

Increasing investment in EdTech scaling beyond the pandemic

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There has been a huge wave in investment in educational technology businesses since the outset of the pandemic, which continues to scale up. The first half of 2021 saw over \$3.2 billion invested in US EdTech startups compared to \$2.2 billion in all of 2020. Globally those numbers are even more impressive, with \$18.8 billion in investment from private investors to EdTech companies in the first half of this year, according to market research firm Metaari.

You don't have to look far to see the incredible investment pouring into this sector, as well as the flurry of M&A and IPO activity.

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In June, UBS, Blackstone, an Abu Dhabi sovereign wealth fund, and Zoom founder Eric Yuan teamed up to fund Indian ed-tech startup Byju with \$350 million. Then Tiger Global announced a \$31.5M investment in Quizz, an Indian startup that creates interactive learning for children. Quizz is now valued at \$300 million after this latest round of investment.

ABC Mouse creator Age of Learning also recently raised \$300 million to value the company at \$3 billion. Meanwhile, technology development and sales at Andre Agassi backed ed-tech startup Square Panda began scaling from school districts around the US, from Las Vegas to Miami and into emerging markets, especially India, where its AI platform designed to help children suffering from dyslexia with early reading skills can be adapted for English language learning.

The language learning app Duolingo, valued at \$2.4 billion, is set for an IPO this year, as is Instructure, the developer of the learning management tool Canvas. Coursera, an online course tool for universities, went public in March of this year, and Verbit, providing closed captioning and live transcription solutions, is looking to a 2022 IPO after a \$1 billion valuation.

We're also seeing a great deal of acquisition activity in this space. In January 2021, Thoma Bravo announced the acquisition of Forecast5

Analytics from Riverwood Capital, and then in March 2021, Golden Gate Capital announced its acquisition of Securly from Owl Ventures, Defy Partners, and others.

More recently, learner engagement platform Modern Campus acquired Presence, a company that assists universities with retention by tracking student behavior and patterns. Modern Campus previously acquired NuCloud, maker of interactive campus maps and virtual tours, and DIGARC, which provides academic catalog and curriculum management services. The EdTech company 2U also just purchased the online course nonprofit EdX for \$800 million.

So, what is driving all this activity surrounding EdTech? In large part, the COVID 19 pandemic has driven this rush to fund and acquire EdTech companies. For years, entrepreneurs in the EdTech space have waited for technology to disrupt the education market, but the pandemic proved to be the disruption needed to propel this industry forward.

The pandemic has fundamentally changed our way of life and the way that we learn across the board. EdTech encompasses educational technology for PreK-12, secondary education, and workforce education, all areas that saw significant changes and a shift toward greater reliance on technology with the pandemic.

The surge in EdTech and shift to virtual learning has simultaneously exacerbated existing concerns about children's privacy. For example, companies who collect personal information from children under age 13 must comply with the Children's Online Privacy Protection Act (COPPA).

Last year, following the start of remote learning due to the COVID-19 pandemic, the FTC issued guidance¹ to EdTech companies regarding compliance with COPPA. EdTech companies who work with schools and other educational institutions to facilitate virtual learning should also be aware of additional regulations, such as the Family Educational Rights and Privacy Act (FERPA) and the Protection of Pupil Rights Amendment (PPRA), as well as relevant state laws.

There is growing criticism² that the shift to virtual learning, accelerated by the pandemic, is happening at the expense of kids' privacy. Failure to comply with COPPA³ and other student or children privacy laws can result in hefty fines for EdTech companies.

PreK-12 and secondary schools saw closures and a shift to online learning on a global scale. Even as children go back to school in the fall, technology increasingly plays a more significant role in the educational process. Online learning will surely be a component of our children's education moving forward.

Schools now provide devices for most if not all students, and school spending on technology has soared, expected to pass \$50 billion this year. The American Rescue plan also provides \$120 billion in funding for technology spending for schools.

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There is also the workforce education component of EdTech, which the pandemic has also impacted due to the changing economy. Employee development is a greater focus for employers today as they look to technology tools to further develop the skills of their employees or train them in new areas.

Those in search of employment are often looking for online training that will boost their skills and help them find higher-paying jobs. As noted above with the Square Panda example, English language learning in emerging markets can significantly grow.

All these changes and shifts toward a greater reliance on technology in the classroom, workplace education, and personal growth have finally led EdTech companies to reach users at scale eventually. Usage and adoption have exploded, and the demand is only growing. There are no signs this movement slowing down.

EdTech investors see significant returns, leading to more investment in early-stage companies. The sector is poised for even more tremendous growth, with more and more investors fueling this momentum as valuations of these companies rise, and investors look to get in early and cash in on the EdTech boom.

A clear area of interest for venture capital investors, founders, would be well served to focus on compliance with privacy rules as we emerge from the pandemic into the new normal.

Notes

¹ <https://bit.ly/36H675a>

² <https://bit.ly/3xMljV>

³ <https://bit.ly/2VGxNEU>

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