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Analyst's View

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Why a Major Education Organization Jumped into the World of Venture Capital

A New Investment Fund Launched by ETS Can Support the Assessment Organization's Bottom Line and Mission, Its Director Says

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Despite the vast uncertainties sown by the coronavirus pandemic, many education-focused venture capitalists have continued pouring money into companies they're convinced will produce innovations and strong returns.

One of the more interesting recent entrants into the investment space is ETS, a nonprofit best known for its work in assessment and research.

In September, the Princeton, N.J.-based organization announced the creation of ETS Strategic Capital, which is making private equity investments and participates in mergers and acquisitions in K-12, higher education, and corporate learning.

The investment fund's initial portfolio already includes five companies: ApplyBoard, a Canada-based company focused on international student recruitment; Capti, which provides literacy and learning support though machine learning, artificial intelligence, and natural language processing; EdAgree, a company spun out of ETS that aims to match international students with universities; Pipplet, a French startup specializing in language assessment for businesses; and Gradschoolmatch, an interactive internet-driven software platform to help prospective grad students match with potential graduate academic programs.

About This Analyst

Ralph E. Taylor-Smith is the managing director of ETS Strategic Capital, the merchant banking unit of ETS, a global assessment and research organization. Prior to joining ETS, Taylor-Smith was managing director at GE Ventures, the $500 million private equity and venture capital investment unit of General Electric Corporation. Before GE, he was general partner and managing director at Battelle Ventures, the $300 million venture capital investment unit of Battelle Corp. He previously worked for several years as an investment banker on Wall Street at Goldman Sachs and at JPMorgan, focusing on tech mergers and acquisitions.

ETS says more investments will follow. The organization expects to put anywhere between $1 million and $20 million in individual companies. When it's involved in M&A deals, its focus will be middle market deals — worth $20 million to $200 million, says Ralph E. Taylor-Smith, the managing director of ETS Strategic Capital.

The organization's turn into venture capital amounts to a new approach to supporting its central mission, he explains.

"Clearly there's been a huge amount of innovation in technology, and in new business models over the past few years," Taylor-Smith says.

"ETS is really looking to benefit and grow from that, and utilize that as a foundation for new business areas that can be not only financially relevant, but add revenues and profitability and mission." Doing so, he added, is another way to advance "its mission of promoting in quality and equity, globally."

EdWeek Market Brief Managing Editor Sean Cavanagh recently caught up with Taylor-Smith, and asked him about ETS Strategic Capital's ambitions, and shifts he sees in venture capital focused on education.

What led ETS to launch this investment vehicle?

ETS has been thinking about this for awhile. It was started in 2019, when I was recruited to lead the efforts. But it also preceded that, when ETS was thinking about how it could really benefit from all of the entrepreneurial growth that's going on in ed tech, as it pertains to K-12, higher education, and other areas we're in.

As a nonprofit, does ETS face any restrictions on its ability to operate this fund?

Some of the past organizations I've worked with have been nonprofits, like the Battelle Corporation. You have to develop the appropriate mechanisms up front. The mechanisms to be used [with other organizations] — equity investments, growth partnerships, and mergers and acquisitions — work equally well here.

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How appealing an environment is it for education investment, overall, particularly given disruptions caused by COVID?

I would say it's a terrific landscape for education. It's when you have market dislocations that you get the best deals. So there are a range of technologies and tech companies out there. It's a tremendous time to be launching such an endeavor. As long as there's capital to do deals. It's very similar to real estate. This is a very good time to buy houses — if you've got the money to buy houses.

What kinds of companies is ETS Strategic Capital looking to invest in?

In terms of equity deals, we're not so much looking at seed deals or Series A deals, but more growth equity — Series C, Series D, and larger.

We're looking for companies that have solid, defensible technologies, good business plans, are already executing in the market with traction, have a product-market fit, and obviously good management teams that can build the product to scale.

Another key aspect is we're looking at is emerging companies that can bring new technology, new business models, new customer sets, maybe new geographic coverage, to positively impact what we're trying to do with ETS. We really look for synergy. We look to add ETS resources and capabilities to these companies, so they can benefit from these partnerships. We've got a portfolio of five very exciting companies and we're looking for others that will broaden our portfolio further.

The prime focus of the first five companies you're investing is fairly broad — literacy, language assessment, matching students with colleges. How do they reflect where you think the best opportunities are?

Certainly in the area of distance learning, remote learning, there's a huge demand for that now. Even before COVID there was that, but the pandemic has created new demand. Everyone is using technology platforms today, not just for communication but for assessment. AI and machine learning are driving a whole new range of applications in business. I think advanced visualization technology, like virtual and augmented reality, is driving interesting applications in K-12 and higher ed.

Another driver is global diversification. If you look at global demographics, in the West we have more of an aging population, but if you look at other regions, in areas around Asia, and the Asian-Pacific, South Asia, Africa, and Latin America, that's where you see huge amounts of growth because of population dynamics. A lot of those folks are interested in and [have a demand for] high-quality education. We have to think about these places from an equity perspective. And we see huge growth markets.

You mention international markets. Is your interest as an investor working with companies from the U.S. trying to make it abroad, or in companies that have actually come to being in those foreign markets?

It's a mixture of both. We're looking for access to these countries, and partners who we can work with to enter these markets and provide products and services. And more importantly, we want to advance ETS's mission by advancing quality and equity in education in some of these markets, which are more emerging markets.

I mentioned Asia, Latin America, and Africa. We look for local partners and content, partners who are familiar with the sector and geography — and a lot of the time that means companies that are in those countries. It can also mean companies that are in the U.S. but already doing work in those places — actually executing on that.

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As you're considering companies to invest in, is the process made easier or more difficult by the global pandemic? In other words, is it more difficult to make a judgement about a company's viability, given all the chaos we're seeing?

The fundamentals of business are the same. Revenue is revenue, profit is profit, and the balance sheet is the same, in terms of the metrics. It's possible that companies might have greater challenges. We have to work to evaluate the companies, but the fundamentals are the same.

The assessment market is in a state of flux, as states and districts have been forced to revise their plans for tests. How do you see that market changing as a result of COVID, and what kinds of assessment companies might ETS be interested in partnering with?

It certainly has made companies think more broadly about assessments, because face-to-face interactions are more complicated. There's a lot of thinking about remote proctoring and other issues, which will impact assessment.

The other thing, which is a key, is that we're not just focusing on assessments here. That's a key part of what ETS does, but we're looking broadly at the teaching and learning components.

One of the companies you're investing in is focused on artificial intelligence. What impact do you see for AI in education?

I certainly see a lot of potential for growth. I look at AI as more of a means to an end. So the question is, what is the application or the business focus, and can AI facilitate the application, or offering, or do it at a lower price, or lower the manpower requirements? The focus is less for me on the AI, and more on what is the ultimate market or product delivered?

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Sean Cavanagh is the Managing Editor of *EdWeek Market Brief*. He is also an associate editor for *Education Week*, where he has covered a variety of beats since 2002, including business and technology, math and science education, charter schools and school choice, and federal policy. Before joining *Education Week*, he was a reporter for daily newspapers in Tennessee and Florida.

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