

## Consolidation on tap as investors seek an Amazon for online education

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**By Alex Hicks, MHT Partners**

Private equity investors are looking for someone to take an Amazon approach to online education.

Since the days of the frontier schoolhouse, where different ages were taught together in the same classroom, education has become more and more fragmented.

Kindergarten and then elementary are separate from middle school and then high school. Higher education is an entirely different experience, in a very different atmosphere, as is post-graduate education and professional development.

Now, as learning has moved online, the sector is also broken into two types of companies: those that produce the content to teach (traditional publishers and, more recently, software companies) and the technology platforms where the teaching is done.

That teaching generally has occurred in classrooms, but these days teaching is increasingly on learning management systems, tools and platforms that deliver personalized and adaptive learning anywhere and anytime.

So, investors ask, why shouldn't all this learning and technology be rolled into one powerful platform? Such a change would not only create a new dominant company where none stands out today, it could change the way Americans view the nature of education: as something that is continuous and fluid over a lifetime.

The opportunity is huge for any company that can provide an integrated solution, positioning itself to create content for all segments of the education market, from K-12 through corporate, while also owning a delivery platform.

An estimated \$1.37 trillion was spent on education in the U.S. in 2016, or about 7% of the economy. That includes more than \$120 billion spent in the private sector, which is expected to rise to roughly \$139 billion by 2021, according to some Wall Street estimates.

Pursuing this goal, PE investors are snapping up technology-enabled education companies and paying valuations of in excess of 10x EBITDA.

Put simply, the trend in education has shifted away from learning at different, prescribed stages of life in set portions (a high school education, a degree, or a certification) to more personalized, on-demand, bite-sized education. That means lifelong learning and microcredentialing – taking courses as needed for personal and professional development over a lifetime.

Given the rapidly changing economic environment, it's a shift in education that will create a workforce that positions the United States as the global leader in everything from precision engineering to machine learning, artificial intelligence and social media.

Plus, the shift holds the promise of doing a better job of engaging students.

The concept of bringing together content and platforms was on display when LinkedIn bought online-learning company Lynda in 2015 for \$1.5 billion.

The professional-networking giant used that acquisition to develop LinkedIn Learning, where users can acquire new skills from more than 9,000 courses based on their interests. The service was launched after testing with companies such as Bertelsmann, Box and NBC Universal, suggesting that LinkedIn is tailoring corporate learning services that will appeal to the \$71 billion corporate training market.

Another company, BloomBoard, has a platform like Pinterest where third-party content providers can offer courses and microcredentials that teachers need in the classroom.

It's an approach that has attracted not just venture capital, but support from such customers as the state of Texas. If any company with such a compelling platform were to merge or partner with a large-scale content maker, the combination could enjoy outsized growth.

More evidence of investor interest in the education rollup involves Frontline Education, backed by PE firm Insight Venture Partners, which has been snapping up smaller companies to become a dominant player nationally in the market for software for teacher professional development and special-education programs.

Like professional learning, higher education is feeling the effects of technological disruption. For example, Coursera offers more than 1,900 university courses to more than 24 million registered learners. The firm uses skill-search technology that predicts which courses will teach students specific skills, performing that task so well that *TechCrunch* says, "Coursera's new skill search could do for learning what Netflix did for TV."

Lifelong learning is changing the very concept of education. Investors want to be on the leading edge with companies that are challenging traditional approaches to education. Companies that can build platforms and provide content that appeals to more than one segment of the market will be the biggest winners.

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**Correction to published article:**

**As of 9/18/2017, Frontline is no longer majority-backed by Insight Venture Partners. Thoma Bravo completed its acquisition of Frontline. Insight Venture Partners will remain a minority investor.**