Fueled by Big Rounds, US Edtech Funding Surges to $887M in First Half of 2017

Tony Wan

The bull is back—or is it? After a dip in dealflow and venture capital to U.S. edtech companies last year, the dollars returned with a fury during the first six months of 2017. According to our tally, there were **58 U.S. deals** that totalled more than **$887 million** through June of this year.

This means that halfway through 2017, the funding for U.S. edtech startups is already at 88 percent of the total in 2016 (which was $1 billion).

The 2017 number is inflated, however, by three gargantuan fundraises by EverFi ($190 million), Hero K12 ($150 million) and Grammarly ($110 million). Together, their rounds account for more than half of this year's funding total through June.

"The number one thing that stood out for me is the TPG/Rise investment in

EverFi," says Jason Palmer, a general partner at New Markets Venture Fund, referring to the private equity group that led EverFi's round. "There's a new player in the market that is looking to write $50 to $200 million checks that did not exist a few years ago." He adds these new entrants are seeking startups with $20 million in annual revenue—and grow that number by a factor of ten.

Two other players eager to open their wallets are BV Investment Partners, which put $150 million in Hero K12, and Bain Capital, whose Double Impact Fund is on the hunt for promising (and lucrative) education teams. These funders, observes Palmer, aspire to create a "platform that brings together multiple businesses. There's a theory that if you establish a strong brand in one area, you can acquire others to create complementary services."

Several private-equity-backed companies have invested heavily in the "platform" approach. PowerSchool, owned by Vista Equity Partners, has acquired eight companies since June 2015. Frontline Education, controlled by Insight Venture Partners, has snapped up another 10—most recently, professional-learning provider School Improvement Network. The strategy has worked for a few older companies: Kaplan, for instance, began in the test-prep business and has since moved into higher education, corporate training (and a short-lived experiment in the coding bootcamp industry).

The new money comes at a time when traditional venture capital firms are taking a breather. Just three years ago, some of the biggest firms on Sand Hill Road—Kleiner Perkins, Sequoia Capital, Benchmark Capital—were happily putting money into edtech startups with unproven revenue models. Now

“Sand Hill is waiting to see the outcome of some of their previous edtech investments,” says Shauntel Poulson, a general partner at Reach Capital.

This hiatus may soon end, she adds: “While Sand Hill has not written any checks recently, they are in active discussions with a number of our companies, so I think we will see some activity before year end.”

Few Big Exits

Home-run bets and financial windfalls are rare in the edtech industry. Of all the education companies founded since 2000, only 10 have exited at a price above $250 million. Six of the deals took at least 10 years to materialize.

Company	Founded	Exit Date	Approx. Value
2U	2008	2014	$665M (IPO)
Archipelago Learning	2000	2012	$302M (acquired by PLATO Learning)
Chegg	2005	2013	$830M (IPO)
Connections Education	2001	2011	$400M (acquired by Pearson)
HigherOne	2000	2012	$260M (acquired by Blackboard)
Instructure	2008	2014	$487M (IPO)
K12.com	2000	2007	$725M (IPO)
Relias Learning	2002	2014	$540M (acquired by Bertelsmann)
RuffaloCODY	2000	2013	$252 million (acquired by Summit Partners)
Wireless Generation	2000	2010	$400 million (acquired by News Corp.)

The biggest exit in the edtech industry—Lynda.com’s $1.5 billion sale to LinkedIn in 2015—was 20 years in the making. Big returns require patience—

an attribute that investors rarely share.

“These new firms coming in and writing big checks may learn that lesson,” Palmer says. As much as he welcomes the new money, he issues a note of caution. These triple-digit rounds feel “disproportionate to where the market for education technology has been,” he says. A more typical range for the rounds raised by EverFi and Hero K12, he estimates, would have be in the $50 million to $75 million range.

2017	**# of deals**	**Mean round size**	**Median round size**
Seed	14	$1.6M	$1.5M
Series A	26	$6.7M	$4.5M
Series B	8	$13.4M	$14.3M
Series C & beyond	10	$64.3M	$37.5M

For early-stage companies looking for capital, Palmer says there’s an imperative to show—not tell. What investors say they want sounds glaringly obvious: Demonstrate that your product works—and that people want to pay for it. “It’s hard to raise money if you have less than $1 million in revenue now,” he offers. There’s also a focus on quality and proof of efficacy: What kinds of research have you done to show that your product works?

These questions may have been glossed over several years ago during the gold rush of early-stage edtech investing. But the new wave of big-money investors appears willing to reward those who hit their revenue numbers. “I don’t think the glut of big checks is making it harder for seed-stage companies to raise money,” says Reach Capital’s Poulson. “On the contrary, the big checks are providing signals and proofs points for the ecosystem—giving early-stage investors more confidence and validating the edtech space.”

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