

AC Ventures Industry Research

Insights on Indonesia's Education Technology Market
June 2020

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Macro Perspective

Global Education Technology

Education technology (or “**Edutech**”) has the potential to address many of the root causes of the global learning crisis once scale is achieved. It has the power to harness the social reach of the internet to create *efficiency* and enable new levels of standardization and *democratized access* to education. The global education market is a US\$6T industry, with the education tech subsector growing at ~12% CAGR.



Indonesia Education Technology

Widespread Internet Access

175.4M users, 64% penetration rate. 17% growth from 2019. 70% of these users are aged 13-34. Internet access is affordable.

Interest in Education

Increased demand in private school and after-school tutoring enrollment in recent years, coupled with growth of middle class.

Mobile-enabled Society

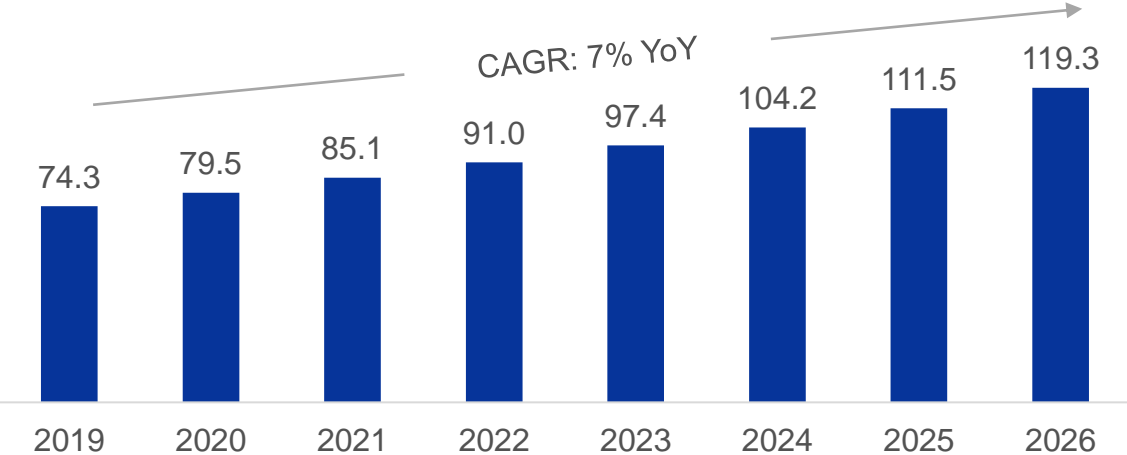
54.6% of Indonesian web traffic comes from mobile devices, while only 44.9% come from desktops.

Government Spending

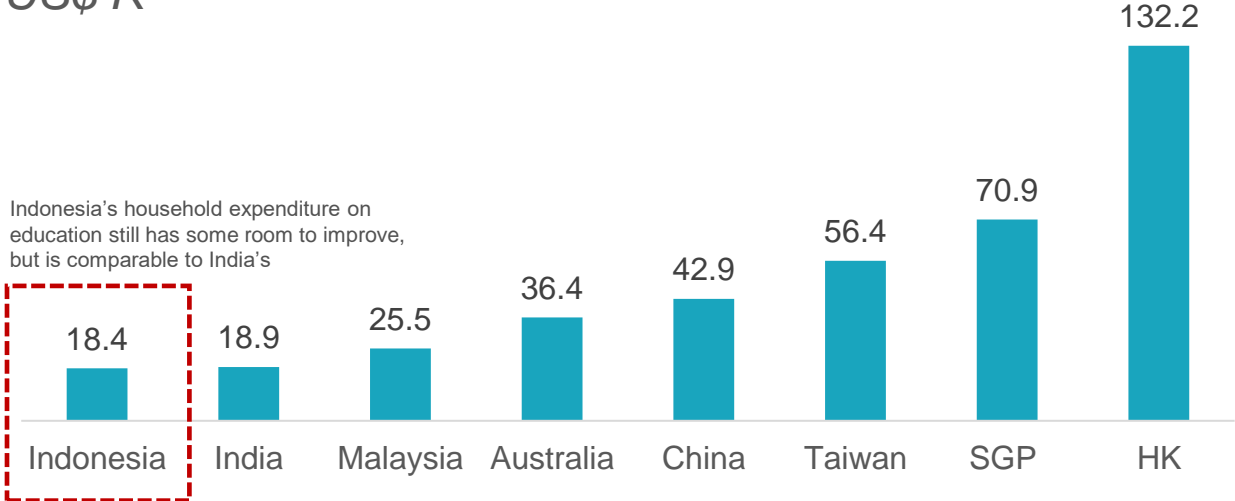
Public expenditure on education is at 20% of the annual budget, or 3.1% of GDP (2019), and has remained stable in the ~10 years.

Indonesia's Education Market Size

Indonesia Education Market Size, US\$ B



Parents' Expenditure on Education, US\$ K



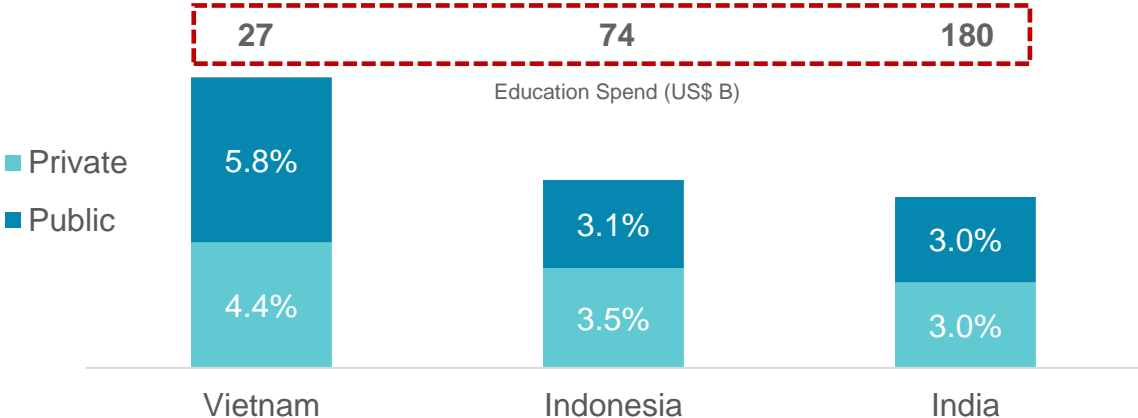
Takeaways

In 2019, total spending on education was **6.6%** of Indonesia's GDP – this encompasses all educational endeavors including tutoring, independent learning, certification, and private schooling. At US\$1,126B GDP, aggregate spending on education is approximately **US\$74.3B**. Assuming 7% YoY growth from 2019-2023, this market is forecasted to reach a size of **US\$119.3B** in 2026.

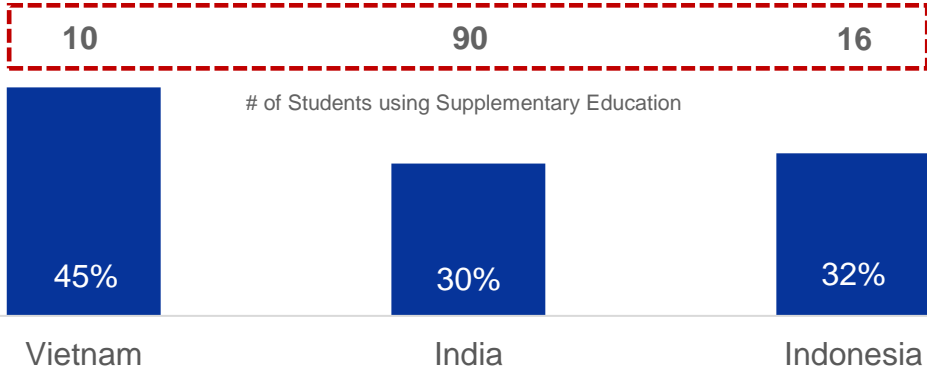
For comparison, market size of the education sector in China: **US\$1,116B** and India: **US\$192B** (2019).

Indonesia's Edutech Potential

Private and Public Expenditure on Education, % of GDP, 2019



Supplementary Education Adoption, % of K-12 Students, 2019



Takeaways

Although Indonesia is still behind Vietnam in terms of percentage of private and public expenditure on education, the total amount spent is higher, indicating a larger potential market and the capacity for future growth in private expenditure in education. Also, 32% of Indonesian students use supplementary education, which is close to India's 30%, indicating that people in Indonesia are already seeking supplementary education. With the current monthly subscription fees of US\$30, the supplementary education sector is expected to have a market size of **US\$5.8B**.

Edutech Market Readiness

Metric	Indonesia	China	India
Strong demand for test preparation materials	[High] Due to the standardization of UNBK & college entrance exams, but cultural values are not as strong as China/India	Standardization of the Gaokao and strong cultural values	Standardization of board exams, college entrance exams & strong cultural values
Favorable regulatory environment	[Medium]. A central Edutech authority is set up, push to digitize schools is not widespread yet, education technology standards not set up yet	There is clear regulation and support from the government to develop education technology solutions	Government has launched efforts to integrate technology in education and invests in human capital to develop Edutech sector
Growing middle class	[High] Middle class make up 20% of the population, and aspiring middle class make up the next 44%.	Over 30% of the urban population is considered middle class.	The Indian middle class is set to grow by 140M households from 2019 to 2030
Increasingly affluent middle class/higher disposable income	[Medium] The Indonesian middle class have annual incomes of US\$4,800-US\$9,600	The Chinese middle class have annual incomes of US\$3,640-US\$36,400	The Indian middle class have an average annual income of US\$2,500
High-speed internet	[Medium] The average Indonesian Internet speed is 6.65Mbps	The average Chinese Internet speed is 2.69Mbps	The average Indian Internet speed is 8.66Mbps
Mobile payments penetration rate	[Low] E-money/wallet penetration rate is at 17.7% in 2018, digital transactions increased by 23% in 2018	E-money/wallet penetration rate is at 79.4% in 2018, digital transactions increased by 48% in 2018	E-money/wallet penetration rate is at 29.6% in 2018, digital transactions increased by 55% in 2018

Key Industry Challenges

Early Stage

The Edutech sector in Southeast Asia is seen as being early in the stages of development, behind the global leaders of this industry such as United States, China, and India.

Hyperlocal

The Edutech sector is hyperlocal and firms often have difficulty scaling beyond their founding country due to cultural, environmental differences, curricular, etc



Human Capital

There is also a lack of human capital (i.e. high quality teachers) to serve in this sector as its growth is not projected to skyrocket like other technology subsectors

Unclear Strategy

The consensus is Indonesia's Edutech has market potential; however it is unclear what the most appropriate monetization strategy might be.

Operating Models Adopted by Edutech Players

There are 3 main business operating models, and most Edutech firms use a combination to reach the profit generation stage. These are:

- **B2B**, targets schools/corporates. This strategy is attractive because of the economies of scale involved (i.e. when targeting schools, there was only one set of fixed costs and scaling operations is easy).
- **B2C**, targets the end user (students/learners). The customer acquisition costs were the highest here due to competition & advertising costs.
- **B2B2C**, where end users (students/learners) are accessed indirectly through businesses (schools/corporates). This allows the Edutech firm to access a larger market than a pure B2B model whilst mitigating the high costs of a pure B2C model.

Common Types of Edutech Companies



K12 Tutoring



Learning Management



Coding Bootcamp



School Administration

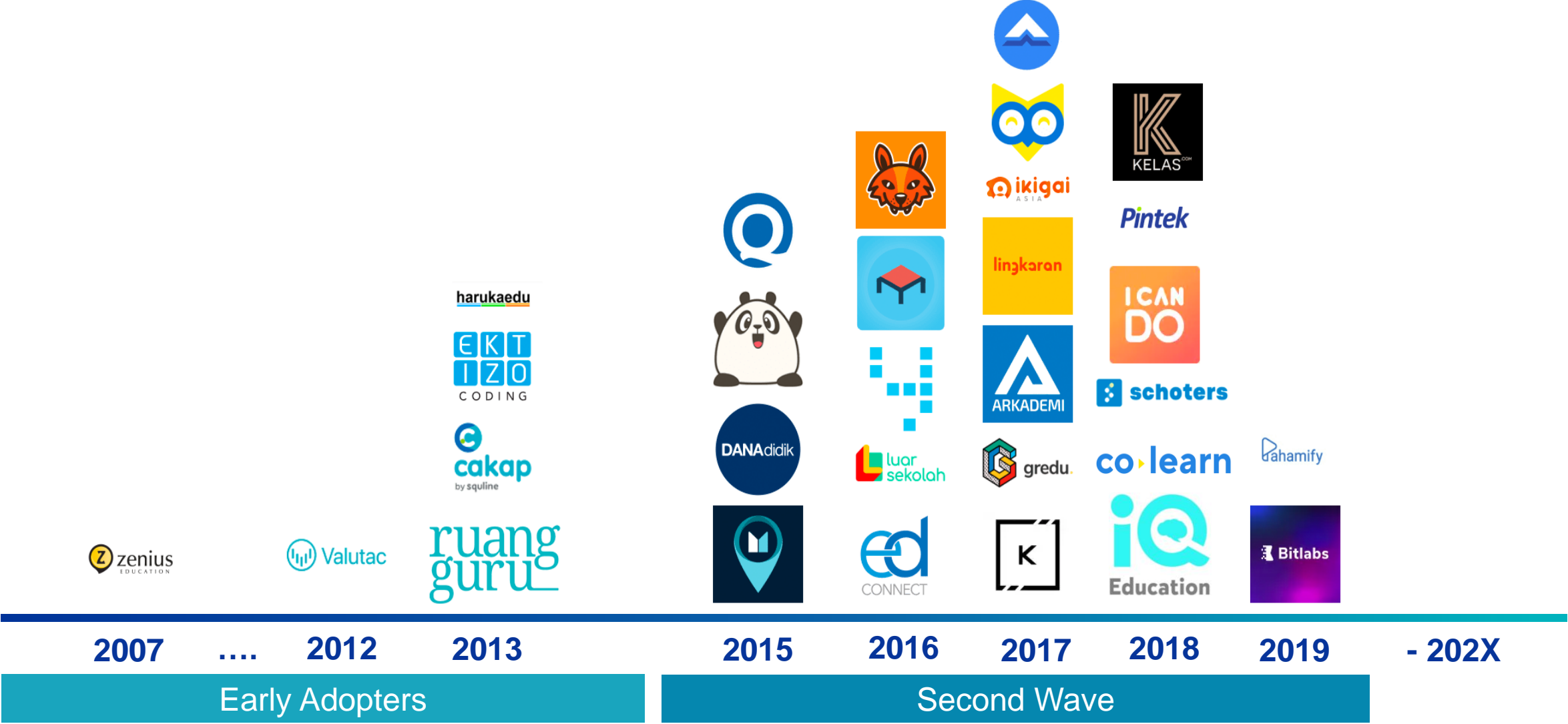


Professional Development



Loan Provider

Timeline of Indonesia's Edutech



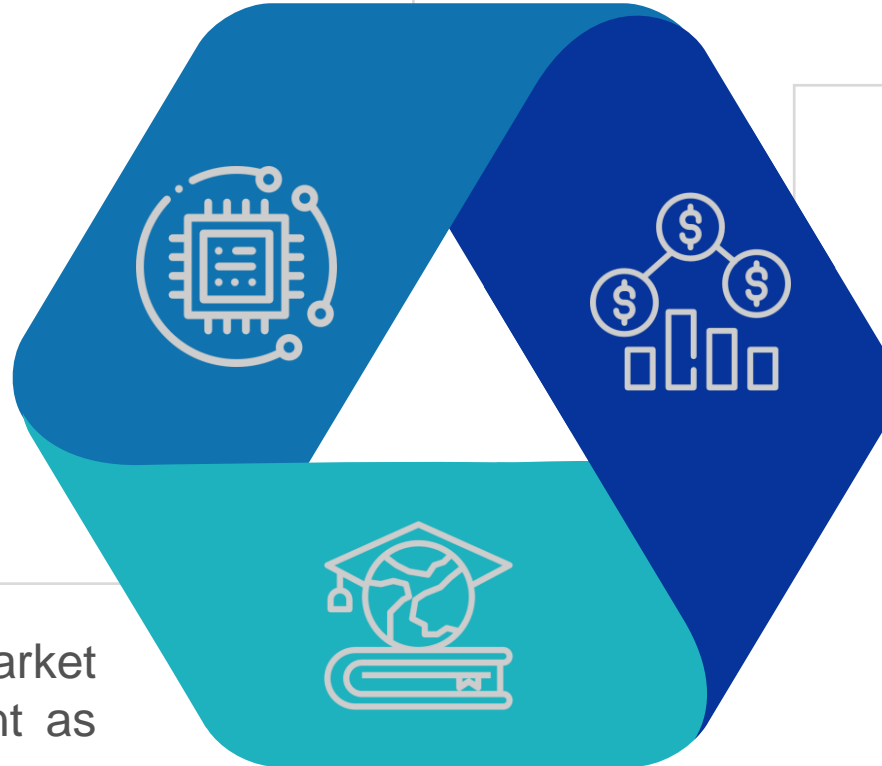
Conclusion

Tech Infrastructure

Even though the internet access is still not well distributed in Indonesia, the penetration growth has been increasing significantly at a CAGR of 17%. Therefore, second wave Edutech companies have more opportunities to win the market.

Education Value

Although Indonesia's mass market doesn't view education as important as China/India, Indonesia has seen an increasing demand for high-quality learning outside the traditional classroom.



Large Market

Indonesia has 100M+ students and the quality of primary education is poor due to lack of high quality workforces in the industry. Hence, the demand for supplementary learning exists, and is forecasted to continue to grow.