



LUMOS CAPITAL GROUP: INVESTING TO CHANGE THE LANDSCAPE IN EDUCATION

The Largest Network of Diverse- Owned
Private Equity Firms and Hedge Funds

When Lumos Capital Group was conducting its due diligence on Ellevation Education in 2020, the firm liked what it saw. After all, the Boston-based software company developed a platform to make administrators and educators more productive, collaborative, and effective. Built around the idea of equal opportunity for English language learners (ELL) – the fastest-growing portion of America’s K-12 student demographics – the Lumos team felt Ellevation would make a strong initial investment for the young firm.

Lumos was in good company. The firm led a round in which it was joined by early-stage investors that included the Chan Zuckerberg Initiative, the family foundation of pediatrician and philanthropist Priscilla Chan and Facebook founder Mark Zuckerberg, as well as Emerson Collective, a social change organization and impact investor founded by Laurene Powell Jobs, an American businesswoman and widow of Steve Jobs. The transaction was completed in early 2020 and Ellevation, which offers products to help teachers serve multilingual learners and provide students with the academic language necessary for success in school, became Lumos’s first investment.

What the team could not have anticipated was COVID-19 resulting in EdTech becoming all the more critical in today’s society. This made Ellevation’s longer-term growth prospects even more attractive. “The company actually launched a direct-to-student product during COVID,” recalls James Tieng, Lumos Managing Partner & Co-Founder. “They were planning to do it anyway, but the tailwinds accelerated around academic language, which is content and curricula with a specific pedagogical approach for a non-native speaker. We believe we can do better by all the ELLs in this country by helping grow this platform over time.”

THE \$10 TRILLION OPPORTUNITY

Based in San Francisco and New York City, Lumos Capital is a growth equity investor focused on education and human capital development – two areas that have taken off in recent times. Lumos backs companies in both the B2B and B2C spaces that have the potential to become category leaders and game-changers. “We target the entire age spectrum – early childhood, K-12, higher education as well as upskilling and reskilling opportunities in workforce development,” Tieng explains.

The education sector – particularly EdTech – is still very much in the early stages of its development. Similar to healthcare, the sector has been relatively slow in adopting and incorporating technological advances. In fact, when most think of education as a business, it still conjures images of textbooks in a physical classroom. “There has been a proliferation of technology that is helping institutions, schools, colleges, universities, run better with digital learning that is more dynamic, adaptive, and competency-based than a textbook model,” explains Tieng. “That sort of adoption cycle is still playing out on a global basis.”

The playing field is a large one, with an estimated \$10 trillion spent globally in this space. “There’s a lot of public-private partnerships that are needed to make this successful,” says Tieng. “We believe the private side is growing by the day, and that gives us a lot of excitement for the space.” Once companies in the sector reach revenues of \$10-\$20 million, they tend to attract investment capital from generalists, according to Tieng. With its sector focus, Lumos has the benefit of knowing the business, how to sell products and services to school districts and universities, thereby adding value.

FORGING RELATIONSHIPS

Prior to launching Fund I in 2019, Tieng worked with global private equity firm Apax Partners LLP and was a Principal at Quad Partners, a private equity firm focused exclusively on the education sector. “I had a bit of an entrepreneurial bug insofar as wanting to create a firm where I could drive the culture and values and the strategy from the ground up and specifically meet the gap in the education market, Tieng recalls. “It was largely driven by the fact that I found a great partner, Victor Hu, who was a friend going back to when we attended the same church in Manhattan.”

Despite being only 36 years old, the idea of starting a firm with a longtime friend was highly appealing to Tieng, so the duo decided to go for it. “You hear stories about people who were successful at other firms and wanted to be that true culture bearer and drive its creation,” says the Harvard Business School graduate. “That resonated and we took the plunge probably a little bit early in my career, but in part because of that friendship and relationship with a great partner, I felt the conviction to do it.”

One of the early challenges that comes with launching a new firm is how to effectively build lasting relationships with LPs – something for which there is no cookie-cutter approach. “Different LPs have different interests, mandates, etc. that vary quite a bit by the institutional types, the pensions, the foundations, even individuals,” Tieng explains. “It took some time to refine that, but I certainly learned that once we did, we were in a good position with great LPs around the table. We are truly blessed with the people that came into the first closing and a number that we’re moving along towards the second and final closings.”

Though it took a lot of time and effort to forge those relationships, they have become a critical part of Lumos’s early success. Partners at Kirkland and Ellis, a law firm and NAIC member, came in as an LP thanks to the relationships Tieng built with them during his time at Apax Partners. “A partner at Wachtell has come in and I haven’t worked with him in over 10 years. We also have a lot of individual support from senior partners at Apax and KKR and McKinsey,” says Tieng. “It really shows that this is a relationship business.”

SPOTLIGHT ON EDUCATION

Amid the recent market uncertainty and economic slowdown caused by COVID-19, certain sectors have benefitted from a dramatic shift in consumer trends. Among them is education – particularly providers of virtual learning tools for not only K-12 and college but also upskilling and reskilling for unemployed and dislocated workers – Lumos’s sweet spot. “It’s basically accelerated tailwinds that were already in play pre-COVID, though nobody could have predicted the shift to a billion and a half learners in a digital learning environment 12 months ago,” Tieng explains. “That mass adoption played out within weeks that otherwise would have taken years.”

Looking ahead, one of the objectives for Lumos leadership will be growing the team and presence and exploring opportunities on a global basis. “We already have a very global set of strategic LPs as well as an advisory board that sits around the globe,” says Tieng. “It’ll take time before we start deploying more capital outside of North America. That’s one change you’ll see with successive funds, especially if we’re successful and can raise incrementally larger funds over time.”

Until then, the Lumos team will continue to seek out further investments in education. Despite higher than normal investment activity in the sector as a result of the pandemic, the firm believes its network of companies, founders, and intermediaries allow it to be in most deal flow naturally – and often in a proprietary manner. “The broader interest in the space is growing, so we have to rely on our differentiation and be very proactive in regular communications with those networks to make sure we don’t miss out on opportunities,” asserts Tieng. “Thus far, we think we’re doing a good job at that, but we know that we have to stay vigilant.”