

Is the For Profit Child Care Sector Poised for Growth?

Twenty-Ninth Annual Trend Report on For Profit Child Care

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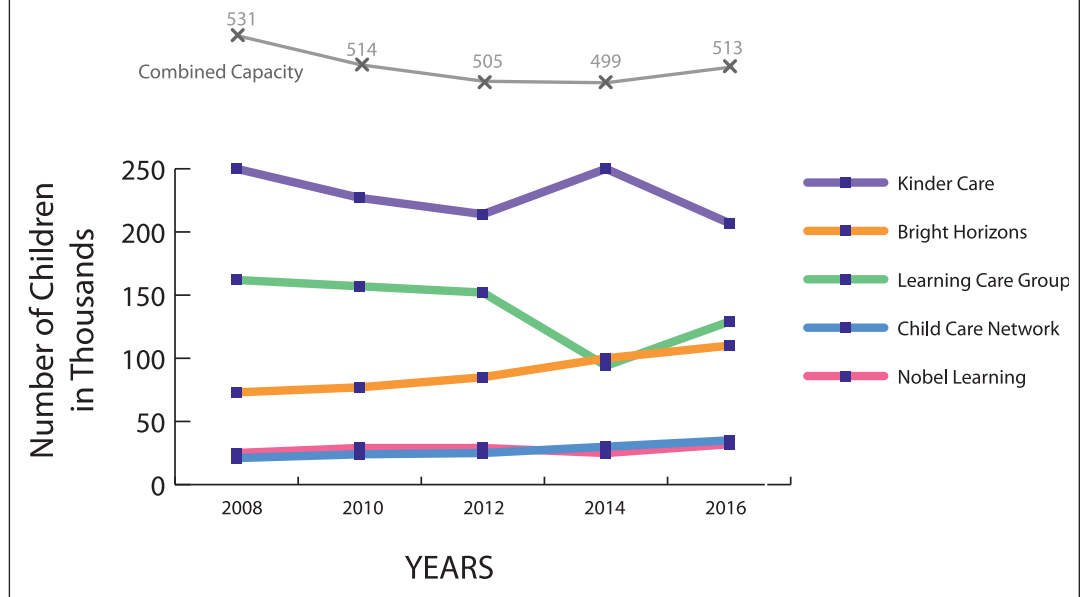
The past eight years have been, on average, no-growth years for the largest for profit child care organizations in North America (see Table 1). Now we are seeing indications that this trend may be reversed. In 2015, two global investment firms have looked at the demographic trends and decided to invest in the growth of the U.S. early childhood market:

- In April, Investcorp announced the acquisition of Nobel Learning, the fifth largest for profit provider in North America.
- In July, Partners Group, Inc. announced its acquisition of Knowledge Universe (KU), the largest child care company in the world.

To find out why these two global investors are bullish on child care, *Exchange* interviewed key players with both companies.

Table 1 — Growth Rates for Top Five Chains

Total licensed capacity (in thousands) for 5 largest for profit child care organizations



Right Team, Right Demographics

Lane McDonald is a business and financial services advisor for the Switzerland-based Partners Group, Inc. and is charged with overseeing the KU acquisition. Her perspective on this acquisition:

“The Partners Group is no stranger to the education world. In the past five

years we have invested in over 14 education companies on behalf of our investors, including a number of early childhood companies in the United States and Europe. This involvement has increased our awareness of the strong promise of the child care market in the United States. A number of factors led us to this investment...

- The growing influence and consistency of the neuroscience on children’s devel-

opment, which has confirmed the vital importance of 0 to 36 months.

- The increasing birth rate in the United States.
- Continued strong female participation in the workforce.
- Economic projections for long-term stable growth of the U.S. economy.
- Millennials' (largest demographic cohort in U.S. history) expectations for employers to meet their needs for child care and flexibility.
- Partners Group's ability to influence the conversations among major employers about their contributions to workforce development and stability.

"All these factors convinced us that the U.S. early childhood education market is poised for growth, but it is the strength of the Knowledge Universe management team that convinced us to select them as an investment vehicle..."

- although the company has not expanded in five years, it has achieved positive financial results for the past 15 quarters.
- despite the ECE market's cyclicity, disciplined management can smooth its swings and even accelerate performance during down times.
- the Knowledge Universe leadership team's focus on quality student outcomes is critical, as indicated by their drive to have 100% of their centers accredited.
- the Knowledge Universe team's focus on professional development and being an employer of choice in the market is also a key differentiator.

"Our view on this investment by the Partner's Group was well summarized

by one of my fellow board members: 'It is rare to have such an opportunity to do well while doing good.'"

From Sur La Table to ECE

In April 2015, Nobel Learning, the fifth largest for profit child care organization in North America, was acquired by Investcorp, a leading global provider and manager of alternative investment products with offices in the U.S., UK, and across the Gulf. Since its founding in 1982, Investcorp has done over 150 deals, investing in diverse high-performing companies around the world such as Berlin Packaging, Sur La Table, Papersource, ATD, and Accuity. While they have acquired a K-12 educational testing company in the United Kingdom, they had no previous investments in the early childhood sector. So *Exchange* interviewed Investcorp's Maud Brown, Managing Director, Corporate Investment North America, who is responsible for overseeing the Nobel investment, to find out why they decided to invest in this space now:

"In searching for promising investments, we do not target specific markets; rather we look for well-managed companies with significant growth opportunities. Nobel fit this profile. CEO George Bernstein has demonstrated great talent in guiding Nobel through a period of steady growth in enrollment and revenues. We also found attractive that Nobel had schools in the K-12 space, as well as an online preparatory school serving children from elementary through high school.

"From our perspective, the early childhood market in the United States is highly fragmented with great opportunities for consolidation and organic growth. We intend to grow Nobel through increasing enrollments in current schools, adding new centers in promising markets, and acquiring existing schools. Since our purchase

of Nobel, we have already closed two acquisitions of existing schools."

Other Developments in the For Profit Sector

As we move from 2015 to 2016, there have been a number of interesting developments among the 50 largest for profit organizations. Most notably...

- Bright Horizons continued its growth arc by acquiring Hildebrandt Learning Centers.
- several of the Top 50 organizations have launched franchising initiatives to build on their brands, and franchising veteran Kids 'R' Kids has started franchising programs in China.
- many of the larger for profit organizations have become active players in the Head Start world.

Organizational Updates

Youthland Academy: "Our centers are working towards accreditation; all centers will earn first star ratings in a movement to decrease staff turnover as well as create fun, happy, and cooperative communities within our centers."

Sunrise Preschools: "We believe that the local economy has improved enough to justify organic growth. Our capacity continues to increase, while our number of schools stays constant because we are replacing old schools with new and larger schools."

Stepping Stone School: "We are working closely with a major new teaching hospital to provide on-site care for the students and others working at the hospital. We also have another piece of property in the Austin, Texas, area that we will be developing in 2016."

Largest National Child Care Franchising Organizations

Organization	Headquarters	CEO	Centers	Capacity
Goddard Systems	King of Prussia, Pennsylvania	Joseph Schumacher	441	65,000
Primrose Schools	Acworth, Georgia	Jo Kirchner	315	55,655
Kids 'R' Kids Learning Academies	Duluth, Georgia	David Vinson	160	38,000
The Learning Experience	Boca Raton, Florida	Richard Weissman	172	30,100
Kiddie Academy	Abingdon, Maryland	Gregory Helwig	148	22,837
Discovery Point	Duluth, Georgia	Clifford Clark	49	11,270
Children's Lighthouse	Fort Worth, Texas	Patrick Brown	36	7,920
Creative World School	Bonita Springs, Florida	Dr. Marianne Whitehouse	21	4,650
Lightbridge Academy*	Piscataway, New Jersey	Gaetano T. Falzarano	16	2,802
KidsPark	San Jose, California	Debra Milner	16	1,010

Based solely on information supplied by the organizations. *Based on information from January 2015.

Primrose Schools: "We are planning to pursue worksite franchise opportunities, allowing us to provide on-site schools for major employers or a cluster of employers in a common location. We are also continuing to see demand for our schools in large urban centers, which requires adaptive reuse of office and industrial spaces. In addition, we are considering the possibility of adding more corporate-owned schools."

Phoenix Children's Academy: "We have become a franchisor and look forward to growing that part of our business."

O2B Kids: "We are opening a new facility in Altamonte Springs, Florida, and are excited to be in a new market! We are also exploring other locations in Florida for 2016-2017."

New Horizon Academy: "We started our first Early Head Start partnership in six locations. In addition, New Horizon Academy is picking up its plans for new locations in 2017 due to an improving economy and more demand for high-quality early education services from families."

Learning Care Group: "We are leveraging technology to further strengthen communication with families."

Kids 'R' Kids: "We have opened a Master Franchise for Kids 'R' Kids in China. We have two corporate offices there: one in Beijing and one in Shanghai. We have two schools already in operation and close to 25 in the pipeline to open in the next 18 months. Kids 'R' Kids Learning Academies remains privately owned and operated by the Vinson family — the founders of Kids 'R' Kids. Keeping our business within the family has helped to keep our franchisees more connected to the purpose of why we exist and allows the franchise support center (corporate office) to maintain daily involvement with continuous availability for management, curriculum, accreditation, and quality assurance training."

Kiddie Academy: "We have a system-wide accreditation initiative and high-quality education standards and have increased availability of technology within classrooms for learning and instruction and use of technology for enhanced parent communication and child assessments."

Gretchen's House: "We are pursuing auto pay options for parents, diversifying our training for staff, increasing our support for dual language families, and updating our marketing materials, including our website."

Doodle Bugs! "To make Doodle Bugs! an even better place to work, our 2016 major company initiative is to further engage our team members at the center level in company decisions and practices. We're forming quality improvement committees, increasing training, introducing a recognition platform, and simply doing a better job listening to our employees. By focusing on the experience of our team, we believe we will improve the experience of our customer. With continued satisfaction comes continued company growth."

Bobbie Noonan's Child Care: "We are focused on maintaining enrollment when parents lose assistance; VPK dollars not increasing."

Creative Kids: "We have begun to franchise our concept."

Childcare Network: "We have experienced continued growth through acquisition, with an increased emphasis on building new schools."

Children's Workshop: "We have opened Head Start and Early Head Start classrooms in our centers through both our for-profit and non-profit entities. Additionally, we are expanding into underserved areas to provide affordable, high-quality

education and care to more families in New England.”

Brightside Academy: “We have high-quality, limited network contracts: Head Start; Universal Pre-K; and high-quality subsidized child care contracts.”

Bright Horizons: “We will be taking advantage of technology advancements to build on our technology infrastructure and software to enhance the daily experience for teachers, directors, and leadership teams, as well as children and families. For center leadership, this means greater dependability and flexibility from back-end systems that will enhance everything from family enrollment to recruiting, payroll, and tuition collection.

- For children this means, for instance, expanding our use of SmartBoards in the classrooms for enriched interactive learning, including creative story making and exposure to sights and sounds from around the world.
- For parents, we will be continuing our release of mobile daily sheets, registration apps, and online payment.
- For teachers, use of the technologies with parents and children is broadening and enhancing their career development. But the greatest use of technology for staff comes in our expanded online training opportunities, career development, and leadership skills modules. We will also be capitalizing very broadly in 2016 on the developments we have made in all our training resources. This includes a newly enhanced online learning portal, Mary Ann Tocio University, rebranded in honor of our recently retired long-term President and COO who devoted her career to enhancing the careers of early educators. We will be unveiling a new Leadership Institute, customized for employees in every role and at

every stage of their career within the organization.”

- We are proud of our Learning and Development Team, which has recently earned Bright Horizons the distinction of being named one of the Top 125 Training Organizations globally and was a three-time winner at the CLO Symposium for Learning in Practice.
- We will also be continuing our mission to serve our employer clients globally and with services that support their employees across all of life’s stages. With operations now in the U.S., Canada, UK, Ireland, the Netherlands, and India, we will continue to work with employers to serve them where they have needs for employer-sponsored child care and to do that in a way that reflects the local culture and environment.
- We will also continue to offer services that extend beyond child care and back-up child care to help employers meet their employees’ need for dependent care, including special needs support, elder care, and other adult dependent care services, in addition to college advising for teens and continuing education for the employees themselves as we currently do with our Care Advantage, Special Needs, College Coach, and EdAssist lines.”



North America's Largest For Profit Child Care Organizations

Organization	Headquarters	CEO/Executive Director	Centers	Capacity
Knowledge Universe	Portland, Oregon	Tom Wyatt	1,494	207,000
Learning Care Group, Inc.	Novi, Michigan	Barbara Beck	877	128,985
Bright Horizons Family Solutions	Watertown, Massachusetts	David Lissy	935	110,000
Childcare Network	Columbus, Georgia	J. Scott Cotter	218	35,119
Nobel Learning Communities Inc.	West Chester, Pennsylvania	George Bernstein	190	32,000
Cadence Education Inc.	Scottsdale, Arizona	Douglas MacKay	143	23,250
Rainbow Child Care Center	Troy, Michigan	Patrick Fenton	120	17,851
The Sunshine House	Greenville, South Carolina	Wes Wooten	135	17,000
Children of America*	Delray Beach, Florida	Thad Pryor	75	16,350
Minnieland Academy	Woodbridge, Virginia	Charles Leopold	86	14,865
New Horizon Academy	Plymouth, Minnesota	Chad Dunkley	92	13,600
Brightside Academy	Pittsburgh, Pennsylvania	Mark Kehoe	65	10,544
Crème de la Crème	Greenwood Village, Colorado	Bruce Karpas	25	7,325
Sunrise Preschools	Tempe, Arizona	Robert Orsi	24	5,538
BrightPath Early Learning Inc.	Calgary, Alberta, Canada	Mary Ann Curran	52	5,390
Acelero	New York, New York	Aaron Liberman	40	5,000
Pincrest*	Sherman Oaks, California	Jeri Dye Lynch	8	4,600
Action Day Primary Plus	San Jose, California	Carole J. Freitas	22	4,520
Rainbow Station**	Glen Allen, Virginia	Gail W. Johnson	10	4,515
Celebree Learning Centers	Forest Hill, Maryland	Richard O. Huffman, III	37	4,295
Country Home Learning Center	San Antonio, Texas	Sharon K. Ford	10	4,180
Xplor Child Care	Arlington, Texas	Beverly O'Connell	16	4,016
Southside Christian Child Care and Never Grow Up	Franklin, Tennessee	Dwight Derringer	32	3,771
Youthland Academy	Cincinnati, Ohio	Amanda Bottleson, Courtney Berling	22	3,740
Stepping Stone School	Austin, Texas	Rhonda Paver	19	3,400
The Malvern School	Glen Mills, Pennsylvania	Joseph Scandone, President Kristen M. Waterfield, President	23	3,266
Rogy's Learning Place*	Peoria, Illinois	Wendy Pettett, Dawn Meyer, Rick Rogy	20	3,075
StarChild Academy	Apopka, Florida	Peter Zimmermann	7	2,928
The Gardner School	Brentwood, Tennessee	Scott Thompson	14	2,734
Doodle Bugs! Children's Centers	Buffalo, New York	Anthony Insinna	14	2,438
Children's Friend, Inc. *	Warner Robins, Georgia	Dwayne Foskey	15	2,295
Little Sprouts, LLC	Lawrence, Massachusetts	Mark Anderegg	23	2,275
Educational Playcare	Windsor, Connecticut	Jane Porterfield	11	2,165
The Children's Workshop, Inc.	Cumberland, Rhode Island	Margaret Teller	20	2,078
Kid's Country	Snohomish, Washington	Lynnda K. Langston	11	1,960
Creative Kids Learning Center	Las Vegas, Nevada	Carol Levins	9	1,872
Valley Child Care & Learning Center	Phoenix, Arizona	James Emch	9	1,843
Kids Kare**	Fresno, California	Jim Fisher	12	1,745
Children's Discovery Center	Maumee, Ohio	Lois Rosenberry	9	1,703
Bobbie Noonan's Child Care	Frankfort, Illinois	Judith Nevell	12	1,550
EduKids, Inc.	West Seneca, New York	Nancy W. Ware	13	1,490
U-Gro Learning Centres	Harrisburg, Pennsylvania	Greg Holsinger	11	1,470
Creative Playrooms**	Solon, Ohio	Joan Wenk	6	1,452
Little Tyke Creative Child Care, Inc.	Richland Hills, Texas	Alex Little, Keith Davis	12	1,399
The Compass School	Richmond, Virginia	Martin Brill	6	1,240
O2B Kids	Gainesville, Florida	Andy Sherrard	7	1,185
Gretchen's House Child Care Centers	Ann Arbor, Michigan	Heidi McFadden	10	1,168
K.I.D.S. Daycares	Westmount, Quebec, Canada	Evelyn Wajcer	13	1,000
Chappell Schools	Jacksonville, Florida	Nancy Dreicer	8	906
Junior Academy	Colorado Springs, Colorado	Robert Straeb	17	900

Based on information supplied by the organizations. Data on capacity is the total licensed capacity of all centers as of January 1, 2016.

*Information from January 2015. **Information from organization's website.