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El article

## The age of Discovery



**Discovery Education is in a fervently acquisitive mood this year and has its eye on global expansion. But can it turn its ideas into reality, asks Sunniva Davies-Rommetveit**

Looking at Discovery Education's website, chock-full of panoramic images of landscapes and wildlife, you'd be forgiven for thinking you were browsing a National Geographic magazine. Indeed, visual marvel is what its parent company, Discovery Communications, has been famous for since its inception.

"What is education?" said website boldly asks. Discovery Education's answer is just as bold, and peppered with adjectives like imagination, curiosity, wonder, innovation, inspiration and transformation. This attitude is reiterated when EducationInvestor speaks to Kelli Campbell, Discovery Education's Maryland-based senior vice president. "Discovery Communications and Discovery Education offer lifetime learning aiming to satisfy everyone's curiosity," she explains.

Given such ambitions, many were unsurprised by the US firm's first foray into international markets in November 2013, when it snapped up UK school video content provider Espresso Education (which was rebranded as Discovery Education in September 2014). In a press release at the time, Discovery highlighted its "commitment to providing educators worldwide with quality digital resources, professional development and networking tools".

Campbell says that Espresso's Hammersmith offices are now Discovery's "international hub, where we focus our worldwide partnership efforts". "We found a great fit with Espresso founder Lewis Bronze, and his company had excellent content in 50% of British primary schools," she adds.

Ian Koxvold, who did commercial due diligence on Espresso for another bidder in the midst of the deal process back in 2013, agrees that Espresso was a smart acquisition for Discovery to make. The Cairneagle Associates partner says that "Espresso has great digital content for primary schools, and this is reflected by their coverage and very strong renewal rates. From what I've heard these renewal rates have remained strong since Discovery bought the firm."

Discovery Education is a multifaceted business. It produces continued professional development (CPD) courses (both online and instructor-led), which in the UK cost about £450 for a half day and £700 for a full day, according to Campbell. It also runs what it dubs the largest teachers' network in the world (with around one million teachers), called the Discovery Educator Network (DEN). The network was extended to the UK in November 2014.

"DEN is the largest global community of educators that work together to share best practices. We conduct large events in person as well as virtual events," Campbell explains.

However, the mainstay of Discovery's education business, both in the UK and across the pond, is its digital resource materials which cover numerous subjects to support teaching in the foundation years and Key Stages 2, 3 and 4 (UK) and more than half of K-12 schools in the US (see box below).

Koxvold says that Discovery Education is an interesting combination of continuing professional development (CPD), content and an effective delivery model. "While that's not an innovatively new model, it's a solid one," he says. He adds that it will be "very interesting" to see how the recently-launched 'Math Techbook', a hi tech digital textbook, does in the UK.

Discovery's digital content is vast, but staying ahead of the curve and maintaining high standards is no small job. Hundreds of experts are hired to ensure content remains current and cutting-edge. Campbell says: "If we don't have an expert on calculus in-house, we'll ask a consultant who's an expert. We speak to around 250 experts covering different subject matters, from maths, science and history."

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On the surface, then, Discovery's education business seems to be ticking all the right boxes. But a closer look on paper reveals that this has not translated into the financial gains one might expect (see box below). In 2013 revenues climbed but operating income before depreciation and amortisation (OIBDA) was flat. In 2014, sales rose again but OIBDA appears to have fallen (Confusing things slightly, for reporting purposes education was lumped in with Discovery's studio production businesses during the last quarter of 2014, under the category 'Education and other').

The firm put the slide down to "investments in the production of global content intellectual property, additional costs associated with these business combinations and investments in digital textbooks". There must be some pressure on the division to reverse the trend, then, even though Discovery Communications as a whole is not short of a bob or two, with OIBDA coming in at \$6.3 billion last year.

Key to solving the problem is global expansion, it seems. Campbell says that 2015 is going to be an exciting partnership year for Discovery Education. Though cryptic about specific targets, she mentions Africa, China and the United Arab Emirates as but a few of the regions that the firm is currently interested in.

"Discovery Education is very opportunistic and speaking with companies around the world all of the time. We are always looking for partnership opportunities that are interesting to us – plus we're digital and therefore highly flexible," she says. "The fact that Discovery Communications has offices around the world with local experts on the ground is also an advantage."

It feels like the firm will be under some pressure to turn these plans into reality in 2015. As Koxvold says: "We're looking forward to seeing the rate at which Discovery Education accesses new markets this year. The team have been very active with partnership conversations around the world, and 2015 will be a key year to see how they translate these opportunities into concrete progress."

Discovery Education made a very smart acquisition in Espresso a couple of years back, but has not made another acquisition since then. The subsidiary was loss-making last year too. The sector, then, will be watching with great interest to see how the firm fares in the next few years (and rumours that 21st Century Fox has proposed a takeover of Discovery Communications will only intensify this). In what is already a highly contested market, one obvious question remains unanswered though: will bold ideas translate into cold, hard profits for Discovery Education, or remain little more than sleek marketing headlines and striking pictures?

#### DISCOVERY EDUCATION

The firm provides multimedia educational products and services to more than half of US K-12 schools and more than half of UK primary schools including:

- Discovery Education streaming PLUS
- Discovery Education Digital Techbook Series
- Discovery Education Professional Development
- Discovery Education Assessment
- The Discovery Educator Network (DEN).

According to the firm, more than 3.5 million teachers and 35 million students use Discovery Education's broadband content, while over 80 million pieces of content are delivered per year.

#### THE FINANCIALS

In 2013, operating income before depreciation and amortisation (OIBDA) at Discovery's education division stood at \$27 million (about £17.5 million), unchanged from 2012. Revenues were up 9% that year though, from \$105 million to \$114 million.

In 2014, the firm began reporting its education results under a new category called 'Education and other', which also includes its studio production businesses.

Revenues in this segment increased to \$160 million ('Education and other' 2013: \$140 million) but OIBDA fell to \$6 million ('Education and other' OIBDA 2013: \$30 million).



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South African schools group Curro Holdings has dropped a R6 billion (£300 million) takeover bid for smaller rival Advtech.

##### Learning Technologies Group acquires Eukleia for £7.5m

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Corporate training firm Learning Technologies Group (LTG) has acquired Eukleia, a provider of e-learning to the financial services industry.

##### Civitas Learning acquires BlikBook

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US-based software provider Civitas Learning has acquired British learning platform BlikBook for an undisclosed sum.

##### Philippines: Ayala Education invests \$9.9m in University of Nueva Caceres

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The education branch of conglomerate Ayala Corp, Ayala Education, has invested \$9.9 million (£6.3 million) for a 60% stake in the University of Nueva Caceres (UNC) in the Philippines.

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Games-based learning business Zondle is to stay open after an eleventh hour intervention by an "anonymous donor".

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Bridges Ventures has brought forward its sale of apprenticeships business Babington Group, EducationInvestor understands.

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The University of South Wales has closed its London campus after failing to enrol a single student.

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International schools operator Cognita has begun road-showing a £280 million bond to fund its expansion.

**US: Providence Equity Partners seeks up to \$3.4bn for Blackboard sale**

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Learning management system (LMS) provider Blackboard has been put on the market by its owner Providence Equity Partners, Reuters has reported.

teachers are our secret weapons, argues Jisc's Martin Hamilton

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Profits at Tribal Group took a hit last year following the non-renewal of a major Ofsted contract. Can the firm make up the lost ground, asks Daniel Thomas

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Several trends bode well for an active training deal environment in Europe in the second half, argues Martin Luen

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M&A activity in the US education industry is hotter than ever. Kirsten Noben looks at what's driving the trend and the subsectors getting most love

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Social impact bonds offer an innovative way of channelling private investment into public services. But can the market's limitations be overcome, asks Daniel Thomas

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The government's plan to double free childcare hours is in danger of derailing, finds Sunniva Davies-Rommetveit