

Short Selling Pitch:

Chegg, Inc. (NYSE: CHGG)

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Company Background

Chegg is an education technology company primarily focused on providing homework solutions and exam assistance to students. Essentially, it helps students access solutions for their assigned homework and exams, which some argue facilitates cheating.

Investment Thesis

Chegg's core business is highly vulnerable to disruption from GPT-4, an advanced artificial intelligence language model developed by OpenAI. This disruption, coupled with Chegg's stagnating financial performance, makes it an attractive short opportunity. Key points supporting this thesis include:

- GPT-4 offers similar services to Chegg at a much lower cost and with greater accessibility.
- Chegg's growth story is ending, with revenues expected to enter a perpetual decline.
- The company's ability to attract and retain customers is likely to decline significantly.
- Chegg's financial performance has been stagnating, with minimal improvement in recent years.

GPT-4 Threat Analysis

GPT-4 poses a significant threat to Chegg's business model:

- It scores in the top 10% on the bar exam and among top LSAT takers.
- Performs very highly on the GRE.
- Acts as a free, at-home tutor capable of answering any question.
- Solves difficult physics exams and can process visual inputs.

- Offers similar homework and exam assistance as Chegg, but at a much lower cost and with greater accessibility.

Financial Analysis

Chegg's financial performance has been stagnating:

- Total revenue grew from \$321 million in 2018 to \$776 million in 2021.
- Operating income showed minimal improvement, from a loss of \$6.22 million in 2018 to near-zero in 2021.
- Net income has been inconsistent, swinging from a loss of \$14.89 million in 2018 to a profit of \$267 million in 2022.
- Cash position: \$475 million in cash, \$583 million in short-term investments.
- Total liabilities: \$1.38 billion, including \$1.18 billion in senior notes.

Market Dynamics

- Insider selling indicates a lack of confidence in the company's future.
- College professors are already mentioning "no ChatGPT usage" in their syllabi, indicating awareness and concern about AI tools.
- The trend of using AI for academic assistance is gaining popularity on platforms like TikTok.
- While colleges are considering banning ChatGPT-based software, Chegg has already been banned since 2018, yet continued to grow.

Risk Factors

- Potential share buybacks announcement could temporarily boost the stock price.
- Chegg's cash position (\$475 million) could allow the company to withstand short-term pressures.
- Timing of GPT-4's wide release and adoption rate among students is uncertain and difficult to measure.

Catalysts

- Wide release of GPT-4 to common consumers (currently limited to paid users).
- Visible decline in Chegg's subscriber base or revenue in upcoming earnings reports.
- Increased adoption of GPT-4 by students, potentially trackable through social media trends.
- Any announcements from Chegg acknowledging the threat from AI technologies.

Conclusion

Chegg faces a substantial threat from GPT-4, which offers superior services at a lower cost. The company's stagnating financials, coupled with insider selling and the impending AI disruption, make it a compelling short opportunity. While timing is crucial, the trend towards AI-assisted learning tools like GPT-4 is likely to significantly impact Chegg's business model in the near future. Monitoring student adoption rates of GPT-4 and Chegg's subscriber numbers will be key to timing this short position effectively.