

An Equity Note

Brandon Beylo

brandon@macro-ops.com

What's Inside:

- *Nerdy, Inc. (NRDY) Deep Dive*
- *NRDY's Competitive Positioning*
- *Valuation Scenarios (4-17x)*
- *Portfolio Moves*

Companies Mentioned:

- *Nerdy, Inc. (NRDY)*
- *Udemy (UDMY)*
- *Coursera (COUR)*
- *Duolingo (DUOL)*
- *Chegg (CHGG)*

Equity Note: Nerdy, Inc (NRDY) Deep Dive

NRDY is a digital learning marketplace that provides live online tutoring to students/professionals across 3,000 subjects. Learners choose from many tutoring options, including one-on-one, small groups, or large class formats.

NRDY's marketplace predisposes the company to virtuous network effects. More students incentivize more tutors to join the platform. On the other hand, the more *great* tutors NRDY has on its platform, the more incentivized students (and parents) are to choose NRDY.

The company leverages machine learning to most efficiently match the *right* tutor with the *right* student, which dramatically improves outcomes for both tutors and learners.

Over time, more data enables NRDY to create a more personalized learning experience and longer lifetime values from both sides of its marketplace.

NRDY is a win-win for both tutors and learners. Learners gain access to the world's best tutors to help them pass courses and tests or improve general knowledge. While tutors have the freedom to teach from anywhere in the world while earning a supplemental or full-time income.

What is the opportunity?

Direct-to-consumer education is a **\$62B business**, and NRDY is in the early innings of its revenue and profit potential. The company stands alone from most of its online/offline peers. It offers a distinctively better solution for learners and tutors.

<10% of learners think pre-recorded learning is as good as live learning, yet most of NRDY's competitors *only* offer pre-recorded material.

More importantly, NRDY competes against non-consumption, or the inability of a person or entity to purchase and use a product or service.

Why does the opportunity exist?

NRDY is a “**Trifecta lck**” stock. It’s a former SPAC, currently unprofitable, and trades at a \$500M market cap. It’s invisible to most institutional investors.

What is the reward if we're right?

NRDY has the potential to trade at prices that are **4 - 17x higher than today’s market price**.

\$1,000 To \$1B: How We Got Here

NRDY is a story about a 21-year-old kid turning \$1,000 of his parents' money into \$1.7B. But to understand NRDY’s future, we must first understand its past.

Chuck Cohn founded Nerdy in his dorm room during his junior year of college. Cohn, who was 21 at the time, had a problem. He was failing calculus and needed help. But Cohn couldn’t find a *great* tutor. He asked around campus and looked online for available tutors. Nothing.

Bankrolled with \$1,000 from his parents, Cohn created a three-page website. That website is now Varsity Tutors, the largest live online tutor/learner platform in the US.

Cohn bootstrapped the business and refused to take outside capital until 2015, eight years after its launch. Instead, he worked full-time in investment banking and venture capital to finance the company, using weekends and weeknights to improve the product.

NRDY’s early days are straight out of Paul Graham’s [Do Things That Don’t Scale](#) blog post. Take the supply side, for example.

Cohn would *personally* interview and hand-grade assessment exams for every tutor candidate before adding them to the platform.

“In the early days, I would personally meet with each prospective expert to personally interview, vet, and test whether they had the subject matter expertise, communication abilities, and confidence to effectively help learners in a given subject.”

Then there’s the demand side, where Cohn once again did things that didn’t scale.

Cohn leveraged what he knew about prospective learners to *hand-match* them with the most compatible tutor in the marketplace. Cohn explains this process in his Q2 shareholder letter (emphasis mine):

“For learners who needed help, I would painstakingly attempt to identify the expert best suited for their particular needs. The results and feedback were

terrific from both experts and learners. However, it was such a labor-intensive process that I realized I needed to invest heavily in technology to figure out how to scale that experience.”

Today, NRDY uses machine learning and AI to more effectively (and efficiently) match tutors with learners.

I don't want to overlook Cohn's willingness to do things that don't scale. It shows that Cohn *innately* knew the power of marketplace businesses at scale.

[Bill Gurley](#) said it best on his first [Invest Like The Best](#) appearance (emphasis mine):

*“I have found the majority of, one of my rules for getting a marketplace off the ground or you could say for UGC players, **do tons of unscalable things**. And if you took 90% of the entrepreneurs that have been to business school and understand scaling, it drives them nuts. Like they don't understand. They'll say, "Oh, we can't do this. How will we ever do that at scale?" And I'm like, "**We're not going to do it at scale. This is a flywheel. We're trying to get the flywheel spinning.**"”*

In other words, it doesn't matter today's cost to get the flywheel going. What matters is the marginal cost of reinforcing the flywheel in the future.

That brings us to today, where NRDY offers the best live online learning experience at scale. Let's see how they do it.

NRDY: The Best Live Online Learning Experience

NRDY operates a two-sided marketplace connecting world-class tutors (or Experts) with 87K+ Active Learners.

The company makes money by selling tutor hour packages for a fixed price or via monthly subscriptions. On the fixed price contracts, customers pay upfront for tutor hour packages, with NRDY paying tutors an hourly rate after a completed session.

NRDY's unit economic profit is the difference between the revenue it collects from its learners minus the tutor's hourly rate and any amortized technology costs.

There are three reasons why NRDY has the best live online learning experience:

- **Quality of Expert Tutors**
- **Matching vs. Pure Marketplace**
- **Total Convenience**

Each advantage builds off one another to create a powerful flywheel that makes NRDY's offering better as it scales.

Let's see how they do it.

Powerful and Reinforcing Growth Flywheels



Quality of Expert Tutors

NRDY prides itself on offering the world’s best online tutors at scale. The company uses various Subject Matter Expert (SME) assessments and AI models to identify and retain superior tutors.

Additionally, NRDY constantly curates its inventory of top Experts to ensure it consistently delivers the highest quality experience.

Matching vs. Open Marketplace

A common argument against NRDY is that the company isn’t a “true” open marketplace. Instead of allowing Learners to pick from a roster of tutors, NRDY identifies and matches the proper Expert for each Learner’s particular needs.

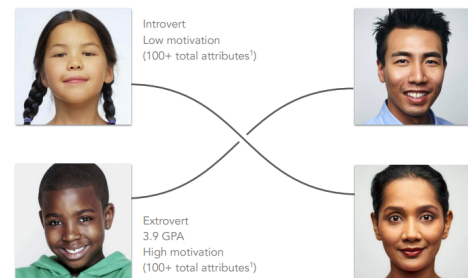
Matching Experts with Learners is a significantly better model when viewed through a [Jobs To Be Done](#) framework.

Parents don’t hire NRDY because *parents* want to find a great tutor for their child. They hire NRDY because they want *NRDY* to find the *right* tutor for their child.

This makes sense. I don’t want to personally vet hundreds of potential tutors. I’d rather have a company that leverages years of data to find the *perfect* match for my child’s *specific* needs.

AI-Powered Learner/Expert Matching

Both learners, struggling with the same subject, are intelligently matched to the instructor who best fits their specific needs



Total Convenience

NRDY epitomizes convenience for both Experts and Learners. Experts can teach as many students as they want from anywhere worldwide while earning supplement (or full-time) income.

Learners gain access to the world's best tutors and can schedule sessions for times that fit their schedules at fair prices. Additionally, NRDY's software allows Learners to save tutoring sessions and whiteboard notes from their instructors, making it easy to review prior sessions.

NRDY's Flywheel Is Working

More **Experts** leads to more Learners, creating a more efficient **Matching** experience.

Better matching experiences improve **Total Convenience** as students learn more effectively from *suitable* tutors, and tutors receive a better teaching experience by matching with the right learner.

This results in greater Customer Satisfaction on both sides of the marketplace (and 4.9 stars on Trustpilot – seriously, you should read those reviews).

We're seeing the benefits of this flywheel in the company's growth metrics. Active Learners have grown by **56%**, Online Sessions are up **57%**, and Active Experts have increased by **37%**.

But NRDY isn't the only online learning platform out there. What about its competition?

NRDY's Competitive Positioning

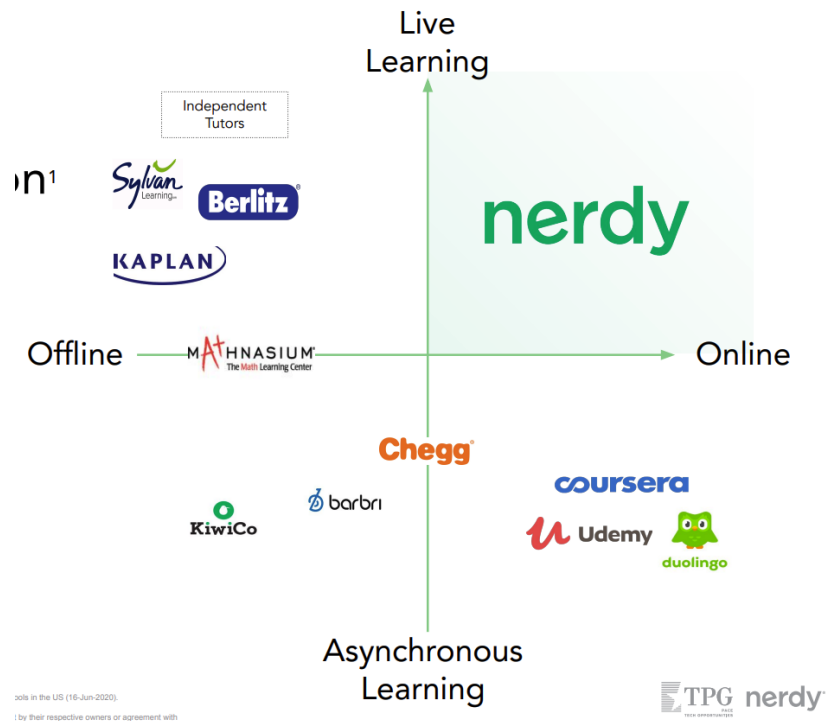
NRDY competes across two vectors: **Live/Asynchronous Learning** and **Offline/Online**.

The company also competes against *Non-Consumption*, which we'll discuss later.

Let's start with **Live versus Asynchronous Learning**. Asynchronous Learning involves pre-recorded content/lesson plans that students complete at their own pace.

NRDY competes against Asynchronous players like Coursera (COUR), Duolingo (DUOL), Udemy (UDMY), Chegg (CHGG), Barbri, and KiwiCo.

The most significant advantage of Live Learning versus Asynchronous Learning is the quality of education received.



A 2020 study by [Halsted Strategy Group](#) revealed that <10% of learners thought pre-recorded instruction was better than live learning.

Moreover, learners preferred one-on-one live tutoring over practice exams (2x more) and chatbot support (4x more).

The market is large enough for both options to compete competitively. However, live online tutoring is the preferred method for serious learners.

Then there's the **Offline/Online** vector, where NRDY competes with Sylvan, Berlitz, Kaplan, and Mathnasium.

NRDY dominates this space for a couple of reasons. First, NRDY built a fully-online infrastructure to tutor thousands of students at scale, something offline competitors cannot do.

Second, offline competitors can't provide the number of Quality Experts, Scaled Selection, or Personalized Experience that NRDY offers due to local geographic supply constraints.

Competing Against Non-Consumption

Clayton Christensen defined *Non-Consumption* as “the inability of an entity (person or organization) to purchase and use (consume) a product or service required to fulfill an important Job to Be Done.”

NRDY competes against non-consumption and, in doing so, significantly expands its addressable market.

Live tutoring has historically been an expensive, labor-intensive process reserved for an inner circle of wealthier families.

However, NRDY now makes it easier for [public schools](#) to provide high-touch one-on-one tutoring for all students. Here's how it works.

Schools purchase a fixed number of tutoring hours per student from NRDY. If a teacher thinks a student needs additional tutoring, she can schedule that student for X hours with a NRDY tutor.

The best part about this is the student receives world-class tutoring at no cost, while the teacher doesn't worry about that student falling behind in class.

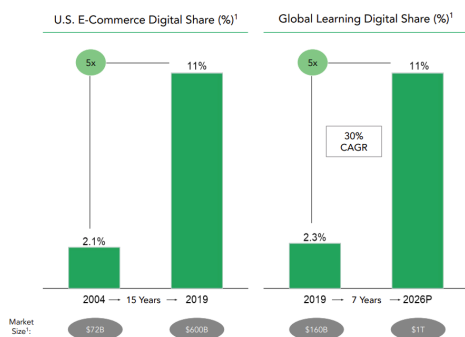
An Assistant Superintendent of Curriculum and Instruction at a County Board of Education put it this way (emphasis mine, via Tegus):

*“So going to an online tutoring platform, **it's the convenience of getting the same results in a much more convenient way.** So if you are an athlete and you have practice at 4:30 and school ends at 2:30 and you need tutoring help, and you have to take the bus home, but you need to stay after-school to get tutoring help, while you can go take the bus and then go home and sit in your house, and do tutoring virtually and then get ready and go to practice.*

*And that scenario I just gave you encompasses a lot of kids. **So it's all about convenience, more than anything.**”*

It's hard to overemphasize how important NRDY's product offering is to public schools and the potential to translate billions of dollars in education spending onto NRDY's platform.

A Massive Market At Inflection Point of Online Adoption



Direct-to-consumer education is a **\$62B addressable market**. But that's just the beginning. Global Learning is a \$160B+ industry at the inflection of its S-Curve Digital Adoption rate.

And it's happening faster than previous online adoptions, like e-commerce.

For example, in 2004, e-commerce comprised ~2.2% of US commerce. By 2019 (fifteen years later), e-commerce represented 11% of US commerce transactions.

In 2019, Digital comprised ~2.3% of the Global Learning Market. **By 2026, digital will eclipse 11% of the Global Learning market (30% CAGR).**

That's *eight years faster* than the e-commerce adoption rate.

We're also seeing this in the data. According to our study mentioned earlier, 73% of learners are **more likely** to use online learning than a year ago. 92% of learners plan to use some form of **digital learning services** going forward.

NRDY Has A Wide Range of Highly Asymmetric Payoff Possibilities

NRDY offers 5x potential from current prices.

Digital Learning should grow ~30%/year over the next five years. Suppose NRDY increases less than its industry average and generates 24% CAGR through 2026.

That gets us \$400M in annual revenue, equal to the company's current Enterprise Value, but still <1% of its \$62B current addressable market. The company would also generate positive FCF at this point.

Assuming a buyer pays ~5x sales, you'd get ~\$2.1B in shareholder value, or **~4x the current market price.**

But what if NRDY captured only 2.5% of its market over the next decade at its long-term margin target of 30%? That would get us \$1.5B in revenue and \$470M in EBITDA.

It's not unreasonable to assume that someone would pay 3-5x sales or 20-30x EBITDA for that business.

In other words, you can envision a world where NRDY is worth between \$6B to \$11.75B or ~18x greater than today's price, assuming *only* industry-average growth rates.

Concluding Thoughts

NRDY checks off nearly every box we want in a long-term investment:

- Great Leader:** The company's run by a great founder/CEO with immense skin in the game. He's bought shares every day for the last month and a half.
- Massive Market:** Global Learning is an enormous market in the early innings of digital adoption.
- Differentiated Product:** Live online learning provides better outcomes for students, experts, schools, and teachers, creating an illusive win-win-win-win outcome for all stakeholders.

- **Discounted Price:** NRDY trades for ~3.5x its net cash and 2x NTM Sales even though its growing revenues are 30%+ annually and will reach EBITDA breakeven next year. There are multiple scenarios where NRDY is a 4-17x larger business a decade from now.

We'll get a starter position in the coming weeks and will look to build NRDY into a high conviction, 10%+ position.

Portfolio Updates

Sells

- **SELL** Second Leg Long in Block, Inc. (SQ)
- **SELL** Full Long in Pantheon Resources (PANR.LSE)
- **SELL** Full Long in Vista Energy (VIST)
- **SELL** Full Long in EPAM Systems (EPAM)
- **SELL SHORT** and **COVER** FOMC Trade