EdWeek Market Brief

Market Trends

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Where Venture Capitalists Are Investing as Districts Shift to In-Person Education

Firms Eye Products For Families, and Those That Can Be Delivered in Multiple Environments

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As the pandemic forces schools to transform how they're delivering lessons, it's also changing the types of education companies venture capitalists are looking to fund.

The massive shift to remote learning, and the ongoing confusion about the pace of the transition back to in-person learning has led investors to focus on businesses that have the products and approaches to navigate the struggles ahead.

For many VCs, that means placing their bets on companies looking to deliver direct-to-consumer products for families, as well as those that can provide supplemental digital lessons, social-emotional learning, and transitions from school to work.

> *Education companies that are prepared for whatever challenges the next phase of the pandemic brings are attractive targets*

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Investors are keen on "the folks who can pivot and flex with some of these existing market challenges," said Ralph Taylor-Smith, the managing director of ETS Strategic Capital, an investment arm of the research and assessment company.

"There clearly is capital out there, but I think it's really focusing on higher-quality deals and solid experienced management who can really execute."

Products With Crossover Appeal

Venture capitalists have poured a total of $16.1 billion into ed tech globally in 2020, roughly double the previous record of $8.2 billion set in 2018, according to an analysis by Holon IQ.

"The number of companies formed, the number of companies getting funded, the acceleration of growth has been faster than I've ever seen it," said Jennifer Carolan, co-founder of Reach Capital, an education-focused venture capital firm based in Silicon Valley. "And I expect that to continue in 2021."

But there are a few qualifications.

Funding is more solid for later-stage deals where companies already have some level of market traction, and it's a little tougher for early-stage companies in this climate, Taylor-Smith said.

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Adam Newman, founding partner, Tyton Partners.

Though there will continue to be a steady flow of VC funding, a number of education organizations that saw initial revenue surges in the early days of the pandemic could see their valuations fall.

"Some companies are going to see their valuations become more compressed," New Markets Venture Partners General Partner Jason Palmer said. "Others will see them grow, and they'll be based on if you're delivering real efficacy. Are there real, demonstrated gains for students?"

This year will be telling, he said, in determining whether companies can deliver the value they have promised.

Venture capital investors need to know that the education companies they're backing can find a market for their products, presumably in school districts. And the market opportunity in many school systems, at least as judged by their ability to spend, appears to be in a state of flux.

State and local budgets for education – the main source of funding used by districts to buy products and services – have taken a hit during the pandemic, and the flow of revenue to K-12 remains uncertain.

On the other hand, school budgets have been lifted during the pandemic by infusions of emergency federal aid. Congress in the spring approved a $13 billion relief effort, followed by a larger aid package of $57 billion in December. President Joe Biden has called for another package of federal funding soon.

"The good news for K-12 systems — and, by extension, for vendors — is that not unlike the Great Recession, the education sector will receive significant federal subsidies," said Adam Newman, a founding partner of Boston-based consulting firm Tyton Partners. "That creates a little bit of a safe harbor for investors."

In late December, Congress approved a COVID-19 stimulus package to provide K-12 schools with $57 billion in emergency aid, after the CARES Act enacted in spring 2020 allocated roughly $13 billion for K-12.

Many venture capitalists who spoke to *EdWeek Market Brief* say they're looking for potential investment targets to show boldness and agility amid the chaos of COVID-19.

Companies with products that straddle in-school and at-home learning, and that provide curriculum with a "good technology DNA" are likely to attract more interest than are rigid organizations, Newman said.

Products that "can be delivered at a distance, even though they were built for a face-to-face classroom environment" will garner the most attention in the post-pandemic environment, he said.

Amit Patel, managing director of Silicon Valley-based Owl Ventures, an education-

Webinar: How Companies Establish Trust With K-12 Districts

Faced with an ongoing series of crises connected to COVID-19, districts have little patience for overly aggressive sales pitches from companies. In *EdWeek Market Brief's* Feb. 26 webinar, we'll look at how vendors can set the right tone, build trust, and establish the foundation of a productive partnership that will meet K-12 systems' needs. You can sign up here.

focused venture capital firm, is drawn to products that can support in-person or distance learning, but also have the ability to serve families, directly.

During remote and hybrid learning, many parents have been thrust uncomfortably into the role of supporting their children's learning from home, circumstances that could persist for some time in different parts of the country.

"We are really at the initial stages of ed tech being incorporated into the K-12 sector," Patel wrote in an email. "There are significant opportunities for exciting companies to be created for all areas of K-12."

Investing in Well-Being

As COVID-19 has exacerbated feelings of isolation and heaped other stress on students, VCs have recognized districts' strong appetite for social-emotional learning products, Reach Capital's Carolan said.

Carolan has spoken with a lot of superintendents about the ongoing social-emotional needs in K-12 schools, noting that the pandemic has brought about a spike in the number of psychotic episodes and mental health challenges experienced by K-12 students.

There's a desire among educators "to integrate SEL principles, practices, into the curriculum, and also to support the students that are undergoing the mental health crises," she said.

With those needs in mind, Reach Capital has invested in Breathe for Change, a company that provides wellness, yoga, and social-emotional learning for K-12 educators and leaders; EveryDay Labs, which applies behavioral science in an effort to reduce absenteeism and improve outcomes; and, in the college SEL

Investing in Skills for a Shifting Economy

As enrollment in community and traditional colleges slows, engagement in career "bootcamps" is up, and some predict that VCs will invest considerable resources into programs aimed at supporting job transitions and space, PeopleGrove, a platform that seeks to help universities bring personalized, "mentor-focused communities" to students.

In addition to VCs, many established education companies have also made recent investments in social-emotional learning.

For example, ACT acquired SEL provider Mawi Learning in June 2019. Last year, digital curriculum company Weld North snapped up Purpose Prep, a developer of SEL resources.

District leaders have a broad array of concerns about social-emotional learning. In a nationally representative *EdWeek Market Brief* survey of 700 district and school leaders last year, 60 percent said creating a positive learning environment amid social distancing is a top SEL priority.

In addition, 57 percent identified easing the concerns of parents as a major SEL need.

Some of the VC investment flowing to social-emotional learning will target products and services aimed at supporting parents and families, rather than teachers and students in school environments, Taylor-Smith predicted.

Buoyed by a shifting market, Reach Capital

credentialing over the next several years.

New Markets Venture Partners, for instance, has invested in Credly, which provides end-to-end services for creating, issuing, and managing digital credentials, as well as Climb Credit, which offers loans for career change and development programs, like bootcamps.

Jason Palmer, a general partner for New Markets, believes that K-12 systems, spurred by the pandemic, are going to increase their focus on career and technical education that can lead to apprenticeships, as well as their support for upskilling programs, and corporate/educational partnerships.

Districts will likely continue to trend toward teaching students computer science and coding as early as elementary and middle school, as IT continues to reshape the economy in the years ahead, Palmer said.

College enrollment declined 2.5 percent in fall 2020, according to the National Student Clearinghouse. Meanwhile, bootcamps for career fields like coding are on an upward enrollment trajectory, as are massive open online courses. In its April 2020 State of the Coding Bootcamp Market Report 2020, Career Karma projected that U.S. enrollment in coding bootcamps would rise 4.2 percent in 2020, to a total of 35,446 students and graduates, after rising 4.4 percent in 2019.

intends to continue investing in direct-to-consumer education companies, Carolan said. About half of the firm's portfolio companies have a direct-to-consumer model.

More companies are looking to tailor their products to the needs of families, as the technologically literate millennial generation now includes many parents who tend to search online for educational solutions, said Carolan. Those include searching for extracurricular and supplemental activities directly through their children's schools, she added.

"I actually was not so sure how bootcamps would fare when the pandemic hit," Palmer said, "but they all went online and in a hurry."

People who used to work in retail, hospitality, and other place-based industries that are now suffering because of the pandemic, are flocking to online credential programs, especially for information technology, as the economy moves increasingly online, he added.

The mindset might be, "I don't want to go to college for four years, but I do want to go get some skills," Palmer said. "I can upskill. That'll get me a certificate or a credential."

Reach Capital broadly defines direct-to-consumer offerings as products and services that support parents, students, children, and adult learners, she said. One of the companies her firm backs is focused on adult learners looking to transition into new fields.

Matt Greenfield, managing partner of White Plains, N.Y.-based venture capital firm Rethink Education, expects to see a rising interest in products that serve parents interested in homeschooling or supplemental lessons in the post-pandemic world.

This space will see ongoing interest in companies that have a viral freemium model, such as Quizlet, which allows students to study various topics via learning tools and games, predicted Greenfield.

There has also been a recent interest among consumers in both Photomath, an app that utilizes a phone's camera to recognize math equations and display the step-by-step solution onscreen, and Desmos, an advanced graphic calculator presented as a web and mobile app, he noted.

A Spike in M&A, and Private Equity

In addition to robust investments by VCs, several investors said they expect significant merger-and-acquisition activity in the education space this year, including major purchases by private equity firms.

The market for private equity-backed acquisitions is thriving, said Greenfield. Private equity firms have vast capital to invest and many are keen on the education market, he noted.

In recent years, several private equity-backed platforms, including PowerSchool, Frontline, and Edmentum, have made acquisitions, Greenfield said.

Private equity firm Thoma Bravo also recently acquired Instructure from public investors in a $2 billion all-cash transaction. And Pearson in 2019 sold its K-12 instructional materials business to investment firm Nexus Capital Management LP for $250 million.

Private equity-backed deals can also be substantially beneficial for the companies being acquired, Greenfield noted.

Generally speaking, brands quickly grow in valuation after being snapped up by a private equity-backed company, partly because the deals give smaller firms access to a larger salesforce that can instantly expand their market, and firms in the education market generally aren't looking to arbitrage assets of their acquisition targets, Greenfield said.

"There's this continual market for companies of every size in this space," he said.

See also:

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