

Udemy Inc

Outlook suggests NT execution and macro hiccups, but acceleration in 2H; Buy

Reiterate Rating: BUY | PO: 16.00 USD | Price: 14.01 USD

4Q rev/EBITDA beat, but ARR growth slowing

4Q rev grew 15% YoY (ex-FX 16%) to \$190mn vs. Street at \$186mn. Udemy Business (UB) grew 27% YoY vs Consumer segment growth of 0.7% YoY in 4Q. EBITDA was at \$4mn (vs. Street at \$1.1mn) implying a 2% margin (up 14ppts YoY) with 250bps of leverage from gross margin improvements driven by revenue mix towards UB. UB's annual recurring revenue (ARR) growth decelerated to 25% YoY (1.1ppt decel vs. 3Q) while net dollar retention remained flat QoQ at 106%. The company mgmt. outlook suggests further ARR deceleration in 1H24 on macro led weakness in EMEA and execution issues being faced in Vietnam and South Korea.

1Q/2024 outlook muted with WIP execution issues

The 1Q and 2024 Revenue guide suggests growth of around 10% at mid-point vs Street at +13% y/y. Mgmt. remains wary of an uncertain macro environment, FX headwinds, and expects to keep working through the execution issues in Asia. Udemy mgmt. highlighted that 2024 is an investment year (brand, AI capabilities and expanding go-to-market teams), supported by 300bps expansion in GM in 2024 (from lower instructor rev. share and increasing UB in mix), but yielding 1.5-2.0% EBITDA vs. Street at 3%. Mgmt. maintained confidence in their LT adj. EBITDA margin target of 15% to 20% by 2027, driven by the revenue share change, continued revenue mix shift to Udemy business, and opex leverage (primarily from sales and marketing).

Reducing 2024 estimates for slower growth

For 1Q'24, we estimate rev/EBITDA margin of \$196mn/0.2% vs mgmt. guidance of \$193-\$196mn/breakeven. For 2024, we lower rev/EBITDA to \$807mn/\$14mn from \$819mn/\$22mn (implying 2% margin vs 3% earlier). For 2025, we are now at \$934mn in rev. and 65% GM (vs 62% est. in 2024). We keep our 2025 EBITDA margin mostly unchanged at around 8% on expectations of cost efficiencies.

Remain constructive on UB and margin trajectory; Buy

Udemy will likely continue benefitting from secular shift to skills training and we remain positive on the traction of the Enterprise segment. Our \$16 price objective is based on the sum of a 1.0x 2025E EV/consumer revenue and 3x 2025E EV/Udemy business revenue. We think the stock is relatively inexpensive, trading currently at 1.7x 2025E sales vs ed-tech peer group at 2x and enterprise subscription services at 3.6x. We also like Udemy's strong margin trajectory over the next several years. Reiterate Buy.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(0.48)	0.01	(0.02)	0.33	0.77
GAAP EPS	(1.08)	(0.69)	(0.66)	(0.38)	(0.01)
EPS Change (YoY)	-71.4%	NM	NM	NM	133.3%
Consensus EPS (Bloomberg)			0.06	0.35	NA
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	NM	1,401.0x	NM	42.5x	18.2x
EV / EBITDA*	NM	220.4x	125.8x	23.5x	11.5x
Free Cash Flow Yield*	-3.0%	-0.1%	-0.3%	4.5%	5.5%

* For full definitions of *IQmethod™* measures, see page 6.

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Refer to important disclosures on page 7 to 9. Analyst Certification on page 5. Price Objective Basis/Risk on page 5.

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14 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	818.8	807.4
2025E Rev (m)	947.9	934.4
2026E Rev (m)	NA	1,085.6
2024E EPS	0.02	-0.02
2025E EPS	0.32	0.33
2026E EPS	NA	0.77

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Stock Data

Price	14.01 USD
Price Objective	16.00 USD
Date Established	10-Jan-2024
Investment Opinion	C-1-9
52-Week Range	8.17 USD - 16.01 USD
Mkt Val (mn) / Shares Out (mn)	2,074 USD / 148.1
Free Float	65.4%
Average Daily Value (mn)	10.97 USD
BofA Ticker / Exchange	UDMY / NAS
Bloomberg / Reuters	UDMY US / UDMY.OQ
ROE (2024E)	-1.0%
Net Dbt to Eqty (Dec-2023A)	-134.6%
ESGMeter™	NLA

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

UB: Udemy Business

GM: Gross Margin

WIP: Work in Progress

ARR: Annual Recurring Revenue

LT/NT: Long term/Near term

iQprofileSM Udemy Inc

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-36.4%	-26.2%	-28.3%	-19.7%	-0.3%
Return on Equity	-18.8%	0.4%	-1.0%	20.2%	46.3%
Operating Margin	-24.0%	-16.7%	-13.7%	-7.5%	-1.0%
Free Cash Flow	(63)	(3)	(6)	94	114

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	-1.3x	NM	1.7x	0.9x
Asset Replacement Ratio	0.1x	0x	0x	0x	0x
Tax Rate	NM	NM	NM	NM	NM
Net Debt-to-Equity Ratio	-137.2%	-134.6%	-132.6%	-134.4%	-120.0%
Interest Cover	NM	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	629	729	807	934	1,086
% Change	21.4%	15.9%	10.8%	15.7%	16.2%
Gross Profit	362	429	499	607	737
% Change	27.1%	18.6%	16.3%	21.6%	21.4%
EBITDA	(49)	8	14	73	149
% Change	-91.8%	NM	75.1%	434.9%	104.0%
Net Interest & Other Income	0	18	10	10	10
Net Income (Adjusted)	(69)	2	(3)	54	127
% Change	-70.4%	NM	NM	NM	135.7%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(154)	(107)	(106)	(63)	(1)
Depreciation & Amortization	21	25	27	31	36
Change in Working Capital	8	(10)	(7)	26	(1)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	64	90	81	99	80
Capital Expenditure	(2)	(1)	0	0	0
Free Cash Flow	-63	-3	-6	94	114
% Change	-402.6%	95.8%	-123.2%	NM	21.6%
Share / Issue Repurchase	16	19	12	12	12
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	465	480	364	348	349
Trade Receivables	105	93	151	176	217
Other Current Assets	45	60	69	81	95
Property, Plant & Equipment	7	4	4	4	4
Other Non-Current Assets	116	104	122	139	157
Total Assets	738	741	711	747	821
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	387	380	429	481	523
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	11	4	7	7	7
Total Liabilities	398	384	436	489	530
Total Equity	339	357	274	259	290
Total Equity & Liabilities	738	741	711	747	821

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Education & Training Services

Company Description

Udemy is a leading online course marketplace. Udemy connects 64mn learners and 15,000 enterprise customers with a catalogue of 210,000 courses, with over 70,000 instructors on the platform. Udemy has a significant international presence accounting for more than 60% of revenue. The company offers local language courses in more than 75 languages across 180 countries. Udemy offers both paid and free courses, and free courses on its platform are a medium to acquire new learners.

Investment Rationale

We are constructive on the growth potential of Udemy's "UB" business segment on growing global demand for skills based training. While we expect revenue to decline in the consumer segment and UB trends have decelerated on macro volatility, we believe this is priced into valuation as shares are trading below Udemy's historic average and a steep discount relative to growth. We expect Udemy to hit consistent EBITDA profitability starting in 1H24 which should be a catalyst for rerating

Stock Data

Average Daily Volume 782,898

Quarterly Earnings Estimates

	2023	2024
Q1	-0.06A	-0.02E
Q2	-0.01A	-0.02E
Q3	0.05A	0E
Q4	0.02A	0.02E

Actuals vs Estimates

Exhibit 1: Actuals vs estimates (\$mn except per share data)

Total 4Q23 revenue reported at \$190mn vs. our estimate of \$187mn.

Udemy	4Q23		
Segmental Revenues	Actual	Estimates	Difference
Consumer Revenue	74.9	72.4	2
y/y growth	0%	-3%	3%
Udemy Business Revenue	114.7	114.8	(0)
y/y growth	27%	27%	0%
Total Revenue	189.5	187.2	2.3
y/y growth	15%	13%	1%
Cost of Revenue	77.1	76.6	1
Gross Profit	112.5	110.7	2
% Margin	59.3%	59.1%	0%
Sales and marketing	75.2	75.4	(0)
Research and development	23.0	23.4	(0)
General and administrative	15.9	15.4	1
Total Operating Expenses	138.1	140.1	(2)
Operating Income - Non - GAAP	(1.6)	(3.4)	2
% Margin	-0.8%	-1.8%	
Non-GAAP Net Income	3.8	(2.3)	6
Net Income (Loss) per share, Non-GAAP	\$0.02	(\$0.01)	0.04
Adjusted EBITDA	4.0	1.7	2
% Margin	2.1%	0.9%	1%
Key Metrics			
Ending UB Customer ARR (\$MM)	466.0	474.3	(8)
y/y growth	25.4%	27.6%	-2%

Source: BofA Global Research estimates, company report

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Positives:

- **Still strong growth for UB segment:** UB revenue grew +27% YoY in 4Q vs overall Revenue growth of 15%. This we think is indicative of the ongoing demand from corporates to invest in skills-based training. UB segment continues to lead the share mix (58% of total 2023 revenue vs 50% in 2022) and bring in higher gross margin. As of the end of 2023, UB saw an 80% YoY increase in seven-figure deals in ARR.
- **Stable net dollar retention rate (NDRR) for UB:** While the NDRR had been decelerating since 1Q22, the rate in 4Q was stable QoQ at 106% and 113% for large customers. Mgmt. expects NDRR to ramp in 2H24 as ARR growth starts to accelerate.
- **4Q EBITDA beat on cost efficiencies:** While GM improved with better UB mix, Udemy also continued to reduce operational expenses significantly in 4Q. Sales and marketing expense represented 40% of revenue, y/y leverage of 700bps. R&D expense was 12%, down 150 bps, and G&A expense was 8%, down 30bps.
- **Authorization of 100mn buyback:** Board of Directors approved a stock repurchase program to acquire up to \$100mn of the company's outstanding common stock.



Negatives:

- **Missed 1Q and 2024 guidance:** The 1Q and 2024 revenue guide suggests growth of around 10% at mid-point vs Street at +13% y/y. Mgmt. remains wary of an uncertain macro environment, FX headwinds, and expects to keep working through the execution issues in Asia.
- **Execution issues in Asia:** Udemy mgmt. highlighted some execution issues in the second half of Q4 and specifically with some of their reseller partners in Korea and Vietnam. Mgmt. commented on taking active steps to revamp the leadership in those geos, but suggested that recovery of bookings could take time (adverse impact to flow into 1Q).
- **Consumer business yet to inflect:** Mgmt. expects Consumer segment revenue to be down 3%-5% YoY in 1Q and on a full year basis. This is primarily due to a to pullback marketing spend from Consumer segment and reallocation to the higher margin and higher growth UB segment.

Estimate Changes

Exhibit 2: Estimate changes

We reduce rev/EBITDA for 2024/2025E

Udemy	2024E			2025E		
	New	Old	Change	New	Old	Change
Segmental Revenues						
Consumer Revenue	295.4	298.5	(3)	292.3	295.5	(3)
y/y growth	-4%	-2%	-2%	-1%	-1%	0%
Udemy Business Revenue	512.0	520.3	(8)	642.1	652.4	(10)
y/y growth	22%	24%	-2%	25%	25%	0%
Total Revenue	807.4	818.8	(11)	934.4	947.9	(13)
y/y growth	11%	13%	-2%	16%	16%	0%
Cost of Revenue	308.0	311.6	(4)	327.3	331.2	(4)
Gross Profit	499.4	507.1	(8)	607.1	616.6	(10)
% Margin	62%	62%	0%	65%	65%	0%
Sales and marketing	327.1	327.0	0	359.7	364.9	(5)
Research and development	111.0	112.6	(2)	123.8	125.6	(2)
General and administrative	70.0	69.6	0	77.1	78.2	(1)
Total Operating Expenses	610.4	613.8	(3)	676.9	685.0	(8)
Operating Income - Non - GAAP	(8.7)	(2.0)	(7)	46.4	47.9	(1)
% Margin	-1.1%	-0.2%		5.0%	5.1%	
Non-GAAP Net Income	(3.8)	3.1	(7)	53.4	55.0	(2)
Net Income (Loss) per share, Non-GAAP	(\$0.02)	0.02	(0.04)	\$0.33	0.32	0.01
Adjusted EBITDA	13.6	21.6	(8)	73.0	75.9	(3)
% Margin	1.7%	3%	-1%	7.8%	8%	0%
Key Metrics						
Ending UB Customer ARR (\$MM)	574.0	605.6		723.2	759.4	
y/y growth	23.2%	27.7%	-5%	26.0%	25.4%	1%

Source: BofA Global Research estimates

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Price objective basis & risk

Udemy Inc (UDMY)

Our \$16 price objective is based on the sum of a 1.0x 2025E EV/consumer revenue and 3x 2025E EV/Udemy business revenue. This compares to Ed-tech comps at a median of 2x, and enterprise/subscription peers at 3.6x 2025E revenue. We believe a discount is warranted given challenges in the consumer segment, a recent slowdown in enterprise growth, and lower gross and EBTIDA margins vs peers.

Upside risks are: 1) multiple avenues for better than expected UB growth including international expansion, larger multi-year deals with existing customers and a recovery in small enterprise spending 2) stabilization in the consumer segment from continued content growth and increased marketing in and 3) capital return from a cash position that equals one-third of Udemy's market capitalization.

Downside risks are: 1) slowing UB growth due to macro headwinds which has elongated deal cycles and pressured small enterprise growth 2) continued softness in the Consumer segment and possible deleverage from higher marketing and 3) competition from existing online players and traditional offline learning options.

Analyst Certification

I, Curtis Nagle, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Internet Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Alphabet	GOOGL	GOOGL US	Justin Post
	Alphabet	GOOG	GOOG US	Justin Post
	Amazon.com	AMZN	AMZN US	Justin Post
	AppLovin	APP	APP US	Omar Dessouky, CFA
	DoorDash	DASH	DASH US	Michael McGovern
	DoubleVerify Holdings, Inc.	DV	DV US	Omar Dessouky, CFA
	Electronic Arts	EA	EA US	Omar Dessouky, CFA
	Integral Ad Science Holding Corp.	IAS	IAS US	Omar Dessouky, CFA
	LegalZoom	LZ	LZ US	Michael McGovern
	Match Group	MTCH	MTCH US	Curtis Nagle, CFA
	Meta Platforms Inc	META	META US	Justin Post
	Pinterest	PINS	PINS US	Justin Post
	RH	RH	RH US	Curtis Nagle, CFA
	Roblox Corp. Class A	RBLX	RBLX US	Omar Dessouky, CFA
	Squarespace, Inc.	SQSP	SQSP US	Michael McGovern
	Uber	UBER	UBER US	Justin Post
	Udemy Inc	UDMY	UDMY US	Curtis Nagle, CFA
	Vivid Seats	SEAT	SEAT US	Curtis Nagle, CFA
	Wayfair	W	W US	Curtis Nagle, CFA
	Wix.com	WIX	WIX US	Michael McGovern
NEUTRAL				
	ACV Auctions	ACVA	ACVA US	Curtis Nagle, CFA
	Airbnb	ABNB	ABNB US	Justin Post
	Beyond Inc	BYON	BYON US	Curtis Nagle, CFA
	Booking Holdings Inc	BKNG	BKNG US	Justin Post
	Bumble	BMBL	BMBL US	Curtis Nagle, CFA
	Digital Turbine, Inc	APPS	APPS US	Omar Dessouky, CFA
	Duolingo	DUOL	DUOL US	Curtis Nagle, CFA
	eBay	EBAY	EBAY US	Justin Post



US - Internet Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Etsy, Inc.	ETSY	ETSY US	Curtis Nagle, CFA
	Expedia	EXPE	EXPE US	Justin Post
	Instacart	CART	CART US	Justin Post
	Magnite, Inc.	MGNI	MGNI US	Omar Dessouky, CFA
	Snap	SNAP	SNAP US	Justin Post
	Take-Two Interactive	TTWO	TTWO US	Omar Dessouky, CFA
	Zillow	ZG	ZG US	Curtis Nagle, CFA
	Zillow	Z	Z US	Curtis Nagle, CFA
UNDERPERFORM				
	Chewy Inc	CHWY	CHWY US	Curtis Nagle, CFA
	Lyft, Inc.	LYFT	LYFT US	Michael McGovern
	Opendoor Technologies	OPEN	OPEN US	Curtis Nagle, CFA
	Peloton	PTON	PTON US	Curtis Nagle, CFA
	Playtika	PLTK	PLTK US	Omar Dessouky, CFA
	Redfin Corp	RDFN	RDFN US	Curtis Nagle, CFA
	Shutterstock	SSTK	SSTK US	Curtis Nagle, CFA

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

EV / EBITDA

Basic EBIT + Depreciation + Amortization

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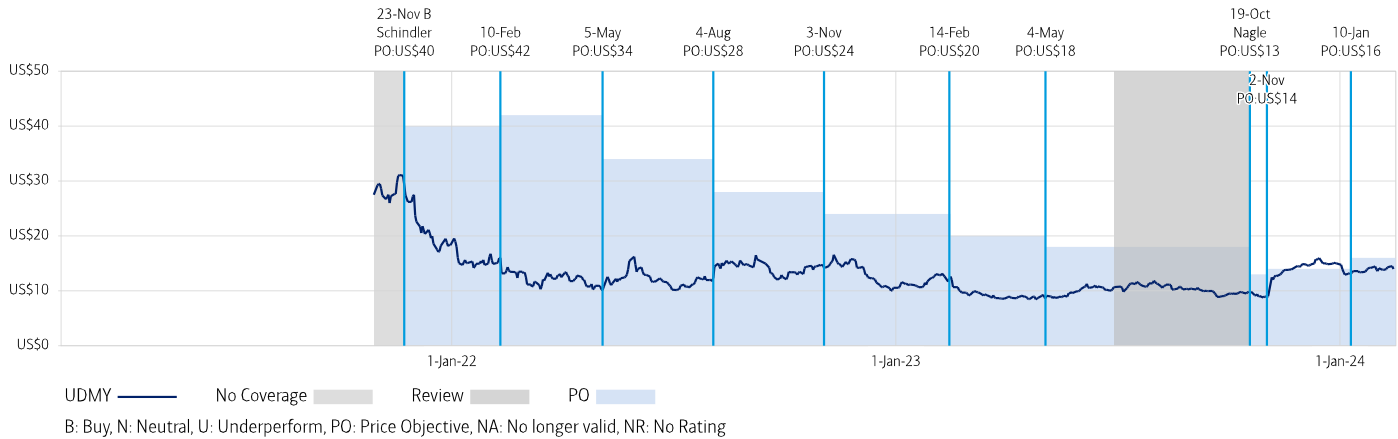
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Disclosures

Important Disclosures

Udemy Inc (UDMY) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Education & Training Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	8	53.33%	Buy	2	25.00%
Hold	4	26.67%	Hold	1	25.00%
Sell	3	20.00%	Sell	0	0.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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