

Graham Forman of Edovate Capital, LLC

Speaker1: [00:00:04] This is the Investor Connect podcast program. I'm Hall Martin and the host of the show in which we interview Angel Investors, venture capital, family offices, private equity, many other investors for early stage and growth companies. I hope you enjoy this episode.

Interested in learning more about investing in startups, launching a new startup need to raise funding to start funding espresso as a daily podcast and a short, concise format delivered to your inbox every day Monday through Friday, the time it takes to drink an espresso and to learn about startup funding to subscribe to Disconnect Dog and put your email into the Pop-Up Box. Hello, this is Investor Perspectives and the host of Investor Connect Hall T Martin, where we connect starts investors refunding. Today we have joining us Graham Forman, founder and managing director at Edovate Capital. Graham, thank you for joining us again.

Speaker2: [00:00:58] Hall, it's great to be with you again. Thanks for having me.

Speaker1: [00:01:01] Right. Can you tell us a little bit about your background?

Speaker2: [00:01:04] Yeah, sure. I'll just give you the quick high level. I've spent the last twenty, twenty five years now across three career themes. They've been education, entrepreneurship and investing right out of college. I went to work in the US Senate and that started a career in public policy around education, which was the first phase of my career. The second phase was as a startup entrepreneur. I had three startups, all software as a service businesses and all serving education institutions. And I, I led growth, sales, marketing, business development. So really grew up as an operator in education technology. And then the most recent phase of my career now is starting my micro fund enervate and investing in IMPAC focused early stage companies that serve K-12 schools and districts here in the US. So I have the pleasure of working with brilliant founders day in and day out, trying to create solutions to challenges within K-12 education.

Speaker1: [00:02:15] All right. Well, let's talk about the rise of the ED tech sector here post covid classroom engagement, next generation school segments and so forth. What do you see happening here?

Speaker2: [00:02:26] Yeah, I mean, it might be helpful to just touch a little bit on background. I think for years, having been an operator and investor, you know, I've seen K-12 schools slowly and gradually adopt technology tools, but it's really been incremental. If you go into a classroom pre pandemic, it looks a lot like the classroom that I grew up in with, with desks and rows and paper and pencils. There hasn't been a massive makeover of K-12 education, but gradually there have been some micro micro trends, macro trends excuse me, that have been accelerating change. So, you know, broadband adoption in schools seven years ago, we had five percent broadband adoption in schools. Now we have ninety nine percent broadband adoption device access. You know, five, seven years ago, 10 percent of students had a device. I just saw a survey the other day from the spring that said now 90 percent of students in schools have have a device, Google Chrome books being the most popular one. And then I think the third big trend really is the rise of cloud computing and the access to free and premium products that teachers and students can can try out. There's still lots of organizations that are doing top down enterprise sales. But one of the things I'm most excited about is this bottoms up product led growth that is led with a really good product that's free or a free trial available to teachers and students. And that's that's just created an explosion of access to tools that are really purpose built for education.

Speaker1: [00:04:20] Great. So what do you see as the primary trend going forward here?

Speaker2: [00:04:23] Well, I mean, I think so. We're in this moment now where I think there's really a hockey stick as schools are figuring out how to adapt to remote and virtual instruction. We go back to when the pandemic happened. We were teaching in person the pandemic phot forced us to learn how to teach remotely or virtually. And as a result, EdTech went from being a nice to have tool in many instances to being an actual necessity in schools. And it just brought demand forward by, I think, five to ten years. And I don't see that that process stopping the survey results that I've seen is that parents now want and I can talk more about that they want a virtual remote option and schools are prepared to offer that. And one of the reasons parents want that is they I think many have come to appreciate the flexibility that they had during covered the summer schedule flexibility. And so schools, I think, are prepared for that. I think one of the big challenges continues to be around equity and equity of access. Not everybody still has access to these tools. And that's something we need to continue to to work on is making sure folks of all backgrounds, all income levels, particularly in schools within cities, have

access to these tools. But but I think we'll continue to see a significant adoption of these tools post pandemic in the years to come.

Speaker1: [00:06:10] So what will make for a successful EdTech tech company going forward, what do they need to do or how should they work in order to win this new market?

Speaker2: [00:06:19] Well, I think so. I think one of the biggest things and I wrote about this recently, is the emergence of a product led growth within education. So so what I'm talking about is I'm talking about tools that traditionally tools that have been offered to K-12 or to higher ed have been sold top down. The enterprise buys it. It's an administrator who pays a big ticket item. That's then the technology is then distributed down throughout the organization and administrators hope for buy in. Sometimes that happens, sometimes that does it. What's happening now is bottom up adoption of products. So students, teachers, they have more power than ever because there are so many freemium products and free trial products available that are really consumer grade products. They're built to be able to activate instantly begin to use. You have this aha moment using the product literally within minutes. And then those products we've seen an explosion of products like that. It predates the pandemic. But with the pandemic, you know, it's really accelerated the adoption of tools. I can give you examples if you're interested, but that, I think, is one of the things that entrepreneurs need to think about. Right. No longer can we build just enterprise grade technology and sell it top down through the enterprise. The era of this bottoms up product led growth where the end user can begin to use something and experience this aha moment almost instantly and using the product, we're well within that era and that to an organization that's trying to grow. I mean there companies now five years ago they just started. Now they have tens of millions of users across, teachers, students. That was never possible until recently. And so I think the most successful companies are the ones that are really figuring out that product led growth path.

Speaker1: [00:08:36] And so what is your fund's participation in this segment so far?

Speaker2: [00:08:40] Well, so that's a great question. We've done 20 investments to date in companies that serve K-12 across a whole range of subjects. They include one of our most successful investments is a company called Paper that provides On-Demand tutoring to all students within a school or district. We have investments in companies that are leading the way

around social emotional learning company called Rythm. That's a marvelous tool for social emotional learning, which is a critical topic. It was a critical topic prior to the pandemic. But as we look at the impacts of the pandemic and mental health and wellness, the focus on social emotional learning is critical. There are lots of other literacy. Obviously is a big investment area. I've got several key literacy investments. I see myself really as a very early stage backer and advisor to entrepreneurs that are trying to solve problems at scale within K-12 schools and districts.

Speaker1: [00:09:51] And so what is your plan look for to make an investment? What's the criteria here?

Speaker2: [00:09:56] Well, it's probably not much different in many respects than many investors that are out there. I mean, we look for typical things that are important, like a large market talking about a multibillion dollar market. The quality of the team and the founder are really critical. We really like founders that have deep domain expertise within education and can scale to lead a larger team. We look for folks that have a pioneering approach to solving a problem that's important, an important problem, I think. Well, it might be a little bit different. And how we've evolved is that we also increasingly look to that go to market approach and the importance of that product led or bottoms up adoption. As you know, Hall selling to schools and districts is not for the faint of heart. It's not an easy thing to do. People, people both within the space and outside of the space, know that schools and districts have traditionally not been fast adopters. Right. And have small budgets and they can be hard to sell to. That is true in many cases when you're selling top down. But the bottoms up approach. I really think it's helped accelerate adoption and the growth of many of the best companies. We also really look for reliable revenue streams with motivated buyers. We need a sponsor within a school system that's really motivated to solve that, that particular problem. And then finally, I think the other thing that's so important to us is a focus on equity and outcomes. We really look for entrepreneurs that are trying to serve students at scale, regardless of background, regardless of income, and are very outcomes driven. Right. So if it's a literacy application book, Nook is a great example. It's in our portfolio. They use the book Nook platform and young readers, they not only learn how to read, but they can make up reading deficits. They can actually catch up with their peers if they use a book nook, if they fall a little bit behind in reading. So those outcomes are critical to us.

Speaker1: [00:12:14] Ok, great. Well, you talked about product led growth, but what else should we know about this segment? What else is happening here?

Speaker2: [00:12:20] Well, I think it's still early days, Paul. I mean, I just read a story today about the first half of twenty twenty one, an investment in our space and last year in education here in the US. Total investment, I believe, was about two point two billion dollars across all segments from pre-K to K through 12 to higher ed to workforce, which is sort of the whole spanning of education. And just in the first six months of twenty twenty one three point two billion dollars invested in the segment, 50 percent more than all of 2010 20. And so I think the segment is certainly having a moment right now. It's a hot segment, but I also think it's still early days in the segment, because if we look worldwide, there are trillions of dollars spent annually on education. But digital spend is only about three percent of all that spent. And if you compare if you compare that to similar sectors, take health care, for example, which is often compared to the digital spend is 10 percent in health care. So there's lots of headroom to grow in the years ahead as digital digitization continues. And so, I mean, I think the bottom line is it's still early days. We've got a lot more investing to do, a lot of growth to do in the years ahead.

Speaker1: [00:13:55] Ok, great, so we heard a lot about distant learning tools and so forth, where do you think that's going in this case? You think that's going to be? It seems like there's a lot of pros and cons around the current tools, but do you see them improving and how do you see them being adopted?

Speaker2: [00:14:11] Yeah, I think that's a great question. I've been thinking more and more about this. I think if we think back to the early days of the pandemic, you know, virtual and distance learning was Zoom school. That was really kind of what we had. It was sort of an emergency. Right. We hadn't done this before, literally overnight. Everybody's got to go home. We can't stop learning. We can't stop teaching. And Zoom was a tool of choice. Well, if you think about Zoom, Zoom is not really purpose-built for education. It's built for much more of a corporate environment or a work environment. And so I think one of the interesting things that's happening is that there are entrepreneurs now. We're building tools that are more purpose built and more engaging for education that are Zoom like. One of them actually is Class Edu, which is actually built on top of Zoom. But it has all sorts of features and

functionality that make for a much more engaging, interactive experience, virtually for students and teachers. Another is a company called Engagingly, which is actually not on Zoom. It's actually its own native platform, but it's aiming to do the same thing. What I see happening is as we get back to in person and what's backed up in the survey data is that virtual and remote school is not going to go away. Parents are demanding this and school administrators and leaders are stepping up and really building more virtual offerings within their full curricular plan. So my belief is that the new normal will include more hybrid options. And by hybrid, I mean sort of a combination of in person plus some remote or virtual component. We'll see more of that. And I think that's good for schools.

Speaker1: [00:16:14] They're reading that pod classes is a new model of teaching. And just was curious, what do you think about pod classes? You think there's a benefit there? And what's what is it?

Speaker2: [00:16:24] To be honest, I don't know much about pod classes, spending time in K-12. I don't know how much they've actually reached K-12. I can imagine they're quite popular with segments of the workforce, the adult audience. But you can tell me more. I didn't call about pod classes than I know. I don't think they've reached too deeply into the K-12 segment yet.

Speaker1: [00:16:47] I always thought it played off of the small group setting where students can learn one from each other. And of course, we got to it because in covid you wanted to have small groups instead of large groups and that group stays together for keeping down the rate of spreading covid. But it just seemed like they were just formalizing that a little bit more. And then they were trying to get one student to help the others in some ways and make it more of a community type teaching versus one person teaches and everyone else listens. And so I started as an interactive method and I think he came out of a lot of corporate work. But when Kobe came up, I think it fit certain areas. So I was always curious if there was any progression with that. I didn't know how well it fit the K-12 model, how they had the classes set up. It was a little bit different format. So I was just wondering if we thought that might be going

Speaker2: [00:17:43] Forward or not. Yeah, well, and thank you for that. I blanked on the name pod classes in K-12. We've been using the term learning pods and those those learning pods were quite popular during the pandemic. You know, these were small group, often in person, sometimes hybrid, sometimes led by a certified teacher, sometimes led by somebody who wasn't certified. But it provided supplementary support typically to students. It's an interesting question how much that will continue. I think among homeschool families, I think that's going to increasingly be popular. I think most students will go back to school and go back to an in-person environment. So I don't know how many learning pods will continue. I will tell you, I do think the demand for some type of supplementary education outside of the walls of K-12, that demand is going to continue. There's a company in our space called Out School, which offers small group classes across. I believe it's fifty thousand. French classes now on the platform, it just exploded in popularity and demand it went from six million in revenue to one hundred million dollar run rate in twenty twenty. And I think schools, parents, students, they're demanding they can offer any kind of subject. Right. You can learn to do anything on at school, basically. So for a school that offers core curriculum. Right. Subjects that we know well, but they want to offer more options that they just can't afford to do themselves or they don't have the expertise in teaching them about. School is now partnering with these schools and there are other providers. But our school is the leading one that sort of extends your curriculum offerings. Right, without having to spin it up yourself. So I expect to see a lot of that right. As students go back, they can take classes. But increasingly, if they want to take something around a special subject of personal interest, something really unique about school can provide that for them.

Speaker1: [00:20:04] As we get more technology and sometimes this technology costs more, we end up with the haves versus the have nots question. And of course, you mentioned some stats a little while ago showing that we are closing that gap on devices and Wi-Fi in other areas. But it seems like there's still a there is a gap and it could widen as more technology comes to the table. How do you think we're going to navigate that?

Speaker2: [00:20:28] Well, that was one of the challenges, I think, around learning pods was that that actually, I think widened the gap for many students because, you know, affording a learning pod that was that was a significant investment for most families and that priced many, many families out of being able to participate in the learning pod. So it continues to be the big

question, which is how do we deliver education equitably across systems? There are some districts. So I live in Denver. The Denver Public Schools, actually recent surveys is one of the leaders in terms of equitably investing in students across the district. I believe they lead the nation in the survey results that I mentioned. But there are other districts that are really working hard through there, through remaking their funding formula, through procuring technologies that cater to all kinds of students to level that playing field. But it continues to be one of the biggest challenges in our space is, is how do we make education and the opportunity to learn equitably accessible for all students, regardless of background and income. This conversation will be going on for many years ahead, I think great.

Speaker1: [00:21:50] What we're hearing now about the great resignation. Twenty five percent of people going back to work or probably going back to work in a different place. They're using this as a chance to change their career. Do you think the educational group will be the benefit of that, people going into the education world rather than coming out of it based on the fact that we're coming out of covid and going back to a more normal life, but people are coming at it with now as a transition. Where do you think Ed Tech will end up in this case?

Speaker2: [00:22:18] Well, I think I think Ed Tech will probably end up in a good place, meaning I think our segment is attracting talent across the board into this space because there are just a lot of exciting problems being addressed, a lot of exciting businesses being built, I think, to your point about just education more broadly. I would love to see more and more people move from, you know, a career that they're coming from to come into education and to teach because we're experiencing a teacher shortage in many, many parts of the country, particularly in some of the more the higher cost of living metropolitan areas. And I'm thinking San Francisco, Washington, D.C., New York, those places we need more we need more teachers and education. And it continues to be a big problem in terms of finding enough qualified teachers for our classrooms. So anyway, I guess it's a shout out for folks who are thinking about education and want to switch from another field. Education needs high quality teachers.

Speaker1: [00:23:32] That's great. Well, the last few is that we have here. What else should we cover that we haven't?

Speaker2: [00:23:36] I think we've covered a lot all a lot of ground in a short amount of time. I mean, I guess if I could leave you one thing, I guess I think we're in the early innings in terms of our segment, in terms of the transformation of this sector. And I think the pandemic is a tipping point in terms of investment in technology that can broaden access and can provide any time anywhere learning for students across the board. It's early days and I'm just excited to be a part of it. Obviously, we'd love to have others step in to step into education and solve these problems. I mean, I think fundamentally. Right, I think I think if there's anything that levels opportunity for folks in our society, it's access to high quality education. And that's really what we're trying to do with Ed Tech. And in this segment is to is to broaden access right now.

Speaker1: [00:24:41] I want to thank you for joining us today and hope to have you back for a follow up again soon.

Speaker2: [00:24:46] Awesome. Paul, thank you so much. I really enjoyed talking to you today and appreciate what you do.

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