Smart money targets Web schools

China's digital education platforms continue to script success stories on the back of well-funded initiatives

By ROBERT BLAIN

Students in Beijing attend a computer class to learn how to use the Internet. Education technology startups and venture capital firms are tapping into China's burgeoning online education sector as competition for market share heats up. AFP

Online education in China is not only a compelling area for parents and young learners, it is also proving an irresistible lure for venture capital.

With the market tipped to reach 270 billion yuan ($42.7 billion) by 2019, according to e-learning platform Docebo, the smart money from investment companies is bolstering the sector. In the first half of 2017 alone, Chinese online education startups attracted 50 billion yuan, the *South China Morning Post* (*SCMP*) reported, citing iResearch data.

In Southeast Asia, there are also a number of established and up-and-coming online learning platforms. Indonesia, Malaysia, Singapore, the Philippines and Vietnam all have their startups, with Indonesia's Zenius a notable player.

But none of the companies are attracting anywhere near the financial interest of educational technology startups in China.

In January, US private equity firm Warburg Pincus and Beijing-headquartered Genesis Capital, a growth capital fund, invested a combined $120 million in the China online tutoring platform Zhangmen.com.

The startup was only launched in 2014 but has quickly become established in the online education sector for school students aged 8 to 18, reporting revenue in excess of 1 billion yuan in 2017.

Zhangmen's portal and online apps give students the option of selecting tutors from China's top universities, which is proving popular with students, parents and venture capitalists alike.

"Zhangmen has the kind of economics that venture capitalists get super excited about," said Jeffrey Towson, professor of investment at Peking University's Guanghua School of Management in Beijing.

"It is a platform business that enables transactions between teachers and students. It uses software to enable one-on-one teaching across geographies. And you don't have to change traditional teaching methods. You're just moving it online," he told *China Daily Asia Weekly*.

"These types of two-sided platforms can sometimes have strong competitive protection. (Other) examples of this would be (ride-hailing giant) Didi, eBay, Taobao and Airbnb."

With China's online education sector fitting that sort of profile, it is no surprise it has venture capital firms' attention.

"We have been very impressed with Zhangmen's exponential growth in the last three years on the back of its strong technological strengths, big data and operational capabilities," said Michael Chen, a managing director at Warburg Pincus, on the China Money Network website.

"And we firmly believe the company will continue to play a leadership role in consolidating the market and expanding into the other segments of online education."

Kaikai Shi, a consultant with tech finance website AllTechAsia, believes that a number of factors have helped Zhangmen attract serious funding from venture capitalists.

"In my opinion, Zhangmen gained favor with investors and customers due to several reasons," he said.

"One: It offers one-to-one courses — that's the best educational model for students, even though it is expensive."

As has been amply demonstrated, parents in China with the financial means are willing to pay top dollar if they believe they are receiving a top-shelf service for their child or children.

"Two: Advanced technology, including AI (artificial intelligence), VR (virtual reality) and big data. They are well adopted by Zhangmen and are popular with students. Three: First-mover advantage."

Shi explained that as Zhangmen started early, it now has a solid customer base. And as these customers are well served, the firm's services are well promoted by word of mouth.

Pete Read, CEO of strategic research and advisory firm Global Growth Markets, is similarly upbeat on the sector's potential.

"China is definitely the market that is getting online education investors excited," he told *China Daily Asia Weekly*.

A swathe of online education companies are in line for a cash injection as venture capitalists see the potential of a relatively untapped market.

"(Education technology) is a hot area ripe for investment which has already seen several investments in the $100 million-plus range based on billion-dollar valuations, and it's likely to keep attracting money which would otherwise be looking at more saturated sectors such as fintech," said Read.

He cited Beijing-based VIPKID and Yuanfudao, Taipei-based iTutorGroup and California-based Age of Learning as good examples of education startups that are either already attracting or likely to attract investor funding.

In May 2017, K-12 online tutoring company Yuanfudao received $120 million — also from Warburg Pincus and another affiliate — as well as a significant but undisclosed sum from Chinese tech giant Tencent.

Yuanfudao offers a comprehensive curriculum to primary and secondary school students and has more than 1 million paid users on its books.

"We are strong believers in the wider adoption of online learning with the growing number of Internet-savvy young parents, and we are glad that our investors share the same vision," Yuanfudao CEO Li Yong said in a statement.

VIPKID is another of the so-called unicorns — a startup valued in excess of $1 billion — that is getting investors excited. It is a Beijing-founded online education company that provides a North American education experience through live-streamed courses in English for Chinese students aged 4 to 12, with US and Canadian teachers.

Since its inception in 2013, VIPKID has quickly become a significant player in the online education space and now has over 30,000 teachers and more than 500,000 registered students, 150,000 of which are paying students.

Angel investment company Innovation Works gave VIPKID early financial backing. It has since received capital from a number of companies including Matrix Partners China and Northern Light Ventures. A $100 million financing round was led by Sequoia Capital and Alibaba founder Jack Ma's Yunfeng Capital.

VIPKID continues to explore innovations in the sector. Last year, it launched a new service called Lingo Bus — an online learning platform that allows youngsters the opportunity to learn Mandarin within an English education format.

"What the online education firms are trying to capture at this stage is a new market instead of the existing one," Zhang Dongdong, marketing director of EEO, a developer of online classroom software, told the *SCMP*.

Not to be left in the digital dust, some of China's largest traditional educational institutions are also getting involved. Two of the country's education companies listed on the Nasdaq stock exchange — TAL Education Group and New Oriental Education — have invested in more than 100 startups providing online tutoring platforms, social apps and education technologies.

TAL and New Oriental "could be adopting technologies such as artificial intelligence faster than most investors would expect", Johnny Kin Man Wong, an analyst at US broker Jefferies, said in a report quoted by the *SCMP*.

Despite the generous funding available to online education companies, it is not all plain sailing for the startups. Competition for market share is hotting up as the sector's potential is realized and new players come on board.

According to a report by China's Internet Education Research Institute, around 70 percent of online education providers suffered net losses in 2016, with a number of closures reported.

Despite this, investment firms still view the better established and more sophisticated players as very attractive. And the flow of cash from venture capitalists is not expected to dry up anytime soon.

"In theory, education is a sector that could get you a lot of bang for your digital buck," said Towson from Peking University.