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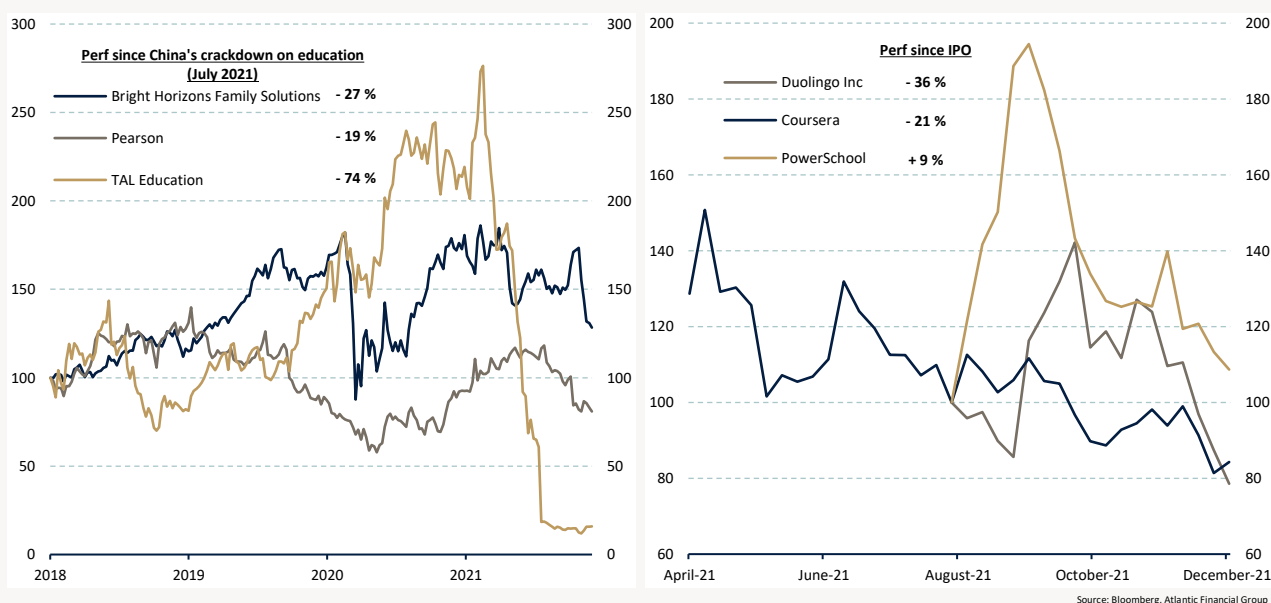
Weekly Investment Focus

6 December, 2021

"TECH TO THE EDUCATION RESCUE"

- ◆ Within the education sector, EdTech is gaining momentum
- ◆ It is still facing many challenges
- ◆ There are many players, but the market is vast
- ◆ The sector craze is attracting capital

CHART OF THE WEEK: "Performance of a selection of EdTech stocks"



FINANCIAL MARKET ANALYSIS

The global education market is changing and growing rapidly. By 2030, it will be valued at more than \$8.6 trillion, a 40% growth from the current \$6.15 trillion. Several trends explain this growth: the rise of emerging countries' middle class, the ubiquity of technology and digitalisation in all aspects of life, the lengthening of careers which increases the need for upgrading or retraining, the lack of skills in the workforce, the growing demand for online and virtual learning, etc.



In recent years, the education sector has seen real upheaval (see Chart of the Week). **The health crisis has been particularly beneficial to EdTech companies** (see Fig. 2), **accelerating their adoption during periods of lockdown**. In 2021, the sector has undergone wide variations. On the one hand, there was the IPO of large US groups (i.e. Coursera, DuoLingo and PowerSchool) and on the other hand the Chinese government's regulatory pressure on companies offering online support courses (i.e. Tal Education). Thus, despite a real craze for EdTech IPOs, Coursera is down -21% since its March IPO and -54% since its mid-April highs while Tal Education has lost -93% of its market cap since the beginning of the year after rising 49% in 2020.

What has happened? Why does the stock market performance not reflect the promise of the sector?

Fig. 2 - What is EdTech

EdTech refers to all technological solutions for education and training, for children, students or adults: methods for learning to read or learn a foreign language, virtual science labs, interactive campuses, online training, etc. All these technologies have one thing in common: they all work towards personalised, innovative learning that is more engaging for the learner.



1- Within the education sector, EdTech is gaining momentum

The use of technology in education remains marginal. Indeed, **95% of academic resources are still devoted to offline learning**. **The year 2020 has therefore acted as a real eye-opener for the disruptive impact that technology and EdTech represent.**

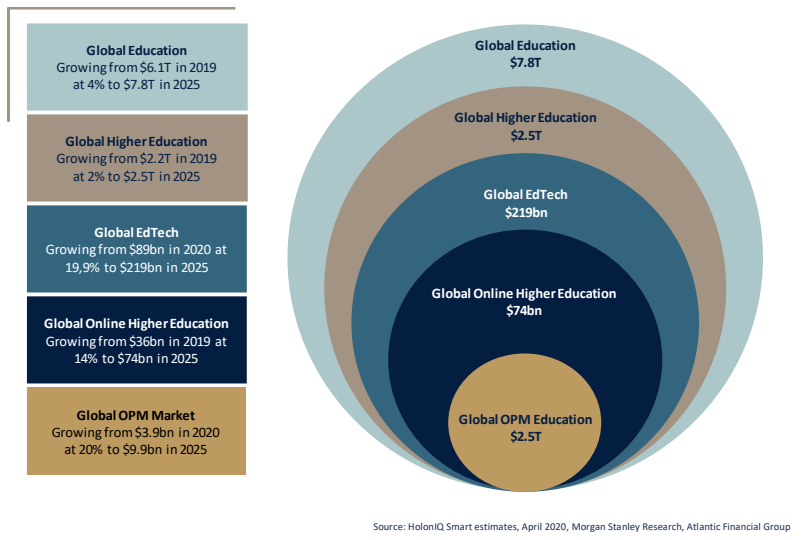
Spending on education has increased steadily over the past decades, but the measures taken are sub-optimal. Many pupils and students leave school or higher education without the qualifications they aspire to. For a long time, the student had to adapt to the program. Today, **technology makes it possible to offer services and tools that better target the needs and interests of each individual.**

Finally, more and **more adults are enrolling in courses to upgrade their skills or to obtain a bachelor's or master's degree**. Today's labour market environment requires employees to continuously and regularly upgrade their skills to advance in their careers, which requires appropriate training and education programs.



EdTech is still in its infancy. Its growth, expected to be around 19.9% per year between 2019 and 2025, is significantly higher than the education sector in general (+4%). For example, the global online higher education market is expected to grow 14% per annum, from \$36 billion in 2019 to \$74 billion in 2025, compared to only 2% for higher education as a whole. Online course platforms are expected to grow even faster, by 20%, to reach a turnover of nearly \$10 billion in 2025.

Fig. 3 - Education market in 2025



Higher education and online course platforms still account for less than 3% of spending but are attracting more and more students who want to take courses from home. In this context, some universities are creating virtual labs, using artificial intelligence and other technologies to offer students an immersive experience similar to the real world and to remain competitive.

2- It is still facing many challenges

Education is a burden on governments, families and students themselves. Neglecting it can cost society dearly in terms of future economic growth and the brain drain to countries desperate to attract them.

Western societies are facing significant demographic challenges with an aging population and a shrinking school-age population. Technology can help fill the gap of retiring professors by expanding access to courses beyond the lecture hall, via online course platforms.

Similarly, in developing countries, **access to online courses or via Zoom/Teams meetings, allows students to take quality courses that they could not previously access for financial or administrative reasons.**

Increasingly, **the mobile phone is also becoming an EdTech tool** for students. For example, the French company Nomad Education is democratizing learning on smartphones. Its mobile application accompanies young people from grade 6^e to higher education in France and abroad. With the application available on application stores, the company discovered the French-speaking market and its potential. 90% of international downloads come from Africa, but the company has also opened a subsidiary in Quebec. Moreover, having noticed that many of their users were not French, Nomad Education started to offer French language improvement classes. **Because of their ease of use and convenience, smartphone applications have emerged for some as the solution for delivering distance learning during the pandemic, accelerating the number of downloads.**



3- There are many EdTech players, but the market is vast

In higher education, **traditional business schools were already facing new competition from EdTech even before the health crisis made face-to-face teaching impossible. "On-demand" business models**, in which the student pays for each learning module, are spreading in Asian and Latin American emerging markets. These are more efficient (better value for money, time, interest, etc.), and more competitive in contrast to traditional university models.

The evolution of providers such as Hyper Island (Sweden), MindGym (UK), Cegos (France) and Lumina Learning (USA) **who offer courses online or in city centre locations close to the office reflects the changes in the way people want to study.**

Similarly, **even before the pandemic, there were opportunities to study purely online, with web platforms** such as 2U, Coursera and Udacity **offering courses aimed at the corporate market but also at employees wishing to enhance their skills. On the OPM or Online Program Manager market** (see Fig. 4), there are many companies, and sometimes universities whose size allows them to have their own platform. For smaller universities, being part of a platform makes it possible to monetize courses while saving on marketing costs. Finally, these online platforms have quickly adopted the system of certificates accrediting courses, better recognized in a corporate context, rather than a simple paper diploma.

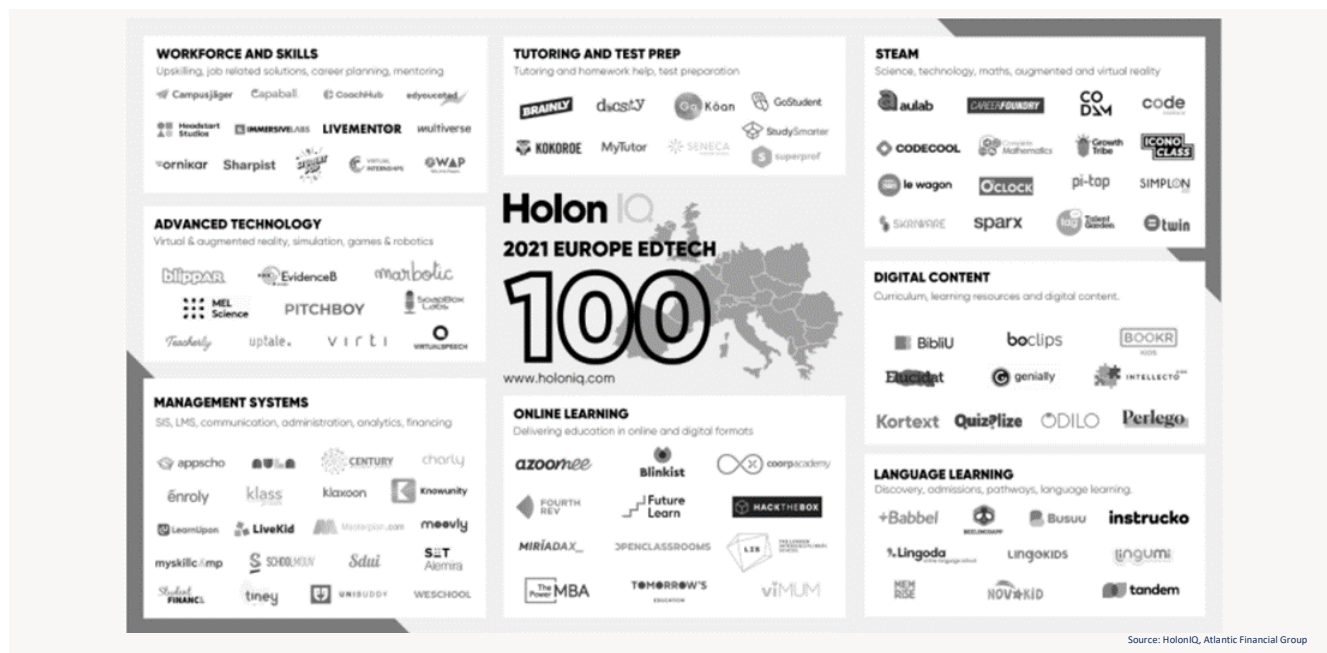
Fig. 4 - The global OPM market



The EdTech ecosystem seems saturated (see Fig. 5) **and ready for a consolidation move, where sizable leaders will emerge and start to generate profits.** In France alone, the number of start-ups reinventing education through technology is growing every year. There were no less than 300 of them at the beginning of 2018 offering innovative content, "serious games", "learning apps" on smartphones but also content delivered via online platforms (MOOC).



Fig. 5 - The European EdTech start-up ecosystem in 2021



The media active in education must find new sources of revenue following the structural decline in their income and seem well positioned to begin the consolidation of content and applications around education. We find educational publishing giants such as Pearson and McGrawHill ready to accelerate their transformation towards digital.

4- The sector craze is attracting capital

Companies often obtain funding more easily than universities via venture capital funds. According to a report by Holon IQ, global EdTech venture capital funding in 2020 grew by more than 100% to \$16.1 billion, up from \$7 billion in 2019, the highest amount raised in the last five years. Figures for the first half of 2021 show even stronger growth. The EdTech craze is just beginning.

The US and Europe have already surpassed their respective 2020 EdTech investment levels in the first half of 2021 to meet demand in the face of growing needs for alternative learning/education tools, the large number of active users on the internet and the need for on-demand learning.

Emerging countries like India are showing strong momentum in improving infrastructure, addressing inequality and democratizing education. The provision of dialect platforms for test preparation, soft skills courses, corporate training and English language courses etc. has been very successful. The country has now become the third largest destination for investment in the EdTech sector.

In addition, key markets such as Canada, Korea, Japan, France, Australia and others are setting new records at the national level. **At the opposite end of the spectrum, China is facing significant regulatory uncertainty, which is impacting the country's EdTech sector as a whole.**



Conclusion:

The education sector must reinvent itself to meet the challenges of a world marked by constant mutations: technological, demographic, social, environmental, economic, and political. Private and public capital is pouring in to support the transition to digital technology, which seems to better meet the various stakeholders' expectations. Despite enthusiasm for more training, the sector's performance has been very poor this year. Indeed, education is still at the mercy of political decisions while the latest EdTech IPOs, priced at excessive levels, are trying to recover valuations in line with growth expectations.



RETURN ON FINANCIAL ASSETS

Markets Performances (local currencies)	Last Price	Momentum Indicator (RSI)	1-Week (%)	1-Month (%)	2021 Year-to-Date (%)	2020 (%)	2019 (%)
Equities							
World (MSCI)	724.2	33.60	-1.2%	-3.7%	14.1%	16.9%	27.3%
USA (S&P 500)	4 538	42.15	-1.2%	-2.5%	22.4%	18.4%	31.5%
USA (Dow Jones)	34 580	38.57	-0.8%	-4.0%	15.0%	9.7%	25.3%
USA (Nasdaq)	15 085	38.53	-2.6%	-4.5%	17.8%	45.1%	36.7%
Euro Area (DJ EuroStoxx)	456.3	35.38	-0.4%	-4.7%	17.6%	0.8%	27.3%
UK (FTSE 100)	7 122	43.12	1.2%	-1.4%	14.1%	-11.4%	17.2%
Switzerland (SMI)	12 176	43.24	-0.2%	-1.7%	17.0%	4.3%	30.2%
Japan (Nikkei)	27 927	37.29	-2.5%	-5.1%	3.7%	18.3%	20.7%
Emerging (MSCI)	1 225	35.49	0.2%	-2.9%	-3.2%	18.8%	18.8%
Brasil (IBOVESPA)	105 070	50.21	2.8%	-0.5%	-11.7%	2.9%	31.6%
Russia (MOEX)	3 932	39.87	2.7%	-6.5%	24.7%	14.8%	38.4%
India (SENSEX)	57 215	40.32	1.0%	-3.5%	22.0%	17.2%	15.7%
China (CSI)	4 893	53.72	0.8%	1.7%	-4.3%	29.9%	39.2%
Communication Serv. (MSCI World)	107.75	28.58	-2.8%	-5.7%	8.2%	24.2%	25.1%
Consumer Discret. (MSCI World)	403.2	32.16	-2.8%	-5.4%	7.2%	37.0%	28.2%
Consumer Staples (MSCI World)	274.3	39.74	-0.9%	-2.7%	4.8%	8.8%	22.4%
Energy (MSCI World)	185.7	41.14	0.9%	-4.3%	34.7%	-27.7%	13.9%
Financials (MSCI World)	146.2	34.01	-0.8%	-5.9%	21.4%	-3.1%	24.1%
Health Care (MSCI World)	345.6	27.09	-1.8%	-5.1%	10.3%	15.4%	23.3%
Industrials (MSCI World)	319.7	35.75	-0.6%	-3.4%	12.1%	11.8%	27.2%
Info. Tech. (MSCI World)	547.8	44.08	-0.8%	-0.6%	21.6%	46.2%	47.5%
Materials (MSCI World)	346.2	35.74	-0.4%	-2.6%	9.1%	27.6%	20.8%
Real Estate (MSCI World)	221.7	42.21	-0.6%	-2.4%	16.3%	-5.7%	24.0%
Utilities (MSCI World)	153.1	47.27	0.2%	-1.0%	4.3%	4.8%	22.3%
Bonds (FTSE)							
USA (7-10 Yr)	1.38%	66.40	1.2%	2.1%	-1.0%	9.3%	7.4%
Euro Area (7-10 Yr)	0.01%	58.67	0.3%	1.4%	-1.3%	4.5%	6.7%
Germany (7-10 Yr)	-0.39%	64.49	0.4%	1.7%	-0.8%	3.0%	3.0%
UK (7-10 Yr)	0.75%	62.96	0.3%	2.5%	-3.3%	5.4%	4.8%
Switzerland (7-10 Yr)	-0.28%	62.80	0.3%	1.5%	-1.2%	0.4%	2.0%
Japan (5-10 Yr)	0.04%	66.25	0.2%	0.3%	0.2%	-0.1%	0.0%
Emerging (5-10 Yr)	4.82%	50.33	1.3%	-1.2%	-2.7%	5.2%	13.3%
USA (IG Corp.)	2.27%	58.62	1.0%	-0.2%	-0.4%	9.9%	14.5%
Euro Area (IG Corp.)	0.44%	54.13	0.5%	-0.4%	-0.5%	2.8%	6.2%
Emerging (IG Corp.)	5.40%	40.68	0.2%	-0.2%	-2.9%	8.1%	13.1%
USA (HY Corp.)	4.68%	42.48	0.3%	-1.2%	3.8%	7.1%	14.3%
Euro Area (HY Corp.)	3.42%	42.55	0.3%	-0.6%	2.9%	2.3%	11.3%
Emerging (HY Corp.)	7.84%	35.34	0.8%	-2.1%	-3.9%	4.3%	11.5%
World (Convertibles)	430.6	22.07	-2.9%	-6.2%	0.6%	38.8%	17.3%
USA (Convertibles)	580.2	24.90	-3.6%	-7.6%	0.9%	54.5%	22.8%
Euro Area (Convertibles)	4 069	33.07	-0.9%	-1.3%	-1.1%	6.1%	7.6%
Switzerland (Convertibles)	186.6	57.99	0.1%	0.5%	-0.1%	0.5%	2.4%
Japan (Convertibles)	199.5	41.91	-0.5%	-1.0%	2.7%	2.8%	2.6%
Hedge Funds (Crédit Suisse)							
Hedge Funds Indus.	719.9	68.11	n.a.	1.3%	8.6%	2.5%	9.3%
Distressed	956.7	77.32	n.a.	1.1%	12.6%	1.5%	1.4%
Event Driven	811.6	74.28	n.a.	1.7%	14.7%	3.1%	8.2%
Fixed Income	391.5	76.53	n.a.	-0.3%	4.3%	2.2%	6.1%
Global Macro	1 197.3	74.73	n.a.	0.4%	9.3%	2.0%	10.4%
Long/Short	908.3	68.08	n.a.	0.6%	8.4%	3.6%	12.2%
CTA's	341.7	74.46	n.a.	3.9%	12.4%	-3.2%	9.0%
Market Neutral	284.6	65.38	n.a.	0.5%	4.7%	-0.1%	1.6%
Multi-Strategy	689.7	77.20	n.a.	0.4%	6.2%	1.4%	7.3%
Volatility							
VIX	30.67	66.67	7.2%	103.1%	34.8%	65.1%	-45.8%
VSTOXX	31.48	67.86	-2.6%	91.1%	34.7%	67.5%	-41.5%
Commodities							
Commodities (CRB)	568.8	n.a.	0.0%	0.1%	28.2%	10.5%	-1.9%
Gold (Troy Ounce)	1 783	44.06	-0.1%	-1.9%	-6.1%	24.9%	18.3%
Oil (WTI, Barrel)	66.26	26.53	-5.3%	-18.1%	36.6%	-20.5%	34.5%
Oil (Brent, Barrel)	71.28	35.02	-2.5%	-14.5%	36.4%	-23.0%	24.9%
Currencies (vs USD)							
USD (Dollar Index)	96.349	61.85	0.0%	2.2%	7.1%	-6.7%	0.2%
EUR	1.1283	39.44	-0.1%	-2.6%	-7.6%	9.7%	-2.2%
JPY	113.09	54.92	0.4%	0.1%	-8.7%	5.3%	0.9%
GBP	1.3232	29.65	-0.6%	-2.4%	-3.2%	2.8%	3.9%
AUD	0.7015	22.91	-1.8%	-5.5%	-8.8%	9.5%	-0.4%
CAD	1.2827	31.87	-0.7%	-3.0%	-0.8%	1.8%	5.0%
CHF	0.9208	52.58	0.3%	-0.8%	-3.9%	9.8%	1.4%
CNY	6.3724	59.26	0.2%	0.3%	2.4%	6.7%	-1.2%
MXN	21.237	43.61	2.1%	-4.2%	-6.2%	-4.9%	3.8%
EM (Emerging Index)	1 726.1	46.08	0.4%	-0.2%	0.4%	3.3%	3.1%

Source: Bloomberg, Atlantic Financial Group

Total Return by asset class (Negative \ Positive Performance)



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