AI is ushering edtech into a new era. Three investors share what they're most excited about in the space.

Samantha Stokes | May 1, 2024

- The edtech industry is back in vogue with some investors, thanks in part to AI advancements.
- Edtech startups raised $4.3 billion in 2023, down from a $17.3 billion peak in 2021, per PitchBook.
- AI edtech startups Lirvana Labs and Empowerly have recently raised new funding rounds.

The past few years have been tough for edtech companies.

While the industry once reached meteoric highs — edtech startups collectively raised $17.3 billion from VCs in 2021, according to PitchBook — the sector has since come back down to earth, generating only $4.3 billion in new investments last year, per PitchBook. The decline is at least partially due to an investing goldrush in 2021 and 2022 followed by its subsequent slowdown, which has been marked by a broad pullback in VC funding, layoffs, and some startups shutting down.

AI, however, may be finally starting to turn things around.

In recent months, multiple edtech startups have raised fresh funding rounds while specifically touting AI as a core part of their business model. Lirvana Labs, which uses generative AI to provide personalized learning companions to elementary-aged children, just raised $5.3 million in seed funding from Kapor Capital, Transcend Capital Partners, and Chingona Ventures.

Empowerly, meanwhile — which provides college counseling services — raised $15 million in February to develop new AI offerings and a mobile app, TechCrunch reported.

These deals could signal that AI is ushering in a new era for edtech companies, and VCs who invest in the space are excited about the renaissance.

"AI has hit a recent button and supercharged companies," Brian Dixon, a partner at Kapoor Capital, told Business Insider in an interview. "What you can do today, you couldn't do 10 years ago. Things are moving in the right direction."

Increasing access to individualized education

When it comes to AI and edtech, Dixon, who has been at Kapor Capital since 2011, said that he's excited about startups that are helping students and their families gain access to individualized education tools at a fraction of the cost of a traditional tutor.

"For so long, we've talked about the holy grail of education being personalized," he said. "That's where the future is heading."

For example, Numerade — one of Kapoor Capital's portfolio companies — provides digital study guides to popular science and math textbooks. Founded in 2019, its main product is providing video solutions to schoolbook problems. But thanks to advancements in generative AI, the startup can also generate new study problems that are similar to questions a student is struggling with.

While some human tutors charge upwards of $100 an hour, Numerade costs $20 a month for unlimited access.

Lirvana Labs, which personalizes learning using generative AI, costs $10 a month, while Sizzle, which has an AI chatbot to help students with STEM homework, is free.

Dixon said that AI fits perfectly of fitting into his firm's thesis of making pre-seed and seed-stage bets on companies that positively impact low-income families, communities of color, and — in edtech's case — public school students.

"These tools are more accessible than ever to all students and parents who want the same thing," he said. "That's a huge draw for AI, especially at a fund like ours."

Improving the background of education

While consumer-focused applications of AI are all the rage — both in and out of the edtech space — investor Katelyn Donnelly says she's far more interested in how AI can work in the background to improve the edtech startups that are already in operation.

"I've stayed away from AI and education because you'll be competing against the best-in-class consumer AI companies like ChatGPt and others that are already getting $100s of millions in investments in mainstream VCs," she told Business Insider.

Donnelly, who launched her firm, Avalance VC, in 2021, said she's much more excited about "alternative education" startups that use AI to improve specific parts of the education ecosystem rather than companies building generative AI learning tools.

For example, she's backed Cybernut, a startup that provides game-based security awareness training in K-12 schools to help students identify phishing experiments.

In finance, Odyssey Education administers education savings accounts (ESAs) to families looking to supplement learning costs.

And Ednition, also one of Donnelly's portfolio companies, provides an infrastructure-as-a-service platform for other edtech companies to improve the data that goes into their AI models.

As AI gains popularity, especially in schools, it's important to have good tools running in the background, Donnelly said.

"OpenAI will never do data interoperability for K-12 schools," she said. "But if you are going to have AI in the classrooms, we need to get much better data than what we're currently getting."

Generating personalized assessments and learning personalized skills

From jobs being replaced by ChatGPT to prompt engineers commanding high salaries, AI isn't just revolutionizing how things are taught in schools — the tech is also reshaping the entire workforce, explained Ryan Craig, a managing director at Achieve Partners.

That's why it's so important to invest in ed-tech AI startups that help people rethink how they interact with technology and learn new skills necessary to successfully enter the workforce, he said.

Craig was previously a managing director at the VC firm University Ventures, but the fund five years ago transitioned to a buyout firm called Achieve Partners.

AI creates an experience gap where recent graduates and people new to the workforce don't have the skills necessary to succeed in entry-level roles, Craig explained.

"The experience gap is widening to a chasm," he told Business Insider. Craig added that while edtech has previously focused on providing services like tutoring and digital learning services, the next wave of edtech will use AI for guidance, skills assessment, college and career coaching, and other areas to help students transition to the workplace.

Achieve Partners's portfolio includes ACT and SAT preparation curriculum provider MasteryPrep and Boclips, an AI-powered educational video platform.

Also building in the space is Superintelligent, a new startup that helps people learn to use various AI tools and just raised $2 million in pre-seed funding.

At the intersection of edtech and the workplace, Craig says that AI also creates opportunities for students to learn new technologies and explore nontraditional career paths where they may excel.

"This has elements of personalized learning, but it's much more about assessments of skills and capabilities," Craig said. "There won't just be one pathway to economic mobility that runs through a traditional, four-year university. AI will develop a personal pathway that will provide a greater return on investment for the student."