

The impactDEALS Forum **Impact Investing in Education**

The impactDEALS Forum, co-hosted by i2 Capital (“i2”) and the Aspen Institute, brought together impact investors from the private, institutional, philanthropic and government sectors to discuss investment strategies through the lens of model transactions. The Forum focused on four key domestic impact investment market sectors: education, health, conservation and energy. This summary report provides a high level review of the discussion and sets forth key opportunities and challenges for impact investing in the education finance field.

Definition of Impact Investing

i2 defines impact investing as an investment approach that intentionally seeks to create both financial return and positive social or environmental impact that meets clearly defined standards of measurability and accountability. Impact investing extends beyond Socially Responsible Investing (“SRI”), which involves negatives screens for environmental, social and governance considerations, to allow private investment discipline to drive meaningful social impact by achieving measurable gains.

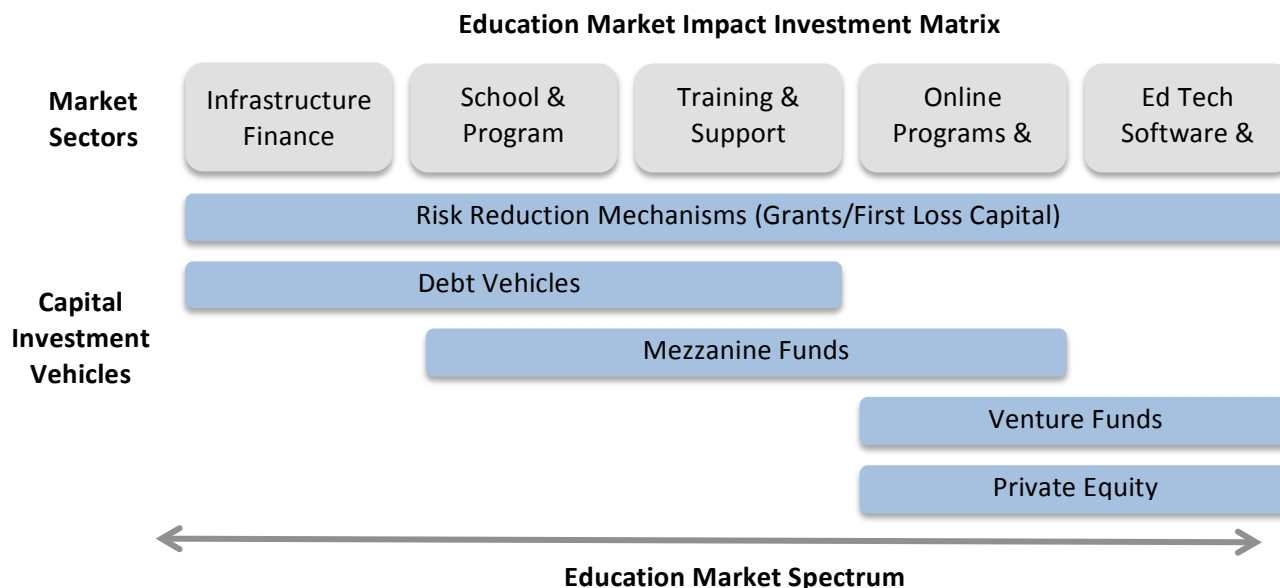
Impact Investing in the Education Sector

An estimated \$1.3 trillion, almost 9% of GDP, is spent annually on education in the U.S. While the lion’s share of this massive expenditure occurs in the public sector, approximately 10%, or \$120 billion, represents for-profit education products and services that span early childhood, K-12, postsecondary and continuing education markets. Within these sub-segments, private sector solutions support direct for-profit program operations (bricks and mortar and online), education materials (textbooks, software programs, games) infrastructure (buildings, computers, other technology) and ancillary services (tutoring/test preparation/professional development, outsourced administration). While education investments naturally fall under the rubric of impact investing, impact investors increasingly focus on identifying and scaling interventions that demonstrate measurable improvements in education outcomes.

Market Opportunity

Several important trends are driving growth across education markets, including (i) the emergence of new school models such as cultural and curricular innovations in exemplary charter schools; (ii) expanded investment in workforce preparation and corporate training as a tool for recruitment and retention; (iii) greater recognition of the importance of early education to student achievement; and (iv) adoption of software-as-service delivery models for new learning apps and games; and (v) the emergence of blended learning models (hybrid classroom based/online learning). While these trends signal opportunity, an important feature of traditional education markets remains dependence on government funding and large institutional purchasers for major contracts. Particularly within the K-12 market, these factors create high barriers to entry, long sales cycles and significant political risk. Further, the consolidation of the educational publishing industry into three entities that control roughly 85

percent of the market (Pearson, McGraw Hill and Houghton-Mifflin) further challenge any new, privately-funded education solution sales process. Accordingly, the impactDEALS Forum highlighted three model education companies that reflect different entry points into the education market and different approaches to driving impact through disruption of education process and organization.



impactDEALS Model Presentations



Straighterline, Presentation by Burck Smith, CEO. Founded in 2010, Straighterline has rapidly become a market leader in direct-to-consumer online general higher education courses. Straighterline courses provide a more direct pathway to course credits and career. The courses also offer a critically valuable on-ramp to a network of almost 80 accredited universities that accept Straighterline credits in furtherance of full-time degrees. Accordingly, Straighterline dramatically expands access to lower cost general education (flat monthly fee for unlimited courses) while allowing students to fulfill general education degree requirements in a more flexible, adaptive construct. A majority of Straighterline students are adults over 25 (80%), female (60%), married with children (52%) and middle class (65%) – students who otherwise might not have the capacity to seek full time degrees, despite a desire for expanded education that leads to enhanced earning power and economic productivity. The company's rapid expansion based on dramatically lower course costs, has forced universities, which have resisted many new entrants, to partner with Straighterline as a defense against competition for new students. Straighterline has raised \$13 million in capital from institutional and high net worth investors. The company's education impact measures include analysis of cost savings, education access, college persistence (program completion) and job attainment success.

Tales2Go, Presentation by William Weil, CEO. Tales2Go addresses major market challenges related to poor school achievement through addressing a root cause of failure: low literacy rates amongst the poorest, most vulnerable populations. Low literacy rates derive in part from low exposure to words, with children from low-income homes beginning in kindergarten having heard 32 million fewer words than those from more affluent homes (the “word gap.”) The company’s streaming audio books solution tackles the word gap through providing thousands of elementary school students across the U.S. with a critical listening component in their reading instruction. The Tales2Go solution is grounded in extensive research that demonstrates the importance of listening to the development of word knowledge (vocabulary and comprehension), which in turn supports reading comprehension. Its service has been described as “Netflix for Audio Books.” The company offers unlimited, simultaneous streaming of thousands of titles at a low per student cost, designed to be used 90 minutes a day in more than 600 schools by more than 250,000 students. The company has experienced 100 percent retention and increasing volumes of adoption at a \$3/student annual subscription rate. Tales2Go has raised venture financing from New Schools Venture Fund and Maryland Venture Fund – both positioned to provide long-term, patient capital to new intervention models. In 2015, the company plans to launch a multi-year, longitudinal research study to further quantify the impacts of its intervention.

String Theory Schools (Facilities), Presentation by Jason Corosanite, Founder. Headquartered in Philadelphia, PA, String Theory Schools operate high performing charter schools grounded in a deep learning “STEAM” model [STEM + Arts]. The school has redefined what the traditional school day looks like and has empowered its teachers to develop and implement curriculum. As of the Fall 2016, String Theory will reach full enrollment to operate the largest single charter school in the Philadelphia region, serving 2,525 students in K-12. The school covers 100 percent of its operating expenses with per student revenue (local, state, federal), making it independent of philanthropic sources of capital for normal operations. In 2014, String Theory executed a \$55 million municipal (tax-exempt) bond offering that financed close to 100 percent of a major new building for the Philadelphia Performing Arts Charter School. The offering was 30-year, “BB” rated, interest only for 3 years, and backed by 6 institutional impact investors. The school also received a \$2 million grant from the Philadelphia School Partnership to expand operational capacity for new schools. String Theory’s education impact measures include analysis of student academic achievement, graduation rates and teacher retention, as well as scale of offering. String Theory is poised to enter a rapid growth phase intended to replicate its success across up to 25 schools across Pennsylvania, Georgia, Florida and California.

Key impactDEALS take-aways:

- **Impact investors in education are focused on the measurement of education outcomes.** While private sector investment in education has flourished for several decades, the entrance of a new breed of impact investors into the sector has prioritized solutions with demonstrable impacts based upon tracking and improving the metrics of stated outcomes.

- **Selling into traditional school systems takes time and capacity, and requires patient capital.** While outside-the-system solutions can be disruptive, services that augment educational instruction inside the system have the most immediate and often the most powerful effect. These solutions, however, require patient capital and sophisticated sales strategies.
- **Significant opportunity exists for education companies to flourish outside of traditional school systems.** Disruptive approaches such as blended or online education and new charter and private school models provide interesting on-ramps for new solutions in a market characterized by entrenched institutions and dominant product suppliers.
- **Measuring impact in education is difficult, expensive and time-consuming.** Measuring education impacts requires quality longitudinal research studies, which in turn require years of measurement and evaluation. Because they are necessary to achieve scale adoption, they become a priority for investor-backed solutions, requiring additional funding and patient capital to execute.
- **New education models provide opportunity to address cost of delivery distortions.** Historically, education delivery models have focused on service delivery and education pedagogy, with a “cost-plus” approach that fails to focus on return-on-education investment at a school and system level. Impact investing provides a new construct to assess pedagogical excellence alongside cost rationality.
- **Education infrastructure finance provides a lower risk opportunity to invest in the expansion of new school models.** At \$1.3 trillion in funding annually, the education sector supports extensive infrastructure investment - particularly across early childhood and K-12 charter school markets where facility expansion represents a major hurdle to growth. New, innovative financing vehicles are being crafted to offer long term, lower risk investment opportunities in the education infrastructure market while providing the difficult-to-obtain bridge financing to build, launch (or expand) and fill new schools.

Notable Education Quotes

“Impact Investing requires intent, measurability and accountability [of education outcomes].” - Bobbi Kurshan, Dean of Academic Innovation, Penn Graduate School of Education

“A new mindset that embraces both mission and financial return on investment is gaining momentum. We must tap and guide this moment of motivation and money.” – Anne Mosle, Vice President, Aspen Institute

“We have to build the business case for impact investing, so investors can feel that the leap of courage is appropriate.” - Josh Cohen, Managing Director, CityLight Capital

“Colleges should become job engines.” - Burck Smith, CEO, Straighterline

“In order to garner political support and secure philanthropic backing, it is often necessary to get key decision-makers to visit the school.” - Jason Corosanite, Founder, String Theory Schools

“Innovative technology, and even a good business model, do not guarantee social or environmental impact.” - Michele Demers, CEO, Boundless Impact Investing

“Government, non-profits and foundations can impact market conditions in unexpected ways.” - Burck Smith, CEO, Straighterline

“In order to bring the kinds of highly-leveraged, highly-effective productivity gains to education which recent decades have seen in business, military and medicine, we need new approaches, new models and new levels of financial support.” - Rob Lippincott, Senior Advisor, i2 Capital

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