

SIIA 2008 Ed Tech Business Forum – December 1-2, 2008

Morning Session: Raising Investment Capital - Strategic and Private Equity Perspectives

Moderated by Christopher Curran, a Managing Director at Berkery, Noyes & Co, this panel included ed tech investors Frank Bonsal III, Partner at New Markets Venture Partners, Kevin Custer, Founding Partner at Arc Capital Development, and Lou Pugliese, President of Learning Diagnostics, Inc. In this session, panelists described the critical steps for getting investment capital from the right sources. A summary of their perspectives on raising investment capital in the current economic climate follows below:

Private equity companies that had not previously played in the education market are now getting involved. Good products are not making it to market due to a lack of capital. This phenomenon is not seen as frequently in the health field, the broader technology field or other fields.

Frank Bonsal: The theme in today's economic climate is to get back to basics. Capital efficient growth dramatically improves financing and liquidity options. For a new company, it is dangerous to be overcapitalized. While having better luck in the PSE markets, the K-12 market is a much bigger pie.

Kevin Custer: Valuation is driven by your ability to produce cash. A company must demonstrate how it can save school districts money by increasing attendance, making school administration more efficient, and cutting the dropout rate. "It's about being profitable." Hope is not a strategy, it's a theory. Teachers will be laid off, and programs will be cut.

Lou Pugliese: "We're open for business, but don't enter in a tuxedo or with your zipper down." Be practical about your costs, and be prepared. A protracted downturn equals a sharper pencil. Good companies know how to get capital and how to articulate their program. Investors are looking for innovation.

When will environment open up? Nothing positive is expected to come anytime soon. We don't see the capital. Companies must have a good business plan, and must be able to show customers how you will save them money. Companies must do "Vendor due diligence". This is not a state by state strategy, but rather a person by person strategy. At this time California, Nevada, and Florida are particularly challenging markets to enter.

How do you sell product when all school districts are receiving less money? By having a good strategy, a sound and well articulated business plan.

Summary by Jim Rosso, Director, External Relations, Project Tomorrow