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Scholastic Education Revenue Up in H1 FY 2017

Scholastic (New York) Education segment revenue was \$71.1 million in the second quarter fiscal 2017, ended Nov. 30, down 1.8% from the same period last year. The Education segment's first-half revenue was \$126.3 million, up 2.9%.

Education's second-quarter revenue dip mainly was a result of lower sales of consumer magazines and library publishing, partially offset by higher sales of classroom books and literacy initiatives, as well as professional services.

Chairman, president and CEO Richard Robinson said the Education business delivered revenue growth in classroom books and literacy initiatives such as Reading is Fundamental and Reach Out and Read sales, as well as professional services and family

[See 'Scholastic' on p. 4](#)

Living Tree Acquires Class Messenger

Class Messenger (Toronto, Ontario) in December staved off a potential shutdown when it was acquired by Living Tree (Austin, TX), a private social network for K-12 schools founded in 2012.

In November, Class Messenger let users know that the service it developed to provide greater connectivity among teachers, students and parents would be shutting down permanently Dec. 23. The company planned to delete all of its databases after determining there were not enough people willing to pay for the service to make it a viable business.

Meanwhile in November, Living Tree was acquired by serial entrepreneur Dean Drako, founder and former CEO of cybersecurity firm Barracuda Networks. Drako pledged a

[See 'Messenger' on p. 6](#)

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Education Technology Investment Rises with Broader Array of Investors Providing More Capital

There has been a renaissance of education technology in the past decade with more capital available from a larger and broader list of investors, according to Victor Hu, managing director and global head of education technology and services at Goldman Sachs.

Hu told attendees at the December Education Business Forum presented by the Education Technology Industry Network of the Software & Information Industry Association that it feels like the education sector has been lifted from a 100-year curse.

EER PULSE

Apps for Fun and Learning

- 80% of teachers and 51% of students said apps make learning more fun.
- 38% of teachers and 66% of students said apps help me teach/learn.
- 86% of teachers and 68% of students said interaction between students and teachers is most important part of classroom environment, higher than ratings for importance of technology.

Source: Quizlet survey of 20,000 educators and students

In the 2000s entrepreneurship barely existed, according to Hu. Venture/growth investments in education technology and services globally averaged \$208 million between 2000 and 2009, but averaged \$1.61 billion between 2010 and 2016. Moreover, the \$2.5 billion run rate in 2016 comes amid tighter venture capital conditions overall, he said.

More than 70 education technology and services companies raised more than \$20 million in a single round of financing between 2014 and 2016. The list includes companies with a significant U.S. K-12 presence, like Renaissance Learning (Wisconsin Rapids, WI), Clever (San Francisco) and Edmodo (San Mateo, CA).

Additionally, the cost to launch a new company, according to Hu, has declined from \$5 million in 2000 to \$5,000 from 2012 forward. A growing number of accelerators and incubators provide support to developers wanting to start a company.

Investor Base Widens

One factor contributing to the renaissance is more investors than ever before—both in number and type, Hu said. The investor base now includes:

- education technology specialists, like the New Schools Venture Fund, GSV Capital, Owl Ventures and Reach Capital;
- traditional technology VC’s, like Sequoia Capital, Accel Partners, Bessemer and Venture Partners;
- traditional growth and private equity funds, like Providence Equity and Warburg Pincus; and
- global internet, media and technology companies, like Bertelsmann and Alibaba Group.

Hu provided a list of six broad areas where the capital is going. They were:

1. platforms for closing skills gaps, particularly new professional learning platforms like Udacity and Lynda.com;



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VENTURE/GROWTH INVESTMENTS IN EDUCATION TECHNOLOGY AND SERVICES	
Year	Amount (in millions)
2000	\$443
2001	\$196
2002	\$110
2003	\$83
2004	\$192
2005	\$88
2006	\$101
2007	\$379
2008	\$204
2009	\$287
2010	\$584
2011	\$679
2012	\$1,118
2013	\$1,276
2014	\$1,796
2015	\$3,485
2016 YTD	\$2,354

Source: Goldman Sachs

2. initiatives that reach consumers directly to monetize products and services in a new way, made popular in part because consumers will spend to advance their children; (Examples include Age of Learning for early learning and language services in China from the iTutor.)
3. growing education market in China where \$80 billion is spent on supplemental education services;
4. to build the higher education institutions of the future where cutting edge content that provides data for insight is needed;
5. for the next generation K12 education technology platform that will connect teachers, students and parents; and
6. to rethink education—not going for incremental solutions that make process easier, but rethinking how the institutions themselves should run.

Cautions

When investors look at the explosion of activity some are worried about how many new companies will succeed in the long run as the road to scale and profitability is harder in education, Hu said. He left the forum attendees with some questions. Are we in new spring or late fall? Are valuations too high? Will there be a cycle of exits? Are companies making promises they can keep? ■

myON Expands Implementations and Capabilities

myON, the digital literacy platform and business unit of Capstone Publishing, will expand its implementation in the Detroit public schools this spring, an indication of the company's momentum.

myON president Todd Brekhuis told *EER* that the business is growing at a 40% compound annual growth rate and has 80 employees. More than 6 million students work on the platform, and it reaches 10,000 schools in 12 countries. myON provides access to more than 12,000 enhanced digital books, from Capstone and publisher partners, with multimedia support, real-time assessments, and a growing Literacy Toolkit.

"We found a niche by being able to personalize digital books and create literacy experiences for teachers,"

Brekhuis said. "We were able to move from just students having personal access to digital books and getting them to do more independent reading—although that will always be one of our hallmarks—to more classroom access with the launch of a writing program and more project-based activities."

Brekhuis came to Capstone in 2009 with a mission to create "something great" built on Capstone's expansive library of books. He said the platform developed was an early example of the trend toward personalization—offering students reading recommendations based on their own interests, age, grade level and Lexile reading scores.

"We created a new category in education technology," Brekhuis said. "Kids want it because it's fun; teachers want it because they need more resources, and schools need a stable set of resources that are going to be there for them—not just websites or OER but actual curated content that goes through the publishing process."

The addition of assessment and measurement undergirds that work. Brekhuis said much of the messaging lately has been about shifting the mindset on assessment to measuring student reading through their reading rather than waiting for a test score. The platform provides data points on how much time is spent reading, what type of reading, and whether Lexile levels and comprehension skills are growing.

Change

Brekhuis said changes in education—like new standards or more technology—typically have been good for myON. The company can correlate with multiple standards because of its vast content; every teacher and every child gets access to everything.

More classroom technology has been a huge benefit, Brekhuis said. Superintendents are calling and saying they are implementing a 1:1 program and want to focus on reading, as opposed to a few years back when they reported buying technology but had no follow-up conversation.

"Technology plus interest in access to more non-fiction content definitely is on the rise and has been a huge reason that people are choosing myON," Brekhuis said.

Brekhuis said myON is not presented as a core basal program, although some districts are taking one grade level

or subject area and looking at how an extensive collection of books can be a way to adapt content in a personalized way and meet standards. myON has built projects built around the Engage NY curriculum and projects based on content development work being done in districts like Houston and Fairfax.

“We publish those and every teacher has access to those units and projects,” Brekhus said. “If you line those up and have enough content for 180 days of teaching, you can replace a textbook without intending to do it.”

Expanding in Detroit

Detroit chose myON as part of a district plan focused on literacy and innovation seeing an alignment with district initiatives to implement competency-based and personalized learning to meet the specific needs of individual students. The district secured funding for the literacy initiative through a Michigan Department of Education Additional Instructional Time Grant, which was awarded to help students who have been identified as needing additional supports and interventions in order to read at grade level by the end of third grade.

The district’s goal for myON is to increase students’ access to books both at home and in school, thereby increasing their love of reading, and ultimately leading to increased student achievement.

Also attractive to the district was that myON offers a wide variety of titles in Spanish and other languages to help close the literacy gap for English-language learners.

Phase one of the implementation began in September 2016, with 41 schools being provided access to myON, and initial orientation for school and district leadership teams. Phase two, expected by March of 2017, will reach an additional 24 schools with access, ensuring all K-8 schools have access. ■

Scholastic, cont’d. from p. 1

engagement programs. There is a significant pipeline of opportunities including a number of large district sales for Scholastic’s balanced literacy solutions, he said.

“This strengthens our belief that our comprehensive customizable literacy solutions and services will be a core growth driver over the next several years,” Robinson said.

“Recent research confirms that administrators and teachers are increasingly responsive to custom curricula that are built upon nonfiction text and literature while providing the essential skills children need; this plays directly to our strengths.”

Equally important, according to Robinson, is the support and professional tools developed by Scholastic to implement effective teaching strategies. “We believe we are in an excellent position to capitalize on this opportunity with our investments in our sales team while building the services business which complements and strengthens our core instructional programs in preK-8 literacy,” he said.

Segment operating income was \$8.7 million, versus \$10.4 million in the prior year period, a decrease of \$1.7 million, primarily due to the lower revenues and the planned increased investment in the education sales force and new marketing support.

“In education we are anticipating a strong second half as our business is more heavily weighted toward the fourth quarter,” Robinson said.

Asked about the potential impact of Betsy DeVos taking the helm at the Department of Education, Robinson focused on how the passage of the *Every Student Succeeds Act* already has set how the bulk of federal funding will be committed and how federal contributions to education now are only 9% of total spending for education in the U.S.

“The federal government has already done its thing; the Congress has passed the bill and it is in effect right now,” Robinson said. “Whatever happens at the federal Department of Education will not really strongly—cannot influence the progress of *ESSA*.”

Companywide

Companywide revenue increased 3.5% to \$623.1 million in the fiscal second quarter and rose 14.2% to \$905.8 million in the first half.

Second quarter results were driven by revenue growth in the company’s trade channels in the U.S. and Canada, primarily on the strength of new Harry Potter-related publishing. Strong sales gains in international major market operations, particularly in trade, clubs and fairs,

SCHOLASTIC Q2 AND FIRST-HALF FINANCIAL RESULTS, FY2017 VS. FY2016

(Period ended Nov. 30; \$ in millions)

	Q2 FY 2017	Q2 FY 2016	Chg.	H12017	H12016	Chg.
Company Revenue	\$623.1	\$601.8	3.5%	\$905.8	\$793.0	14.2%
Children's Book Pub.	\$432.5	\$413.7	4.5%	\$570.3	\$481.4	18.5%
International	\$119.5	\$115.7	3.3%	\$209.2	\$188.8	10.8%
Education	\$71.1	\$72.4	-1.8%	\$126.3	\$122.8	2.9%
Co. Operating Income/Loss	\$111.4	\$105.1	6.0%	\$48.3	\$25.6	88.7%
Co. Op. Margin	17.9%	17.5%	0.4	5.3%	3.2%	2.1
Children's Book Pub.	\$121.1	\$110.4	10.0%	\$84.9	\$54.4	56.1%
Op. Margin	28.0%	26.7%	4.9%	14.9%	11.3%	31.9%
International	\$16.5	\$11.5	43.5%	\$20.4	\$8.8	131.8%
Op. Margin	13.8%	9.9%	3.9	9.8%	4.7%	5.1
Education	\$8.7	\$10.4	-16.3%	\$4.3	\$6.1	-29.5%
Op. Margin	12.2%	14.4%	-2.2	3.4%	5.0%	-1.6

Source: Scholastic financial report

led to a 43.5% increase in international profits in the quarter.

Net cash provided by operating activities was \$179.7 million in the second fiscal quarter compared to net cash provided by operating activities of \$113.7 million in the second quarter of fiscal 2016, an increase of \$66.0 million. During the second quarter, Scholastic generated free cash flow of \$164.1 million, compared to \$101.8 million in the prior year period. At quarter-end, cash and cash equivalents exceeded the company's total debt by \$435.6 million, as compared to \$348.9 million one year ago.

Scholastic expects total revenue in fiscal 2017 of \$1.7 to \$1.8 billion, or roughly 2% to 8% growth, with increased profitability on higher projected sales volume, partially offset by employee wage improvement programs across the company's distribution networks and higher estimated medical costs. Fiscal 2017 free cash flow is expected to be in the range of \$40 million to \$50 million, compared to \$46.3 million in fiscal 2016. ■

Achieve3000 Expands Tools and Implementations

Achieve3000, provider of online differentiated literacy instruction, in December expanded the reach of its proprietary forecasting tool that helps educators predict their students' performance on the Smarter Balanced

Assessment Consortium's English language arts assessments. Achieve3000's forecasting reports, previously available for seven states, will expand to educators in an additional 14 states and the U.S. Virgin Islands.

The forecasting report measures students' Lexile reading levels via ongoing and embedded formative assessments and then uses that data to forecast their performance on the Smarter Balanced tests.

Forecasting reports for the SBAC and other high-stakes state assessments are part of the Achieve3000 platform's reporting package, which helps teachers and administrators monitor their students' progress on key literacy skills and mastery of state standards as well as forecast their Lexile reading growth.

"We were the first to offer reports that could forecast student performance on state assessments, and we are proud to be the first to provide this new forecast report, as well," said Saki Dodelson, founder and CEO of Achieve3000. "We're excited to launch these forecasting reports now, so educators can take full advantage of them to help their students prepare for this spring's Smarter Balanced tests."

To further help educators prepare their students for high-stakes state assessments, Achieve3000 also created new English Language Arts Test Challenge courses for all 50 states plus Washington, DC. Each Challenge course is

customized by state and grade level, giving students targeted practice for their specific high-stakes state test. For states with technology-enhanced items on their assessments, Challenge courses integrate drag-and-drop, sequencing, click-to-highlight evidence tasks, multi-part items, and multi-select multiple-choice questions. Challenge courses also have students read multiple sources of informational text, apply close-reading and critical-thinking strategies to complex texts, and write and revise evidence-based responses to those texts.

Both the forecasting reports and Challenge courses are only available as part of Achieve3000's literacy solutions: KidBiz3000 for grades 2-5, TeenBiz3000 for grades 6-8 and Empower3000 for grades 9-12.

Implementations and Partners

After first implementing Achieve3000's literacy solutions in 13 of the district's lowest-performing Title I elementary, middle and high schools, Muscogee County (GA) school district expanded its implementation to include 21 additional schools. Participating schools will receive Achieve3000's 24/7 differentiated, blended instruction for students, teaching resources and blended professional development for educators, real-time data dashboard for administrators, and robust home support for parents and guardians.

"For the next three years, Achieve3000 and the MCSD will work together to accelerate learning and put more students on track for college and career success," Muscogee superintendent David Lewis said. "Students who participated in our district's Achieve3000 pilot program as recommended realized significant overall Lexile gains that allowed us to accelerate their literacy instruction. As a result, our district expanded the use of Acieve3000 to schools throughout our district this school year."

Meanwhile, Renaissance Learning (Wisconsin Rapids, WI) and Achieve3000 are partnering to integrate the analytics from Renaissance's Star 360 assessment solution with differentiated instruction from Achieve. Select districts in 2017 will be able to use embedded and interim assessments to inform and tailor instruction across all tiers of intervention, while accessing analytics from the companies' platforms to measure impact and efficacy. ■

Messenger, con't. from p. 1

multi-million dollar investment to accelerate Living Tree's customer growth and to develop its Tiered Social Network, which offers a secure, community-wide platform for educators and parents.

Among Class Messenger's competitors are the classroom communication platform Class Dojo (San Francisco) and Remind (San Francisco), a communication tool for teachers, students and parents.

Scholastic (New York) was an early investor in Class Messenger, but the companies currently have no business relationship. ■

Discovery Adds Virtual Reality to Content

Amid the growing interest in providing students access to virtual reality, Discovery Education in December released three virtual reality experiences that invite students to step into the boots of soldiers to learn about American Civil War history.

The virtual reality experiences recently added to Discovery's Social Studies Techbooks series help students explore three Civil War-themed issues—urban warfare, bridges and desertion. The experiences are affiliated with the six-part American Heroes Channel series, *Blood and Fury: America's Civil War*, which premiered in December.

More cross-curricular content also is being made available through Discovery's digital services. The new content includes daily news stories from Reuters, health titles from Mazzarella Media, and new titles from Discovery networks, including Science Channel Favorites.

Additionally, 117 new titles from Scholastic (New York) have been made available to Discovery Streaming Plus users, including Goosebumps tales for middle school students, and Astroblast!, which encourages elementary students to use critical thinking and STEM concepts within an outer space environment.

New Partners

Meanwhile, Discovery Education in November began a multi-year partnership with the National Basketball Association with the goal of deepening middle and high school students' engagement in mathematics. Interactive

math problems derived from NBA and WNBA game footage and statistics such as points, rebounds, and assists, were integrated into Discovery's Math Techbook series.

Also Canvas, the open learning management system from Instructure (Salt Lake City) in November added Discovery Education to the content partners it aligns with to enable teachers to pull content into their classrooms while using Canvas. Other Canvas partners include BrainPOP (New York), Nearpod (Aventura, FL), Knovation (Cincinnati) and Florida Virtual School (Orlando, FL). ■

Plotagon and Noodle Markets Honored at Ed Tech Business Forum

Plotagon (Stockholm, Sweden), an app for building story-telling videos, was voted most innovative new product, and the online marketplace Noodle Markets (New York) was voted most likely to succeed at the Innovation Incubator competition at the December Education Business Forum conducted by the Education Technology Industry Network of the Software & Information Industry Association.

Plotagon originally introduced its 3D video making app into the consumer market, but is looking to schools after hearing that teachers were using it to have their students turn assignments into media projects.

The app comes with characters, or users can create their own, and 100 location scenes, including schools and business settings. Students write and record an accompanying script.

Plotagon sees the 3D animation produced as a product differentiator and is looking for strategic partnerships.

Noodle Markets, launched one year ago, looks to match buyers and companies to ease the long K-12 procurement process.

For vendors, the objective is to help them learn about and quickly respond to product requests, allowing them to open up new territories without additional sales reps. Schools can find templates for their RFPs and RFIs and hear from a broader selection of sellers.

Noodle Markets is the latest initiative from John Katzman, founder of Princeton Review and 2U, as part of Noodle Education, which he began in 2010 to help students and their families choose education options.

The third presenter at the Innovation Incubator was Hoot Education (Dallas), an online professional development platform where teacher participate in a personalized learning experience mentored by an expert coach and supported by a team of other teachers who work together in a professional learning community. Hoot Education

EER Stockwatch 2016

Share Price Values for Instructional Technology Providers, Nov. 30—Dec. 28, 2016
(closing prices)

	Ticker	Nov. 30	Dec. 14	Dec. 28	% Chg 11/30-12/28	% Chg. YTD
Cambium Learning Group	ABCD	\$4.98	\$4.79	\$4.99	0.2%	2.2%
Houghton Mifflin Harcourt	HMHC	\$11.05	\$10.70	\$10.85	-1.8%	-49.3%
Instructure	INST	\$19.55	\$19.50	\$19.40	-0.8%	-5.3%
K12 Inc.	LRN	\$14.68	16.17	\$17.38	18.4%	100.5%
Pearson	PSO	\$9.87	\$10.13	\$9.88	0.1%	-7.1%
Scholastic	SCHL	\$44.09	\$46.00	\$47.88	8.6%	25.2%
Average for Group		\$17.37	\$17.88	\$18.40	5.9%	5.8%
NASDAQ Nat'l. Mkt. Composite Index		5,323.68	5,436.67	5,438.56	2.2%	11.0%

CLG, HMH, Scholastic listed on the NASDAQ; Instructure, K12 Inc. and Pearson on NYSE

Source: Yahoo Finance and Simba Information

is looking to offer an alternative to in-person coaching, one-size-fits-all workshops, and eliminate the costs associated with travel and down time for professional development. The company is seeking investors and distribution.

The SIIA Innovation Incubator Program identifies and supports entrepreneurs in their development and distribution of innovative learning technologies. The program began in 2006 and has provided support for products and companies in their efforts to improve education through the use of software, digital content and related technologies. ■

People

- ▶ **Second Avenue Learning** (Rochester, NY), provider of games and interactive learning environments for K-12, higher education and corporate markets, in December named **Laura Boothroyd** director of strategic partnerships and **Richard Carey** vice president of technology, building the company's team to support growing capabilities and services, and to expand its footprint to cover the greater Boston and New York City areas. Boothroyd most recently headed up the education market strategy at Burning Glass, an analytics software firm that supports learner recruiting, retention and outcomes, as well as content development in higher education and corporate learning markets. Carey has two decades of experience developing apps, games, educational technology and transmedia entertainment, including serving as the director of research and development for **Scholastic's** (New York) Internet and Software Group.
- ▶ **Measured Progress** (Dover, NH) in December named **David Ernst** as vice president for business development, leading Measured Progress's business development efforts in large-scale assessment, and **Steve Ferrara** senior advisor for measurement services. In 17 years at **Pearson** (London/New York), Ernst was responsible for leading new business development, including product initiatives in online diagnostic assessments and program management for large-scale state assessment services. He established

and co-led with Ferrara the Center for Next Generation Learning and Assessment, one of six research centers in Pearson's Research and Innovation Network. Ferrara joins Measured Progress to lend his measurement expertise to assessment products, focused on the company's new eMPower Assessments, a suite of assessments providing insight on college and career readiness for states and districts.

News Briefs

- ▶ **LETRS**, the professional development solution for raising preK-12 literacy achievement from the Voyager Sopris unit of **Cambium Learning Group** (Dallas), was selected by Caddo (LA) Parish schools as part of a multi-year plan to improve the reading skills of its K-3 students. It has been implemented in 38 of the district's elementary schools, with LETRS-based training of K-3 teachers to continue through the school year.
- ▶ **Knovation** (Cincinnati) in December introduced enhanced avenues for product integration to its OER content collection via Content Integration Services. Pivoting from mainly providing school districts with its netTrekker and icurio applications, Knovation is looking to build partnerships with educational technology providers who can access its content collection via API service integration or cloud data integration. This pivot is intended to provide school districts with a one-stop experience for accessing vetted, aligned, and ready-to-use OER through their existing learning management, assessment, curriculum development or other education platforms.
- ▶ **Virtual High School** (Maynard, MA) in December introduced a computing certificate programs to encourage students to become interested in computing and to better understand the career options available to them in computer science and related fields. The program complements other VHS computer science initiatives, including the fall 2016 launch of AP Computer Science Principles, an introductory college-level computer science course.