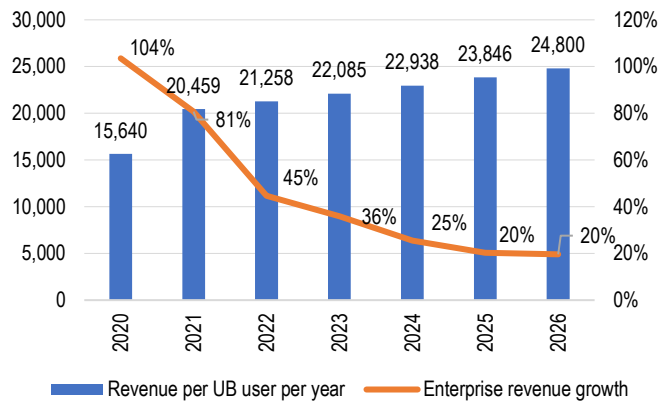
Our forecast for Udemy is based on a rather flat forecast of revenue per buyer in the Consumer segment and deceleration of revenue per client in the Enterprise segment, following 2021 results.

Figure 26. Udemy Business revenue and ARR, \$000



Source: company data

Figure 27. Udemy revenue per user in UB, \$

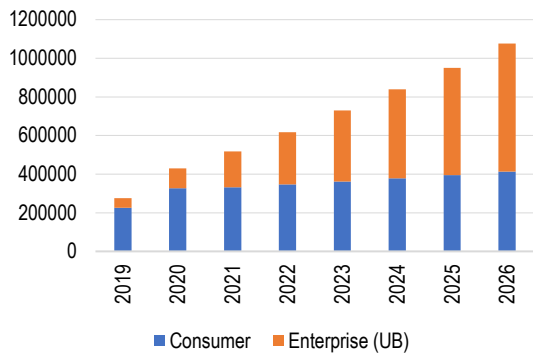


Source: company data, Hypothesis Research

Our forecasted CAGR for 2021-2026 is 1% for Monthly Average Buyers, 24% for business users, 5% for Consumer revenue, and 29% for Enterprise revenue. We expect Udemy revenue growth will account for 18-19% p.a. in 2022-23 and will go down to 13%p.a. in 2025-26. The dynamic of the average recurring revenue in the Udemy Business segment (Enterprise) is supportive of the growth forecast.

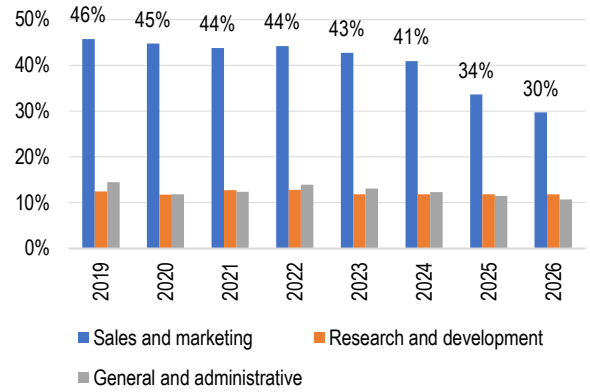
The essential factor for the overall profitability of Udemy is the balance of sales and marketing costs versus revenue. We hope the company can take control over S&M expenses to bring them down below 30% of revenue.

Figure 28. Udemy revenue structure - forecast, \$000



Source: company data, Hypothesis Research

Figure 29. Udemy operating costs as percentage of revenue – forecast, %



Source: company data, Hypothesis Research

Figure 30. Udemy Consolidated statements of operations, \$000

\$000	2019	2020	2021	2022	2023	2024	2025
Revenues	276327	429899	518,157	616,645	729,409	839,425	950,152
Cost of revenues	143510	209253	236,024	257,099	302,890	350,322	399,958
Gross profit	132817	220646	282,133	359,547	426,519	489,102	550,194
Operating expenses:							
Sales and marketing	126436	192600	227,023	272,750	312,054	343,855	319,992
Research and development	34379	50643	66,107	79,078	86,244	99,252	112,344
General and administrative	40033	50783	64,410	85,875	95,737	103,469	109,514
Total operating expenses	200848	294026	357,540	437,702	494,036	546,576	541,850
Operating loss	-68,031	-73,380	-75,407	-78,156	-67,517	-57,474	8,343
Other income (expense), net:							
Interest income (expense), net	87	-1,146	-16	-19.0	-22.5	-25.9	-29.3
Other income (expense), net	-384	55	-920	-	-	-	-
Total other income (expense), net	-297	-1,091	-936	-473	-540	-755	-676
Net loss before taxes	-68,328	-74,471	-76,343	-78,628	-68,057	-58,229	7,667
Income tax provision	-1,375	-3,149	-1,183	-1218	-1055	-902	119
Net loss	-69,703	-77,620	-77,526	-79,847	-69,111	-59,131	7,785
Net loss per share attributable to common stockholders, basic and diluted	-2.57	-2.33	-1.41	-0.57	-0.49	-0.42	0.05

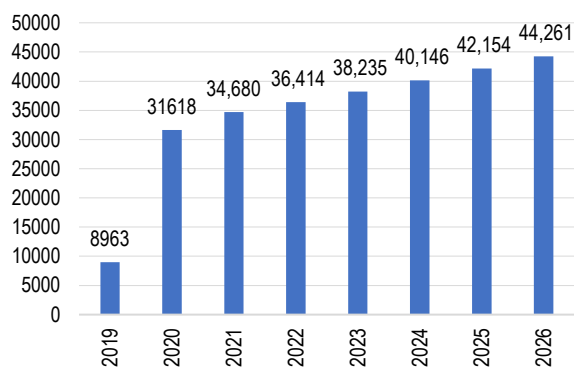
Source: Company data, Hypothesis Research

Figure 31. Udemy Balance sheet, \$000

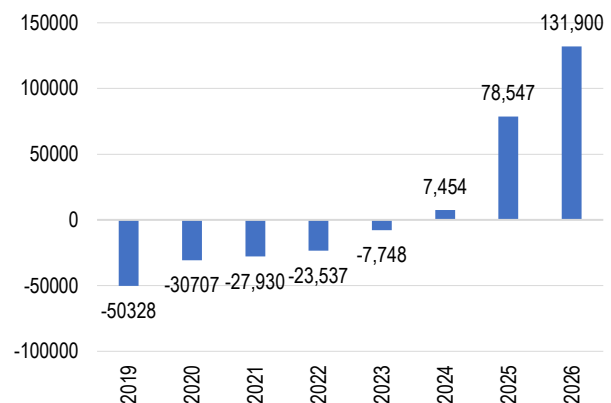
	31/12/2019	31/12/2020	31/12/2021	31/12/2022	31/12/2023	31/12/2024	31/12/2025
Cash and cash equivalents	49,139	175,031	533,868	458,353	419,983	393,426	435,676
Restricted cash, current	112	—					
Accounts receivable	26,807	46,257	73,180	87,090	103,015	118,553	134,191
Prepaid expenses and other current assets	3,626	6,036	15,927	17,349	20,439	23,640	26,989
Deferred contract costs, current	4,696	9,640	18,898	20,585	24,252	28,050	32,024
Total current assets	84,380	236,964	641,873	583,377	567,689	563,669	628,880
Property and equipment, net	7,956	9,106	9,887	13,345	17,436	22,144	27,473
Capitalized software, net	10,801	14,013	20,054	23,866	28,230	32,488	36,773
Restricted cash, non-current	2,500	2,900	2,900	2,900	2,900	2,900	2,900
Deferred contract costs, non-current	9,684	16,197	25,647	27,937	32,913	38,067	43,461
Strategic investments			10,000	10,000	10,000	10,000	10,000
Intangible assets, net			13,597	13,597	13,597	13,597	13,597
Goodwill			12,646	12,646	12,646	12,646	12,646
Other assets	1,981	2,916	3,247	3,864	4,571	5,260	5,954
Total assets	117,302	282,096	739,851	691,532	689,982	700,771	781,684
Accounts payable	16,323	23,710	34,627	37,719	44,437	51,396	58,678
Accrued expenses and other current liabilities	46,128	46,778	41,640	45,358	53,437	61,805	70,562
Content costs payable	24,868	31,483	35,961	39,172	46,149	53,376	60,938
Accrued compensation and benefits	9,575	20,403	22,341	24,336	28,670	33,160	37,858
Deferred revenue, current	87,005	141,439	208,274	226,871	267,278	309,134	352,934
Total current liabilities	183,899	263,813	342,843	373,456	439,971	508,870	580,970
Deferred revenue	704	937	2,280	2,713	3,210	3,694	4,181
Other liabilities	2,644	3,927	2,528	3,009	3,559	4,095	4,636
Total liabilities	187,247	268,677	347,651	379,178	446,739	516,659	589,787
Total stockholders' deficit	-225,590	-260,685	392,200	312,354	243,243	184,112	191,897
Total liabilities, redeemable convertible preferred stock, and stockholders' deficit	117,302	282,096	739,851	691,532	689,982	700,771	781,684

Source: Company data, Hypothesis Research

We assume the company will slightly increase the stock-based compensation in total operating costs by 2025, however, it will remain a mid-single percentage of Udemy's total operating expenses. We believe the company can achieve a positive EBITDA (adjusted for the stock-compensation expense) in 2024-2025.

Figure 32. Udemy stock-based compensation, \$000

Source: Company data, Hypothesis Research

Figure 33. Udemy EBITDA, \$000

Source: Company data, Hypothesis Research

The company reported 139,164,693 common shares after the conversion of preferred shares and 2,545,051 restricted stock units, unvested as of 31/12/2021 at price of \$27.64. Thus, the fully diluted number of shares is estimated at 141,709,744. We use in our calculations this number.

We assume the company will have a limited option program in the future and do not include new share issues in our estimates.

Figure 34. Udemý number of common shares

	Number of shares
Balance—December 31, 2020	35,627,503
Conversion of redeemable convertible preferred stock to common stock upon initial public offering	85,403,933
Issuance of common stock in connection with initial public offering, net of issuance costs and underwriting discount	15,150,000
Exercise of stock options	2,921,957
Restricted stock issued for business combination	61,300
Balance—December 31, 2021	139,164,693

Source: company data

The company raised \$274mn in series A-F since its Seed round in 2010. The last issuance price was \$24.13 per share. The last funding round was in November 2020, and the cost of over 5.9mn shares sold during rounds E and F is \$15.57 per share and above. Most of the offering may come from pre-IPO investors in rounds A-D.

Figure 35. Redeemable preferred stock

	Shares Authorized	Shares Issued and Outstanding	Issuance Price Per Share	Amount raised, \$mn	Date
Series A	8,483,166	8,483,166	0.24	2	Oct-11
Series A-1	15,295,184	15,132,282	0.20	3	Oct-11
Series B	22,956,103	22,956,103	0.54	12	Dec-12
Series C	16,198,348	16,198,348	1.98	32	May-14
Series D	16,702,584	16,702,584	6.22	104	Jul 2015/ Jul 2016
Series E	2,569,043	2,569,043	15.57	40	Feb-20
Series F	4,144,218	3,349,812	24.13	81	Nov-20
	86,348,646	85,391,338		274	

Source: company data

Valuation

We use DCF valuation and the target multiple EV/Revenue'23 of 3.76x, which is an average for the peer group. The target multiple valuation provides a \$22.3 per share price target. Udemý demonstrates a better combination of revenue growth vs EV/Revenue'23 compared to peers. Our 12-month fair market capitalization based on DCF is within the range of \$2,166-\$3,094mn or \$15.3-21.8 per share based on 141.7mn common shares. We set the 12-month target price at a mid-range of \$18.6 per share. We rate the stock Buy.

Figure 36. Udemy 12-month DCF fair market capitalization sensitivity, \$mn

GROWTH RATE, %	WACC				
	7.6%	8.1%	8.6%	9.1%	9.6%
2.5%	2,388	2,208	2,058	1,930	1,820
3.5%	2,820	2,555	2,342	2,166	2,019
4.5%	3,530	3,094	2,763	2,505	2,297
5.5%	4,912	4,045	3,456	3,031	2,709
6.5%	8,790	6,179	4,806	3,960	3,386

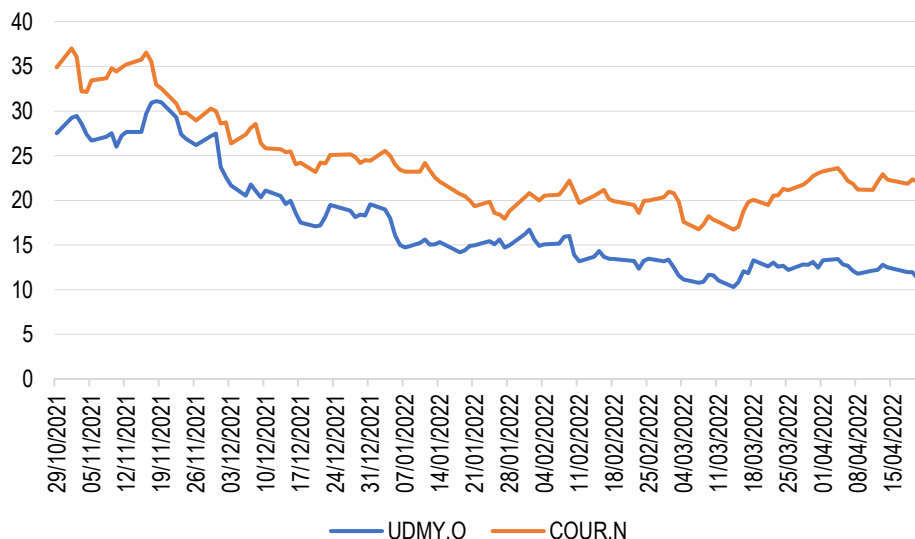
Source: Hypothesis Research

Downside to price target:

- Increase of Fed interest rates, which will likely affect Technology sector performance
- Deterioration or slow growth of Udemy Business operating and financial metrics
- Negative monthly buyers' dynamics due to a cancellation of services in Eastern Europe
- Weak post-COVID customer acquisition dynamics
- High customer acquisition expenses, including high sales and marketing expenses
- Weak performance of a peer group
- Exit of pre-IPO investors and execution of options with a relatively low exercise price

The company has several rounds of pre-IPO funding with the last round priced at \$24.13 per share. Investors, who are in a lock-up period may start selling their positions after 6-months lock-up period ends (started on 29 October 2021). Thus, a sizable position of converted preferred shares might be available on the market after lock-up expires. The relatively high price of the rounds E-F may restrain the sellers; however, investors in earlier rounds may create pressure on the share price.

Figure 37. Udemy vs Coursera share price performance



Source: Refinitiv

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