

An Equity Note

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What's Inside:

- *Reviewing Nerdy, Inc. (NRDY) Q2 Earnings*
- *NRDY's New Pricing Model*
- *Codeverse Acquisition*
- *CEO Insider Buying*
- *Latest Portfolio Moves*

Companies Mentioned:

- *Nerdy (NRDY)*
- *Codeverse (Private)*

Equity Note: Nerdy (NRDY) Earnings & Thesis Update

Alex is back, and that only means one thing ... Higher volatility until he returns to Alaska. The *Alex-Is-Traveling-So-Shit-Goes-Wrong* indicator can't miss.

We continue our trek through Earnings Season this weekend as we unpack Nerdy's (NRDY) Q2 results.

There are a few reasons why we like the NRDY setup:

- **<\$200M market cap**
- **Down ~40%+ YTD**
- **Founder-led w/ high insider ownership**
- **Critical inflection points in business model**

The last one is important, and our main focus of this weekend's *Equity Note*.

NRDY's shift from a one-time purchase to a Subscriptions SaaS model reduces short-term revenue, earnings, and margins. But if successful, it could result in massive long-term profits and LTVs.

The company's cone of potential outcomes remains wide. However, at the current prices, the potential returns are wildly asymmetric.

We believe that NRDY trades at ~1x cycle-low sales as the company engages in business model transformation (resulting in lower short-term revenues and margins) *and* structural seasonality.

Despite its cheap price, NRDY continues to grow revenues at ~20% per year while increasing its long-term KPIs by ~30-40% annually.

Let's dive into this weekend's *Equity Note*.

Nerdy, Inc. (NRDY): The J-Curve Adoption Cycle

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.

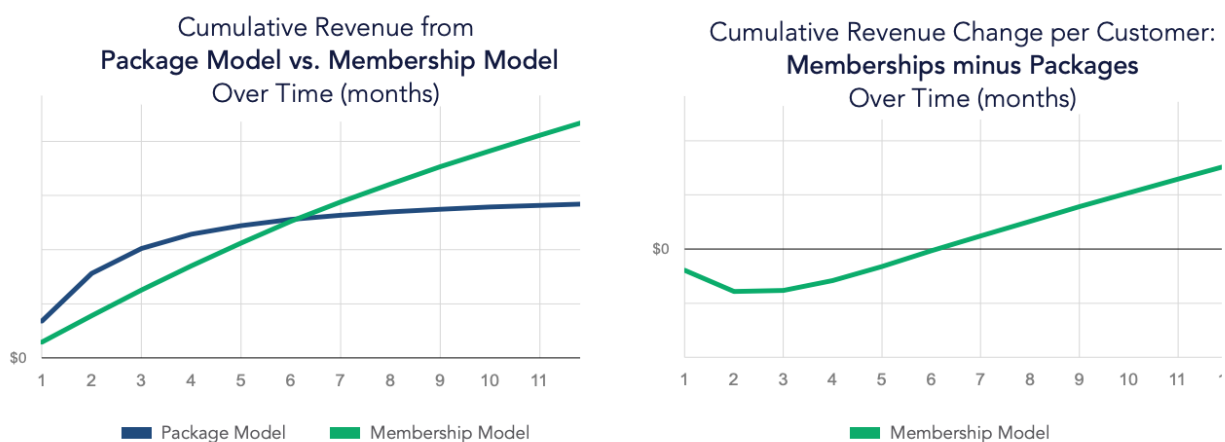
The company is a win-win for both tutors and learners. Learners gain access to the world's best tutors to help them pass courses and tests or improve general knowledge. While tutors have the freedom to teach from anywhere in the world while earning a supplemental or full-time income.

You can read our full write-up on the company [here](#).

NRDY recently introduced its new *Learning Membership* pricing model. For ~\$300/month, learners receive as much tutoring as they want and an extensive library of backlogged content.

There are some differences between its *Learning Membership* and its *Package Pricing* model. Package pricing front-loads revenue to the first few months of a customer contract, whereas *Learning Membership* linearly distributes revenue each month.

The pricing changes mean NRDY collects *less* revenue in the first few months of a customer's journey, **negatively impacting short-term revenue** and margins (see below).



You can see why NRDY calls this the “J” Curve adoption cycle. The company expects a ~6-month J-Curve trough before *Learning Membership* reaches *Package Level* revenues.

The company still estimates ~19% YoY revenue growth despite *Learning Membership* changes and an upcoming slow seasonal revenue quarter.

Let’s examine this quarter’s numbers.

NRDY Latest Earnings

The company reported Q2 earnings this week. Here are the highlights:

- Revenue increased by 29% to \$42.2M
- Small class and group revenue increased by 114% to \$5.5M
- Increased Institutional Revenue by 10% to \$4.2M
- Gross Profit increased by 35.2% to \$28.8M
- Net Loss of \$11.2M

NRDY demonstrated improved operating leverage as Gross Profit outpaced revenue growth. Let’s check in on our long-term KPIs.

NRDY KPIs: Active Learners, Online Sessions, and Active Experts

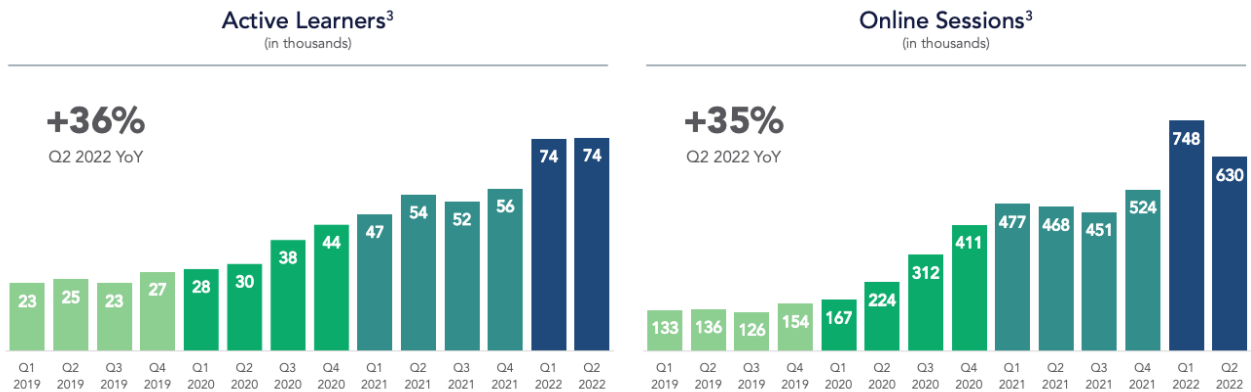
NRDY’s online marketplace platform hinge on three key pillars:

- Active Learners
- Online Sessions
- Active Experts

Here’s the flywheel: **More Learners incentivize more Experts, which creates more Online Sessions.**

NRDY crushed every marketplace KPI during the quarter:

- Active Learners **increased by 36%** to ~74,000
- Online Sessions **expanded by 35%** to ~630,000
- Active Experts **grew by 42%**



The company continues to expand its marketplace network effect as it introduces new products to the portfolio.

New Products: Codeverse & Institutional On-Demand/Teacher-Assigned

NRDY introduced three new products during the quarter; Codeverse and two Institutional products (On-Demand and Teacher-Assigned). Let's start with Codeverse.

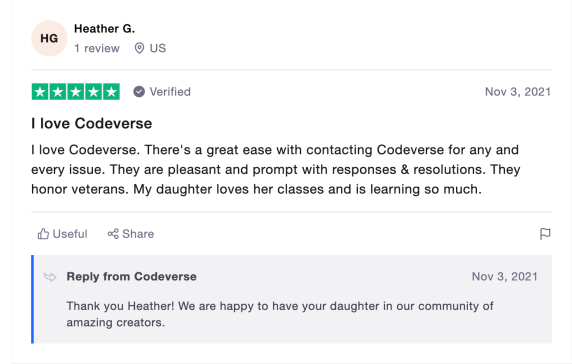
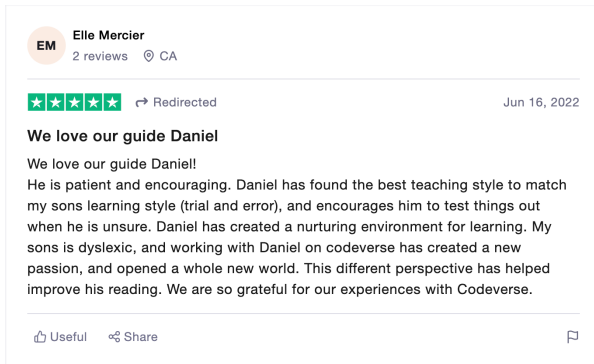
According to the company, Codeverse created one of the world's first programming languages and developer tools designed for kids, teaching elementary school students how to code through self-guided asynchronous products and live 1-on-1 instruction.

Codeverse allows NRDY to benefit from the fastest-growing skills requirement (coding) by cross-selling into consumer and institutional products. For example, CEO Charles Cohn plans to bundle Codeverse into *Learning Memberships* (emphasis mine):

"We intend to integrate Codeverse into our all-inclusive Learning Membership later this year and make it available to our institutional customers next year.

The acquisition, which utilized only a small amount of cash consideration, represents an affordable and efficient way for us to expand our product capabilities, enhancing the value of our Learning Memberships. It's also indicative of the sort of resources we'll seek to add the Learning Memberships over time to continue to enhance the value we provide as part of the offering."

Customers love Codeverse, too. The company sports a 4.5/5 [TrustPilot rating](#) with 100+ reviews. You can read a couple of those reviews below.



NRDY also revealed two new Institutional products: **On-Demand** and **Teacher Assigned**. Both products serve a *real* need, as NRDY outlines in its Shareholder Letter (emphasis mine):

*“Initial feedback from our conversations with school districts **validates the market need**. These products are intended to be rolled out to the entire student population, **helping students to get help in realtime and providing teachers with the supplemental learning support tools they need.**”*

Let’s start with On-Demand. On-Demand provides school districts with 24/7 access to one-on-one tutors across core K-12 subjects. The product allows students to access NRDY’s content and tutors for free as costs flow to the school district.

Then there’s Teacher Assign, which is like On-Demand on steroids. The product allows teachers to decide *which students* need *specific* tutoring. Teachers can then assign those students hours for troubling subjects. Additionally, teachers work with NRDY tutors to create a customized tutoring plan to meet each student’s specific needs.

These products create a win-win-win for **students, teachers, and NRDY**. Students receive free tutoring from subject experts, teachers no longer fear that they’re leaving certain students behind, and NRDY receives sticky revenues from school districts.

Cohort Data & Balance Sheet Strength

NRDY’s cohort data continues to impress. The company’s most recent 2022 cohort expanded higher in Q1 than any other cohort (since 2019). Cohort data should continue to improve as the company pushes *Learning Membership* and expands its marketplace flywheel.

The company ended the quarter with ~\$121M in cash and **no** long-term debt. NRDY’s strong net cash position allows the company to invest in its platform (i.e., generate GAAP losses) as it captures more of its addressable market.

There's comfort in that NRDY could keep burning ~\$40M/year for the next three years before needing financial assistance from debt or equity markets.

Concluding Thoughts: CEO Buying Every Share He Can

NRDY's founder/CEO Charles Cohn bought nearly every share he could over the last few months. Check out his recent buying activity below (via TIKR).

Insider	# Shares	Price	Date	% Shares Outstanding Traded	Insider Title	Type	Filing
Cohn (Charles K)	20,000	2.88	6/3/22	0.02%	Officer, Director and Beneficial Owner	INDIR	Form 4
Cohn (Charles K)	57,105	2.96	6/2/22	0.06%	Officer, Director and Beneficial Owner	INDIR	Form 4
Cohn (Charles K)	452,892	2.85	6/1/22	0.50%	Officer, Director and Beneficial Owner	INDIR	Form 4
Cohn (Charles K)	300,000	2.81	5/31/22	0.33%	Officer, Director and Beneficial Owner	INDIR	Form 4
Cohn (Charles K)	37,500	2.56	5/27/22	0.04%	Officer, Director and Beneficial Owner	INDIR	Form 4
Cohn (Charles K)	340,350	2.35	5/26/22	0.38%	Officer, Director and Beneficial Owner	INDIR	Form 4
Cohn (Charles K)	302,274	2.23	5/25/22	0.33%	Officer, Director and Beneficial Owner	INDIR	Form 4
Cohn (Charles K)	826,048	2	5/24/22	0.91%	Officer, Director and Beneficial Owner	INDIR	Form 4
Cohn (Charles K)	1,307,063	2.01	5/23/22	1.44%	Officer, Director and Beneficial Owner	INDIR	Form 4
Cohn (Charles K)	33,279	1.72	5/20/22	0.04%	Officer, Director and Beneficial Owner	INDIR	Form 4

Insider	# Shares	Price	Date	% Shares Outstanding Traded	Insider Title	Type	Filing
Cohn (Charles K)	130,000	2.99	6/14/22	0.14%	Officer, Director and Beneficial Owner	INDIR	Form 4
Cohn (Charles K)	140,000	2.96	6/13/22	0.15%	Officer, Director and Beneficial Owner	INDIR	Form 4
Cohn (Charles K)	100,000	3.19	6/10/22	0.11%	Officer, Director and Beneficial Owner	INDIR	Form 4
Robinson (Heidi)	628,571	0	6/9/22	0.69%	Officer	DIR	Form 4
Swenson (Christopher C.)	371,429	0	6/9/22	0.41%	Officer	DIR	Form 4
Cohn (Charles K)	150,000	3.2	6/9/22	0.17%	Officer, Director and Beneficial Owner	INDIR	Form 4
Pello (Jason H.)	571,429	0	6/9/22	0.63%	Officer	DIR	Form 4
Cohn (Charles K)	100,000	3.29	6/8/22	0.11%	Officer, Director and Beneficial Owner	INDIR	Form 4
Cohn (Charles K)	111,295	2.81	6/7/22	0.12%	Officer, Director and Beneficial Owner	INDIR	Form 4
Cohn (Charles K)	150,000	2.84	6/6/22	0.17%	Officer, Director and Beneficial Owner	INDIR	Form 4

Cohn is now the largest shareholder owning nearly 16% of the company. There are many reasons why a CEO would sell their stock (personal finance, diversification, taxes, etc.). But only one reason why they'd buy: **they think the stock will go up.**

We're excited about our NRDY Strategic Bet. The company grew each key lever of its online marketplace by over 30%. Moreover, NRDY increased revenue by nearly 20% despite shifting to its monthly SaaS pricing model ahead of a seasonally weak quarter.

The company's balance sheet insulates itself from raising equity at distressed prices. Teachers and students need tutoring regardless of the health of the economy. There are distinct recession-resistant aspects of NRDY's business model.

We'll add to our position in the coming weeks.

Portfolio Moves

Buys

- **EXITED** GBP/AUD Short For Loss
- **BOUGHT** Second Leg Long in USD/CNH