

Oct . 2020 IP - Jon Broschious of Mucker Capital

Hall T Martin: [00:01:59] Hello, this is Hall Martin with Investor Connect. Today I'm here with Jon Broschious of Mucker Capital. Jon, thank you for joining us.

Jon Broschious: [00:02:06] Yeah, thank you Hall. Appreciate it.

Hall T Martin: [00:02:08] We're going through the COVID pandemic and coming out of lockdowns at various stages, and we're seeing COVID change many different industries and a major one is education, and we're seeing the impact of COVID on the sector itself and, want to discuss what you see coming up and how COVID-19 is impacting the education sector. At a high level, what is your take on that?

Jon Broschious: [00:02:34] Yeah, I think, like many industries, we're seeing changes across the board [00:02:38]. I think, with education what's interesting though, is that some of these changes could be temporary and I think some could actually be longer-term that potentially impacts social norms. [00:02:50] So, as I look at the education market from an investment perspective, there's kind of four buckets. Early childhood learning, anywhere from 3-6 months to 4th grade, largely look for additive learning resources there, because I think childcare is fundamental. We're seeing homeschooling obviously being pretty necessary right now and, we'll unpack that a bit later. And then in terms of the analytical learning, that's anywhere from kind of middle school to high school. Then you've got higher education, which I would say is not necessarily prepping students on the right outcomes with skills-based acquisition. And then finally, you have continued learning, retraining and upskilling those higher ed. I think a lot of change that we're seeing in higher ed right now was already in motion pre-COVID but at a minor scale, and I think there's going to be continued movement to skills-based acquisition. From a macro perspective, you know, we've seen employers want more skills, in part because the average employee 10 years only, two years now, and there's really no longer the concept of _____men or women, and a significant driver to increasing costs in education's sticker price has been administration cost_____. About two-thirds of the increase in education sticker price has largely been administration costs, and that doesn't necessarily translate to value to a student. Overall, education costs have been rising about two to three times that of inflation as is childcare, and there's a little over, I think it's \$1.6 trillion in debt now.

Hall T Martin: [00:04:28] So, why are administration costs increasing?

Jon Broscious: [00:04:36]

Yeah, there's some regulation involved, government audits for one and there's incentives to push college and not stay. Trade schools and other options for the right profile of students. So, it's not all on college administrators, but they carry responsibility too. There's also less awareness around increasing prices for higher ed and those hurt students particularly in the rising debt loads. Colleges have also been more generous with need-based aid, but it's not a one-size-fits-all, because the less prestigious colleges don't have the same endowment resources as some of the top schools. But the administrative functions around increasing costs and resources are largely due to efforts to track students and professors, note that professor salaries actually haven't substantially increased, so it's really that admin roles have increased and some of those admin salaries have increased too. So the provost office has been less focused on advancement or post-graduation for students than they had been on during graduation. So, that's _____ freshman enrollment, and then ensuring folks graduate within 6 years which is a key performance indicator for the U.S World in news rankings and it's also a revenue driver. So students are starting to question the social norm, the quality of a liberal arts degree, and if they're developing skills in school. There's actually a company called Podium Education that's creating accredited minor for skills so, web-based design, data science, things like that, and you can still go to a 4-year liberal arts school so you kinda get the best of both worlds, liberal arts degree, skills-based acquisition, and a similar college experience. So, I think COVID's an opportunity here to better educate an incoming student of their options, versus just following the status quo. Unfortunately, most have learned this in hindsight, they didn't get a job or they are somewhat regretful of the massive loan burden that they have. So, I think higher education is a public good and it's important, but we've got to remember that colleges and universities can behave like corporations too, particularly those that are for-profit and even some of those that are private.

Hall T Martin: [00:05:24] On the K-12, there was a big shift a couple of decades ago for testing, meeting test requirements, standardization, and so forth. Do you think that had an impact on the costs and the direction education took?

Jon Broscious: [00:05:41] From a public perspective, so, primary and secondary, that's the case. I think there's not incentive alignment around superintendents and admittedly,

it's hard to do, right? So, it's hard to measure skills-based metrics. It's much easier to quantitatively measure test performance in college placement. But overall, [00:06:01] I think you're going to see shifts up and down the value stream, largely because I think we're moving to the skills-based acquisition environment, [00:06:10] not only in higher ed - I think it'll manifest itself there first - but potentially even in high school and middle school.

Hall T Martin: [00:06:17] Well, assessment seems to be a critical factor. I've had many education deals come through and I've heard many people talk about looking for skills assessment, understanding exactly where the student is, what do they master, and getting that assessment piece right. How do you think technology's moved forward in that sector?

Jon Broscious: [00:06:38] Yes, so, we're invested in a company - and this was with my old fund Social Starts - called Lambda School, and what they've effectively done is reverse-engineered the software programming skillset that an employee would need and train you within nine months. And so, while there's a lot of value to the liberal arts degree in terms of analytical thinking, and it's a degree in a four-year college, these sorts of programs, I think, will start becoming more competitive as a potential option for someone that's entering, like now, is considering a gap year because they don't necessarily want to take courses over Zoom. Right now, Lambda School's focusing more on kind of uptraining and reskilling, but, you know, this is an effect that COVID's had in terms of incoming students questioning social norms in terms of the traditional progression that we've seen with the U.S. education market.

Hall T Martin: [00:07:37] Right. And so, to get back to COVID, it seems like it moved forward many aspects of education, such as the online component, and then it's slowing down many other aspects that used to be done in person and so forth. Where do you see the most change going to be taking place?

Jon Broscious: [00:07:58] Yeah, so I'll talk a little bit about some new applications that we'll see and that we look at from an investment perspective. So, there's some digital and additive education platforms that were happening pre-COVID and are happening during COVID. The first wave of this was largely massive open-online courses about 10 years ago. They had pretty low engagement, and, you know, another phenomenon that I just want to mention is - I forget who said this, someone like Andreessen Horowitz - said that, "Some of the smartest folks will be the folks that will be the best Google searchers". There's so much rich information right now online, and so, I think we're now

starting to see productized education products that I wouldn't even say are traditional edtech and are a more alternative means to learn. And then we think about in China, podcasts are actually called "additive learning resources", so [00:08:51] I'm closely watching how the Western or the U.S. podcast markets change because it's about 10x larger in China right now. [00:09:00] The other thing that I see in terms of interesting education platforms, is there's a company called Road Blocks which is effectively allowing folks to create games and play games, and it's gamified so, it's actually like, you know, what you'd see with video games. But it's actually a form of skills-based acquisition. It could produce a career, and it's fun, and people that like it and are passionate about gaming or have an interest, you know, there's pretty impressive usage on that platform. And so, I think that's a theme, too, that we may see not only in higher ed, but, you know, this interest-based and fun environment where you can actually acquire skills: how to program, how to web design, how to build games. And so, we had the notion of a well-rounded college applicant 15, 20 years ago, and a lot of that can produce the infrastructure for primary and secondary education. I think that will change because I think digital communities will start coalescing around these specific interests and skills even early on in the development process.

Hall T Martin: [00:10:09] And so, there are new technologies out there like AR and VR, virtual reality. Do you think those are going to have a place in this new realm of education?

Jon Broschious: [00:10:22] So, on the VR side, I don't think so as much. I've seen some potentially interesting use cases around mental health. On the AR side, I definitely think that's the case. I wouldn't say I'm an expert on augmented reality, but I think there's use cases like with trade schools. And so, as hardware starts catching up in the space, as well as like kind of the evolution of computer-animated design and how that's married with augmented reality, I think there could be some specific education use cases, but I think that we're still a few years out from that.

Hall T Martin: [00:11:11] So, what new applications within education do you think we'll see come up?

Jon Broschious: [00:11:16] I think a lot of what I mentioned around alternative education options, like we see with Lambda School. I think, I've looked as well as like additive, kind of vertical-specific additive-learning platforms. So, there's a company called Osmosis - there's a competitor here in Austin as well - that creates a lot of bite-sized content to help medical students get through their pretty rigorous process for

the first two years of schooling, and that content actually becomes pretty defensible as a means for additive medical education for nurses and doctors too, so there's some applications there as well. And then, on the earlier side, I think there's a great fund in San Francisco called Thurn Capital, it's done a lot around Montessori schools. I think those, not necessarily will make a comeback, but the curriculum, and the training, and the development on the early-childhood side is pretty powerful. And there's a company that actually produces products, called Monti Kids - for 0-3 years old - in development that's had some pretty impressive results. So, those are some of the things that we're looking at and, I do think [00:12:37] there's going to be a need for reskilling and uptraining too, and some of that can take place with software programming or web design; and [00:12:44] those are alternative schools. Their first generation was really the general assemblies and those sorts of programs, and now I think there's more financial incentives that are tied to both the company and the student, like with Lambda School, within _____. So, there's even some new kind of financial instruments that I think will be interesting.

Hall T Martin: [00:13:05] So, how has COVID updated your investment thesis for education? What changes did it make that you're looking for now?

Jon Broschious: [00:13:13] Ironically, it hasn't really changed it that much. The past three or four years I've really been focused on these alternative-education platforms as well as skills-acquisition development, particularly in higher ed, but even slightly before. I've looked at products across all four of the phases that I've mentioned. From an investment perspective, though, I do worry that there's a lot of capital that's going into a lot of older _____ technologies, so for example, regional-digital-tutoring platforms that may be experiencing an uptick, but, you know, their revenue, their users will likely regress to the mean in the next year or two. So, I'm still really focused on a pretty similar thesis. I think one thing that I did realize coming out of COVID - and this has applications beyond education too - is that individual educators can actually become companies for some of these products. So, there's a marketplace, it's called Outschool, that's effectively connecting teachers and students with an additive course. So, it's not trying to replace traditional public, or private, or even homeschooling infrastructure, but you could take a course in computer science, for example, as a 7th or 8th grader from a cost-effective manner, and these educators can actually make more money than they would, say, teaching in a traditional education infrastructure. So, I think this theme of not only individual educators, but just individual creators, they can become, you know, run their own businesses themselves is pretty interesting, and I think could really change the dynamics on both the educator and pupil side.

Hall T Martin: [00:14:51] Well, in the past at the college level, professors who wrote their own book could actually do quite well if the book was popular, picked up by more publishers and other universities. And then, of course, every two or three years they'd have to update it, and here it seems that's going to the next level. You know, people can do their own YouTube videos, they can do their own online content, and they can have their own brand or subbrand in their specialty that would attract more students, because as we move away from the physical university to the online, it opens up the boundaries quite a bit more. Do you think we're going to see a lot more of that?

Jon Broschious: [00:15:28] Yeah, I think we'll see some of it. You know, as I'll mention, and part of this is a thesis right, it's relatively cautious, right? It's looking for platform creation around the edges where, yeah, maybe eventually social norms change where these could be trade-offs, but in general, I'm still a big proponent of higher [00:15:45] education, I'm a big proponent of public education, particularly even for those less fortunate, right, because it provides a means for childcare, for meals, for education. [00:15:55] So, I think a lot of these things are more supplementary to the traditional infrastructure, but I do think that we'll see more and more of this around the edges, and particularly around skills and interest-based groups that can be formed in terms of digital communities.

Hall T Martin: [00:16:14] Well, at the K-12 level, you know, the public funding comes from the federal government and state and local governments, that regulatory seems to be a bit of an issue. How fast do they change? How fast do they upgrade curriculum? How fast do they move forward? What do you think the impact of regulatory is going to be on education and how do you think COVID's changing that?

Jon Broschious: [00:16:36] Yeah, that's a good question. I think a lot of that will manifest itself after we focus on a lot of our near-term needs, I'm not 100% sure. [00:16:49] I do think that there's incentives and there's stakeholders that are potentially more ingrained in the education side that could impact the direction of where education goes. And, [00:17:01] oftentimes I do draw an analogy to healthcare, right? So, you know, [00:17:05] with telemedicine, I actually think that will really continue to accelerate in terms of usage, [00:17:15] even post-COVID, because people have gotten kind of their first taste and have figured out how to augment. You know, they're still going to go into the doctor, but they're also going to leverage telemedicine when they need it, whether it's for a prescription, or a quick checkup, or a dermatology appointment, or something like that. So, on the healthcare side, I think, there's more things there, even

though there's a lot of regulatory tape with healthcare, right? There's some ancillary or secondary services that will continue to accelerate. I think when we think about education, I think particularly on the primary and secondary sides, less the higher-ed side because we focus probably most on the higher-ed side. What's happening now is parents are really recognizing the value that, you know, primary and secondary education have, because it's not even just schooling, and development, and child development, it's also a function of childcare, right, from 9-5? Parents are struggling to get work done, and so, you know, I'm not exactly sure what will happen from a regulatory perspective, but I do think there's also an increased perception of the value of education since we've experienced this pandemic the last six months.

[00:18:32] Well, it seems like online education brings a lot of new factors and dimensions to education and a lot of great things will come from it, but, it doesn't seem like the answer is 100% online. It seems like it's still a combination of in-person as well as online, and then what do you do on one and what do you do on the other? And I hear a lot about pod-like classes, small groups that come up that you can learn and socialize, you know, interact with other people, including the teacher, and then doing some things online, where it's just yourself, you don't have to travel anywhere, and during lockdowns, you can do more of that. Where do you think the trade-off is between those two sides of online versus offline?

Jon Broschious: [00:19:14] Yeah, I mean, I think the first thing to consider is that there's a pretty significant cost where the majority of the population might not be able to have access to that. It's still much less than say, private education, but I think that's the first consideration that should be noted, because this is still a relatively new concept.

[00:19:33] Homeschooling was about 5% pre-COVID, it's going to go up to 40%, and then my gut is it's going to normalize somewhere around 5-10%, but [00:19:41] I don't think it's going to be, you know, the status quo, because I think it's necessary now, and as I alluded to earlier, it's also a function of childcare for folks, you know, under 3rd, 4th, 5th grade. On the micro-schools or the pods, there's a company actually that's getting a lot of traction, particularly for this Fall, that's called SchoolHouse, it's out of New York, and this micro-pod concept, I think, it's actually really interesting from the development of smaller classes, it's four or five students. They can really hone in on different interests, different skillsets, there's more teacher-student time that's allocated. But again, there's definitely a cost barrier to that. So, you know, most folks can't afford even a few thousand dollars to educate their kids, and, you know, there's coordination around remote work too, because you might be trying to do it in the backyard and people in urban environments might not have a facility to facilitate those homeschools, this pod

system. So, we'll see how that plays out, I think it's really interesting. There's also a few other companies like Prenda Learning. There's Primer, which is 100% digital, and then there's _____ schools out of Atlanta that was doing a homeschooling product in middle schools, and high schools, and all of them that iterated, given the times too and I think we'll see their traction in the next year or two. I think it has been interesting, though, because it's been a catalyst for people to explore new things, and so, [00:21:12] I think great products will encourage social norms to change, but I still don't think it'll ever be dominant or the majority in terms of how parents educate their kids. [00:21:23]

Hall T Martin: [00:21:24] Well, great. So, for startups that are putting together ed-tech startups today, what do you tell them to do and, how should they COVID-proof their business so they stay in business going forward in case we go through another lockdown?

Jon Broschious: [00:21:38] Yeah, I think this has been an opportunity for them to acquire a number of customers because a lot of folks are looking for different digital solutions right now, and, we've kind of largely come to a grinding halt, where at least 40%, 50% are not in college, or not in primary or secondary education. It's likely inevitable that some of these customers return, but if you create incredible experiences for customers, that can lead to long-term benefits, and even if it's something that's more full-time now, there's still ways to build additive or secondary learning experiences with your brand. So, you know, while they may expect some falloff in their services post-COVID, I think a rich education experience will bring customers back and can even shift social norms longer-term.

Hall T Martin: [00:22:34] Great. Well, appreciate your sharing that with us today. In the last few minutes that we have here, what else should we cover that we haven't?

Jon Broschious: [00:22:44] I've seen some pretty interesting products in terms of learning in the "background", if you will. There's a company called Toucan, which is a Google Chrome extension that allows folks to hover over when they're reading an article, you know, different words, whether it's the definition in one's particular language, or if they're trying to learn a different language. So, I think those sorts of products too are an interesting additive education product that can help people to continue to learn.

Hall T Martin: [00:23:17] Great. Well, appreciate you sharing that with us today. How best for listeners to get back in touch with you?

Jon Broscious: [00:23:24] Yes, if you're starting your company, if you have any questions on education, you know, if you agree or disagree with some of the information we shared today, we'd love to chat about it. So, my email is jon@muckercapital.com.

Hall T Martin: [00:23:41] Well, great. Well, I'll put that in the show notes, and I want to thank you for joining us today and hope to have you back for a follow-up soon.

Jon Broscious: [00:23:48] Great, thank you Hall.