

Education

Takeaways From Private Company Panels at the Back to School Conference

Bottom Line: This note contains a summary of the private company panels at the conference as well as a review of the conference poll.

Key Points

In this note, we have summarized some of the key takeaways from the private company education panels - 12 panels that cover a wide range of topics in the sector, from job-training programs to global education trends. We have also summarized our conference poll, where we polled over 100 attendees on five key industry questions.

Education

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Panel Summaries

THE GLOBALIZATION OF EDUCATION (Guest Moderator: Global University Systems, INTO, WorldStrides).

- International student landscape is in a constant state of flux; influenced by a range of external factors: demographics; economic conditions; immigration policies and regulatory environments; civil unrest and security concerns in Europe and Middle East.
- The regulatory environment is changing around the world, driven, in part, by a growing sense of “nationalism” around the globe.
- Brexit will have negative impact on international students, especially in UK.
- New and increased opportunities exist for the sector in China, India, and Latin America, and parts of Africa.
- Potential negative threat from increased higher education opportunities in source countries (particularly, China).

LEADING PLATFORMS THAT ARE CHANGING K-12 EDUCATION (Harber Advisors, PowerSchool, Frontline Education, Renaissance Learning, Schoology).

This was a lively panel covering issues from efficacy to private equity. Some takeaways:

- 1) Many agreed on the unification of systems to create a "platform." Each felt that a data set was at the epicenter of the platform. Will the winner be:
 - The Student Record (PowerSchool)
 - The Learning Record (Schoology)
 - The Learning Progression (Renaissance)
 - The Teacher Record (FrontLine)
- 2) The holy grail for each perspective was to reach personalized learning at a large scale. Each of the panelists is managing data on tens of millions of users.
- 3) The three "platforms" that were owned by private equity have either made acquisitions or see acquisitions as part of their short-term growth plan. Acquisitions were expected to be in the \$5M to \$50M range. This was in contrast to the venture-backed company that was focused solely on organic growth as its focus.

LESSONS OF EARLY CHILDHOOD LEARNING (KinderCare Education, The Learning Experience, Eurokids International, Cadence Education, BrightPath Early Learning (BPE-TSX))

- Technology is augmenting learning and enhancing communication with parents.
- Increased regulation provides better opportunity for quality education providers.
- Universal preK increases emphasis and importance on early childhood education:
 - Quality emphasis will benefit proven operators
 - Also drives demand from upper level of the market that wants to pay for their children’s education
- Consolidation among the largest operators has not occurred due several factors:

- Lack of cultural fit
- Easier, less expensive and abundant tuck-in acquisitions from smaller school groups
- Different liquidity timing among owners of largest providers

INVESTING IN ED TECH & SERVICES (Insight Partners, Vista Equity Partners, Pansophic Learning, Baring Private Equity Asia)

- Investors agreed that education, as a regulated industry in both K12 and higher education require specialized knowledge, which presents competitive advantage to those investors with the knowledge.
- That said, there are areas that regulation and government intervention doesn't interfere with, principally in administrative areas, and platforms on which instruction is developed and resides are two areas that are politically agnostic.
- Global education is mostly manifested through student movement, where students are traveling to other regions to study or where school operators are bringing a universal approach to best practices in multiple locations. "Globalization" is less apparent in cross-border sharing of curriculum and instructional materials...at least for now.
- In corporate training and lifelong learning, the trend is toward intense focus on building skills that are directly linked to acquiring a job (coding academies, for example) or improving productivity and developing advanced skills once in possession of a job. Online learning in this arena has changed the way employees learn and the way corporations expectations are developed regarding productivity via training.

PRIVATE SCHOOLS HERE AND ABROAD (Guest Moderator: Oliver Wyman, GEMS Education Americas, Stratford School, Nobel Learning Communities, Dulwich College International Group)

Summary not available.

THE IMPACT OF COMPETENCY-BASED HIRING ON HIGHER ED (Guest Moderator: University Ventures, Credly, Portfolium, Qbed Education, Parchment)

- Employers aren't getting much relevant data on candidates from current resumes and transcripts and, as such, over index-obvious indicators like school attended.
- As employers receive hundreds of applications for each new position (posted online), the current filtering system is broken.
- New competency data is emerging in the form of badges/micro-credentials, ePortfolios, short courses and richer academic transcripts that should allow employers to do a better job of filtering candidates and signaling to the market which credentials and competencies are most valuable.
- Panel disagreed as to whether the pending shift to competency-based hiring, or the resulting diminution in importance of the degree, constituted a revolution, or would simply require a gentle evolution for colleges and universities.

WHAT IS WORKING IN THE K12 CLASSROOM (Guest Moderator: Parthenon, Achieve3000, Apex Learning, Catapult Learning, Charter Schools USA, Imagine Learning)

- While K12 can be a challenging sector, companies with real business models (as opposed to many that you might see at other conferences) can have, and are having, success.

- On the instructional materials side of the house, greater device penetration is enabling much more digital delivery, and customers are seeking high quality digital materials to move more to blended learning. There is still confusion in the marketplace and successful vendors are helping to cut through the confusion and identify problems to solve within K12 customers.
- Efficacy matters, although that can be difficult to differentiate on. More than anything, in an SaaS world, driving effective usage is paramount – requires excellent product, but also services and organizational capacity that is different than in the perpetual license days.
- Our services company panelists and operators (Catapult and Charter Schools USA) made the point that they are actually excellent customers and partners for the curriculum vendors.

THE EVOLUTION OF HIGHER ED (Guest Moderator: WorldQuant University, 160over90, Keypath Education, Ruffalo Noel Levitz, The Noodle Companies, Orbis Education)

- For the Innovations in Higher Education panel, we agreed that while there have been mostly innovations in technology, tech-enabled businesses have also advanced.
- Students have evolved and their expectations of the experience and the resources they are going to receive have changed.
- In an environment where the value of higher education is being challenged, institutions need to get better at providing end-to-end resources against which they will be increasingly measured.
- Meanwhile, OPMs are being challenged to prove that they can provide the value that the business and investment opportunity would suggest.

LET ME HELP YOU WITH THAT, STUDENT ENRICHMENT MODELS (Guest Moderator: McKinsey & Company, iD Tech, Tutor.com, Varsity Tutors, WyzAnt, Yup Technologies)

- While the overall tutoring and enrichment is growing modestly in US, there is a lot of room for national brands to outgrow the market.
- The market is shifting to online, with the strongest preference for online tutoring from the adult learner segment.
- “Cognitive tutors” are not an eminent threat to take the place of the human tutor, but technology is enabling productivity gains among tutors and allowing for quality control with a largely part-time and globally dispersed workforce.
- While the segment is traditionally B2C, there are opportunities to develop “institutional” (B2B) clients that offer greater stability such as school systems, universities, libraries and others.

FILLING THE SKILLS GAP FOR EMPLOYERS (Guest Moderator: Oliver Wyman, Burning Glass, Degreed, Lumerit Education, Vector Solutions)

- The skills gap is not a macro level issue; it’s a micro level issue. Certain industries and geographies are feeling it much more than others, so you can’t look at averages. For example, Cybersecurity is an industry with 90,000 job postings, but only 65,000 qualified cybersecurity workers: that is a clear skills gap.
- Companies are willing to train where it’s needed and can’t be acquired. There is an opportunity for training arbitrage. For example, hiring a graphic designer costs about \$66K/year and hiring someone who has graphical design capability along with the rest of front-end development costs \$88K/year – it doesn’t cost \$22K to train a graphic designer on the rest of front-end development.

- Candidates are going to begin asking about an employer’s “skill benefits” just like they ask about health benefits. Companies will increasingly look to provide opportunities for employees to upskill that don’t involve sponsored formal degrees.
- MDs and JDs are horizontal credentials in that they are recognized and known by anyone regardless of their industry. The recent progress in credentialing has been more vertical in nature, only really recognized within a particular industry (e.g., specific developer skills). Horizontal recognition will need to be developed in order to really get to scale.
- Micro credentialing offers a lot more granularity for the employer to view a candidate’s qualifications; demand will continue to increase for soft skills.

SEED TO SERIES A AND BEYOND: CREATING A GLOBAL HUB FOR EARLY STAGE ED TECH (New Markets Venture Partners, Harber Advisors, Rethink Education, University Ventures)

- Attractive areas for Ed Tech investment include products that improve learning delivery models, bring joy to learning, or solve a structural problem such as graduate employability.
- There is a general misconception that most of the domestic Ed Tech funding is coming from a handful of Ed Tech focused funds. Looking at the ~\$3 billion deployed over the last three years, maybe 10% can be traced to those venture capital funds. However, those funds are investing in the lion’s share of early stage funding opportunities.
- There is a large backlog of funded Ed Tech companies that will need to exit over the next 24 months. High number of exits will likely be bolt-on acquisitions to private equity owned platforms.
- Highest exit valuations that can be achieved for Ed Tech companies in this market are by exiting to large-cap software companies who are not constrained by their own trading multiples or liquidity positions. Best example is LinkedIn-Lynda. Education strategics (whether sponsor-owned or not) would be next best buyers.
- While there are a handful of Ed Tech unicorns (e.g., 2U, Pluralsight) the venture capital model seeking huge multiples for ROIC does not hold in Ed Tech because of the end market size. Funds need to deliver more consistent, albeit smaller, individual asset returns to make fund level returns work.

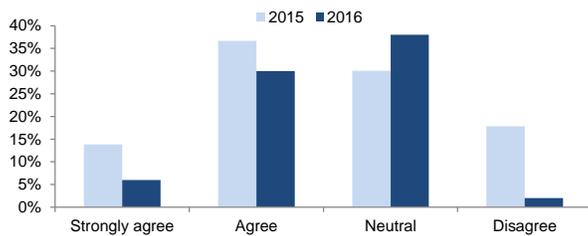
PATHWAY TO JOBS (Guest Moderator: University Ventures, AlwaysHired, PrepMD, Revature, StraighterLine)

- Bootcamp sector moving beyond coding to sales and healthcare.
- Focus around increasing access and aligning incentives (no cost to student or success based).
- Degree+: everyone still wants the degree but they also want other certifications.
- As a result, more symbiotic relationship with colleges as they are acknowledged for their valuable work, and increasingly need help showing outcomes (partnership becoming common for student sourcing if programs are not charging or only charge upon success) - not a break college mantra.
- At the same time, these businesses have a real competitive advantage - the curriculum is too vocationally focused for schools to spend time and value so dependent on placement/employer partnership that it's outside the core competencies of schools.
- Early movers will benefit from network effects and alumni network.
- This space has a lot of room to run, poised to be multi-hundred million dollar revenue companies based on market sizes in coding, sales, healthcare.

Conference Poll Results

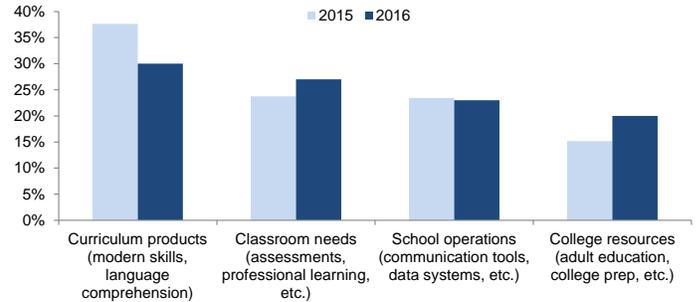
Conference Poll. At the conference, we polled more than 300 attendees, representing a mix of corporations, investors, and other organizations, on five key questions in the space (see Exhibits below). We believe major trends appear consistent – we highlight two notable shifts in views year to year: 1) Ed-tech valuations are seen as “less accurate” relative to technology use in the classroom; and 2) More private investment into corporate training (and less to higher education). We have also provided the mix of respondents to the poll at the end (more corporates and less investor as a % this year).

Exhibit 1: Ed-Tech company valuations accurately reflect the growing use of technology in the class room



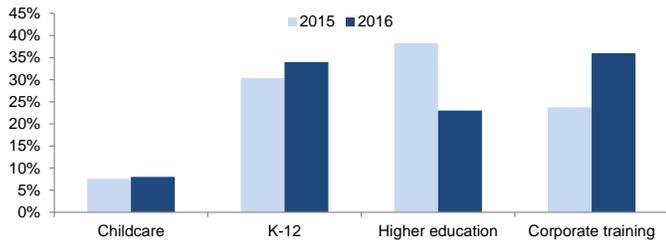
Source: BMO Capital Markets

Exhibit 2: What education technology products will see the most adoption over the next five years?



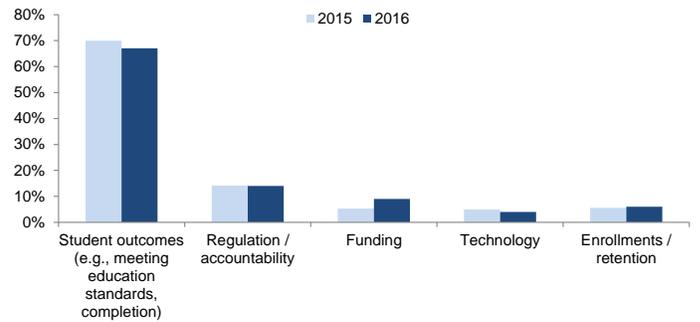
Source: BMO Capital Markets

Exhibit 3: What areas of education will receive the most private investment over the next five years?



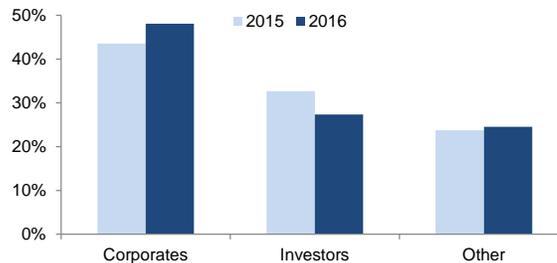
Source: BMO Capital Markets

Exhibit 4: What is the most important issue facing education today?



Source: BMO Capital Markets

Exhibit 5: Respondents to the Back to School Conference Poll by Type



Source: BMO Capital Markets

Coverage Universe

Company Name	Ticker	Analyst	Rating	Sep-21 Price	Target	Annual Div.	Yield	Book	Mkt/Bk	Total Return	Mkt Cap. (mm)
2U	TWOU	JS	OP	\$35.77	\$42.00	\$0.00	0.0%	\$4.14	8.6x	17.4%	1,677
American Public Education	APEI	JS	Mkt	\$19.46	\$26.00	\$0.00	0.0%	\$15.87	1.2x	33.6%	313
Apollo Education Group	APOL	JS	OP	\$7.56	\$10.00	\$0.00	0.0%	\$9.79	0.8x	32.3%	822
Bright Horizons	BFAM	JS	Mkt	\$67.47	\$70.00	\$0.00	0.0%	\$11.52	5.9x	3.7%	3,972
Capella Education	CPLA	JS	OP	\$57.70	\$65.00	\$1.56	2.7%	\$17.07	3.4x	15.4%	667
Chegg	CHGG	JS, DS	OP	\$7.21	\$7.00	\$0.00	0.0%	\$2.44	3.0x	-2.9%	656
DeVry Education Group	DV	JS	Mkt	\$22.78	\$26.00	\$0.36	1.6%	\$25.29	0.9x	15.7%	1,420
Grand Canyon Education	LOPE	JS	OP	\$40.31	\$49.00	\$0.00	0.0%	\$14.43	2.8x	21.6%	1,900
Houghton Mifflin Harcourt	HMHC	JS	Mkt	\$14.29	\$17.00	\$0.00	0.0%	\$7.87	1.8x	19.0%	1,747
K12	LRN	JS	Mkt	\$13.65	\$13.00	\$0.00	0.0%	\$14.08	1.0x	-4.8%	542
Nord Anglia Education	NORD	JS	OP	\$21.85	\$26.00	\$0.00	0.0%	\$2.94	7.4x	19.0%	2,275
Strayer Education	STRA	JS	OP	\$46.83	\$55.00	\$0.00	0.0%	\$15.04	3.1x	17.4%	520

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Hold	Market Perform	55.5%	11.0%	41.0%	54.8%	44.0%	39.8%
Sell	Underperform	3.8%	14.3%	3.6%	3.4%	1.8%	5.5%

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