

Conference call transcript

25 May 2022

EDTECH DEEP DIVE CALL

Operator

Good day, ladies and gentlemen, and welcome to the Prosus EdTech deep dive conference. All participants are in listen only mode, and there will be an opportunity to ask questions later during the conference. If you should need assistance during the call, please signal an operator by pressing * and then 0. Please also note that this event is being recorded. I would now like to turn the conference over to Eoin Ryan. Please go ahead, sir.

Eoin Ryan

Thanks, Chris, and good afternoon everybody and thanks for joining us in the fourth call in the series of deep dive calls we're doing to help drive a better understanding of our businesses and the key growth initiatives within them. Today we're moving to the EdTech segment to take a deeper look at our thoughts on the sector there more broadly and the Stack Overflow more specifically. On the call with me today I have Larry, our CEO of EdTech and Food segments, and I have Prashanth, the CEO of Stack Overflow. The team will take you through a quick presentation, and as always, we will open it up for Q&A. And as a reminder, the deck that we're going through for this presentation is available on the IR section of the Prosus website. With that, I will turn it over to Larry.

Larry Illg

Thanks Eoin. Let me kick us off. Starting with slide one, you see here the global education opportunity is absolutely massive. It's a large global category exposed to some of the powerful secular tailwinds including continuing population growth in emerging markets, which is a lot of the wave that you see here, and also improving education levels worldwide. And last, this trend of workforce reskilling and upskilling that's on the back of global digital transformation. On the slide you see how the demand for education will flow through the specific subsectors.

At the same time that demand is met is with clear pain points in traditional brick and mortar education that tell us that the existing structures just won't be able to address this wave of demand. Specifically, we can point to a few things that are not working well in the existing environment. Rapidly rising education costs with no guaranteed outcomes, jobs or certainty of returns post-graduation, not to mention geographic constraints of access, as well as pretty uneven quality of education staff and content. And perhaps the largest consumer pain point from what we hear is very limited personalisation and customisation. In short, we believe the physical institutions won't be able to scale to meet the global demand for education in years to come. And that's part of

the reason why we find the sector so compelling. Against this backdrop we think technology holds the promise of addressing those structural issues.

If you shift to slide two, global education spending is projected to reach \$7.4 trillion by 2025, and that's spread across four major segments. Pre-K, K12, Higher Ed and workforce. By 2025 digital penetration is only projected to be about 5.5%, so there is a lot of runway for EdTech to grow. If you compare that 5.5% to e-commerce and food delivery sectors, where certainly we spend a lot of time as well, those are each expected to be in the mid 20% online penetration by 2025. So again, you see here there's a lot of room for this sector to transition online.

Then moving to slide three, EdTech fits really well in the Prosus investment philosophy of addressing significant long-term societal needs through technology. We identified the EdTech opportunity fairly early. We started researching the sector in 2014 and made our first investments in early 2016. Here we chose consumer facing platforms with business models we knew well, like Udemy, which happened to be a marketplace focussed on education, Brainly, a social network for learning, and Codecademy, a consumer facing platform for coding education.

Based on our learnings over the last eight years we doubled down on EdTech in the last couple of years with specific focus on workforce learning. We acquired Stack Overflow, invested in Skillsoft, GoodHabit, and Eruditus among some of the others featured on the slide. All totalled we've invested over \$3.8 billion in total and established ourselves as one of the leading EdTech investors globally. Our long-term vision for the sector – this is one I get asked a lot about how we think this comes together – is to build and scale a portfolio of investor grade companies with a focus on workforce. We are also helping to scale leaders in K12 learning.

Shifting to slide four, EdTech has certainly evolved over the years. Many of us on the call can probably remember taking a course at a local Marriot years ago or accessing static web content posted by the instructor at your university to supplement a live class. That's what we call EdTech 1.0. It's still relevant today but of diminishing importance to the sector. In time in shifting to EdTech 2.0, EdTech business has started to target consumers directly. Consumers demanded a better experience than they were getting from version 1. More engaging content unlocked a large global user base and helped EdTech players build mainstream brand awareness.

Still, most of the students took a topic-specific single course only and monetisation is usually tied to those one-off courses. As a result, user and revenue retention remained a challenge. Now many EdTech companies have emerged that bet on lifelong learning rather than one-off courses. Deeper understanding of the consumer in that environment unlocks a lot of lifetime value. As a result, monetisation is shifting towards recurring subscription. Content has improved to include a mix of live user-generated content and asynchronous learning providing a much more complete and engaging consumer experience.

It's important to note that in EdTech the consumer is often not the payer. For those who speak to me regularly I emphasize this a lot. The easiest example is parents buy for children in K12. Employers are the primary buyer for

workforce learning, buying on behalf of their employees. So, it creates this interesting dynamic where winners in this space will ultimately need a product that resonates with consumers and also to have a relationship with the enterprise buyers. And it's something that we've seen over the years as very hard for companies to pull that off on a single platform. We're fortunate to be involved in quite a few of those.

And now to my last slide, slide five. This is our simplified view of the workforce EdTech ecosystem. We've assembled companies that cover a significant portion of what we call the sandwich. On the top the B2C horizontal companies like Stack Overflow and Udemy provide a significant amount of consumer traffic on the back of very asset light and highly scalable platforms. Both companies have global reach and have tens of millions of users every month. That B2C audience gives rise to B2B sales, as evidenced in Udemy Business and Stack Overflow for Teams.

Udemy's unique business model combines the network effect and brand affinity of a vibrant consumer marketplace with recurring SaaS [?] revenue of Udemy Business. Prashanth will talk about it shortly where we see a similar opportunity with Stack Overflow's massive community of technologists and developers helping to drive adoption of their Teams product within large enterprises.

The middle layer of the sandwich includes specialised content or enabling functionalities. Call it the meat of the sandwich. In addition to addressing specific learning needs of consumers, these platforms develop relationships with the enterprise where real recurring revenue sits. Many of them are increasingly solving the enterprise side through commercial partnerships or M&A. A good example of this is a recent acquisition of Codecademy by Skillsoft. Codecademy has global consumer reach and a loyal consumer following but hasn't fully recognised the enterprise opportunity. Skillsoft can solve that right away. Skillsoft will be able to sell Codecademy through to its enterprise clients. As a reminder, Skillsoft has deep and longstanding commercial relationships with roughly 75% of the Fortune 1000.

Now, as I wrap up, I'll briefly touch on the bottom layer of the sandwich. Very few companies – and we're talking just a handful – are able to properly sell into the enterprise. Many EdTech companies over the eight years that we've been involved in the space will flash Fortune 500 logos on their websites. But when we do due diligence, we find that very few really sell into the C-suite and bring meaningful subscription based recurring revenue to the table. Skillsoft and Udemy are two of the leaders in that regard, and there really are just a handful of folks who do that at scale.

With that as an overall frame I'll hand over to Prashanth to talk about Stack Overflow. Before I do, I want to briefly describe our excitement about the company and what they're building. Stack is not traditionally considered an EdTech company but rather as an integral part of the developer workflow. Millions of software developers access the site every day. And software developers, other than equity research analysts of course, as the most compelling workforce in the world. These users engage on the Stack platform every day to learn how to do their jobs better by engaging with the community and asking and answering questions. From an EdTech lens we've found over the years that the most engaged learners are the ones that ask questions. Stack is the

starting point for many learning opportunities. That makes Stack particularly compelling to us, in part because of the opportunities that it presents for education. And with that I will hand over to Prashanth.

Prashanth Chandrasekar

Thank you, Larry. Good to connect with all of you today. I'll kick off with slide eight. Even before I get started, I think the best way for me to orient your minds, given I'm speaking to a financial audience, is to use a comparative analogy. Stack Overflow is to developers and technologists as Bloomberg Data is to finance professionals. Finance professionals cannot do without financial data, and the most authoritative source of that data is Bloomberg. Very similarly, Stack Overflow is the most authoritative source of the most correct information on every possible technology topic in the world.

So, with that, Stack Overflow was founded in 2008. We're the world's largest platform and community for technologists and software developers. We've been building into this for the past 13 years or so, and we have a very significant impact around the world as I will describe here with our scale. But our mission, which is really what motivates all of us, is to empower the world to develop technology through collective knowledge.

Moving to slide nine, as I mentioned, we are the world's largest knowledge base and pretty much every possible technology topic or vertical, including the ones that Larry covered in his EdTech slides – so cloud and AI and ML and data etc. – all that knowledge exists on Stack Overflow in the order of approximately 15 million questions and answers on these topics. And this has been built by the community for the community over the past 13 years. And it is a running joke in the industry that pretty much every software developer or technology always has a tab of Stack Overflow open on their computers. I would in fact encourage all of you to check in with any software developer in your respective financial services companies. And chances are more than nine times out of ten that they've got a tab open on Stack Overflow on their computer.

Moving to slide ten, this gives you a sense of the significant scale that we operate at. We have close to 100 million monthly visitors across our 170 websites. That includes approximately 300,000 new monthly sign-ups around the world. And that number has been growing over the past three to four years, and we're only accelerating given where the world is going with technology. Based on our research – and we do a lot of data collection in terms of polls in our community – we've understood that 80% of the world's developers visit Stack Overflow every week. So, we're certainly an indispensable part of their workflow on a daily basis.

As I mentioned, a significant amount of content, 15 million questions and answers. That makes us, depending on the rankings that you look at, a top 50 website based on the Alexa rankings, or if you look at similar web data, that's a top 200 website. To give you a sense of the 100 million monthly visitors, 70 million of those folks are technologists, software developers, data scientists and you name it. And that 70 million if you compare it to other communities that are out there, for example GitHub, we're even larger than GitHub. And GitHub is code depository platform and community that was acquired by Microsoft several years ago. So, it gives you a sense of scale again.

Moving to slide 11, this will give you a sense of how we are set up in terms of our company. I just describe this community, 100 million monthly visitors across these websites. That creates a very significant competitive moat for the company. That base and that foundation is very hard to disrupt, and it gives us a tremendous advantage point for us to engage with the developers and technologists in a very organic and very relevant way. The two product lines that we have, the one in the middle that you see on slide 11 is our SaaS business model. That's called Stack Overflow for Teams. that is a recurring revenue business that was launched in 2018 and is really growing very quickly as I'll describe.

And the second business category that we have is our advertising business model, a region relevant business. And that has a series of products, everything from companies advertising about themselves as great employers to attract developers to work for them, a series of advertising products that allows tech companies to showcase their products and to educate developers and technologists about various technologies that they're launching or iterating on, or even the ability for tech companies to build sub-communities on top of Stack Overflow with our new product called Collectives which we launched about a year ago. That is a really powerful and intimate way for companies and technologists and software developers to engage in very real ways. So, that's effectively our company. We have a community. Then we have two business lines, Stack Overflow for Teams, our SaaS recurring business, and Reach & Relevance, our advertising business.

So, moving to slide 12, one of the things that is very interesting about the company and why we're so excited about being part of the Prosus family is that learning is a common thread across our products, whether it's free or paid. So, when you think about the technologists and learning flow, as Larry mentioned, all technical learning starts with a question on Stack Overflow. As I've mentioned, that's literally what software developers do every day. 80% of them visit the website to ask a question about how I do this is on Amazon Web Services, or how do I do this on Microsoft Azure, or any of those topics. Then these companies, the Microsofts of the world and Amazons of the world, are advertising on Stack Overflow, which is our advertising business, so that they can educate, and our technologists can learn about these technologies from our platform and our community, but in a very organic sense.

As you progress down the chain you can see Collectives, the part that I mentioned, is a product that is focussed on generating these sub-communities for companies like the same large tech providers. You will see several that I'll mention here in a minute. And that allows developers to learn in a much more intimate way about product launches and announcements etc. and really have a very close conversation or engagement with these companies.

As you move along the chain employer branding allows developers and technologists to learn about companies that are very attractive to work for. And once they've actually got the job, then they leverage Stack Overflow for Teams, which is all about learning through collaboration in the workplace, as I'll describe here. Learning and EdTech is implicit in what we actually do across our current products. And we are also very excited to innovate on new EdTech products in the future in collaboration with Prosus.

So going to slide 13, a deep dive into our Stack Overflow for Teams product. Let's move to slide 14. I speak to several CTOs and CIOs or heads of technology every week as part of my job. And they are all concerned about effectively the same topics. I can summarise them in these three categories. Attracting and on-boarding and retaining top talent. When we look at the industry today, we've got about 300,000 tech job listings that are unfilled, a massive supply and demand imbalance there because of the great resignation and people looking to get reskilled etc. And with all this focus on hiring and retention, there is this significant knowledge drain that's happening. And there is a real need to retain and reuse knowledge within these dynamic organisations.

The second category is boosting productivity and collaboration, and this is fuelled by the pandemic. But in general, we know that hybrid work or distributed work is here to stay. It's not going anywhere. It's a one-way road if you will. And tech leaders are desperately looking to establish sustainable ways for their teams to elaborate beyond a bunch of Zoom calls or a bunch of chat ops or messages flying around the company. And they need a capability to do that, so they need asynchronous collaboration tools to be able to do that.

And the third category is all about accelerating innovation. Now that we have access as companies and organisations to amazing building blocks, the cloud and data and ML and DevOps etc., this allows companies to have the potential to move really fast and iterate so that they can be competitive and respond to customer needs very quickly. So, CIOs and CTOs need high scale ways to align their people within their organisations to adopt these technologies and really drive common policies and standardised knowledge sharing within their companies to move really quickly.

If you move to slide 15, Stack Overflow for Teams, our SaaS business, addresses those three challenges headfirst. And it addresses all those three issues in a very compelling way. It's a platform, mind you, that is already being used by 100 million visitors every month, as I just described. Stack Overflow for Teams is a private version of that public platform which looks very similar to the public platform that's being accessed by 80% of the world's developers. That's what it looks like on the right, as you can see here.

And the value statement of course as a result of this is that developer velocity is moving super quickly. People are getting instant and expert relevant knowledge. They are able to access that knowledge at their fingertips. They are obviously very fast to adopt the product because it's very familiar in terms of the user interface. And it is obviously reducing the distractions of all the synchronous tools that are floating around the company, Zoom calls etc. It reduces that significantly. And it breaks down silos and ultimately enables companies to really ramp up new employees or reskill existing employees rapidly.

Moving to slide 16 just to talk about the opportunity in front of us, we believe it's a massive total addressable market. If you think about the collaboration market, it's about a \$10 billion. The DevOps market, which is the developer tool chain to move very quickly and that concept itself, that set is about \$9.4 billion in terms of size. And the collaboration market is growing very rapidly. The number of developers is growing very rapidly. Everybody wants to become a technologist these days. And if you look on the bubbles on the right, there are 25 million developers in the world based on research. And if you look at the macro bubble around that, there are

about 100 million technologists. And we certainly serve – as I mentioned in my opening slide – about 70 million of those 100 million technologists across our website. So, we still have a great way to go between 70 million and 100 million.

But let's not forget the knowledge workers bubble, which is a billion people around the world. And these are folks, not just software developers, not just data scientists but also people in finance and legal departments that are writing code to do their work. Previously financial analysts used to write Excel macros to do some of their work. But it's also not uncommon these days for finance folk to write Python code, as an example. So, the lines are blurring between technologist and knowledge workers, so the [unclear] here is massive.

Slide 17, if you move to it, shows some of the new stack that companies are leveraging to be able to do the things that I've just described. You've heard of these categories with the Cloud, with AWS, Microsoft Azure, and code hosting with GitHub and developer tools that you see up here, or project management tools, or the much familiar real-time tools like Microsoft Teams and Zoom which are highlighted in the blue box. That obviously came to the forefront over the past couple of years.

But what is not entirely obvious until Stack Overflow for Teams showed up is that in terms of asynchronous knowledge sharing and true community building there wasn't a default tool to be able to do that at scale until Stack Overflow showed up. What was existing in companies were wikis and documents of various kinds floating around the company and other less loved platforms to be able to leverage to share information at scale. This is especially true for technologists who are very particular about how they want to be able to share information. That default and de facto company for company-wide knowledge sharing.

If we move to slide 18, this shows you a little bit of the traction from a qualitative perspective and some qualitative points over the past few years. So, you can see here that this is a small sampling of some of our customers on our Stack Overflow for Teams product. You can see there are some tremendous names here. I can tell in terms of the verticals we have pretty much every financial institution, insurance companies, investment banks, commercial banks etc. on our Stack Overflow for Teams product. And they are operating at very large scale, 40,000 to 60,000 users each across their engineering and technologist organisations.

So, I would urge you, if your financial institution is not on Stack Overflow for Teams, I would encourage you and your CIO to look into Stack Overflow for Teams to drive your largescale technology transformations that you are trying to drive within your organisations. And our sectors that we cover are quite diverse beyond financial services. We've got technology, large-scale tech companies like Microsoft that have 100,000 users on our platform, or retail companies, some of the world's largest retailers or healthcare companies and so on. Literally no industry is immune from the fact that they need this sort of capability to move really quickly.

Moving to slide 19, I wanted to explain how we go about doing this. Actually, if I could spend another minute on slide 18, in terms of the metrics in terms of how fast we are growing, in FY2022 we did move pretty quickly. We grew about 68%. And our net retention rate, which is a very standard SaaS metric, is 115%, so fairly close to

what would be industry standard. And our enterprise ASP or average selling price is about 289k, which is a very healthy number. So very solid foundational SaaS metrics. I will speak a little bit more about this. We are expecting these numbers to go much higher this year upcoming.

So, moving back to slide 19, just to give you a sense of how we accomplished this. I want to describe four different examples: A global financial institution, I'm sure a company that's in the audience today, and then a global software provider with a large number of technologists on our platform, or the bottom left global telecoms provider or global insurance provider. Generally, all these companies, all their technologists as I mentioned are already using Stack Overflow. We enable them to leverage that same platform by having a private version. 60% or 70% of what they want to share is private in nature, not to be shared with the full public community. So that's where the value comes in. Those three issues that they're grappling with, our product addresses.

And we start typically in a singular engineering team or DevOps team etc., and it expands very rapidly from year to year because of the very familiar format, the value that the users are seeing by reducing the noise in the company and really being able to reuse knowledge very rapidly and so on. And it really expands very organically year over year. So, you can see this explosive growth. And net retention rate, as I mentioned, is a great measure of showing how the customers expand the usage of the product not only across functions but it expands globally in some of these global institutions. So, it's a very rapid way to grow.

Moving to slide 20, now I'll do a little bit of a deep dive into our Reach & Relevance business. Let's move to slide 21. There you will see the range of advertising products that we are able to present to customers. And it's everything from banner advertising to more contextually relevant advertising like direct to developers or a bunch of sponsorships. You can sponsor a specific technology tag on our platform. Or you can sponsor an entire stack exchange website, called site sponsorships, or sponsor newsletters or podcasts which are accessed by hundreds of thousands or millions of people in some cases, and also our blog posts and so. All of this creates a tremendous way for technology companies to gain awareness into the developer base to be able to understand who these companies are and what they're building in a very organic way. Software developers don't really want to be advertised to, but they are open to listening to contextually relevant advertising, and we believe we have achieved that balance.

What is also exciting about this business is that especially with EdTech there are plenty of things that we are innovating on or building at the moment that extends what we do on the public platform with our content to learning content. You will see us look at that and explore ways to do that in the coming months. All our many EdTech companies advertise on our platform today to showcase their courses etc. to our audience.

Moving to slide 22, this is a view into the product that I mentioned that we launched last year called Collectives, which is effectively sub-communities for tech companies like the names that you see on the right here: GitLab, Google Cloud, Intel, Twilio. All of these are customers of ours in this Collectives programme, and many more that are about to be announced. And in some of these you've got 20,000 or 30,000 users that have joined these

sub-communities to engage in a lot more intimate ways with these companies to have those companies endorse their answers and endorse them as super users in this space. The world's best Google Cloud developer, we know who that is because they're in that collective. That's very powerful for companies and developers to engage very closely. And that gives companies tremendous market insights and engagement, and of course the developers get recognition for what they are doing and are learning very rapidly about all the innovations that these companies have got going on.

Slide 23, as I mentioned earlier, is our employer branding business. This is the supply demand imbalance that you're seeing in the tech hiring landscape these days. What's very interesting in our research is that 80% of technologists aren't really looking for a new job and most of them don't want to be approached about new jobs. What's fascinating is that because Stack Overflow is such an organic place for software developers it's a great place for companies to showcase themselves as great employers. That's why it's a very rapidly growing business for us. Also, this is a newer business for us which we re-imaged so to speak because we moved away from a very transactional business, which was a talent job listing business that we did in the past couple of years, and we focussed and zoned in on this capability because of the insight that I just mentioned around organically enabling people to learn about companies and showcasing job listings.

All right. So, I'll spend another one last deep dive on our financials on slide 24 and 25. I think this is a good summary in terms of our traction and our momentum. If you look at the chart on the top left, it gives you a sense of the mix that I just have been describing, our total bookings in FY21 and FY22 that just closed at the end of March. You can see that our Teams business in the blue grew very rapidly, and the orange is the consolidation of all the advertising products that I just mentioned. Just to mention, the small decline in the orange that you see there is us exiting the talent job listing transactional business because we wanted to make sure that we focussed on advertising and recurring revenue models and our Teams business. That's really where you see that slight decline. Without that decline our advertising business is growing close to 30% year over year, and it will continue that trajectory in this upcoming year.

The bottom chart that you see is our Stack Overflow for Teams business. That's really on a fantastic growth trajectory. We only launched this in FY2018, but as you can see, it cleared close to mid-40s in ARR this past fiscal year. And this upcoming year we're expecting this business to grow even more rapidly. So, it's only gaining traction and growing faster and faster as time goes on, which is very exciting. The commentary on the right I'll just summarise a little bit the investments that we're making across these products. If you think about Teams, it demonstrates a lot of the hyper-growth characteristics that you would expect of Stack's business.

It's a recurring revenue model, which is very powerful. It has got solid retention rates of 11% because of that expand and land motion that I described to you, high enterprise average selling price of \$289,000. We've closed multiple million Dollar deals just in the past three to four months just to start out with some of these companies. So, the numbers that we're landing with these companies are only becoming bigger, which is fantastic to see, especially because it's recurring. All this is being powered by these tremendous secular tailwinds of companies looking to modernise and innovate, and really grapple with this distributed workforce,

and really drive all the cloud transformation initiatives and innovation initiatives forward. That's why I think we are the right place right time.

Now, investments here are really to scale very significantly with sales and marketing and customer success with this business, both US and international. Just as a quick note, our business is approximately 80% US focussed and 20% international. There is a massive opportunity for us for international expansion, especially since our community is global and our customer base is mostly US based. So, there is huge upside here for us on that topic. And in addition to our sales and marketing investments, we are obviously investing very heavily in our product with our product-led efforts and bottom-up adoption. This is about you organically get users to adopt the product and give them insights so that they can do that in a way that's very value added and driving also self-serve revenue and influence revenue from our public platform and creating that connective tissue between the public platform and our paid products. So, there is huge opportunity there and we're putting in several investments there to make sure that happens as well.

Finally, we're also establishing very large alliances. You will see us make a very meaningful announcement here in the next ten days or so with a very large tech providers, which we're very excited about and how we sell into companies together in addition to product integration. In the bottom with Reach & Relevance a lot of our investment here is to modernise our public platform. We are making a deliberate and specific effort on this topic this year to make sure that we can operate at significant scale in the coming years and to welcome not only millions of additional users but also thousands of additional customers on these platforms.

And our ads business, as I mentioned, is growing very nicely, close to 30%. And it is becoming the preferred destination for technology companies to gain the attention of developers. And of course, our Collectives and EdTech investments are also beginning to show fruit. Collectives – I didn't mention this earlier – is also a recurring revenue advertising product. So, it's also very powerful for us in moving to as much of a recurring model as possible. So, customers pay us a platform fee to be able to create their sub-communities. And finally, employer branding. As I mentioned, we have exited the transactional job listings business and we have redefined it to be this employer branding advertising business which is also growing very nicely and close to the advertising mean that I mentioned. So, very encouraging.

One last note on profitability, just to wrap the conversation. We as a company were profitable in 2018, 2019 and 2020, which roughly aligned to FY2019, FY2020 and FY2021. We know we can run a very profitable company if we want to. What we are doing at the moment starting this past year, FY2022, is that we are very specifically investing tens of millions of Dollars. And that's a four to five year programme where we want to make sure that we are very deliberately focussing on those technology investments I mentioned, scaling out our go to market efforts on Teams and all our newer products like Collectives and EdTech. All of that is a very deliberate motion for us to really think big with the support of our Prosus family. This is one of the benefits of being part of a long-term investor like Prosus, that we can really build something massive here and high impact. So, we are very excited about that.

For Teams we measure all the traditional SaaS metrics that you can imagine, the rule of 40s – which for those of you who are not aware, is the combination of the growth rate and the profit margin which needs to go to 40%. We are nicely tracking towards that outcome. For advertising it's actually a very high gross margin business and in many ways subsidises and funds our Teams investments to a degree and provides fantastic diversification for our products. We are not a one-trick pony in terms of our product capabilities, so it gives us tremendous shock absorbers in any environment.

Because of this diverse mix of high gross margin advertising and high recurring revenue SaaS business in Teams, we are very pleased with that balance and how we're able to really fund our growth and be able to accelerate. And I'm also very happy to report as a final point that many of the investments that we kicked off in this past fiscal year, 2022, is already paying off in FY2023. And we are absolutely outperforming our expectations as a business very meaningfully and well ahead of our plan and expect a very strong year. So, with that I will wrap, and we'll take questions.

Operator

Thank you very much, sir. Ladies and gentlemen, at this time if you wish to ask a question, please press * then 1 on your touchtone phone or on the keypad on your screen. You will hear a confirmation tone that you have joined the queue. If you want to withdraw your question, please press * then 2 to remove yourself from the list. Our first question is from Miriam Josiah of Morgan Stanley. Please go ahead.

Miriam Josiah

Great. Thanks. Good afternoon, everyone. Thanks for the presentation. Just a few broad questions from me. Firstly, just on the overall EdTech market, given the acceleration that you've seen over the last two years, why do you think penetration will only be 5.5% by 2025? How do you think about the trajectory of that beyond that point, and I guess near term how you're thinking about growth post COVID as the market normalises? Secondly on the customer base and employers, you mentioned that the paying customers are the employers. Can you give us a bit more insight as to why employers are adopting this? And then also how you think about the barriers to entry on on-boarding larger businesses. I think you said that only companies like Skillsoft could actually get into these larger organisations. So, what do you see as the barriers to entry, and how easy is it to engage with the C-suite of these top enterprises? Thanks.

Larry Illg

So, I'll take those both. Thank you for the questions, Miriam. Why is penetration only 5.5%? We tend to describe the sector as very monolithic. There is a big part of that penetration that sits tied to the government specifically in K12. So that brings some friction to the shift to online. It was actually part of the reason why historically we've been even more careful than we normally would be in picking our investments around K12 because governments tend to move slow. The bigger factor is that thing that I alluded to where the consumer is not the payer. I think in the early years of EdTech there was not enough focus on the consumer needs, and that's part of the reason. That's one of the things that we've focussed on as we've invested in companies. I think it's changing

now, and that's why we've chosen the platforms that we have. We look for ones that have a good consumer experience and an engaged community along with its ability to unlock the enterprise.

And then building on that point, to your second question, if you focus on workforce learning, the origins of the space and how you get access to the C-suite, it starts with compliance training. And frankly it's not the sexy part of education, but it's things like anti money laundering training and slip and fall training, things like that that are a necessity. Those are things that are just part of good governance of large companies. They needed to have programmes and retaining in place. In many ways that's the birthplace of EdTech at the enterprise level. But then it's increasingly shifting to some of these other areas.

The two big ones generically would be leadership in business, and specific to the discussion today, tech endowed. These are table stakes for retaining employees and why employers are increasingly adopting it, this need to upskill workers in an increasingly tight labour market. Consumers expect it. Workers expect it. So, the winners in the space will ultimately have to address as you're selling into the C-suite not just the compliance and not just tech and not just leadership in business but offer a comprehensive solution.

I'm giving a long-winded answer, but how that leads to a moat is you end up as a platform having a lot of data, some of it specifically around compliance, but also you can provide information that allows the employer to understand what their people are learning but also puts the power in the hand of the end user, the employee, to shape their learning journey.

Miriam Josiah

That's helpful. Thank you.

Operator

Thank you. The next question is from Cesar Tiron of Bank of America Securities. Please go ahead.

Cesar Tiron

Yes. Hi everyone. Thanks for the call and the opportunity to ask questions. I have three, if that's okay. The first one is on the gross potential of Stack Overflow. I just wanted to understand the key driver for revenue growth going forward. Is it mainly the increase in paying users as opposed to the price that you will be charging these users? And is that mainly driven by enterprise type contracts? The second question, you discussed a little bit about it, but I just wanted to understand a little bit better the key areas of investment needed to scale up the business. And the third one would be on the long-term profitability of the business. Looking at some of the peers it's probably in the range of 20% to 30% EBITDA margin. Do those numbers make sense to you? Thank you so much.

Larry Illg

Thanks for your questions.

Prashanth Chandrasekar

Thank you for the question.

Larry Illg

Sorry, they're all yours, Prashanth.

Prashanth Chandrasekar

Thank you, Larry. No problem. Those are great questions. Thank you for them. Let me answer each one in order. The first one was around the growth potential. And you were asking is it specific to paying users or price increases. It is very much the former, as in paying users. If we just think about the 100 million monthly visitors we have on our public platform, a fraction of which are coming from companies, there's a huge paying customer potential that we are able to really serve. And that is primarily the way in which we expect to expand and grow within companies. So, we land, as I explained, in a particular team in companies and very quickly expand from there to increase the number of seats of these contracts on a year over year basis. So that's happening organically. It also happens contractually.

And very much the way we think about our Teams business is split between three different segments, the enterprise and the mid-market and SMD businesses. All three are very fast growing and the problems that I described earlier are trying to be solved by all these technology leaders in these companies. So, we see tremendous traction in the enterprise. I would say that's probably our strongest performing segment only because the bigger the company, the more transformation that is being driven, the more the need to break down walls between various teams, and really bring people together to learn and collaborate and share knowledge and so on. But that being said, we are also seeing outstanding traction in our SMD business, which is a very organic flow from our public website and also our mid-market business that's ramping up very nicely.

The other avenue for growth, to add to the question, is as I mentioned internationally. We are growing a very significant Team base in Europe, and we have a second European headquarters in London. And we're hiring top talent from various SaaS companies. 20% of our revenues especially in our Teams business and more broadly in our company comes from international sources, even though our community is global. That's question number one.

In terms of investment, as I mentioned, beyond the public platform, which as I said we're a 13 year old company so a lot can be done to modernise the platform to really think about not only serving those users from a public community perspective, but you want to do it in a very high scale way and be able to expand that and innovate with new features. We have a lot of capabilities like gamification capabilities like badges and points on the public platform. But we want to do so much more including EdTech. For that to happen we need to invest in that capability to keep engagement very high and continue to serve the significant increase in the number of visitors on a monthly basis and sign-ups as I explained.

Then of course on the Teams side the investments are focussed on the go to market side by expanding into international locations, by adding sales reps and account executives, and also the ecosystem of folks that you need around that. You need field marketing. You need demand generation folks. You also need customer success professionals to serve these customers to land and expand these accounts.

And in addition, of course, product investments to make sure that these products are self-driving within companies when they land and these products are enabling users to answer this question because you're the expert on this topic or making sure they've got deeper insights on how various groups within companies are engaging, or even creating these sub-communities within companies with newer concepts that we can have communities of practise and those sorts of things within companies. So, a lot of innovations that we are planning for in addition to of course EdTech and other capabilities that we will focus on.

And your last question around long-term profitability, absolutely, we watch and we benchmark ourselves against the best of breed SaaS companies. Within that four to five year time horizon is when we expect to be profitable again based on the tens of millions of Dollars of investment that I was mentioning earlier. But I mentioned also that we were profitable in 2018, 2019 and 2020. And we are very deliberately now in an investment phase or cycle in the company's history to make sure that we prepare ourselves for this tremendous opportunity in front of us. Hopefully that answers those various questions.

Cesar Tiron

Thank you so much. That was very helpful. Thank you.

Operator

Thank you. The next question is from Stefani Spasenoska of Goldman Sacks. Please go ahead.

Lisa Yang

Hi. It's actually Lisa Yang. Thanks for taking the questions. The first one is a broader question on the expected impact of recession or macro slowdown on spending by consumers or corporates across your various EdTech assets. The same for Stack Overflow. You said there is quite a high visibility of the revenue etc. But I'm just wondering if there is slowdown, do you see companies cutting more on some aspects like training etc? So how much visibility do you have at this point, and do you consider it as a potential risk?

The second question is on the global EdTech market in general. It remains extremely fragmented and obviously we see a lot of EdTech stocks falling quite dramatically. Do you think this opens up a couple of opportunities in terms of M&A? And what role do you see Prosus playing in that broader consolidation? And the last question is on the overall EdTech portfolio. I know there are a number of different businesses within that. You said Skillsoft should be profitable in four to five years' time. Could you also give us an expected time horizon for the entire EdTech to be profitable, and what sort of margin we should be aiming for over the medium to long term? Thank you.

Prashanth Chandrasekar

Larry, do you want me to take the first one?

Larry Illg

Yeah. Why don't you start, and I'll chase? Go ahead.

Prashanth Chandrasekar

Okay. Thank you. In terms of your question on recession-proof in terms of the three different businesses, in Stack Overflow, just to give you a sense of what we're seeing, we're seeing no slowdown in terms of any leading indicators. In fact, the opposite. Specifically, our advertising and employer branding business, those are absolutely over-performing at this point despite what you see about more consumer-oriented news headlines with social networks etc. And the reason for that is because Stack Overflow is the preferred destination for all things technology. So, if you were to think about a flight to quality, the quality destination to advertise tech products etc. there is probably only Stack Overflow, and I'm not sure if there are other largescale destinations for companies. That's why we have seen no leading indicators to suggest a slowdown. In fact, the opposite. We've seen significant overperformance relative to our own expectations even through this difficult quarter.

Our Teams business, what's very powerful about our recurring revenue model, especially given the high familiarity of our product within company, it is very sticky and as you can see our net retention rate is only going up. What's powerful and the advantage that we have is that most tech leaders are concerned about this notion of shelf ware, which is a product is bought and nobody actually uses it. That is typically first on the chopping block when budget considerations are being made. The great news about Stack Overflow for Teams is that adoption is very viral because of the network effects and the virtual cycles that we generate with our product. So, it's quite a resilient business even in downturn scenarios.

Larry Illg

Yeah, and I guess just delving on that – Prashanth covered Stack – I think that speaks to what we're seeing across the sector more broadly. And as it relates to the expected impact of recession, I think it's important to separate consumer businesses from enterprise. These workforce learning platforms are table stakes for large employers now. So, on the margin if we go into a deep recession might they tweak their level of spend perhaps.

But we will see probably more sensitivity on the consumer front than on the workforce side because the same employers still have to do compliance training. In a world of great resignation and challenges specifically in finding technology talent, the last thing you want to do is remove products that allow you to attract and retain workers. So, as we look across not just our portfolio but the global enterprise landscape, we're seeing a far more resilient business than certainly the public markets might indicate.

Going to your second and third questions about how we see the fragmentation in the space and what kind of opportunities we see, I think we always look for opportunity. And sometimes those opportunities present themselves in terms of new investments or opportunities to facilitate consolidation or even just commercial

partnerships. And where we are in the cycle now is an increasing focus on investing in our own companies. Prashanth mentioned how we're investing in Stack to further scale their business. But we're also facilitating a lot of commercial partnership conversations between our companies. And to be clear, the bar to external M&A has risen. That's where I think we're seeing perhaps the most changes given the external environment. Hopefully that answered your question.

Lisa Yang

Thank you. And on profitability for the entire portfolio, is there any breakeven target or long-term margin target?

Larry Illg

No, we don't solve for a long-term profit target and work backwards as it relates to specific portfolio companies. Stack was profitable and we saw very positive NPV projects that could be invested in. So, we have chosen to go into a bit of an investment cycle there, which is consistent with our history as a group. We pay close attention at the company level on the journey there versus solving for a long-term profit target. If you look at the diversity of companies that we're involved with in the EdTech sector broadly, SaaS margins look very different from K12 consumer products. Some of it is an outcome of very different business models. Not least some of these are investments where we're just a minority shareholder. Even if we had a specific vision on where we think the sector could land, those companies have their own boards and governance to direct them.

Lisa Yang

Okay. Thank you. Very clear.

Operator

Thank you. The next question is from Andrew Ross of Barclays. Please go ahead.

Andrew Ross

Good afternoon everyone. I've got two if that's okay. The first one is just to touch on the value that the broader Prosus portfolio is bringing to Stack. I remember when you announced the acquisition a year ago part of the argument was that Prosus could open doors with big enterprises, and also add value in India, which is clearly a market where Prosus has a lot of knowledge. Could you give us a bit more colour in terms of the value that the broader Prosus has added? Then the second thing is you guys paid \$1.8 billion to buy Stack Overflow. And it's very helpful that you've given us some numbers today to help appraise that. Could you give us a sense of how you thought about the valuation, how you're thinking about it a year later in a world where some SaaS multiples have come down? Just to give us a bit of a framework around that would be helpful. Thank you.

Larry Illg

Thanks for the question, Andrew. First, on the value that our group brings to Stack, we are now many months into this acquisition. It might be better, Prashanth, if you take that question and talk about how you've experienced things so far.

Prashanth Chandrasekar

Absolutely, happy to. Thanks for the question. We've been very pleased with our partnership with Prosus on multiple dimensions. Firstly, from an appreciation for what we hold most dear, which is our community which is the foundation of the company, the mission statement of Prosus is very much aligned to making an impact for a lot of people. In terms of cultural and philosophical alignment, there is significant alignment there which is always important. But beyond that point, the focus on making sure that we are scaling our capability on the platform for both lines of our business. And in advertising of course Prosus has a tremendous background in that space. So we're able to really think about nuanced ways to provide contextually relevant advertising to our users, and that's been a tremendous value for our team.

In addition, of course, on the go to market side Prosus has done a tremendous job of connecting us with the sister companies. So, pretty much all the EdTech companies that are in the portfolio are customers of ours now, and that's an initial start. And there is tremendous upside on those topics because we're only starting with things like every EdTech company can advertise on our platform to showcase their course work, as an example. As I referenced earlier on, we are working on deeper integrations. For example, imagine if their course work could be surfaced in a very contextually relevant way when users are asking questions? Those sorts of initiatives or high NPV initiatives are something that we are building and researching and working on. And all those things will be accretive to the company, which I think are very powerful.

And finally, I would just say in terms of access to a broader enterprise base, of course we're collaborating closely with all the sister companies to jointly approach customers together, because most companies are leveraging Stack Overflow or Teams and learning content in somewhat synergistic ways. They are trying to pipe relevant content and workflow to these technologists and developers. So, we are oftentimes selling it to the same persona or executive buyers, which is also helpful to connect the dots when we work together. And India of course is a very large base for us, our second-largest user base. And we continue to see tremendous bottom-up adoption there. And we are really approaching that market with a product-led approach where we launched our premium capability which allows customers to use us to sign up for our Teams product off the website even without sale people. And we are seeing significant traction on that with our premium and self-served pay products for Teams on that topic.

Larry Illg

Andrew, to your second question, I think we're really just scratching the surface of the opportunity on the Stack platform. Hopefully you got a feel for that today. And we're quite encouraged by the progress so far. And I think if we step back, multiples come down in the short term, but we are a long-term investor and true value is created over the long term. We are very encouraged by the progress that we've seen so far because that's the core of what we invest in. We invest in a big, global consumer need with a huge TAM and a consumer problem that's being solved at scale.

And if you believe, as I do, that technology companies will continue to be the biggest companies in the world, and software engineers will continue to be the most compelling employee base in the world, and growing, Stack sits at the forefront of that. And we step back and we ask ourselves the question, do we have the right opportunity? Stack checks that box very clearly. Does it have a sufficient TAM? If we hadn't seen that so far, we wouldn't go into this investment programme. And then do they have the ability to monetise this community? That's why we're encouraged by the progress that Prashanth highlighted around Teams and Collectives. And then last, does it have a credible management team that can execute? And we absolutely believe that.

Andrew Ross

Thank you.

Operator

Thank you very much. The next question is from Silvia Cuneo of Deutsche Bank. Please go ahead.

Silvia Cuneo

Thank you for the deep dive. First, I have a follow-up to one of the earlier questions. It sounds like the developers are a way of driving engagement to then monetise on the advertising and enterprise side of the business. I'm just wondering whether there are any scenarios where you could consider monetising this user base directly. Then secondly, what is your [unclear] accreditation given this growing [unclear] in a tight labour market? Is learning on the Stack Overflow platform in an organic way enough? Are you providing some forms of certification? Finally, just a question about the EdTech segment more broadly. In slide five you showed all the areas of the workforce ecosystem. In terms of the segments you are really [inaudible]. Can you talk more broadly about how we should think about capital allocation within EdTech going forward? Thank you.

Larry Illg

Thanks for the questions. Prashanth, why don't I take the last question first, and then pass to you about Stack?

Prashanth Chandrasekar

Sure.

Larry Illg

As we think about the sector, I'm sure for those who study this space closely you see how fragmented and global this space is. Ultimately, we think the winning solutions are going to have some element of what we tee up on slide five. Ultimately, I firmly believe that there are going to be a handful of companies that will try to build, but ultimately the winners in this space – and there will be multiple – will be assembled. And that can be assembled through M&A or commercial partnerships.

Some of the verticals, some of the features and functionalities will have to be brought in to either consumer facing platforms that build functionality, labs that help software engineers write code, or data scientists study data. Increasingly the consumer platforms will build out some of these other verticals and functionalities. Or

similarly, the enterprise leaders will find ways to work their way up the ecosystem and find new interesting sectors that are attracting consumer attention.

In terms of where we play in that landscape, obviously you see the footprint we have. We start with this frame and then we look at the company specific opportunities. In some cases when we work with Stack, Udemy or Skillsoft, it's about flushing out their own consumer and enterprise experience as it relates to this landscape. But then we're always looking for opportunities within specific areas, but that's assessed at a company specific level versus solving for any kind of end game in how something here might be assembled. Prashanth, do you want to take the first two?

Prashanth Chandrasekar

Yeah, absolutely. Thank you. Your first question around your public community and is there an opportunity to directly monetise – if I caught your question correctly – versus just the enterprise B2B model. We believe across our two product lines if you look at Teams and our Reach & Relevance business, in our Teams business the closest we have come to directly monetising the traffic and our user base is our premium or self-serve product. What that means is that rather than us as a team and sales people going into companies and making the case for them to buy a private version, and pay an annual contract for that, we also enable users on the website, the 100 million monthly visitors, to sign up automatically with their credit card on our website to buy Stack Overflow for Teams for any initiatives that they might want to drive.

Let's say there's a developer that's on Stack Overflow, like 80% of the world's developers are every day, and they are working for a company – perhaps one of your companies. They might consider taking Stack Overflow for Teams off the website, paying for it with their credit card, and using it for their immediate team. If that happens at sufficient scale, then we know where these hotspots are, so to speak, and we're able to have a much more strategic conversation with the CIO and CTO from a more top-down perspective as we think about sales. That's the closest that we come to directly monetising the traffic. Our Teams business for the vast majority is a traditional B2B SaaS sales motion. And on our Reach & Relevance business again it's a two-sided marketplace where companies pay us to be able to engage with these developers and technologists on the platform. So that's your first question.

Your second question, unfortunately it broke up on my end on what you were asking. But I think you were saying in this tight labour market what is happening in terms of learning on our website and are there other ways in which people are learning beyond just the organic ways on the website. Is that correct? Just to clarify your question.

Silvia Cuneo

Yes, it was around if people who say that they've learned on Stack Overflow is enough, or whether you are thinking that you could provide some sort of certification to accredit the students?

Prashanth Chandrasekar

Got you. Fantastic question. That's very much where we're going next in terms of our public platform. As I mentioned earlier on, with our partnerships with our sister companies in the Prosus portfolio we are working on various product initiatives to be able to serve EdTech content – course recommendations. If somebody is asking a question on Amazon about Amazon Web Services, they land on an answer on Stack Overflow. Imagine us presenting that user with a recommended course from one of our EdTech partners?

That's what we're thinking about at the moment on the public platform. That could very much lead to things like you're describing, like certifying the user beyond all the existing certifications we already provide them. We provide plenty of badges and recognition for each of these developers as great contributors and experts on various topics already on Stack Overflow. We can very much see that as a possibility in the future, and it's an organic part of how we're thinking about this new product capability.

Silvia Cuneo

Thank you.

Larry Illg

I think we have time for one more question.

Operator

Thank you. Then the last question is from Thomas Singlehurst of Citi. Please go ahead.

Thomas Singlehurst

Thank you very much for taking the question. Tom here from Citi. I work with Catherine O'Neill but I cover the global EdTech sector including some of your portfolio of companies. You sort of addressed this in your last question. I suspect this might be more of a question for Larry. When we look at that EdTech space and the enterprise learning side and lifelong learning, there's a sense I feel that companies need to be able to span a wide range of content. I think the phrase is from free to degree.

Two questions off the back of that. Can you directly address again whether it's better to try and form partnerships between your portfolio of companies, or ultimately should we expect them to vertically align? There are slightly mixed messages with Skillsoft Udemy, which is a partnership, and then Skillsoft Codecademy, which is an acquisition. The second question off the back of that is university partnerships and degrees. Obviously you do have Eruditus which is a fantastic asset, but do you feel the need to have something more substantial in that OPM space? Many thanks.

Larry Illg

Thanks for the questions. I think this wide range of content that's required, I think this is again where that tension emerges between the customer, which is the enterprise, and the consumer, which is the employee. The employee wants a diversity of content. Fundamentally if you sit in the CEO or CFO chair, you sit back and you say, how many different pipes am I going to have into my company? So there is this tension where CEOs and

CFOs absolutely need to have their compliance leadership training checked off, but then employees are clamouring for the lifelong learning. So, we're seeing an increasing desire. We touched on the question earlier. Can you just solve this wide range of needs for me? I don't want to have multiple contracts come in. I think you see more and more of that. [Inaudible].

Then in terms of how we work with our companies here, the companies follow their own destinies. They have their own governance and boards. To the extent that we can facilitate, we do. Sometimes that means we help partnerships of sister companies. As one of the biggest investors globally, if we're not directly involved in the space, hopefully we know many of the key players and we can facilitate introductions. It doesn't have to be an acquisition per se, but it can be a commercial partnership that brings that consumer experience together.

Then last on the university side I mentioned before – to go to your second question – how we think about university partnerships and degrees. We're super excited about what Ashwin and team are building at Eruditus. We've been intentionally careful about where we get involved in some of the more traditional areas of the space, be in K12 or even traditional universities, because we want people that are thinking about the next generation and being very consumer focussed and consumer led. And in the case of that's being done at Eruditus that's absolutely true. So we're open to opportunities with universities obviously, but tier one brands travel very well and will be part of the future of this space. But we want to make sure that we're focussed on end user needs. Hopefully that answered your questions.

Thomas Singlehurst

That's very clear. Thank you.

Larry Illg

Thank you. Just to close things out, I just want to say thank you very much for taking the time to listen in. I know we've been greedy with your time today. I hope this was helpful. Please feel free to follow up with Eoin and our IR team if there are any further questions. And as a reminder, a transcript and replay will be available on the website shortly.

Operator

Thank you very much sir. Ladies and gentlemen, that then concludes this event and you may now disconnect.

END OF TRANSCRIPT