EdTech Investment Rising

• Venture capital investment in U.S.-based edtech startups is on track to reach nearly $1.4 billion in 2017, hitting $700 million in the first six months of this year.
• VC investment slid to $1 billion in 2016, down from the investment peak of $1.5 billion in 2015.
• The number of deals closed remains off from the high of more than 250 in 2013.


OpenStax Adds Own Homework Help to its Tool Box

Open-source college textbook publisher OpenStax (Houston) in July launched OpenStax Tutor, a web-based learning platform for individualized tutoring and homework that will be available in the fall for college physics, biology and sociology courses.

Still in beta, OpenStax Tutor uses adaptive learning technology for personalized assessment and spaced practice. OpenStax Tutor, developed in-house over the past three years, is the first tool the company has developed for its textbooks, and company management expects the platform to add to the research on the learning process.

“Being part of Rice University, we’re really interested in seeing if there

‘Tis the Season for Selection Instructional Materials

As the 2016-2017 school year came to a close, many school districts around the country finalized plans to implement new instructional materials in various subjects in fall 2017. Among the most notable was the Fayette County (KY) school district, where every elementary, middle and high school will have access to the same English language arts materials for the first time in at least 25 years.

The district Board of Education approved spending $6.4 million to put digital and print core program and supplemental instructional resources in every K-12 classroom. Elementary schools will use Wonders from McGraw-Hill Education (New York), and middle and high schools will use Collections from Houghton Mifflin Harcourt (Boston).

B&N Education Adjusts to Higher Ed Market Uncertainty; Roberts Resigns

Barnes & Noble Education (Basking Ridge, NJ) CEO Max Roberts in early July described higher education as “in the midst of significant change with increasing focus on student affordability and success, while at the same time, experiencing enrollment decreases.”

A little more than a week later, Roberts resigned from Barnes & Noble in a letter dated July 19. His resignation as CEO and as a member of the board of directors takes effect Sept. 19. With the resignation, the board appointed Michael Huseby CEO and board chairman. Huseby, former Barnes & Noble (New York) CEO, has served as executive chairman of the company since 2015.

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See ‘OpenStax’ on p.6
See ‘Adoption’ on p.7
Roberts has been CEO of B&N Education since its spin-off from Barnes & Noble (New York) in 2015. He has led a number of growth initiatives including the acquisition of data analytics and OER integration platform provider LoudCloud and of bookstore and textbook wholesale solutions provider MBS Textbook Exchange.

Still as market conditions remain tough and the company’s positive but anemic fiscal year results attest, there is more work to be done.

“Many of the major publishers are more aggressively shifting from physical to digital options, reducing prices, pursuing direct-to-consumer models and piloting rental programs for new editions,” Roberts said in discussing the higher education instructional materials market.

**Softening Results**

Barnes & Noble Education generated sales of $1.87 billion in fiscal 2017, ended April 30, up 3.7% from fiscal 2016. Comparable store sales decreased 3%, or down $50.6 million, driven by community college enrollment decline, increased student purchases directly from publishers and other online providers, and overall unfavorable retail trends.

B&N Education opened 38 stores with estimated annual sales of $118 million, bringing the total stores operated to 769 locations as of April 30.

B&N Education in February acquired MBS Textbook Exchange (Columbia, MO) in a $174.2 million cash transaction, adding the largest contract operator of virtual bookstores and one of the largest use college textbook wholesalers, and expanding the B&N Education addressable market in the college and K-12 school markets. B&N Education now operates 1,481 physical and virtual bookstores, including 712 MBS stores, and serves more than 6 million students in higher education and K-12 institutions.

MBS sales for the two months following the acquisition, a seasonally low period, were $34.1 million, with approximately $14.1 million for wholesale sales and $20 million for direct sales.

MBS opened 80 virtual stores with estimated annual sales of $17 million in fiscal 2017. MBS’s wholesale business centrally sources and sells new and used textbooks to more than 3,700 physical college bookstores, including those of Barnes & Noble Education.

**To Do List**

While that adds up to progress, there is work to do. Roberts outlined a seven-point to-do list reflecting the changing market:

- Embrace all publisher digital and traditional print content, while enforcing the B&N Education channel exclusivity and working to eliminate counterfeit or unauthorized content;
• Aggressively grow the physical and virtual bookstore locations to expand sales opportunities;
• Grow digital educational services and digital content businesses by leveraging LoudCloud analytics and OER capabilities through existing client footprints and other strategic partnerships;
• Grow general merchandise sales via web and mobile sales;
• Pursue opportunistic acquisitions and partnerships to grow the student base or enhance digital or other product offerings;
• Aggressively manage cost structure; and
• Integrate MBS to achieve synergies.

Outlook
As B&N Education looks ahead, Roberts acknowledged that sales and rentals of print textbooks remain a core driver of revenue because print still is the “format of choice for most students.” However, Roberts also noted that: “While the evolution toward digital solutions has been slower than some originally anticipated, we saw an increasing shift toward a broader adoption of digital solutions in fiscal 2017.”

The market’s key driver, enrollment, is likely to continue declining next year, particularly in community colleges.

Based on contracts signed to date, B&N Education in fiscal 2018 expects to open 23 stores with $50 million in anticipated sales and close 13 stores with $10 million in anticipated sales. MBS to date has signed 46 virtual store contracts contributing an additional estimated $8 million in annual sales in 2018.

For fiscal 2018, the company expects sales at Barnes & Noble College to be relatively flat with comparable store sales down in the low- to mid-single-digit percent range. Consolidated sales are expected to be in the range of $2.25 billion to $2.35 billion before intercompany eliminations.

EMC Expands Passport for More Growth

Three years ago, EMC School, a division of New Mountain Learning (Minneapolis), launched Passport, its digital learning environment for world languages. This summer, EMC is launching Mirrors & Windows for Passport, an online teaching and learning environment for English language arts.

Through Passport, teachers have access to between 120 and 200 reading selections in fiction, nonfiction, poetry, drama and folk literature and activities for grades 6-12.

When EMC launched Passport, content companies were trying to figure out how comprehensive platforms had to be. Schools wanted one platform that served every need.

What the experience with Passport in world languages taught EMC, New Mountain chairman and CEO Eric Cantor told EM, was that as long as a district has a learning management system such as Clever (from Salt Lake City-based Instructure), “then you can build a curriculum devoted to what you want to teach.”

What content companies need is the ability to connect to a school district’s SIS, he said.
With Passport, teachers can create assignments and track student progress. Flipgrid is a video collaboration tool within the Passport environment. Teachers also can access three different levels of reading support within each unit in the system.

EMC is beginning pilots of Mirrors & Windows for Passport this fall.

**Language Learning**

EMC historically has been equated with world language publishing, but the company has adjusted its strategy to be a language learning company.

While the focus on world languages has helped the company generate “nice double-digit” growth over the past four years, the challenge is that some states still do not require any foreign language instruction.

Technology has broadened the market horizon and facilitated the new strategy. “Technology has been the great leveler,” Cantor said, especially for mid-size companies such as EMC.

EMC steadily has embraced technology. About 75% to 80% of its offerings now are digital or blended learning solutions, Cantor said. When a district wants print, it tends to buy a class set not a book for each child.

But success also has come because EMC has “stayed within its lines,” as Cantor puts it, remaining focused on the subjects it specializes in.

**Looking Ahead**

Cantor looks at Passport as the company’s engine for growth. With it, EMC can move into different subjects or into different grade levels, down to K-5 or up to college.

As EMC continues to build for the Passport platform, the company is looking aggressively at the use of artificial intelligence and how to integrate it. But any results along those lines are six to eight quarters away, Cantor said.

Especially with Passport, Cantor said he is seeing a demand for professional development. That demand is both for traditional presentation PD and for making it available for when teachers go looking for something specific.

“The demand is there, so we’re building the modalities to get it out in different ways,” Cantor said.

**Knewton Taps Adaptive Advocate Kibby as CEO**

After a couple of years in the commercial transportation world, Brian Kibby returned to education in July when he was named CEO of adaptive learning technology provider Knewton (New York).

Kibby succeeds Jose Ferreira, who stepped down in December 2016. Ryan Prichard, who served as interim CEO after Ferreira resigned, returned to his previous position as Knewton president and chief technology officer.

The appointment brings together a company focused on personalized learning through adaptive technology and an adaptive technology advocate, who helped build that capability at McGraw-Hill Education (New York) during his tenure there.

Kibby began his career at McGraw-Hill as an account executive in 1991. He was named president of the McGraw-Hill Higher Education Group in 2011 after a stint at Pearson (London/New York), where he was senior vice president of sales, marketing and business development at Pearson Education.

Amid widespread changes at McGraw-Hill Education after its 2013 spinoff from McGraw-Hill Cos., Kibby again left the company in November 2014, when MHE named Peter Cohen group president of U.S. Education, responsible for the K-12, Higher Education and Assessment groups, a newly created position.

In the interim, Kibby served as CEO of MV Transportation.

While at the helm of higher education at McGraw-Hill, Kibby drove the use of adaptive technology, increasing the number of offerings from 40 in 2012 to more than 1,400 in 2015. “Brian has long been a staunch advocate for adaptive technology, and his insights into the dynamics of higher education are unmatched,” said Rob Stavis, partner at Bessemer Venture Partners and lead director on Knewton’s board.
Hot Topic
Adaptive has become a hot capability in education, primarily in the higher education arena, but also catching on in K-12. Knewton is a leading provider to the technology and has partnered with most content publishers at one time or another, but there are a number of other providers as well.

Notably, McGraw-Hill opted not to partner but to buy, acquiring Danish company Area9 and ALEKS (specifically for math) to power its adaptive and personalized learning offerings. Also, OpenStax (Houston)—which has partnered with Knewton—is building its own adaptive engine (see story p.1).

Amid growing interest and demand for personalized learning, competition, and the continued investment to improve adaptive learning, Knewton also is adjusting to a changing environment. Pearson, one of Knewton’s earliest and staunchest investors, is pulling away from that investment.

But Knewton is moving into new areas of its own. Early in 2016, as it closed a funding round that generated more than $52 million in financing, Knewton won a contract worth up to $1.4 million over the ensuing three years to work with the Florida Virtual School to develop adaptive learning courses for the school. FLVS is the first public school district to use Knewton’s platform to power its content.

Revenue Decline
Nebraska Book generated $89.1 million in revenue in fiscal 2017, ended March 31, down 13.9% from the year before.

The company’s largest segment, Textbooks, the business of buying and selling used textbooks to college stores, had revenue of $78.6 million, down 17.4% from the year before. Nebraska Book attributed the decrease to a 14.1% decline in the number of units sold and a 2.7% decrease in the average price per book sold.

Nebraska Book acquired fewer books in the buyback period resulting in lower inventory and there was a drop in demand by students. The decrease in average price resulted from the company’s decision to sell overstocked

Under the agreement, Pearson is subject to an 18-month lockup period after the closing. After that period, Bertelsmann will have a simplified right of first refusal on Pearson’s remaining 25% stake.

Pearson retains the right to appoint the PRH chief financial officer and audit chair; the appointment rights for the PRH chairman pass to Bertelsmann.

Nebraska Book and Verba Expand Partnership
Nebraska Book Company (Lincoln, NE) and Verba Software, a business of VitalSource Technologies (Raleigh, NC) that provides bookstore price-comparison and access tools, in July expanded their existing collaborative agreement to increase campus store competitiveness and lower the cost of course materials for students.

As part of the expansion, Nebraska Book customers immediately could begin using their Nebraska Reward Dollars to subscribe to any of Verba’s cutting-edge tools for campus stores, including Verba Collect (adoptions management), Verba Compete (marketplace tools), and Verba Compare (price comparison shopping).

Verba and Nebraska Book also are collaborating on web sourcing and rental management enhancements to the Verba Compete application. And, Nebraska is adding VitalSource Technologies as an integrated platform for digital content delivery on the PRISM Core platform.

Bertelsmann Buys Nearly Half of Pearson’s Stake in PRH
In January and on the hunt for a better financial footing, Pearson (London/New York) said it would activate an exit from Penguin Random House and sell its 47% stake to co-owner Bertelsmann (Gutersloh, Germany).

In an agreement reached in July, Bertelsmann agreed to buy 22% of Pearson’s stake for a partial divestment and recapitalize the business.

The transaction values the Penguin Random House Venture at an enterprise value of $3.55 billion.

At closing, expected in September, Pearson will gain $968 million in net cash proceeds and is due another $66 million in April 2018. Pearson plans to return £300 million to shareholders.

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inventory at market prices.

Complementary Services, or the backend and e-commerce solutions business, generated revenue of $10.5 million, up 4.5% from the previous year. The revenue uptick was driven by an increase in store-design revenue, though a decrease in system installations partially offset that growth.

Williamson said Tutor was priced at $10 to encourage uptake.

**Market Traction**

The addition of such tools can only help OpenStax maintain its growth momentum. Commercial publishers have acknowledged that open-source materials have cut into their revenue by about 2%. But even as some publishers have said that college faculty are returning to commercial offerings, Williamson said OpenStax penetration has increased.

“We’re young and things are continuing to speed up,” Williamson said. “The rate of change is speeding up compared to five years ago.”

About 42% of all degree-granting institutions are using at least one OpenStax book, Williamson said. Some titles are approaching the No. 1 or No. 2 position in market penetration.

“We don’t view ourselves as adversaries to the publishers,” Williamson said. “We think we’re encouraging innovation in the market.”

In June, OpenStax added 11 institutions, representing 800,000 students, to its Institutional Partnership program for 2017-2018.

OpenStax has titles for nearly 30 introductory college courses. The titles are peer-reviewed, free online and low-priced in print. The company says that it has saved students $155 million in textbook expenses since its founding in 2012.

After five years, OpenStax has reached the point where it has begun to see its print titles showing up in the rental and used-book streams. For instance, Amazon has a $15.50 rental for the OpenStax physics print title that new is priced at $48.

And, OpenStax has begun to revise its textbooks, though it has no formal revision cycle. Though corrections can be made constantly because of the online platform, a second edition of Economics is coming out soon with more current data. Sociology was updated 18 months ago to make it more culturally relevant. Physics came out in 2012, but there has been no need to revise so the company has not done so, Williamson said.
Print Preference
About 10% of users convert to print, a percentage that has held pretty steady through the past decade.

When high-value tools are available with the online program, the move to print is less, Williamson said.

Adoption, cont’d. from p. 1
The second and third quarters are the most lucrative sales opportunities for K-12 publishers. Among instructional materials decisions in other districts are the following:

- The Freeport (IL) school district in the fall is implementing a new math program in grades K-5 and a new English language arts program in grades K-8. The recently approved programs are: Bridges in Mathematics from The Math Learning Center (Salem, OR) at an estimated cost of $563,799; and Reading Fundamentals from Schoolwide (Holbrook, NY), at an estimated cost of $274,913.

Alignment to Common Core math standards was a key point in the selection of Bridges and daily practice through workbooks was a key point in selection of the reading program, district administrators said.

- The Florence (AZ) unified school district in July adopted Eureka Mathematics, a free program provided by Great Minds (Washington, DC), for grades K-8. The district had not adopted a K-8 mathematics series for more than a decade. In its review, the district also looked at Bridges in Mathematics, Houghton Mifflin Harcourt’s GO Math, and Georgia’s math units.

- New K-8 science materials are debuting in Rolla (MO) schools this fall as statewide testing on the new state learning standards kicks in this coming school year. Replacing the district’s current 10-year-old science resources are:

| U.S. PreK-12 Instructional Materials Net Sales, April/May, 2017 vs. 2016 ($ in millions) |
|---------------------------------|--------|--------|--------|--------|--------|
| **Course Materials**            |        |        |        |        |
| **Apr. 2017**                   |        |        |        |        |
| PreK-6                          | $42.8  | $44.9  | -4.2%  | $114.6 | $108.9 | 5.2%   |
| 6-12                            | $14.5  | $12.4  | 16.9%  | $63.9  | $35.8  | 78.4%  |
| PreK-12 Total                   | $57.3  | $57.2  | 0.1    | $178.5 | $144.7 | 23.3%  |
| **May 2017**                    |        |        |        |        |
| Adoption States                 |        |        |        |        |
| PreK-6                          | $44.7  | $47.0  | -4.9%  | $84.2  | $108.1 | -22.1% |
| 6-12                            | $30.3  | $31.2  | -2.8%  | $73.0  | $65.5  | 11.5%  |
| PreK-12 Total                   | $75.0  | $78.2  | -4.1%  | $157.2 | $173.6 | -9.5%  |
| **Non-Adoption States**         |        |        |        |        |
| PreK-6                          | $44.7  | $47.0  | -4.9%  | $84.2  | $108.1 | -22.1% |
| 6-12                            | $30.3  | $31.2  | -2.8%  | $73.0  | $65.5  | 11.5%  |
| PreK-12 Total                   | $75.0  | $78.2  | -4.1%  | $157.2 | $173.6 | -9.5%  |
| **YTD/May Adoption States**     |        |        |        |        |
| PreK-6                          | $240.9 | $234.5 | 2.7%   | $215.8 | $246.8 | -12.5% |
| 6-12                            | $103.0 | $77.8  | 32.4%  | $149.0 | $137.3 | 8.5%   |
| PreK-12 Total                   | $343.9 | $312.3 | 10.1%  | $364.8 | $384.1 | -5.0%  |
| **Total PreK-12 Basal & Supplemental Sales, April:** |        |        |        |        |
|                                | $332.3 | $315.4 | -2.3%  |        |        |
| **Total PreK-12 Basal & Supplemental Sales, May:** |        |        |        |        |
|                                | $335.7 | $318.3 | 5.5%   |        |        |
| **Total PreK-12 Basal & Supplemental Sales, Year to Date:** |        |        |        |        |
|                                | $708.7 | $696.4 | 1.8%   |        |        |

Source: Association of American Publishers. Based on reports by 7 publishers. Because some publishers only reported total sales, total lines may be greater than the sum of the detail.
• For K-5, Interactive Science, Pearson (London/New York), $170,989.19;
• For grade 6, Integrated Science, Course 1, McGraw-Hill Education, $24,012.29; and
• For 7-8, Science Techbook, Discovery Education (Silver Spring, MD), $31,200.

K-8 students in Northshore school district (Bothell, WA) also are getting new K-8 science materials. The district Board of Education in June approved the use of Bring Science Alive! From TCI (Mountain View, CA) for grades K-5 and Science and Technology Concepts from Carolina Biological Supply (Burlington, NC) for grades 6-8.

The district cited the inquiry-based approach and the collaborative nature of the programs as key elements. The curriculum for K-5 and grade 6 will be implemented in the fall; the expansion to grade 7 will begin in fall 2018.

• The Tippecanoe School Corporation (Lafayette, IN) selected Discovery Education for science in grades K-5 and its Social Studies Techbook for eighth-grade social studies beginning in fall 2017. Digital explorations and hands-on labs were key points in the selection of the science program; the draw in social studies was the inquiry-based instructional approach.
• In the works since 2014, the International Baccalaureate program will be instituted this fall in the Knox County (TN) school district. The IB Middle Years Program will serve students in grades 6-10 at Bearden Middle and West High schools. The final approval came in July for the program that will cost less than $430,000 annually for six teachers and a program facilitator. An additional $40,000 will be spent annually for training and materials.
• Morgan County (WV) schools will begin using Pearson materials for grades 6-12 Spanish language classes at a cost of $183,078.

In the Schools ...

• With the new state budget, the Ohio state Legislature eliminated two tests for K-12 students, though the state schools superintendent had sought a larger reduction in student testing. The two tests that were eliminated beginning immediately are the fourth- and sixth-grade state social studies tests.

News Briefs ...

▶ Print and digital media solutions provider LSC Communications (Chicago), in July released its IntercepTag solution, which leverages the scale of LSC’s production and distribution facilities and HP’s Link Technology for product authentication to combat counterfeiting and protect intellectual property. The new platform allows publishers to apply an IntercepTag serialized mark, a unique anti-piracy identifier code, on each book at the time of production via a label or digitally printed cover. Each book is then registered, activated, and can be authenticated throughout the supply chain to determine if the book is genuine or counterfeit.

▶ The U.S. Department of Education in July said it was accepting applications for up to seven grants for the American History and Civics Education Program to promote innovative instruction, learning strategies, and professional development in American history, civics, government and geography. Estimated total program funding available is $1.7 million. Applications from private, public and state controlled institutions of higher education and nonprofits to support development of K-12 programs are being accepted through Aug. 21.

▶ Zenith Education (Santa Ana, CA), which acquired Everest and WyoTech campuses from Corinthian Colleges in 2015 as Corinthian filed for bankruptcy, is rebranding the remaining 21 Everest campuses as Altierus, following a decision to rebrand them last fall. Zenith, which is owned by student loan form ECMC (Minneapolis), is conducting an ongoing curriculum review and refresh in all disciplines, created a new admissions process that include financial literacy counseling, added counseling and support services for students and cut tuition by 20%. WyoTech is now a three-campus technical institution.