



November 3, 2016

2U, Inc. Reports Third Quarter 2016 Financial Results

- Revenue Growth of 40 Percent, Year Over Year
- Net Loss Margin Improvement of Nine Percentage Points, Year Over Year
- Adjusted EBITDA Loss Margin Improvement of Eight Percentage Points, Year Over Year

LANDOVER, Md., Nov. 3, 2016 /PRNewswire/ -- **2U, Inc. (NASDAQ: TWOU)**, today reported financial and operating results for the third quarter ended September 30, 2016.

Third Quarter 2016 Results

- Revenue was \$52.0 million, an increase of 40 percent from \$37.1 million in the third quarter of 2015.
- Net loss was \$(6.8) million, or \$(0.14) per share, compared to \$(8.2) million, or \$(0.20) per share, in the third quarter of 2015.
- Adjusted net loss was \$(2.7) million, or \$(0.06) per share, compared to an adjusted net loss of \$(4.9) million, or \$(0.12) per share, in the third quarter of 2015.
- Adjusted EBITDA loss was \$(0.2) million, compared to an adjusted EBITDA loss of \$(2.9) million in the third quarter of 2015.

"Once again 2U delivered strong financial performance in the third quarter of 2016. Revenue for Q3 was \$52 million, an increase of 40% year over year," said Chip Paucek, 2U's CEO and co-founder. "We have now announced two new programs, including a new university partner in a new region as well as an existing partner launching a new program with us. Given the state of the new program pipeline, we are increasing our 2017 launch target from nine to 10 new programs. We will discuss our long-term growth strategy in detail during our Investor Day on November 15th."

Recent Program Related Developments

2U recently announced that is has partnered with:

- University of Dayton to deliver MBA@Dayton, which includes two online offerings: a general MBA and an advanced standing MBA for individuals with more than 10 years of work experience or an undergraduate degree in business.
- University of Southern California's Jimmy Iovine and Andre Young Academy for Arts, Technology and the Business of Innovation for Design@USC, a new online master of science in integrated design, business and technology.

Financial Outlook

Based on information available as of today, 2U is issuing the following guidance for fourth quarter and full year of 2016.

(in millions, except per share amounts)	4Q 2016	FY 2016
Revenue	\$56.0 - \$56.4	\$204.5 - \$204.9
Net Loss	\$(3.5) - \$(3.1)	\$(21.9) - \$(21.5)
Net Loss per Share	\$(.07) - \$(0.06)	\$(0.47) - \$(0.46)
Weighted-Average Shares of Common Stock	47.5	46.7
Adjusted Net Income (Loss)	\$1.1 - \$1.5	\$(5.8) - \$(5.4)
Adjusted Net Income (Loss) per Share (1)	\$0.02 - \$0.03	\$(0.13) - \$(0.12)
Adjusted EBITDA	\$3.8 - \$4.2	\$3.8 - \$4.2
Stock-Based Compensation Expense	\$4.3- \$4.5	\$15.8 - \$16.1

(1) The company intends to use expected weighted-average shares of common stock outstanding for the calculation of adjusted net income (loss) per share until it expects to achieve net income in any period.

While its 2016 budget cycle is not complete, 2U is providing a preliminary view into 2017 based on its early expectations:

- 2017 revenue is expected to increase by 30% to 31% over 2016.

- | Revenue distribution across the 2017 quarters is expected to be similar to 2016.
- | 2017 net loss margin is expected to be between (12)% and (10)%.
- | 2017 adjusted EBITDA margin is expected to be between 2.5% and 3.5%.
- | Normal cost seasonality is expected across the 2017 quarters. In second quarter, we typically incur a disproportionate amount of annual costs that reduce our earnings measures. Conversely, we typically reduce our marketing costs during the year-end holiday period, which increases earnings measures in the fourth quarter.

Non-GAAP Measures

To supplement the Company's consolidated financial statements, which are prepared and presented in accordance with U.S. generally accepted accounting principles ("GAAP"), we use adjusted EBITDA, adjusted EBITDA margin, adjusted net income (loss) and adjusted net income (loss) per share, which are non-GAAP financial measures.

We define adjusted EBITDA as net income or net loss, as applicable, before net interest income (expense), taxes, depreciation and amortization, and stock-based compensation expense. Some or all of these items may not be applicable in any given reporting period. Adjusted EBITDA margin represents adjusted EBITDA as a percentage of revenue.

We define adjusted net income (loss) as net income or net loss, as applicable, attributable to holders of common stock before stock-based compensation expense. Adjusted net income (loss) per share is calculated as adjusted net income (loss) divided by weighted-average common shares outstanding.

The principal limitation of these non-GAAP financial measures is that they exclude significant expenses that are required by GAAP to be recorded in the company's financial statements. These non-GAAP measures are key metrics company management uses to compare the company's performance to that of prior periods for trend analyses, and for budgeting and planning purposes. These measures also provide useful information to investors and analysts relating to 2U's financial condition and results of operations. These financial measures are not intended to be considered in isolation or as a substitute for, or superior to, financial information prepared and presented in accordance with GAAP. In addition, these financial measures may be different from non-GAAP financial measures used by other companies, limiting their usefulness for comparison purposes.

For more information on 2U's non-GAAP financial measures and reconciliations of such measures to the nearest GAAP measures, please see the reconciliation tables on the last page of this press release under the heading "Reconciliation of Non-GAAP Measures." 2U urges investors to review these reconciliations and not to rely on any single financial measure to evaluate the company's business.

Conference Call Information

What: 2U, Inc.'s third quarter 2016 financial results conference call

When: Thursday, November 3, 2016

Time: 5 p.m. ET

Live Call: (877) 359-9508

Webcast: <http://investor.2u.com/>

About 2U, Inc. (NASDAQ: TWOU)

2U partners with leading colleges and universities to deliver the world's best online degree programs so students everywhere can reach their full potential. Our Platform, a fusion of cloud-based software-as-a-service technology and technology-enabled services, provides schools with the comprehensive operating infrastructure they need to attract, enroll, educate, support and graduate students globally. Blending live face-to-face classes, dynamic course content and real-world learning experiences, 2U's No Back Row[®] approach ensures that every qualified student can experience the highest quality university education for the most successful outcome.

To learn more, go to [2U.com](http://2u.com). Be sure to follow us on LinkedIn (<http://www.linkedin.com/company/2u>), Twitter (<http://twitter.com/2Uinc>) and Facebook (<http://www.facebook.com/2u>).

Cautionary Language Concerning Forward-Looking Statements

This press release contains forward-looking statements regarding our future business expectations, which are subject to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts contained in this press release, including statements regarding future results of the operations and financial position of 2U, Inc., including financial targets, business strategy, and plans and objectives for future operations, are forward-looking statements. 2U has based these forward-looking statements largely on its estimates of its financial results and its current expectations and projections about future events and financial trends that it believes may affect its financial condition, results of operations, business strategy, short term and long-term business operations and objectives, and financial needs as of the date of this press release. We undertake no obligation to update these statements as a result of new information or future events. These forward-looking statements are subject to a number of risks, uncertainties and assumptions that could cause actual results to differ materially from the results predicted, including, our failure to attract new colleges and universities as clients; our failure to acquire qualified students for our clients' programs; failure of clients' students to remain enrolled in their programs; loss, or material underperformance, of any one client; our ability to compete against current and future competitors; disruption to, or failure of, our Platform; and data privacy or security breaches. These and other potential risks and uncertainties that could cause actual results to differ from the results predicted are more fully detailed under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015 and other reports filed with the Securities and Exchange Commission. Moreover, 2U operates in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for 2U management to predict all risks, nor can 2U assess the impact of all factors on its business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements 2U may make. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this press release may not occur and actual results could differ materially and adversely from those anticipated.

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2U, Inc.
Condensed Consolidated Balance Sheets
(unaudited, in thousands, except share and per share amounts)

	September 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 156,927	\$ 183,729
Accounts receivable, net	20,974	975
Advance to clients	938	1,508
Prepaid expenses and other assets	7,085	6,695
Total current assets	185,924	192,907
Property and equipment, net	7,818	3,621
Capitalized technology and content development costs, net	29,428	22,628
Advance to clients, non-current	1,350	1,042
Prepaid expenses, non-current	6,974	7,099
Other non-current assets	3,079	3,744
Total assets	\$ 234,573	\$ 231,041
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 4,756	\$ 4,544
Accrued compensation and related benefits	13,791	13,405
Accrued expenses and other liabilities	16,453	12,039
Deferred revenue	3,030	2,609
Total current liabilities	38,030	32,597
Non-current liabilities	3,858	2,655
Total liabilities	41,888	35,252
Stockholders' equity:		
Preferred stock, \$0.001 par value, 5,000,000 shares authorized, 0 shares issued and outstanding as of September 30, 2016 and December 31, 2015	—	—
Common stock, \$0.001 par value, 200,000,000 shares authorized, 47,048,654 shares issued and outstanding as of September 30, 2016; 45,776,455 shares issued and outstanding as of December 31, 2015	47	46
Additional paid-in capital	366,694	351,324

Accumulated deficit	(174,056)	(155,581)
Total stockholders' equity	192,685	195,789
Total liabilities and stockholders' equity	\$ 234,573	\$ 231,041

2U, Inc.
Condensed Consolidated Statements of Operations
(unaudited, in thousands, except share and per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue	\$ 51,960	\$ 37,092	\$ 148,514	\$ 106,942
Costs and expenses:				
Servicing and support	10,351	7,845	30,123	23,299
Technology and content development	8,670	7,082	24,787	19,682
Program marketing and sales	28,165	21,567	79,304	62,680
General and administrative	11,569	8,477	32,960	24,059
Total costs and expenses	<u>58,755</u>	<u>44,971</u>	<u>167,174</u>	<u>129,720</u>
Loss from operations	(6,795)	(7,879)	(18,660)	(22,778)
Other income (expense):				
Interest expense	—	(127)	(35)	(379)
Interest income	37	21	220	74
Other	—	(250)	—	(250)
Total other income (expense)	<u>37</u>	<u>(356)</u>	<u>185</u>	<u>(555)</u>
Loss before income taxes	(6,758)	(8,235)	(18,475)	(23,333)
Income tax expense	—	—	—	—
Net loss	<u>\$ (6,758)</u>	<u>\$ (8,235)</u>	<u>\$ (18,475)</u>	<u>\$ (23,333)</u>
Net loss per share, basic and diluted	<u>\$ (0.14)</u>	<u>\$ (0.20)</u>	<u>\$ (0.40)</u>	<u>\$ (0.56)</u>
Weighted-average shares of common stock outstanding, basic and diluted	<u>46,903,628</u>	<u>41,645,894</u>	<u>46,453,480</u>	<u>41,331,481</u>

2U, Inc.
Condensed Consolidated Statements of Cash Flows
(unaudited, in thousands)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities		
Net loss	\$ (18,475)	\$ (23,333)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	7,060	5,288
Stock-based compensation expense	11,593	9,217
Changes in operating assets and liabilities:		
Increase in accounts receivable, net	(19,999)	(12,338)
Decrease (increase) in advance to clients	262	(875)
Increase in prepaid expenses and other current assets	(507)	(1,910)
Increase in accounts payable	212	2,037
Increase in accrued compensation and related benefits	386	2,443
Increase in accrued expenses and other liabilities	4,139	2,356
Increase in deferred revenue	421	1,912
Decrease (increase) in payments to clients	1,320	(854)
Increase in other assets and other liabilities, net	(834)	(6,810)
Other	—	250
Net cash used in operating activities	<u>(14,422)</u>	<u>(22,617)</u>
Cash flows from investing activities		
Purchases of property and equipment	(3,665)	(974)
Capitalized technology and content development cost expenditures	(12,351)	(9,113)
Other	<u>(142)</u>	<u>(250)</u>

Net cash used in investing activities	(16,158)	(10,337)
Cash flows from financing activities		
Proceeds from exercise of stock options	4,324	4,322
Proceeds from issuance of common stock, net of offering costs	—	117,463
Other	(546)	(436)
Net cash provided by financing activities	3,778	121,349
Net (decrease) increase in cash and cash equivalents	(26,802)	88,395
Cash and cash equivalents, beginning of period	183,729	86,929
Cash and cash equivalents, end of period	<u>\$ 156,927</u>	<u>\$ 175,324</u>
Supplemental disclosure of non-cash investing and financing activities		
Accrued capital expenditures	\$ 2,250	\$ 361

2U, Inc.
Reconciliation of Non-GAAP Measures
(unaudited)

The following table presents a reconciliation of net loss to adjusted net loss for each of the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(in thousands)			
Net loss	\$ (6,758)	\$ (8,235)	\$ (18,475)	\$ (23,333)
Adjustments:				
Stock-based compensation expense	4,073	3,302	11,593	9,217
Total adjustments	4,073	3,302	11,593	9,217
Adjusted net loss	<u>\$ (2,685)</u>	<u>\$ (4,933)</u>	<u>\$ (6,882)</u>	<u>\$ (14,116)</u>

The following table presents a reconciliation of net loss to adjusted EBITDA (loss) for each of the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(in thousands)			
Net loss	\$ (6,758)	\$ (8,235)	\$ (18,475)	\$ (23,333)
Adjustments:				
Interest expense	—	127	35	379
Interest income	(37)	(21)	(220)	(74)
Depreciation and amortization expense	2,534	1,898	7,060	5,288
Stock-based compensation expense	4,073	3,302	11,593	9,217
Total adjustments	6,570	5,306	18,468	14,810
Adjusted EBITDA (loss)	<u>\$ (188)</u>	<u>\$ (2,929)</u>	<u>\$ (7)</u>	<u>\$ (8,523)</u>

The following table presents (i) a reconciliation of net loss guidance to adjusted net loss guidance and adjusted EBITDA (loss) guidance and (ii) a reconciliation of net loss per share guidance to adjusted net loss per share guidance, each at the midpoint of the ranges provided by the company, for each of the periods indicated:

	Year Ended December 31, 2016	
	\$	\$/Share
	(in thousands, except per share amounts)	
Net loss	\$ (21,700)	\$ (0.46)

Stock-based compensation expense	15,950	0.34
Adjusted net loss	(5,750)	(0.12)
Net interest income (expense)	-	-
Depreciation and amortization expense	9,750	0.21
Adjusted EBITDA (loss)	<u>\$ 4,000</u>	<u>\$ 0.09</u>
Projected weighted-average shares of common stock outstanding, basic and diluted		46,708

Key Financial Performance Metrics (unaudited)

Platform Revenue Retention Rate

The following table sets forth our platform revenue retention rate for the periods presented, as well as the number of programs included in the platform revenue retention rate calculation.

	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Platform revenue retention rate	134.2 %	118.3 %	124.4 %	121.0 %
Number of programs included in comparison (1)	15	11	12	9

(1) Reflects the number of programs operating both in the reported period and in the prior year comparative period.

Full Course Equivalent Enrollments

The following table sets forth the full course equivalent enrollments and average revenue per full course equivalent enrollment in our clients' programs for the last eight quarters.

	<u>Q4 '14</u>	<u>Q1 '15</u>	<u>Q2 '15</u>	<u>Q3 '15</u>	<u>Q4 '15</u>	<u>Q1 '16</u>	<u>Q2 '16</u>	<u>Q3 '16</u>
Full course equivalent enrollments in our clients' programs	11,505	13,093	13,557	13,840	16,530	17,709	18,823	19,126
Average revenue per full course equivalent enrollment in our clients' programs	\$ 2,673	\$ 2,644	\$ 2,599	\$ 2,680	\$ 2,617	\$ 2,679	\$ 2,609	\$ 2,717

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