

## Skills shortage fuels corporate e-learning and PE interest

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Alex Hicks, a director of MHT Partner. Photo courtesy of the firm.

### By Alex Hicks, MHT Partners

Remember when a college degree was a ticket to a long, successful career? Not anymore. These days, too many students emerge from college lacking the real-world skills that employers are looking for in the digital economy.

This growing skills gap presents a major challenge to companies as they compete for scarce talent while struggling to make sure their existing employees keep up with the rapid growth of technology such as artificial intelligence, cloud computing, and blockchain.

An annual survey released in November by online-learning marketplace **Udemy** found that 84 percent of U.S. respondents saw a skills gap, a rise of 6 percentage points from the year earlier and up from around 60 percent in 2014. By 2022, fully 30 percent of global IT jobs will be left open, market intelligence firm **IDC** said in a recent report.

Against this backdrop, private equity investors are showing rising enthusiasm for education-technology companies that have stepped into the growing void between higher education and the workplace.

Some of these providers directly target college and high school graduates, offering them specific courses and training that lead to credentials and improved job prospects.

But a more compelling investment case can be found in players who partner with corporations to provide in-house skills training and education resources for employees. This e-learning segment is rapidly taking up a larger slice of the more than \$70 billion U.S. market for corporate training.

PE investors are increasingly betting on these alternative-pathway providers as a play on the glaring skills shortage.

To track these companies' rapid growth, investors measure their performance based on the annualized version of their monthly revenues, known as the annual run rate.

These companies tend not to have much cash flow as they continue to invest in expansion, but we are seeing them valued at high multiples in the range of 4x to 5x revenue.

Private equity investors are targeting firms that focus on services and technology related to talent development.

One such provider, **OnCourse Learning**, in September was bought from **CIP Capital** by German publishing group **Bertelsmann**, a deal that *Reuters* reported was worth \$500 million. OnCourse specializes in digital training for healthcare and financial services firms in the U.S.

Another alternative-pathway provider, **Everfi**, raised \$190 million in its latest funding round last year. The online-training company's corporate clients include **Airbnb**, **Google** and **Oracle**. Founded 10 years ago, Everfi in the next couple of years plans to reach \$150 million in revenue and double its staff to 1,000.

Other notable funding rounds have included those for **Coursera**, **Degreed**, **Andela**, **MasterClass** and **Trilogy Education Services**, all of which provide platforms to help meet the talent challenge.

The demand for corporate training is attracting innovative new entrants that could prove to be even more compelling for investors.

One example is **Versal**, which offers companies the ability to create their own courses through its platform, with no complex coding required.

By providing the platform rather than the content, a company like Versal should be able to minimize its capital spending and present an attractive investment proposition.

Another fast-growing niche player is **Inspired eLearning** of San Antonio. This company focuses its offerings squarely on corporate risk and compliance training, helping companies educate their staff on pressing issues such as cybersecurity and sexual harassment. As well as offering proprietary courses, it also tailors programs to each client's training needs.

One reason investors like the corporate-training space is that it promises to be relatively recession-proof at the tail end of a long bull market. Regardless of economic conditions, keeping employees up to speed on technology and compliance is likely to remain a top priority.

And it's not only demand from corporations that make the sector a promising investment. These companies' services are also in demand from employees themselves as they grow more conscious of the need to improve their skills or risk being left behind.

The latest Udemy survey found that 80 percent of U.S. workers who expect the skills for their jobs to change would quit if their employer didn't provide them with the requisite training. Despite the rising skills requirements, the survey found, many U.S. workers remain optimistic about the future and motivated to keep learning.

Importantly, the trend toward life-long and corporate learning is also supported by a generational shift. Compensation and benefits are not the driving forces of satisfaction for the Millennial worker.

Increasingly, workers want to feel valued by their employers through advancement opportunities and continued learning. And corporate training could be the fringe benefit that makes the difference between keeping and losing a valuable employee.

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