

Udemy Inc

4Q23 preview; See upside to qtr and remain positive on UB & EBITDA ramp

Maintain Rating: BUY | PO: 16.00 USD | Price: 14.27 USD

See upside to 4Q/1Q results, remain positive on UB ramp

Udemy reports 4Q23 on 2/14 with a call following at 5pm ET. We expect 4Q revenues of \$187mn (+13% y/y), slightly above Street at \$186mn and Adj. EBITDA of \$1.7mn (vs Street at \$1.1mn). For 1Q24, our revenue/EBITDA ests are slightly below the Street (\$118/2mn vs. 119/4mn) but we would not be surprised to see a solid beat in 4Q that carries into stronger than expected 1Q24 guide. Over the past 3qtrs, UDMY beat the midpoint of revenue/EBITDA margin guide by 4/5ppts. Potential risks include FX, some uncertainty on the extent of margin expansion in 2024 given enterprise investments (mgmt. communicated “modest” rate expansion for ‘24 vs. +220ps implied by the Street) and volatility in the consumer segment as trends stabilize. With that said, we believe investors are squarely focused on the high growth, higher margin enterprise segment (“Udemy Business”) which we believe could see an acceleration in already healthy DD revenue growth (we project 24%/yr. from 2024-26) on new investments in AI-powered tools centered around content creation and curation as well as marketing.

Competitor readthrough should bode well for 1Q24 setup

In our view, better than expected results from competitor Coursera should bode well for Udemy earnings. Coursera 4Q23 revenue was 3% above consensus and 2024 guide was 1% above at the midpoint with higher EBITDA margin. While there are important differences in the businesses (UDMY skews to enterprise and does not serve educational institutions like Coursera) and geography (Coursera skews more to US), the two tend to track well for key metrics (see ex 2&3). Coursera enterprise revenue accelerated slightly in 4Q, after ten decelerating qtrs. and exceeded consensus estimates by 5ppts. While growing at a higher rate, Udemy enterprise revenues have followed a similar sequential trend and current consensus estimates imply a 3ppt deceleration which could prove to be conservative. Coursera net customer retention rates were also largely stable which could indicate that macro-related pressure on corporate budgets is waning.

Reiterate Buy on enterprise opportunity & margin ramp

We reiterate our Buy rating Udemy. We are positive on the growth trajectory for the enterprise segment (now 60% of revs going to 70%+) on a secular shift to skills training, leading course breadth and depth, strong monetization potential for Udemy content creators and potential consolidation within the sector. Success in enterprise is also key to upward EBITDA margin revisions which we see as a key driver of multiple expansion.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	(0.28)	(0.48)	(0.03)	0.02	0.32
GAAP EPS	(0.53)	(1.08)	(0.72)	(0.61)	(0.35)
EPS Change (YoY)	15.2%	-71.4%	93.8%	NM	NM
Consensus EPS (Bloomberg)			(0.03)	0.06	0.35
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	NM	NM	NM	713.5x	44.6x
EV / EBITDA*	NM	NM	299.2x	76.1x	21.6x
Free Cash Flow Yield*	-0.6%	-3.0%	0.1%	1.1%	4.9%

* For full definitions of *IQmethod*SM measures, see page 5.

09 February 2024

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Stock Data

Price	14.27 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)	2,113 USD / 148.1
Free Float	65.3%
Average Daily Value (mn)	11.00 USD
BofA Ticker / Exchange	UDMY / NAS
Bloomberg / Reuters	UDMY US / UDMY.OQ
ROE (2023E)	-1.4%
Net Dbt to Eqty (Dec-2022A)	-137.2%
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

DD- Double Digit

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Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 09 February 2024 05:00AM EST

iQprofileSM Udemy Inc

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	-32.6%	-36.4%	-28.0%	-23.2%	-12.3%
Return on Equity	-19.9%	-18.8%	-1.4%	0.9%	13.3%
Operating Margin	-14.5%	-24.0%	-17.3%	-13.0%	-7.2%
Free Cash Flow	(12)	(63)	1	23	104

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	NM	NM	NM	6.9x	1.9x
Asset Replacement Ratio	0.3x	0.1x	0x	0x	0x
Tax Rate	0.2%	NM	NM	NM	NM
Net Debt-to-Equity Ratio	-136.1%	-137.2%	-134.2%	-130.2%	-127.9%
Interest Cover	NM	NM	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	518	629	727	819	948
% Change	20.6%	21.4%	15.5%	12.7%	15.8%
Gross Profit	285	362	427	507	617
% Change	28.9%	27.1%	18.1%	18.7%	21.6%
EBITDA	(25)	(49)	5	22	76
% Change	17.4%	-91.8%	NM	293.1%	252.1%
Net Interest & Other Income	(1)	0	15	10	10
Net Income (Adjusted)	(40)	(69)	(5)	3	56
% Change	11.4%	-70.4%	93.0%	NM	NM

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	(76)	(154)	(115)	(102)	(61)
Depreciation & Amortization	15	21	24	28	32
Change in Working Capital	20	8	3	19	36
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	34	64	89	78	97
Capital Expenditure	(5)	(2)	0	0	0
Free Cash Flow	-12	-63	1	23	104
% Change	NM	-402.6%	NM	NM	354.0%
Share / Issue Repurchase	11	16	16	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)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	534	465	479	494	585
Trade Receivables	73	105	125	159	179
Other Current Assets	35	45	59	73	82
Property, Plant & Equipment	10	7	5	5	5
Other Non-Current Assets	88	116	118	132	147
Total Assets	740	738	785	863	997
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	343	387	422	477	533
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	5	11	7	7	7
Total Liabilities	348	398	428	484	540
Total Equity	392	339	357	379	457
Total Equity & Liabilities	740	738	785	863	997

* For full definitions of iQmethodSM measures, see page 5.

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 770,829

Quarterly Earnings Estimates

	2022	2023
Q1	-0.08A	-0.06A
Q2	-0.10A	-0.01A
Q3	-0.15A	0.05A
Q4	-0.16A	-0.01E

4Q23 preview exhibits

Exhibit 1: BofA estimates versus the Street

We are 0.8% above the street on total sales for 4Q23

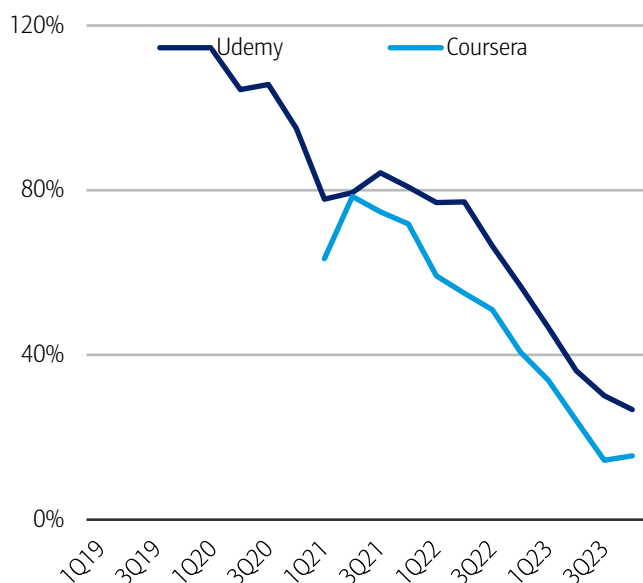
	4Q23			1Q24			FY24			FY25		
	BofA	Street	Variance	BofA	Street	Variance	BofA	Street	Variance	BofA	Street	Variance
Total Revenue	187.2	185.8	0.8%	198.8	199.3	-0.3%	818.8	832.2	-1.6%	947.8	962.5	-1.5%
Consumer Revenue	72.4	72.5	-0.1%	78.4	81.2	-3.5%	298.5	304.7	-2.0%	295.5	315.4	-6.3%
UB revenue	114.8	113.3	1.3%	120.4	118.1	1.9%	520.3	527.5	-1.4%	652.4	647.1	0.8%
Gross profit (GAAP)	108.0	106.6	1.4%	117.8	118.5	-0.6%	496.6	503.2	-1.3%	605.4	615.2	-1.6%
Sales & Marketing (non-GAAP)	75.4	72.3	4.2%	80.0	78.6	1.8%	327.0	326.0	0.3%	364.9	368.5	-1.0%
R&D (non-GAAP)	23.4	23.7	-1.3%	27.3	26.8	2.0%	112.6	112.3	0.2%	125.6	125.2	0.3%
G&A (non-GAAP)	15.4	15.7	-2.2%	16.9	16.8	0.5%	69.6	70.2	-0.9%	78.2	83.8	-6.7%
Adj. EBITDA	1.7	1.1	52.5%	2.0	4.2	-52.5%	21.3	24.8	-14.0%	75.6	72.6	4.1%
Adj. EBITDA Margin	0.9%	0.6%	30	1.0%	2.1%	(109)	2.6%	3.0%	(37)	8.0%	7.5%	43

Source: BofA Global Research Estimates, Visible Alpha

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Exhibit 2: Enterprise revenue YoY: Udemy vs. Coursera

Coursera revenue growth improved sequentially for the first time in 10 qtrs

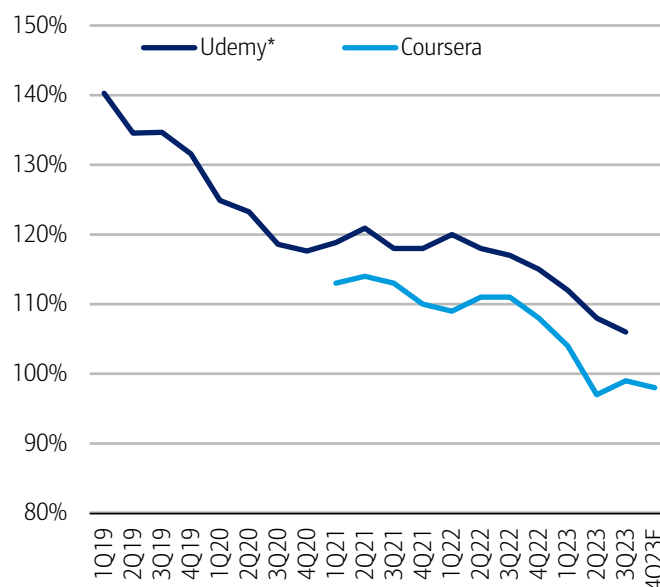


Source: Company reports, BofA Global Research Estimates

BofA GLOBAL RESEARCH

Exhibit 3: Enterprise revenue retention rates: Udemy vs. Coursera

Retention rates also appeared to have stabilized



Source: Company reports, BofA Global Research Estimates | * dollar retention

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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 2.6x, and enterprise/subscription peers at 3.5x 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

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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
	Expedia	EXPE	EXPE US	Justin Post
	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
	Etsy, Inc.	ETSY	ETSY US	Curtis Nagle, CFA

US - Internet Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$
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
 $\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$
Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
 $\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$
Sales

EV / EBITDA

Basic EBIT + Depreciation + Amortization

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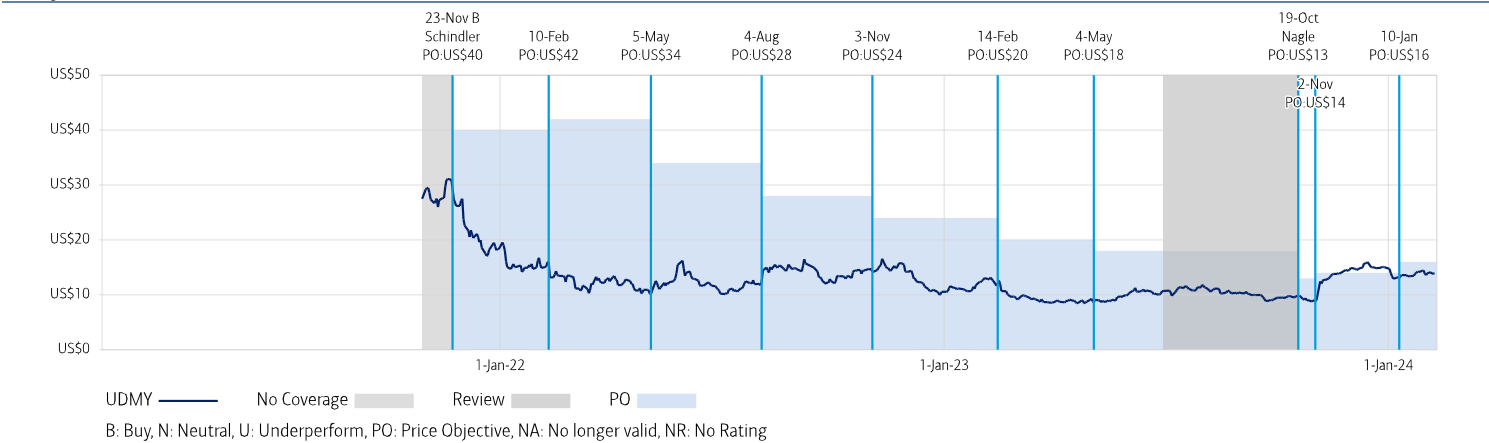
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Important Disclosures

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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