



# The Poster Child for Institutionalized Academic Cheating

Immediate Price Target of \$25



## Institutionalized Cheating is No Longer OK

The 2019 college admission scandal has shined a new light on academic integrity in the United States. What was long considered to be socially acceptable or even legal is now coming into question as media and lawmakers are questioning the status quo in our educational system.

Beyond Rick Singer and his manipulation of admissions, the conversation of institutionalized cheating cannot occur without first mentioning Chegg.

Chegg, a \$4 bil company that has made a business off selling answers to homework and selling a service that allows students to submit plagiarized work as original is undermining the educational system and will soon be brought to the forefront of media attention.

In this report, Citron will explain how the “it’s never a problem until it’s a problem” moment has hit Chegg as now cheating does make a difference.

## Cheating Has Become an Educational Addiction and Chegg is the Pusher

According to Dr. Donald McCabe and the International Center for Academic Integrity, surveys of over 70,000 high school students at over 24 high schools in the US revealed that **95% said they participated in some form of cheating, whether it was on a test, plagiarism or copying homework.**

Chegg began as the Netflix for college textbooks but as the textbook market went online the company has pivoted into what has become the worst secret amongst high school and college campuses.

For lack of a better term, Chegg's business model is now CaaS (i.e., Cheating as a Service).

It has become so obvious that even a USC professor referred to Chegg as **"a thinly-veiled cheating service."**

[https://www.reddit.com/r/USC/comments/9ejlxo/posting\\_hw\\_question\\_on\\_chegg\\_study/?st=jthz9w42&sh=e1b0aeb2](https://www.reddit.com/r/USC/comments/9ejlxo/posting_hw_question_on_chegg_study/?st=jthz9w42&sh=e1b0aeb2)

Reddit boards are filled with students and teachers discussing the obvious use of Chegg as a means for cheating in homework and original essay writing.

**If you don't believe the reddit boards and don't want to believe the words of a short seller then how about believing the words of their own partner.**

## Purdue University – Stating the Obvious

In February 2019, Chegg signed a partnership with Purdue University where Purdue's Online Writing lab will help power the writing tools produced by Chegg in exchange for students having access to those Chegg tools.

<https://www.purdue.edu/newsroom/releases/2019/Q1/the-purdue-university-online-writing-lab-and-chegg-partner-to-make-world-class-writing-education-tools-more-accessible.html>

Immediately after the partnership was announced, Professor of Economics Stephen Martin expressed the concerns of faculty by stating the following: "What's problematic is Purdue University lending it's good name and reputation to a company whose business plan apparently involves helping students **cheat.**"

<https://www.wlfi.com/content/news/Some-Purdue-faculty-concerned-about-university-partnership-with-Chegg-506024201.html>

Professor of Mathematics Ralph Kaufmann echoed this concern by stating that Chegg is a company with "two faces"... while Chegg claims to help students do their homework, students on Twitter are very clear that they use the site to do their homework for them.

The Purdue partnership brought criticism from other academics as well. Susan Schorn, writing program coordinator in the school of undergraduate studies at the University of Texas at Austin, stated: "I think it's inevitable that Purdue OWL's reputation will suffer from this association... I understand their desire to bring in a little cash, but I wish they had chosen a partner that didn't come with the liabilities a platform like Chegg will inevitably have."

<https://www.insidehighered.com/news/2019/03/12/purdue-professors-criticize-writing-partnership-chegg>

## Chegg Appears to be Operating Illegally

What we learned the past two weeks is that academic cheating is not only immoral but it's also illegal.

Based on our analysis, it appears that Chegg is operating illegally in 17 states.

Distributing any post-secondary assignment for a profit with reasonable knowledge that it will be submitted by another person for academic credit is a CRIME in many US states.

Chegg believes they are exempt from this law because of their terms of service and their honor code. That is the equivalent of telling Waze you're the passenger when getting directions.

As soon as politicians and media get over the Rick Singer scandal, Chegg should not be far behind.

California	West's Ann. Cal. Educ. Code §§ 66400-405 ( <i>Prohibition concerning Preparation, Sale and Distribution of Term Papers, Theses, etc.</i> )
Colorado	C.R.S.A. §§ 23-4-101-105 ( <i>Preparation, Sale, and Distribution of Academic Materials—Advertising</i> )
Connecticut	C.G.S.A. §§ 53-392a-e ( <i>Preparation of Assignments for Students Attending Educational Institutions Prohibited</i> )
Florida	West's F.S.A. § 877.17 ( <i>Works to Be Submitted by Students without Substantial Alteration</i> )
Illinois	110 IL. C.S. §§ 5/0.01-5/1 ( <i>Academic Plagiarism Act</i> )
Maine	17-A M.R.S.A. § 705 ( <i>Criminal Simulation</i> )
Maryland	MD Code, Education, §§ 26-201 ( <i>Sales Prohibited</i> )
Massachusetts	M.G.L.A. 271 § 50 ( <i>Sale of Research Papers, etc.; Taking of Examinations for Another at Educational Institutions</i> )
Nevada	N.R.S. 207.320 ( <i>Preparation or Sale of Academic Writings</i> )
New Jersey	N.J.S.A. 18A:2-3 ( <i>Sale of Term Papers or other Assignments; Penalties; Actions for Injunction</i> )
New York	McKinney's Education Law § 213-b ( <i>Unlawful Sale of Dissertations, Theses and Term Papers</i> )
North Carolina	N.C.G.S.A. § 14-118.2 ( <i>Assisting, etc., in Obtaining Academic Credit by Fraudulent Means</i> )
Oregon	O.R.S. § 164.114 ( <i>Sale of Educational Assignments</i> )
Pennsylvania	18 Pa. C.S.A. § 7324 ( <i>Unlawful Sale of Dissertations, Theses and Term Papers</i> )
Texas	V.T.C.A., Penal Code § 32.50 ( <i>Deceptive Preparation and Marketing of Academic Product</i> )
Virginia	Va. Code Ann. §§ 18.2-505-508 ( <i>Preparation, etc., of Papers to be Submitted for Academic Credit</i> )
Washington	West's RCWA 28B.10.580-584 ( <i>Term Papers, Theses, Dissertations, Sale of Prohibited—Legislative Findings—Purpose</i> )



## Turnitin - Chegg Kryptonite

The business of institutionalized cheating has become so bad that it has created a business to combat institutionalized cheating. Advance Publications this month bought Turnitin, which is a software developer that uses AI to scan students' writing and code assignments to check for plagiarism. This is software used by university and high school teachers to specifically combat Chegg.

"[Turnitin] aims to be a 'conversation starter,' and it emphasizes the need... of 'a larger teaching moment around the importance of original writing, proper citation, and academic integrity.'" – National Post

<https://nationalpost.com/entertainment/books/a-software-program-called-turnitin-is-making-life-exceedingly-difficult-for-student-plagiarists>

Turnitin is enough to stunt Chegg's growth and the Chegg user base acknowledges the danger of Turnitin.

## Chegg Tries to Help Students Continue Cheating

**Chegg Study** TEXTBOOK SOLUTIONS EXPERT Q&A Search

home / study / engineering / computer science / computer science questions and answers / is the answer in chegg will be shown in turnitin?

**Question: Is the answer in chegg will be shown in turnitin?**

Is the answer in chegg will be shown in turnitin?

This screenshot shows a search result on Chegg Study. The breadcrumb trail is 'home / study / engineering / computer science / computer science questions and answers / is the answer in chegg will be shown in turnitin?'. The question title is 'Question: Is the answer in chegg will be shown in turnitin?'. The question text is 'Is the answer in chegg will be shown in turnitin?'.

**Chegg Study** TEXTBOOK SOLUTIONS EXPERT Q&A Search

home / study / engineering / computer science / computer science questions and answers / does turnitin check chef answers? I turned in an assign...

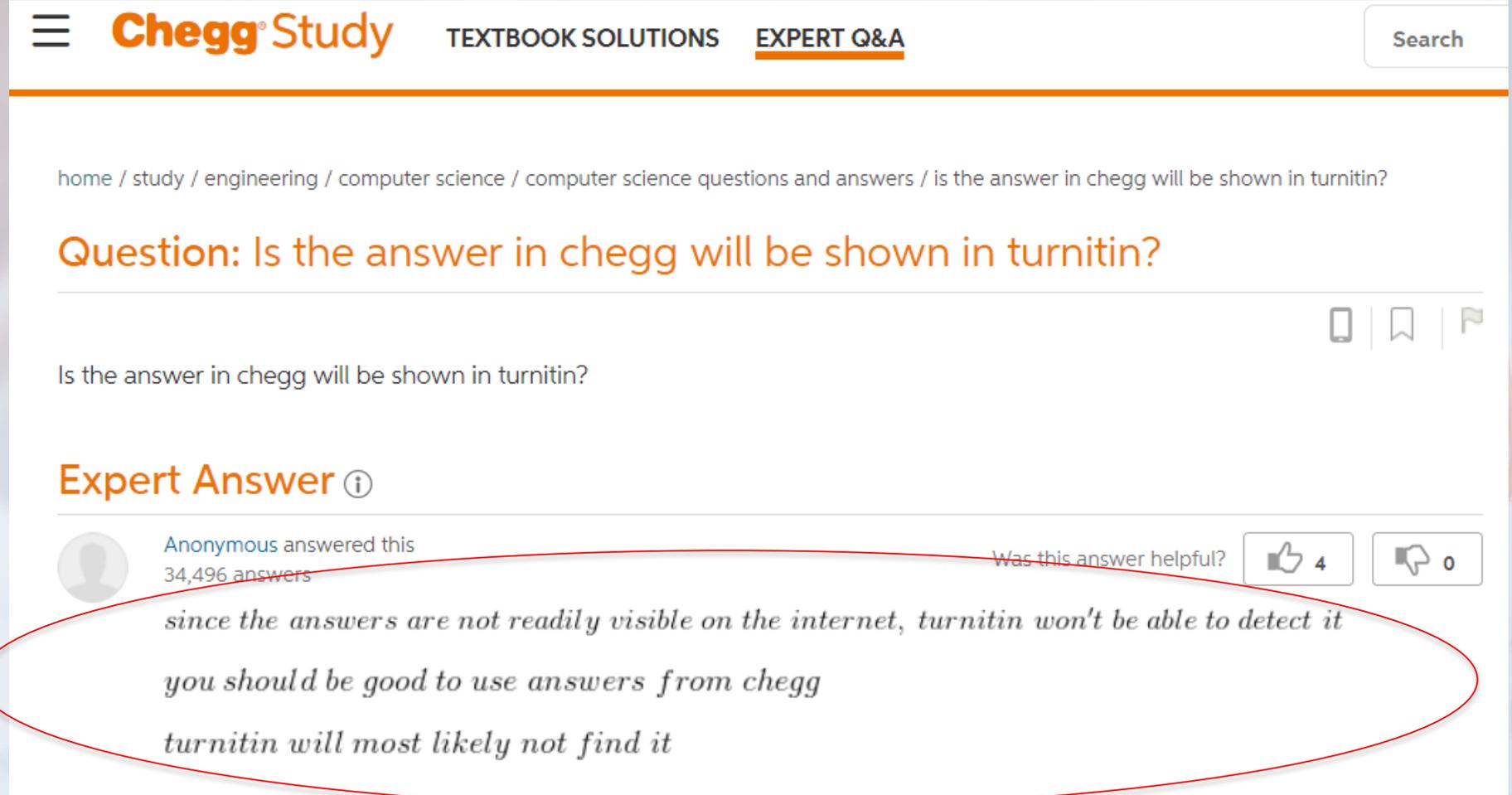
**Question: Does turnitin check chef answers? I turned in an assignment th...**

Does turnitin check chef answers? I turned in an assignment that I asked on chegg and gotten an answer so I turned that answer in. And it was through my student dashboard which is connected to turnitin.com. Would my answer come back as plagerised because I used chegg?

This screenshot shows a search result on Chegg Study. The breadcrumb trail is 'home / study / engineering / computer science / computer science questions and answers / does turnitin check chef answers? I turned in an assign...'. The question title is 'Question: Does turnitin check chef answers? I turned in an assignment th...'. The question text is 'Does turnitin check chef answers? I turned in an assignment that I asked on chegg and gotten an answer so I turned that answer in. And it was through my student dashboard which is connected to turnitin.com. Would my answer come back as plagerised because I used chegg?'.

Turnitin is based on academic integrity and Chegg has created forums to attempt to circumvent Turnitin, proving that Chegg is trying to help users continue institutionalized cheating.

## Chegg Tries to Help Students Continue Cheating



The screenshot shows the Chegg Study website interface. At the top, there is a navigation bar with the Chegg Study logo, links for 'TEXTBOOK SOLUTIONS' and 'EXPERT Q&A', and a search box. Below the navigation bar, a breadcrumb trail reads: 'home / study / engineering / computer science / computer science questions and answers / is the answer in chegg will be shown in turnitin?'. The main content area features a question in orange text: 'Question: Is the answer in chegg will be shown in turnitin?'. To the right of the question are icons for mobile, bookmark, and flag. Below the question is the text 'Is the answer in chegg will be shown in turnitin?'. Underneath is an 'Expert Answer' section with an information icon. The answer is provided by an anonymous user, indicated by a profile icon and the text 'Anonymous answered this 34,496 answers'. To the right of the answer is a 'Was this answer helpful?' section with a thumbs-up icon (4 votes) and a thumbs-down icon (0 votes). The answer text, which is circled in red, reads: 'since the answers are not readily visible on the internet, turnitin won't be able to detect it you should be good to use answers from chegg turnitin will most likely not find it'.

home / study / engineering / computer science / computer science questions and answers / is the answer in chegg will be shown in turnitin?

**Question:** Is the answer in chegg will be shown in turnitin?

Is the answer in chegg will be shown in turnitin?

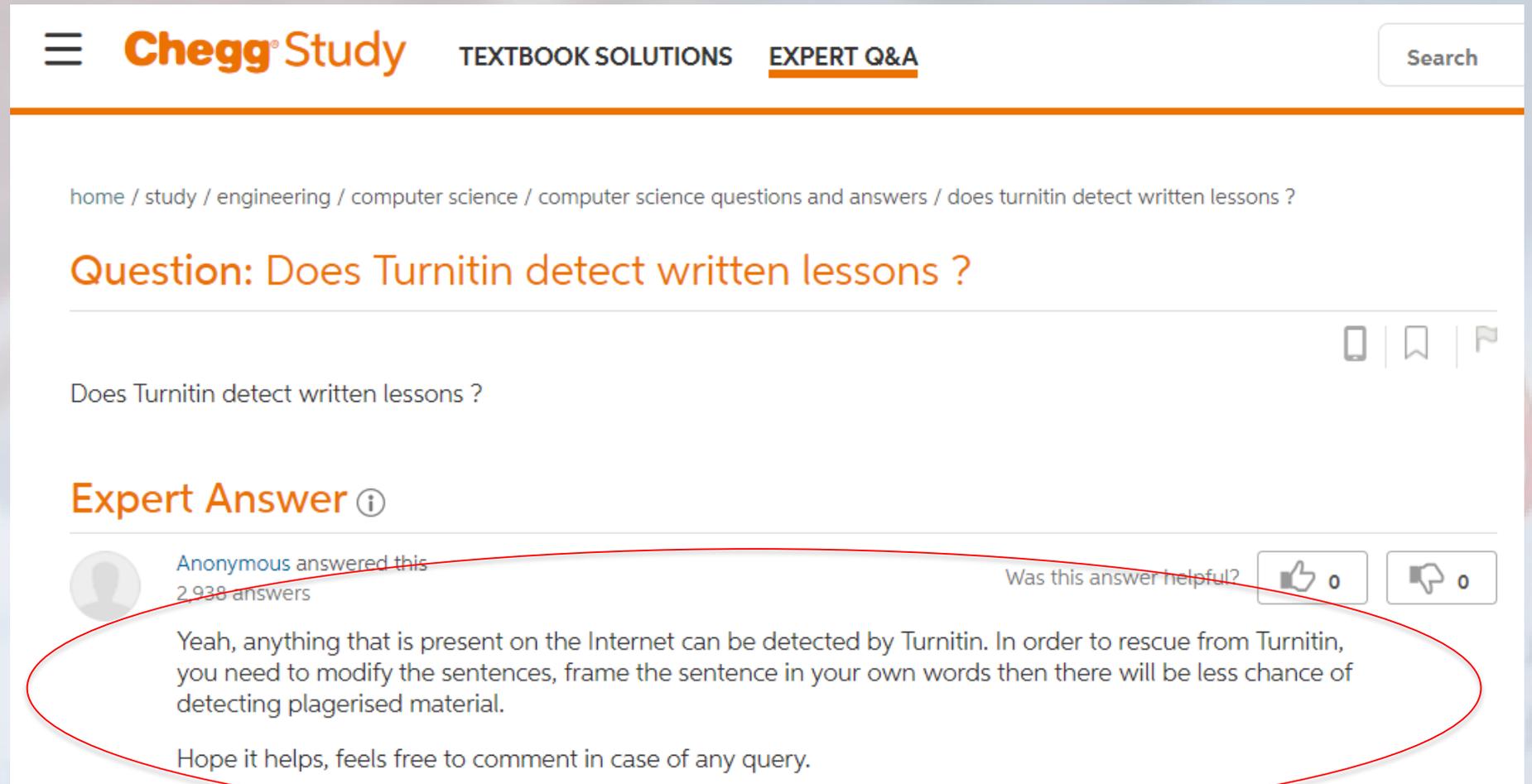
**Expert Answer** ⓘ

Anonymous answered this  
34,496 answers

Was this answer helpful?  4  0

*since the answers are not readily visible on the internet, turnitin won't be able to detect it  
you should be good to use answers from chegg  
turnitin will most likely not find it*

## Chegg Tries to Help Students Continue Cheating



The screenshot shows the Chegg Study website interface. At the top, there is a navigation bar with the Chegg Study logo, links for 'TEXTBOOK SOLUTIONS' and 'EXPERT Q&A', and a search box. Below the navigation bar, the breadcrumb trail reads: 'home / study / engineering / computer science / computer science questions and answers / does turnitin detect written lessons ?'. The main content area features a question titled 'Question: Does Turnitin detect written lessons ?'. Below the question, there are icons for mobile, bookmark, and flag. The question text is 'Does Turnitin detect written lessons ?'. Underneath, there is an 'Expert Answer' section. The answer is provided by 'Anonymous' who has answered 2,938 questions. The answer text is: 'Yeah, anything that is present on the Internet can be detected by Turnitin. In order to rescue from Turnitin, you need to modify the sentences, frame the sentence in your own words then there will be less chance of detecting plagerised material. Hope it helps, feels free to comment in case of any query.' To the right of the answer, there is a 'Was this answer helpful?' section with thumbs up and thumbs down icons.

home / study / engineering / computer science / computer science questions and answers / does turnitin detect written lessons ?

### Question: Does Turnitin detect written lessons ?

Does Turnitin detect written lessons ?

### Expert Answer ⓘ

Anonymous answered this  
2,938 answers

Was this answer helpful?

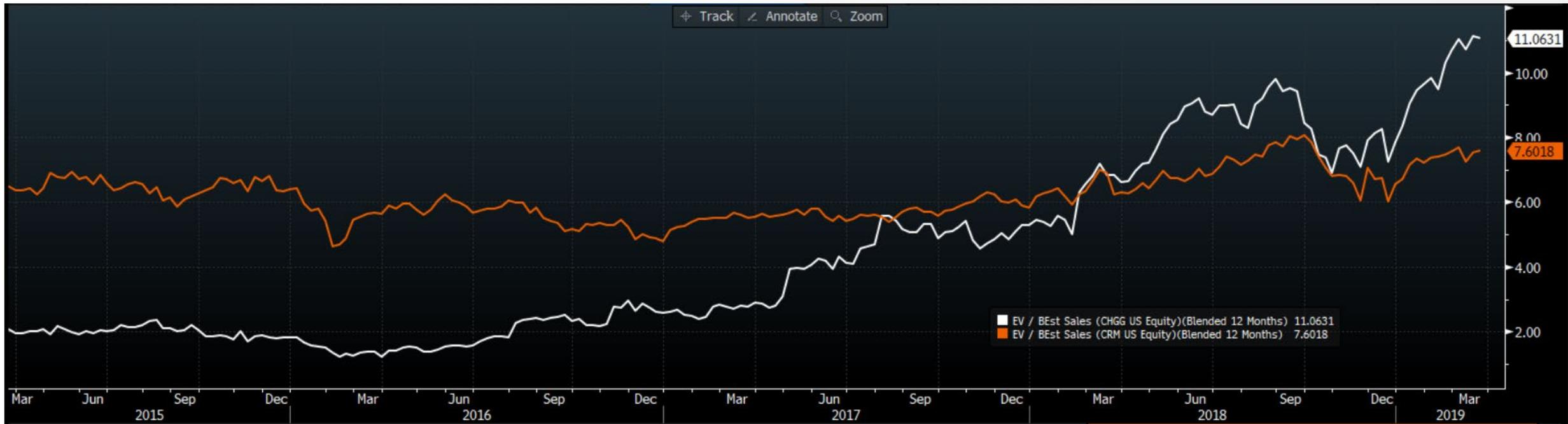
Yeah, anything that is present on the Internet can be detected by Turnitin. In order to rescue from Turnitin, you need to modify the sentences, frame the sentence in your own words then there will be less chance of detecting plagerised material.

Hope it helps, feels free to comment in case of any query.



## Why is this CaaS Company Trading at a Peak Multiple??

Despite the forces of Turnitin, legal risks, and social risks associated with institutionalized cheating, Chegg is trading at a peak EV/Sales multiple of 11x and at a massive premium to best in class SaaS operator Salesforce, which only trades at 7x-8x.



## Insider Selling

It appears as if insiders are acknowledging the risks and headwinds of the CaaS business model as insider selling is at a peak for all company insiders including the CEO who made his largest sale on record just a few days ago.



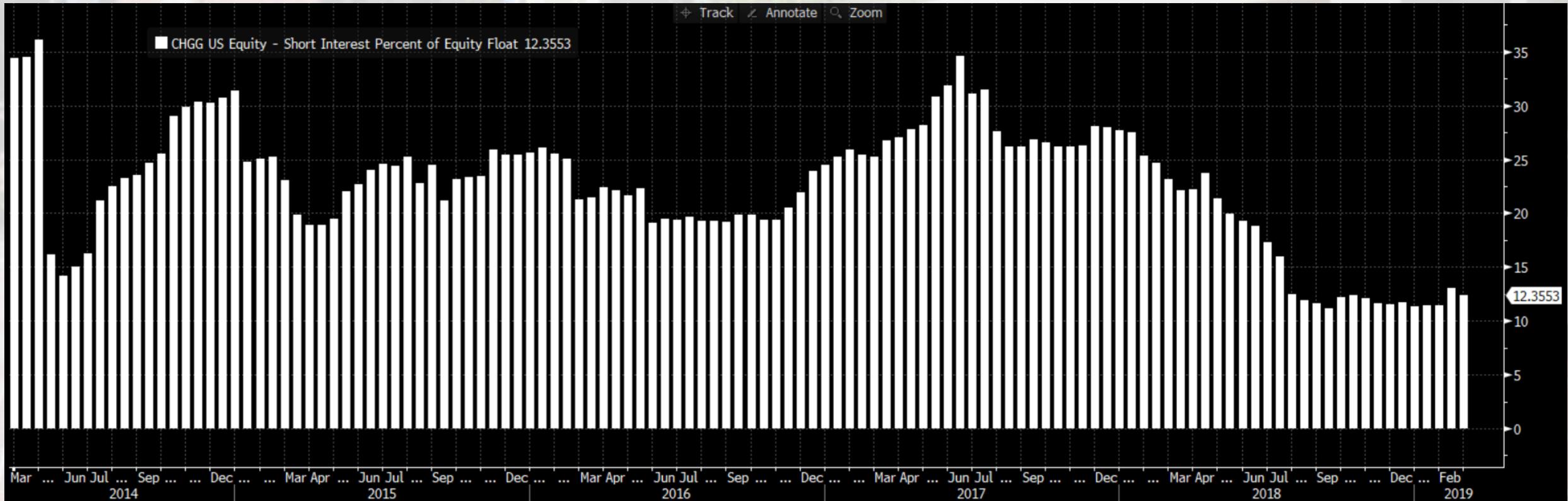
5-1 Plan

[Chegg Inc - \[CHGG\]](#) [Latest Proxy](#)



## Short Interest At Lows

Short sellers have known about the dangers of Chegg but have been covering over the past 2 years as it seemed that no one was going to care about academic cheating but now things have changed.



## This is Not the 1st Time Citron Has Commented on Abuses in the Educational System



10 years ago, Citron warned about future regulation in the for-profit education space, in a series of reports on Apollo Group when the stock was trading around \$80. Subsequently, the government announced proposed regulatory changes regarding marketing and recruiting expenses. The company was eventually acquired for \$10 per share.

## What is Chegg Worth?

There is an obvious disclaimer in Chegg's terms of service that make this company worth \$0. Not to mention this company has serious risk of being sued by the Attorney General.

If Chegg has their "Swiss bank account moment" and has to disclose all their clients to their respective schools the business model falls apart and the stock goes to \$0.

This is a risk stated in their "honor code"

"Furthermore, you should be aware that in the event your institution contacts Chegg as part of an investigation into academic integrity, Chegg is authorized under our Terms of Service and Privacy Policy to cooperate fully in that investigation and we commonly do. This can include providing information to your institution about your user profile, account, site usage activity, and interactions with Chegg Tutors."

<https://www.chegg.com/tutors/honor-code/>

Best Case Scenario for Chegg Valuation- Ignoring Risk

We will take the leader in CaaS and put them in-line with the leader in SaaS. **If we optimistically assume that Chegg deserves to trade in-line with Salesforce at an EV/Sales multiple of 7x, this implies a price target of \$25.**

# Cautious Investing to All

*These reports have been prepared by either Citron Research (“Citron Research”) or Citron Capital, LLC (“Citron Capital”). Citron Research and Citron Capital are referred to collectively as “Citron” and each individually as a “Citron Entity.” Each report specifies the publisher and owner of that report. All reports are for informational purposes only. Under no circumstances should any of these reports or any information herein be construed as investment advice, or as an offer to sell or the solicitation of an offer to buy any securities or other financial instruments.*

*Citron Research produces research reports on publicly traded securities, and Citron Capital is an investment adviser registered with the SEC. The reports are the property of the applicable Citron Entity that published that report. The opinions, information and reports set forth herein are solely attributable to the applicable Citron Entity and are not attributable to any Citron Related Person (defined below) (other than the Citron Entity that published the report).*

*By downloading, accessing, or viewing any research report, you agree to the following Terms of Use. You agree that use of the research presented in any report is at your own risk. You (or any person you are acting as agent for) agree to hold harmless Citron Research, Citron Capital and each of their affiliates and related parties, including, but not limited to any principals, officers, directors, employees, members, clients, investors, consultants and agents (collectively, the “Citron Related Persons”) for any direct or indirect losses (including trading losses) attributable to any information in a research report. You further agree to do your own research and due diligence before making any investment decision with respect to securities of the issuers covered herein (each, a “Covered Issuer”) or any other financial instruments that reference the Covered Issuer or any securities issued by the Covered Issuer. You represent that you have sufficient investment sophistication to critically assess the information, analysis and opinion presented in any Citron report. You further agree that you will not communicate the contents of reports and other materials made available by Citron to any other person unless that person has agreed to be bound by these Terms of Use. If you access, download or receive the contents of Citron reports or other materials on your own behalf, you agree to and shall be bound by these Terms of Use. If you access, download or receive the contents of Citron reports or other materials as an agent for any other person, you are binding your principal to these same Terms of Use.*

*You should assume that, as of the publication date of a Citron report, Citron*

*Related Persons (possibly along with or through its members, partners, affiliates, employees, and/or consultants), Citron Related Persons clients and/or investors and/or their clients and/or investors have a position (long or short) in one or more of the securities of a Covered Issuer (and/or options, swaps, and other derivatives related to one or more of these securities), and therefore may realize significant gains in the event that the prices of a Covered Issuer’s securities decline or appreciate. Citron Research, Citron Capital and/or the Citron Related Persons may continue to transact in Covered Issuers’ securities for an indefinite period after an initial report on a Covered Issuer, and such position(s) may be long, short, or neutral at any time hereafter regardless of their initial position(s) and views as stated in the Citron research. Neither Citron Research nor Citron Capital will update any report or information to reflect changes in positions that may be held by a Citron Related Person.*

*This is not an offer to sell or a solicitation of an offer to buy any security. Neither Citron Research nor any Citron Related Person (including Citron Capital) are offering, selling or buying any security to or from any person through any Citron research reports. Citron Research is affiliated with Citron Capital. Citron Capital is an investment adviser registered with the SEC. Citron Capital does not render investment advice to anyone unless it has an investment adviser-client relationship with that person evidenced in writing. You understand and agree that Citron Capital does not have any investment advisory relationship with you or does not owe fiduciary duties to you. Giving investment advice requires knowledge of your financial situation, investment objectives, and risk tolerance, and Citron Capital has no such knowledge about you.*

*The research and reports made available by Citron reflect express the opinion of the applicable Citron Entity as of the time of the report only. Reports are based on generally available information, field research, inferences and deductions through the applicable Citron Entity’s due diligence and analytical process. To the best of the applicable Citron Entity’s ability and belief, all information contained herein is accurate and reliable, is not material non-public information, and has been obtained from public sources that the applicable Citron Entity believe to be accurate and reliable, and who are not insiders or connected persons of the Covered Issuers or who may otherwise owe a fiduciary duty, duty of confidentiality or any other duty to the Covered Issuer (directly or indirectly). However, such information is presented “as is,” without warranty of any kind, whether express or*

*implied. With respect to their respective research reports, Citron Research and Citron Capital makes no representation, express or implied, as to the accuracy, timeliness, or completeness of any such information or with regard to the results to be obtained from its use. Further, any research report contains a very large measure of analysis and opinion. All expressions of opinion are subject to change without notice, and Citron does not undertake to update or supplement any reports or any of the information, analysis and opinion contained in them.*

*In no event shall Citron Research, Citron Capital or any Citron Related Persons be liable for any claims, losses, costs or damages of any kind, including direct, indirect, punitive, exemplary, incidental, special or, consequential damages, arising out of or in any way connected with any information presented in any Citron report. This limitation of liability applies regardless of any negligence or gross negligence of Citron Research, Citron Capital or any Citron Related Persons. You accept all risks in relying on the information presented in any report.*

*You agree that the information in any Citron research report is copyrighted, and you therefore agree not to distribute this information in any manner without the express prior written consent of the applicable Citron Entity. If you have obtained Citron research reports in any manner other than as provided by Citron, you may not read such research without agreeing to these Terms of Use. You further agree that any dispute between you and Citron and their affiliates arising from or related to this report or viewing the material presented herein shall be governed by the laws of the State of California, without regard to any conflict of law provisions. The failure of Citron Research or Citron Capital to exercise or enforce any right or provision of these Terms of Use shall not constitute a waiver of this right or provision. You agree that each Citron Related Person is a third-party beneficiary to these Terms of Use. If any provision of these Terms of Use is found by a court of competent jurisdiction to be invalid, the parties nevertheless agree that the court should endeavor to give effect to the parties’ intentions as reflected in the provision and rule that the other provisions of these Terms of Use remain in full force and effect, in particular as to this governing law and jurisdiction provision. You agree that regardless of any statute or law to the contrary, any claim or cause of action arising out of or related to Citron report or related material must be filed within one (1) year after the occurrence of the alleged harm that gave rise to such claim or cause of action, or such claim or cause of action be forever barred.*