

SoftBank-backed Chinese edtech startup files for listing in the US

Song Jingli

Shenzhen-based online education platform Zhangmen on Wednesday filed for an initial public offering on the New York Stock Exchange amid increasing scrutiny of the sector at home.



Zhangmen founder and CEO Zhang Yi / Photo credit: Zhangmen

The firm, which has been focusing on one-on-one tutoring services, reported that it had achieved 545,000 paying students at the end of 2020. In the third quarter of last year, it launched a small-scale tutoring service, which quickly gained popularity, with some 293,000 learners paying for sessions in the final months of the year.

“We have been the largest online K-12 one-on-one after-school tutoring service provider in China in terms of gross billings since 2017, with 31.9% market share in 2020,” the company stated in the IPO prospectus, citing a Frost and Sullivan report.

The sector is facing increasing uncertainty after China’s President Xi Jinping in March described the K-12 after-school training market as a “social problem.” Authorities have since stepped up oversight of the industry and are preparing to tighten regulations.

Beware the risks

In its IPO prospectus, Zhangmen listed several risk factors, including the lack of an operating permit, which will be necessary under a new law that will come into effect on September 1. Another risk factor is a shortage of instructors who hold licenses – something that has been required since July 2019. According to the company, most of its part-time teachers have not yet obtained the certification.

The amended Minors Protection Law, which takes effect on June 1, prohibits after-school training institutions from carrying out primary school curriculum education for children younger than six years old and bans advertising for services targeted at minors.

A directive from the Ministry of Education goes further to forbid assigning homework to primary and secondary school students. On its website, the firm admitted that it offers courses to students as young as four. And in the filing, it raised concerns that optional after-class exercises could be considered homework.

“As of the date of this prospectus, we have not received any written notice of warning or been subject to penalties from the relevant government

authorities," the company said. GSX Techedu, TAL Education-owned Xueersi, Koolearn, and Gaosi Education were all fined for their deceptive pricing practices in April.

Zhangmen was formed in 2005 as Zhuangyuan Club, offering after-school training to students in Shenzhen. The club was renamed Zhangmen Education in 2009 and shifted to online courses involving all curricular subjects in 2014 after raising funds in an angel round. Last year, the company generated 4 billion yuan (US\$ 613 million) in revenue, narrowing its net loss to 1 billion yuan. It closed a US\$400 million funding round joined by SoftBank in October.

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