The Depth Report – Online Education – Coursera (COUR) and 2U (TWOU)

Gary Brode (917)-546-6821 GB@DeepKnowledgeInvesting.com 1 Vineyard Lane, Westport CT 06880

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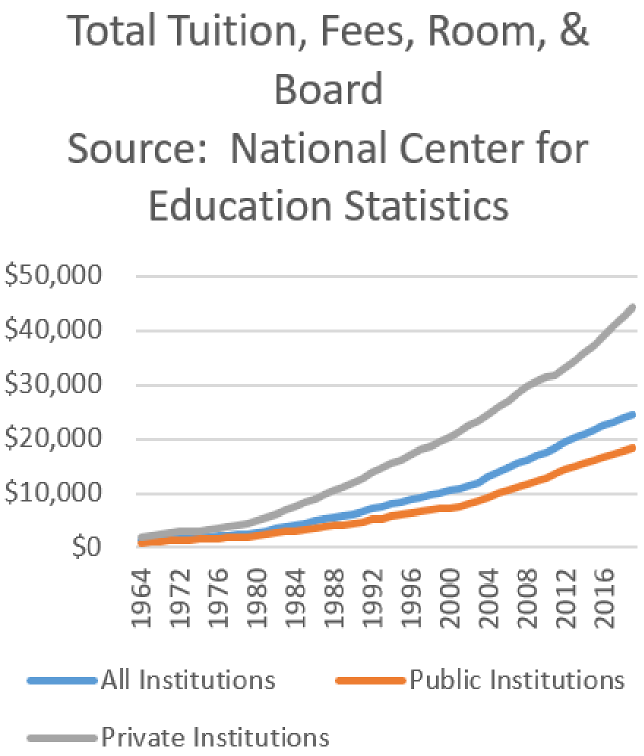
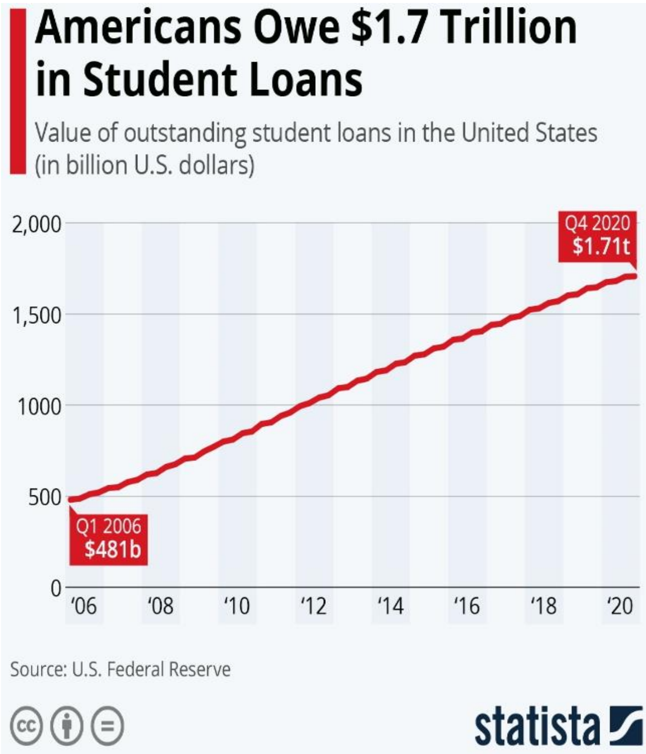
Overview:

We are experiencing a crisis in higher education in the US. Total student loan debt is now over $1.6 trillion, up about 50% from only 6 years earlier. Average debt per borrower is $38K, and it is that low only because that figure includes people who went to school decades earlier. The cost of a college education continues to rise at levels that far outstrip inflation. Take a look at the below chart and this chart. We don't think this is sustainable.





There are a number of things that have contributed to this problem. One key issue has been government guarantees. The Wall Street Journal reports that through Sallie Mae "Congress agreed to cover any losses…while also paying the company an interest rate equal to the 91-day Treasury plus an additional 3.5 percentage points on each loan". With the government responsible for loan losses, Sallie Mae had an incentive to increase loans made to students.

The Universities were free to raise tuition without losing customers because students had increased access to loans. They built bigger better living accommodations for students as well as spectacular workout and leisure facilities. Universities have mounting pressure to compete on amenities and fewer budgetary constraints. This, combined with college rankings that could distort the basis of competition and increased pressure to recruit more high-paying students (discussed later in this report) have led to more spending on leisure facilities[1]. For an 18-year-old deciding where to go to school, the appealing campus environment was available now while crippling loan repayments were years in the future.

Another way Universities increased their structural cost was in administration. Forbes reports that in 1980, University instructional spending was 41% of total spending. By 2014, that figure had fallen to 29% while administrative spending as a percentage of the rising total was almost unchanged. That means that as Universities kept increasing tuition, most of the increase in funds went towards facilities and administration rather than improving student instruction[2].

An additional pricing factor is State Universities began to limit spots for in-state students in favor of more high-paying spots for out-of-state and foreign students. The Atlantic outlined the issue a few years ago: "Over the past decade, for example, Purdue University has reduced its in-state student population by 4,300 while adding 5,300 out-of-state and foreign students, who pay triple the tuition."

[1] Deep Knowledge Investing interns report that friends at some schools are housed in dormitories that resemble hotels and feature large private rooms, private bathrooms, kitchens, flatscreen televisions, and other expensive amenities.

[2] We are deliberately leaving athletic facilities out of the discussion. Athletic departments at schools with successful football and/or basketball programs often turn a profit, and athletic success leads to increased applications and alumni donations. Depending on the institution, building a new stadium may not take funds away from education.

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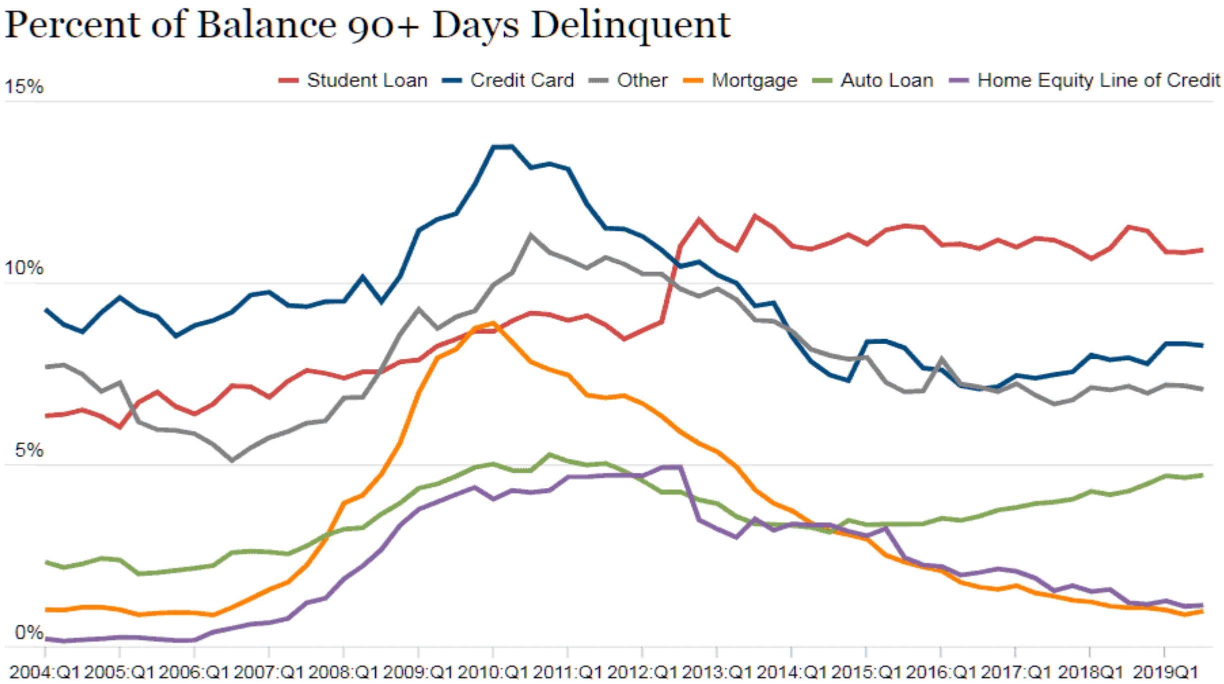
With students paying more and taking on more student debt without a commensurate increase in earnings power (a topic discussed in greater detail later in this report), their prospects after graduation may not be good. While students graduating with degrees in science, technology, engineering, and math (STEM) tend to be in good shape, among liberal arts majors, there is a long running trope of "the college-educated barista". There's nothing wrong with working as a barista, or at any service job, but there is a problem with delaying work for 4 years and starting out with 6 figures of debt in order to do a job that doesn't require a college degree.

Eric Muhlheim (Former CFO of Helix Education, a technology-powered provider of enrollment growth solutions for Higher Education, and a Founder of Disney English, the Disney-owned education company that taught English to Chinese students) notes that the key issue is return on investment. He points to a study by the Georgetown University Center on Education and the Workforce which shows that STEM graduates make 111% more than high school graduates while liberal arts majors only make 42% more. **Any system where student costs for a particular degree keep rising more than graduate salaries for that degree can't continue forever.**

Muhlheim points out that the Universities don't have full control of this either. Universities have a large infrastructure that has to exist for both the 500-person lecture hall as well as the class that may only have 3 students. And some of the increase in administration costs are due to greater qualification and record-keeping requirements. A shift to online education allows schools to better adjust the size of each class cohort ensuring greater efficiency and cost control.

Students feel misled or lied-to because they thought that their college degree would ensure them a good job. Many of them have stopped paying their loans. It's become a national-level discussion with Presidents and Presidential candidates talking about potential plans to forgive student debt. On the other side of that debate are people who didn't go to college, who saved or worked to afford college, or who have paid off their debt, and don't want to fund free college for others who haven't done the same. Whether we forgive past unpayable debt is a subject for a national political discussion, and not the purpose of this report. **We can, however, use current technology to offer students the option to earn a degree at a much lower price, ensuring a better future match between educational costs and employment outcomes.**



This is a huge sticking point for society. What do we do when college is seen as a requirement for a good life, when the price of a degree becomes unaffordable, and when many degree programs don't even attempt to prepare a graduate to compete in the labor market? Graduates don't want to become debt servants, and hard-working taxpayers don't want to fund unproductive degrees.

<u>Online Education Can Solve This</u>:

Only a few decades ago, it was easy to argue that learning needed to take place on campus. That's where the professors are. That's where students could attend lectures, and meet with their peers to discuss course work. And that's where there were large libraries with the books required for research. With the exception of a few fields, that is no longer the case. Most of the great books that would be studied in any literature course are available for electronic download either for free or for a few dollars. Course-packs with assigned readings no longer have to be printed out by the University bookstore; but rather, can be downloaded from a website for the class. Professors now record lectures that students can watch on their own schedule on their home computer or handheld device. And animated discussions with classmates can now take place in Zoom chat rooms, or on message boards where students can post on their own schedule.

With the exception of degrees that require working in a lab, or require practical experience, more degree programs can be offered online. The on-campus college experience used to mean the ability to interact directly with professors and fellow students. The argument in favor of the college-experience has changed in the last decade from one based on access to academic resources to one based on experiential non-academic ones.

The opportunity to earn an online degree is valuable to students who don't think those non-academic benefits are worth taking on tens to hundreds of thousands of dollars of potentially unpayable debt. Muhlheim also notes that the overall package offered by the traditional 4-year education is not going to meet the needs of all students going forward. The U.S. Department of Education has a report on these non-traditional college students. 28% of them have dependents of their own. 34% have delayed their education by at least one year. 43% are exclusively part time. Furthermore, 26% of them worked full time while enrolled. The non-tangible elements of the campus experience are something this non-traditional student population neither needs nor wants to pay for.

Beyond the 4-year experience, there are a broad variety of types of education and certificates that have economic value and can be completed in much shorter timeframes. These don't lend themselves to the college residential experience. Online education works well for these people.

Coursera (Ticker: COUR), 2U (Ticker: TWOU), and EdX (Private – being acquired by 2U) are offering University courses, certificates, and degrees online. Students have greater flexibility in determining their starting date, course load, pace of learning, and scheduling their course-work. The price can be a fraction of the on-campus experience (more on that later). And students will graduate with a certificate or degree that is identical to the on-campus one. Coursera and 2U make courses available for free or a nominal cost to students who just want to learn the course material without documentation or credit.

A Case Study:

Most of the people reading this have had a traditional education, and may be skeptical of online options. We think a case study provided by an interview on Mosaic Research can help. Someone who used to work at the University of Illinois talked about starting an online MBA course there. The course used to have 250 students paying around $65k. Through Coursera, Illinois reduced the price to $22k, and now takes 2,500 students. So, the price is down by 2/3, but the enrollment is up 10x.

While Illinois shares that revenue with Coursera, now that the students are online only, the expenses of managing them on campus disappear. The University no longer needs to maintain and clean the buildings, no longer needs to house the students, and no longer needs so many administrators to manage student life. In addition, much of the unseemly or dangerous behavior that may be associated with large numbers of relatively young people drinking on campus are no longer issues the University needs to manage. **All of this means the University is increasing its reach, serving more students, and getting a better return on its expensive assets.**

The former University employee also talked about the bond between the students. There had been concerns that taking classes online would impair the relationship-building that is a part of any MBA program. It turns out that those students knew each other personally, and had connected in a meaningful way. The group chats and Zoom calls were enough for them to form that bond. And they were able to complete their degrees on their own time, without taking two years off to live on-campus, and at 1/3 the cost of an in-person degree. Muhlheim's earlier point regarding return on investment is crucial here.

Students who want to pay six figures to be on campus for four years can still do so. They can still take on crushing amounts of debt. There is another option, and it's working.

Coursera vs 2U Business Models:

While Coursera and 2U have similar business models and both offer online courses and degrees, there are differences between the approach each company takes.

Coursera: Currently, almost 60% of Coursera revenue comes from the Consumer division which includes projects (about $10), courses (free to $99 each), and specializations and professional certificates from companies which could be future employers (3-9 months at $39 - $99/month). These are inexpensive ways for students to gain knowledge and document their coursework. It's also worth noting that many of the classes are available for free to students who just want to learn more about a topic without being concerned about documenting that work.

About 30% of COUR revenue comes from the Enterprise division where Coursera works with almost 600 companies to provide continuing education and certifications for large companies. If people in a finance division need accounting certifications, it's easier and cheaper for the company to choose appropriate courses on Coursera rather than have to conduct an in-house academy. Many technology firms use these programs to get computer programmers up to speed on new techniques or programming languages. This is also cheaper than sending them to physically attend a local University.

The final 10% of revenue comes from degree programs where students take classes online and earn a University degree. The degree awarded is from the University, and does not have any notation indicating it was an online degree. As the Illinois MBA program example above showed, these degrees can be offered to students at a substantial discount made even more appealing by the fact that they don't need to live in expensive on-campus housing.

2U: About 60% of 2U's revenue comes from the Degree Program Segment which is exactly what it sounds like. 2U offers undergraduate and graduate degrees online through its University partners. The other 40% of revenue comes through the Alternative Credential Segment which is described as, "online short courses and technical, skills-based boot camps though relationships with nonprofit colleges and universities. Students enrolled in these offerings are generally seeking to reskill or upskill through shorter duration, lower-priced offerings that are relevant to the needs of industry and society."

Key Differences between COUR and 2U:

Pricing: Coursera has almost 90MM registered learners on the platform, and tend to price at a substantial discount to on-campus learning. The company brings in almost $4 in revenue/year/registered learner and takes in about $660 - $900 per quarter for each degree learner. 2U prices at or around the cost of an on-campus degree. With about 15MM registered learners (soon to be larger due to the EdX acquisition), 2U is recording over $50/registered learner, and degree students are paying on average $2,200 - $2,600 per quarter. Please note that because these are online degrees students don't have to pay for room and board.

We spoke with an executive in the education publishing and technology business with a specialty in STEM education. She thinks Coursera is excellent at figuring out customer needs. They do short courses and partner well with institutions and companies. She thinks that Coursera is better in professional learning and partnering with companies and governments for certificates and continuing education. She notes that TWOU has the better reputation in academic circles, and that EdX (which TWOU is acquiring and is discussed later in this report) is a good fit for them.

We also spoke with the VP of Sales at an online competitor, and he explained that TWOU tends to charge full out-of-state tuition rates for degree programs and makes it difficult to get into those programs highlighting exclusivity. He said that COUR prices at a discount and is more accessible. While he thinks these are two different models and that both can be successful, he thinks the TWOU model has more risk because the students are likely to need financing. More student loans means students could be rejected, may not repay those loans, or that the company may face future political risk.

We prefer Coursera's model. While we applaud 2U for its reputation for high-quality programs and its ability to get premium pricing, we think the biggest value of an online education is the ability to offer students a University degree without having to go into tens of thousands of dollars of debt. Having relationships with more students, and charging discounted prices strikes us as the safer less fragile business model.

<u>Marketing</u>: Coursera claims that because it has such a large installed base of users, its cost to acquire a high-revenue degree student is much lower than the competition. That seems to be an accurate assessment. Coursera's sales and marketing cost for the past two years has been 30.9% and 36.5% of revenue. 2U has spent 59.6% and 50.4% in that time period.

<u>Head-to-Head</u>: These companies claim that while they don't have exclusive agreements with their University courses or degrees that they don't compete with each other. We've hand-

checked hundreds of these classes across different platforms, and have found very few individual classes on multiple platforms and no degrees on multiple platforms[3]. This is another reason we prefer Coursera's business model. With many more registered learners, COUR can get professors greater exposure to students not enrolled at their University. We do note that 2U has an excellent reputation for quality so can and does still compete well for new courses.

Concentration: 2U is highly concentrated with most of its revenue coming from 5 institutions. In addition, we believe that 90% of 2U's revenue currently comes from the US. Because Coursera gets so much of its revenue from the low-priced consumer division, it doesn't have the same concentration issues as 2U. In addition, Coursera gets about 50% of its revenue from outside the US. We believe that the opportunity to get a US University degree at a discounted price without having to deal with travel and immigration issues is very attractive in many countries.

Non-University Classes: Coursera is starting to offer non-University classes by knowledgeable people in business. Think of it like Masterclass, but more academic and more business-oriented. We wouldn't be surprised to see 2U doing this as well and think this is a part of the business that could grow.

Multi-Dimensional Learning: This isn't a substantial part of anyone's business right now, but we expect to see hybrid degrees where online students take a variety of courses at multiple Universities and put together original degrees and certifications.

EdX: This non-profit is a competitor to both COUR and TWOU. EdX is a joint venture between MIT and Harvard and is focused on offering degrees from top schools. TWOU is currently in the process of buying EdX for $800MM which we are estimating is around 5x – 6x revenue[4]. EdX will increase TWOU's reach to 50MM registered learners, and we think it is a fantastic acquisition.

[3] Very nice work by the Deep Knowledge Investing team of interns.
[4] EdX recently reported around $80MM of revenue for the year ended 6/30/20. We are estimating growth for the year ended 6/30/21 to get to a best guess for an acquisition multiple.

Given that COUR trades at a premium multiple, and could have used EdX's access to top schools, we think it would have been a great acquisition for COUR. It wouldn't surprise us to see COUR try to buy the TWOU/EdX combination in the next few years.

Risk Factors:

The Dear Colleague Letter: There is a prohibition against using 3rd party marketing firms to bring Universities paying students. A "Dear Colleague" letter from approximately seven years ago made an exception for bundled services getting a share of tuition revenue which applied to platforms like Coursera and 2U. The companies acknowledge that this ruling can be changed by the government without any legislative review. We've spoken with political lobbyist, Joe Jarabeck of Jarabeck and Company about the issue. Joe thinks that the next set of issues for education have to do with access and school choice. He believes that there is no appetite to try to eliminate an option for students to earn an inexpensive degree remotely. We agree with his analysis.

Universities Could Create Their Own Platforms: Because Universities have no exclusive arrangement with any of the existing online education platforms, they could create their own, and keep the entire tuition amount. Currently, the platforms keep around 40% - 50% of revenue. We see this outcome as unlikely for two reasons. First, the platforms handle everything for the Universities except content creation and grading – a turnkey solution. More importantly, after the EdX acquisition, TWOU will reach 50 million learners while Coursera is already over 80 million. The opportunity to reach such a large audience in many countries means the University has a much greater opportunity to be found and selected than if each University had its own platform. The key point is that Coursera and 2U shoulder the expense of student acquisition which is expensive. This allows Universities to keep that investment off of their own balance sheet which makes partnering with the online platforms appealing to university administrators.

The best support for this conclusion is the existence of EdX. EdX was started as a non-profit by Harvard and MIT, and has a large number of courses and degree programs from Ivy League and other well-regarded schools. Harvard and MIT have incredible brands in multiple educational fields, and could have each filled their classes many times over with fully-credentialed online offerings. Instead, these institutions chose to create a shared platform.

China Just Made All Tutoring Companies Non-Profits: In late July, China declared that all Chinese tutoring companies would become non-profits, and made it illegal for companies to tutor young children. There were concerns that this would lead to problems for the online education companies in the rapidly-growing Chinese market. We don't believe this will be a problem. The Chinese crackdown was aimed at the pre-college education business. Coursera, 2U, and EdX all focus on college, post-graduate, and continuing education. In addition, China has been sending many wealthy citizens to the US for a University education. The online platforms make it easier for lower-income Chinese students to get a comparable education without dealing with immigration and visa issues.

Coursera notes that in China there are and have been barriers to entry. The company does business there, but China makes up less than 10% of revenue. The big focus for international expansion right now is India.

Valuation and Interest Rates: We're in the early stages of the shift to online education, and neither of the big two public platforms are producing profits yet. While we do credit 2U for recently posting positive EBITDA and free cash flow, right now, these companies are still in the stage where they're valued off of a revenue multiple. As of this writing, 2U is trading at 2.5x next year's estimates for revenue, and Coursera is trading at 8.8x. Depending on the day, the market is trading at or around all-time highs, and the 10-year treasury is yielding 1.37%.

Inflation is starting to show up in a wide variety of consumer goods, and at some point, the Federal Reserve is going to have to raise interest rates. The recent trend is for high-multiple technology stocks to come down in valuation when interest rates rise. For an excellent description of the reasons for this, we recommend this discussion featuring analysis by Deep Knowledge Investing Board of Advisors member, Raji Khabbaz.

It's difficult to get the timing for an investment like this right, and we acknowledge there are risks to initiating a position in a high-multiple technology stock with interest rates low and inflation increasing. We view the online education space as a long-term opportunity, and are prepared to ride out short-term volatility. Due to the importance of this issue, we'll address structuring of the investment later in this report.

Covid and a One-Time Bump: While the above issue regarding interest rates is our biggest concern about these stocks, the best fundamental argument against these companies is that by shutting down in-person learning for over a year, Covid has provided a one-time lift to the online education business. We think that's partially true. The last few quarters, Coursera has posted revenue growth in the 60% - 70% range, and 2U has grown in the 30% - 32% range. We agree that those numbers are not sustainable. **Our biggest disagreement with the bear case is that we see the Covid year(s) as proof of concept.** The online platforms have known for years that downloadable lectures, zoom discussions, and message-board chats do provide a viable substitute for an on-campus education. Tens of millions of people have signed on to the platforms, and thousands of them are pursuing degrees since the beginning of the pandemic. Online learning is now seen as an option for people who don't have the time, schedule, or financial resources to devote years to an on-campus program.

Amazon as the Right Comparable Story:

Given that Amazon has been one of the best success stories in stock market history, we expect this comparison might be controversial. Let's look back a little over 20 years ago at the beginning of the internet shopping era. The US had/has a huge amount of retail space. That real estate has high acquisition/rent costs, and required a large staff to manage inventory, make attractive displays, and assist customers. Amazon replaced hundreds of expensive retail stores with inexpensive warehouses, and replaced sales staff that helped a few customers an hour with box-packers who could serve dozens of customers an hour. Customers were offered lower prices combined with the convenience of shopping at home vs paying higher prices and being forced to take 1-2 hours for a trip to the mall. The result is available here:

With $51 billion in product sales last year, Amazon was the largest beneficiary of this trend, and the largest driver of it as well. For many years, Amazon investors understood the company was trying to grow revenue and market share, and not profits. That gave Amazon the time and capital to start new business lines, and to spend on both marketing and R&D in order to grow. The result has been a stock that's risen over 250x in the last 20 years.

We think the online education industry is in a similar position. Universities have expensive buildings on expensive land, high maintenance costs, and on-campus professors and administrators who can't get significant economies of scale. Moving to an online model allows the learner to learn when they want, and to do so from home at a lower price. It also gives professors the ability to reach a larger student audience; in particular, ones who may not be able to afford full tuition at their home University.

The big difference here is that Amazon and other online retailers displaced a lot of the mall-based retailers. In contrast, COUR and TWOU are partnering with the Universities to increase their reach, efficiency, and profitability. It's possible that we'll see some of the lower-ranked Universities close in the next decade or so if more people start to get online degrees from the higher-ranked schools, but it won't change the fact that the education platforms are partners to the Universities and not competitors.

Finally, while 2U has started to post positive EBITDA and free cash flow, Coursera makes it clear in every conference call that they are going to spend to capture market share. This is exactly what Amazon did for years, and something investors understood. Amazon shareholders knew that the company could adjust growth spending and pricing to become profitable sooner, and supported the company's drive to gain market share by tolerating losses for a long time. Coursera has outlined a similar path, and most platform businesses of this type benefit from an early start combined with large gains in revenue and market share.

Coursera's Most Recent Quarter (Update):

While in the process of writing this piece, Coursera announced its 2Q earnings. It was a fantastic quarter characterized by revenue growth of over 38%. What makes this exceptional is that 2Q 2020 was the beginning of the pandemic-related online learning trend and Coursera's revenue growth in that quarter was 61%. Posting 38% revenue growth on top of last year's 61% supports our thesis that the pandemic wasn't a one-time lift to the sector; but rather, was proof of concept.

Growth in the higher-margin Enterprise sector (69%) and the 100% margin Degrees sector (78%) meant that segment gross margin rose from 54% a year ago to 66% last quarter. Registered learners rose from 64MM a year ago to 87MM. Degree students rose from 8,079 to 14,630. And Enterprise (Corporate) customers grew from 279 to 584. Coursera then spent that extra money on R&D and Sales and Marketing, exactly what they said they'd do.

In addition, more governments are partnering with Coursera to help upskill their existing workforce as well as to help train unemployed people to get jobs. This will also have benefits for local governments if they can reduce the number of people on unemployment assistance. Finally, Coursera is in the process of onboarding a large number of new degree programs which haven't launched yet. We expect this will provide an avenue for future revenue growth.

The company beat expectations and raised guidance, and the stock is rose substantially on the announcement. Our view is this is appropriate. We have a very positive long-term outlook for the company and this quarter provided additional validation for every part of the thesis.

Coursera's Pricing Change (Update):

Earlier this week, Coursera announced a pricing change for its degree segment. While the press release was accurate, it wasn't as clear as we would have liked. The release led people to believe that the company was starting a price war and dropping their share of education revenues from 40% to 25%. The stock promptly fell almost 7%.

We believe the release was widely misunderstood. First, pricing wasn't dropped across the board. It was just for high revenue University partners in the degree segment. Second, the pricing change isn't for all revenue. Coursera will still take 40% on the first $10MM of revenue from degree programs at a particular University. They'll keep 35% of revenue between $10MM and $25MM, 30% of revenue between $25MM and $50MM, and 25% on revenue above $50MM. As of now, only one University partner will qualify for a discount.[5]

We noted earlier in this piece that Universities don't put degree programs on multiple platforms, and that Coursera has the largest registered user base in the industry. To us, that means the way Coursera wins is by getting more Universities to join their big platform. The volume pricing announcement is an enticement to Universities to put multiple degree programs on Coursera's platform instead of working with 2U or EdX.

From a strategic point of view, it's also a smart move because degree programs make up most of the revenue at the 2U/EdX combination, but only 10% of Coursera's revenue. Right now, this change won't affect Coursera's financials (with the exception of a slightly lower revenue share from the University of Illinois), but it does make Coursera a more attractive partner for the next University to join the platform.

[5] Coursera won't disclose this information, but Deep Knowledge Investing believes it is the University of Illinois.

<u>Structuring</u>:

While we think 2U is a great company and like the EdX acquisition, we've explained above why we prefer Coursera's stock. If we're using Amazon as the proper comparable situation, the right answer is to pay a premium price (on current financials) to own the biggest player, the best growth opportunity, and the company with the better pricing model. Our opinion is Coursera should consider buying the combined EdX/2U, and one of the industry executives we spoke with thinks Coursera is a likely takeover target for Pearson or a private equity firm. We have no special insight on this or any knowledge of whether any of these potential transactions are being contemplated.

We see Coursera as a great stock to hold over the next 5-10 years. However, the current valuation and risk profile listed above is the reason we're including an investment structuring section. These are what we see as the best current options:

<u>Buy and Hold</u>: When we started writing this piece, COUR was trading at 8.8x next year's revenue. Since then, the company announced a great 2Q, and revenue estimates for this year and next have started to rise. Coursera is investing for market share and revenue growth, and believes it can increase revenue 30% annually for years. We agree with that and expect that as those 30% growth years start to compound, the stock valuation will move in accordance with that. Our view is less that the market is overlooking Coursera's progress, and more that we see that growth continuing for many years to come. We like holding the stock, and are prepared to accept short-term volatility. We also note that this week, some restricted insider shares became unlocked so there could be short-term selling pressure.

<u>Sell Puts</u>: We don't typically like selling volatility, but in the case of Coursera where we'd love to own the company at a discounted price, selling puts is an option. As of this writing, the last trade on the February '22 $35 strike puts is $5.00. That implies a potential purchase price of $30.00 which is 20% below the current price. If the stock goes up, and your option isn't exercised, you'd still collect the $5.00 (but miss the upside in the stock).

Hedge: We don't like this option, but for people concerned about the possibility (eventuality) of the Federal Reserve raising interest rates, investors could buy COUR stock, and short the TLT and the QQQ (NASDAQ) index. We note that a lot of smart people have lost a lot of money shorting those two tickers in the last few quarters. While we don't recommend this, it is a way to hedge a specific risk to the stock.

Conclusion:

Regardless of your personal political leanings, we can all agree that perpetually increasing tuition costs leading to higher student debt is not a sustainable situation. This is particularly true where the employment prospects of some degrees make it impossible to earn a positive return on the time and expense involved. Coursera and 2U offer a solution that works well for students on a budget, non-traditional students, and international students who don't have the time and resources to spend four years living in the US. We think this is the moment when more reasonably priced and more flexible learning models start to gain significant market share. We are bullish on the sector because we believe it can grow at 25% - 30% a year for the next 5-10 years (or more).

While we have made clear our preference for COUR stock, for those portfolio managers who prefer more diversification and who want to own multiple stocks in the sector, we believe 2U is a well-run company with high-quality product, a great brand name which is trading at a discount multiple. Some investors who want less concentration may prefer to own both stocks. We're comfortable with that approach as well if it suits your investment style.

We've given multiple structuring options above, and welcome comments from readers who think they have a better method for structuring their exposure to the sector. As of this writing, our preferred choice is to own COUR stock and take a long-term view for both the stock and the industry. We remain flexible and our structuring and approach may change based on current events the stock price, and ongoing research.

To receive our next report, simply email us at IR@DeepKnowledgeInvesting.com.

Acknowledgments

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Jordan Canik (Hofstra University), Andrew Zhong (Rutgers University), and Justin Guerra (Hofstra University) all contributed to this report. Their work in data-gathering and analysis as well as the creative work they did to determine the level of inter-platform competition was fantastic. Their intellect, strong work ethic, and positive attitude are assets to Deep Knowledge Investing.

The Board of Advisors:

Eric Muhlheim was the CFO of Helix Education and founded Disney English. He has a remarkable background in online education, and made meaningful contributions to this report in many different sections.

Raji Khabbaz is one of the best most thorough investors I know, and being able to discuss an investment thesis with him in detail is an invaluable part of the process at Deep Knowledge Investing.

Howard Freedland edits everything we put in writing. He ensures our writing is clear, and manages our tendency to write 100-word 12-clause sentences with grace and good humor.

We value and appreciate all of their contributions.

Gary Brode (917)-546-6821 GB@DeepKnowledgeInvesting.com 1 Vineyard Lane, Westport CT 06880

Appendix – Additional Reading

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