
RESEARCH NOTE

FROM: David Sack, Mia Hegazy
DEAL TEAM: Ryan McNally, Mia Hegazy, David Sack
SUBJECT: **Continuing Education**

Background

This note follows previous Catalyst research in the broader education technology space and focuses on businesses that educate adult learners to increase workplace productivity or enhance a candidate’s appeal.

Defining the Market

- Continuing education (“CE”) is the teaching of work-related skills to adults; for the purposes of this project, we exclude typical degree-granting institutions (e.g. colleges and universities) in favor of independent providers of skills training to employees and prospective employees
- Continuing Education involves 2 key customer types
 - User as customer (“employee-pay”), such as a prospective web developer who signs up for Code Academy or a teacher who seeks salary advancement through courses from Learners Edge
 - Continuing education offers individuals the opportunity to advance their earnings potential
 - Employer as customer (“employer-pay”), as when a supervisor enrolls his employees in workplace safety training; includes broader Corporate Training
 - Companies outsource workplace training because it is not a core competency and the production of engaging content requires technology and skills outside of typical HR departments
 - For employers, CE programs afford greater employee productivity, higher morale, and higher retention, and can expand the hiring pool through training unskilled workers
 - Companies and employees use eLearning solutions throughout the employee lifecycle:



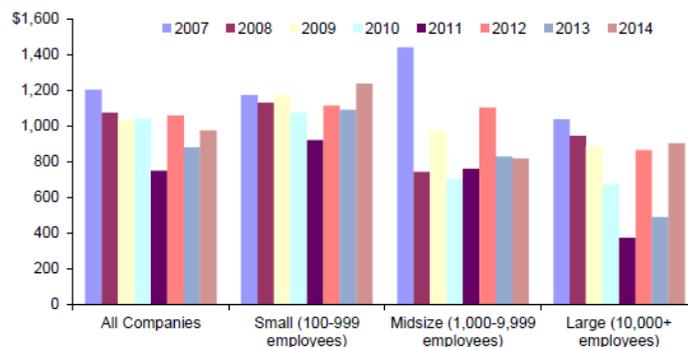
- Both types of consumers can face regulatory requirements to provide or consume CE content
- CE can further be broken into points in the value chain, including content and software infrastructure; this analysis focuses on continuing ed content

- Content: Companies that create and deliver content, including digital coursework and in-person training, to corporate and individual customers
- Software Infrastructure: Companies that produce applications facilitating content production and management (Authoring Tools and Content Management Systems), and content delivery and results tracking (Learning Management Systems)
- Revenue models include pay per course/module and “all-you-can-eat” subscriptions by seat licenses, as well as advertising and lead generation
- Lastly, the market may be segmented between those who target a specific industry, such as healthcare or information technology, and those who target multiple industries with a broad content base, taking a horizontal approach
 - Most representative of the horizontal strategy are the MOOCs (Massive Open Online Courses), such as Udacity and Coursera, which offer courses covering a broad base of topics, many times free of charge

Market Size

- According to IDC, aggregate U.S. corporate eLearning revenue was ~\$16.8 billion in 2015, and grew at an 11.9% CAGR from \$3.5 billion in 2001
 - BMO estimates the segment will grow at a 6.7% CAGR through 2020
 - Technology-based learning is growing as a share of total learning hours to 39% in 2013, up from 11% in 2001
 - eLearning content revenues reached \$10.9 billion in 2015, growing at a 12.5% CAGR from 2001 revenues of \$2.1 billion
 - According to *Training Magazine* and BMO, training spend per learner increased in 2014 to \$976 after decreasing to \$881 in 2013 from above \$1,000

Corporate Training Spend Per Employee



Source: BMO Capital Markets and *Training Magazine*.

- In 2014, the average training budget for large companies, medium-size companies, and small companies were \$17.4 million, \$1.5 million, and \$338k, respectively
- These figures exclude direct-to-user professional development, which for teachers alone reached \$4.0 billion in 2015 according to Eduventures

Selected Verticals

- The below verticals are attractive because they i) represent a large addressable market, ii) are highly regulated industries, and iii) offer aspirational workers a chance for career advancement
- *Healthcare* – Represents 17.5%+ of GDP and most patient-facing employees require both an initial degree/certification as well as ongoing continuing education; for some participants, incremental educational attainment allows significant salary improvement, providing clear ROI for individuals
 - For instance, training to become a Certified Nurse’s Assistant requires less than a year of training beyond high school and yields an hourly wage of \$15
 - Licensed Practical Nurses, who earn \$40K annually, can increase their salaries to ~\$70K through additional certification as a Registered Nurse; after further continuing ed, Advanced Practiced Nurses earn ~\$100K annually
 - Doctors also must fulfill a minimum number of hours of Continuing Medical Education (CME) credits annually
 - Healthcare employers require ongoing outside training of their allied health professionals (~2/3 of U.S. healthcare workers) as they have difficulty training and retaining these lower-wage employees
- *Education* – Within education CE, K-12 teacher development represents the largest segment, and involves school, district, state, non-profit, and individual consumption; teachers in most states must participate in CE classes to maintain their certification, and in many states are able to increase their salary through a “steps & lanes” formula involving tenure and CE credits
 - Teachers are the most numerous professionals in the U.S.
 - Online independent providers compete with universities and community colleges, as well as not-for-profit teacher professional development providers
 - Difficult for private providers to meet standards that can differ across states and districts
- *IT* – IT training is marketed to employees and prospective employees that develop, install, or use software and networks; according to IDC, the U.S. IT skills training market generated an estimated ~\$6.8 billion in 2015 revenues (~4% growth)
 - Includes coding bootcamps, corporate training, and software program certification
- *Trade Skills* – Includes automotive technology, truck driving, plumbing, carpentry, HVAC, oil & gas, electrician training, and others
 - Potential opportunity in veteran retraining programs
 - Includes workplace safety training
 - May require in-person component due to manual nature of work
- *Other* – Other target industries could include compliance training, accounting, insurance, finance, paralegal services, or sales

Industry Trends

- Replacement of traditional paper-based and in-person solutions with digital content and IP-delivered distance learning
- Persistent “skills gap” in U.S. workforce leading to underemployment, low labor force participation, and decreased productivity
 - As of February 2016, there were 5.6 million unfilled job openings in the U.S., lacking willing or qualified applicants
- Support from managers and increased demand for training driving corporate investment in eLearning
 - Budget constraints, time constraints, and travel costs among top drivers behind shift to IP-delivered corporate training
- eLearning allows organizations to control training budgets and reduce the costs related to HR recruitment, screening, and onboarding
- Millennials more likely to have multiple jobs over the course of their career

Investment Thesis

- *We are looking for businesses with differentiated, premium content, premium pricing, and recurring or repeat customers*
- Solutions still largely in-person and/or paper-based, providing opportunity for tech-enabled solutions to gain market share
- Compliance and regulatory requirements create built-in demand in many verticals
- In both corporate and consumer models, the best opportunities will be with companies enjoying strong barriers to entry from:
 - Subject matter expertise (such as maintaining up-to-date materials on complicated regulatory environments)
 - Innovative content production and delivery
 - Delivery mechanism tailored to content
 - Premium, results-driven content
 - Program customization
 - Coaches, mentors, or tutors offering customers on-demand help