State of Play: Private Equity & Child Care in the U.S.

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Considerations

- Tradeoffs of profit maximization
- Systemic risks
- Inconsistent outcomes
- Equity implications
- Political implications

First, a little history…

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The New York Times

SUNDAY, JUNE 5, 1977

IN AMERICA

BY JOSEPH LELYVELD

Drive-In Day Care

Perry Mendel, the Colonel Sanders of child care for profit.

ST. LOUIS. The shopping complex that's taking shape on McKelvey Road in suburban Maryland Heights, just off the Interstate, already has its McDonald's and its Baskin-Robbins. Its K-Mart is under construction across the road from its newly opened Kentucky Fried Chicken, which is roofed in red tiles that radiantly catch the midday sun, outgleaming all the other plastic landmarks in the vicinity except one: an equally radiant tower that appears to have been finished in the same red tiles. The first reaction is to wonder why the corporate keepers of Colonel Sanders allowed two of their outlets to be established so close together. Then you draw near enough to read the logo. It's not Kentucky Fried Chicken. It's Kinder-Care — a chain of day-care centers that's relentlessly replicating itself near the Interstates and Beltways that funnel suburban America to work.

Its promoters confidently promise that Kinder-Care will be to the preschool child what McDonald's was to fast food and Holiday Inn to the salesman's one-night stand. They're talking about corporate growth, but it's not unfair to extend the analogy to the quality of service they offer. Kinder-Care aims to be safe and predictable — a common denominator that's appreciably higher than the lowest but not so high as to interfere with its own expansion. Naturally, its promoters have taken the differences between a child and a hamburger into account. They did so not only because they have a kindly interest in children but because they're careful businessmen who calculate their profit margins. When it comes to profits, children compare favorably with hamburgers, they say.

St. Louis already has 18 Kinder-Cares dotted around its suburbs. En route here, I detoured through Montgomery, Ala., to visit the corporate

care. That was eight years ago, but the article already had impressive statistics to quote on the rush of housewives into the work force. Mendel did some dollar calculations and showed them to business associates who would never have sat still for an argument on day care from the liberated-women's standpoint. The rest, as they say, is history.

Early on, Kinder-Care quit franchising its centers in favor of owning them outright; it then discovered its potential market was larger than even Mendel had imagined. Many mothers weren't able or willing to stay home till their babies toddled. Soon new Kinder-Cares were designed with nurseries. ("Infants is good business," Mendel told me.) Now, with 170 centers in 18 states, Kinder-Care is only three years away, Mendel figures, from becoming a truly national chain. By then, he said, it should have 500 centers with nearly 50,000 children — enough for it to start preparing mail-order catalogues with high-toned educational products.

"It's a great captive market," Mendel said, his eyes narrowing with the vision taking shape behind them. Someday, he went on, manufacturers may even pay Kinder-Care for the right to test market their products in its centers.

into bureaucratized and impervious school systems by promoting so-called voucher schemes. They probably weren't thinking about anything as openly commercial as Kinder-Care, but when you opt for competition in this country, that's what you get. Now, in the absence of comprehensive day care, commercial operations like Kinder-Care may be more than an alternative. They may be the future.

It was to glimpse that future that I stopped by the Kinder-Care on McKelvey Road. Once inside, I noticed that the center seemed somewhat skimpily supplied with books and blocks. But it was a bright, generally well-furbished place, obviously more than adequate — attractive, in fact. Half the children, its director said, come from single-parent families; of those, a surprising number live with fathers. I wondered about their lives and whether these children, whomever they lived with, got their dinners from Kentucky Fried Chicken on the way home from Kinder-Care.

That wasn't a very elevated line of inquiry, so I dropped it, concentrating instead on comparing the three Kinder-Cares I visited along the Interstate. The differences were conspicuous enough to dispel the notion that child care could be as standardized as Dairy Queens. Obviously, the personalities of teachers had more to do with the care children got than the eclectic and generally platitudinous guidance in the teacher's manual that's dispatched from Montgomery. "The basic philosophy of Kinder-Care," it says, "is to provide young children with unpressured opportunities for individual growth." If you accept the premise — that these opportunities have to be consistent with a 30 percent growth in the corporation's annual net income — that doesn't seem wholly inaccurate as a description of two of the three centers I visited. At the third, kids were watching the

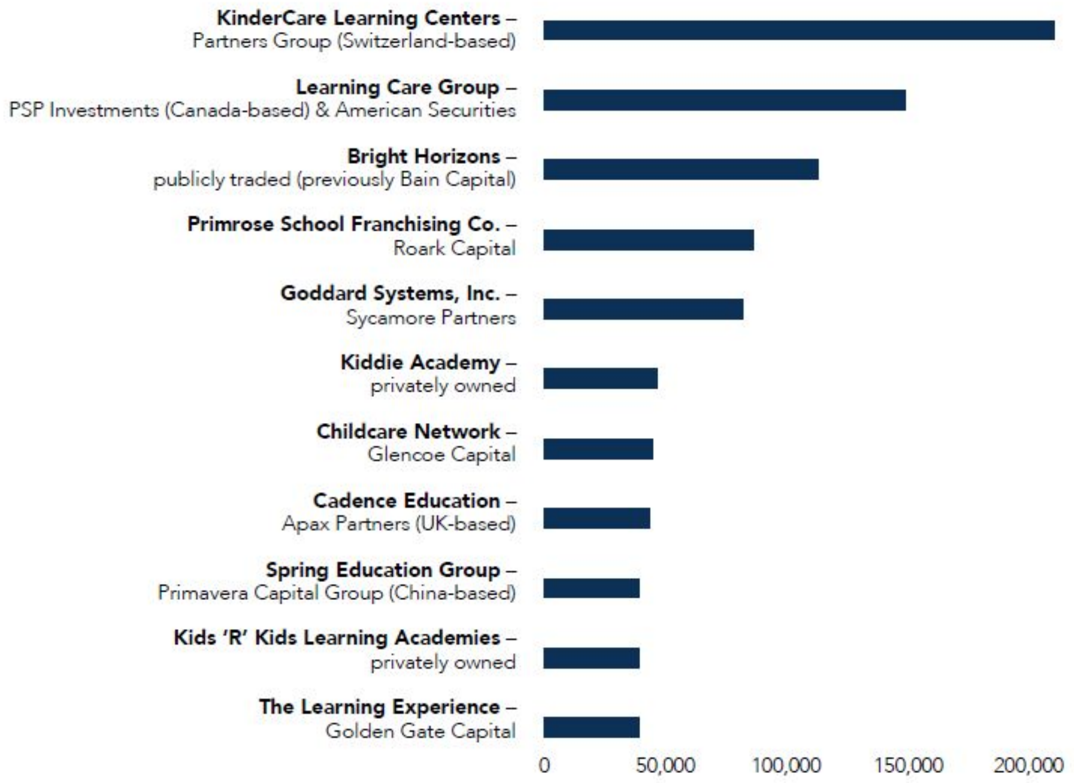
Private equity gets in the game

- KinderCare - acquired by KKR in 1996, then Partners Group, 2015 (up for sale)
- Goddard Systems - acquired by Wind River Holdings, 2002
- Bright Horizons - acquired by Bain Capital, 2008 (IPO in 2013)
- Primrose - acquired by Roark Capital Group, 2008
- Learning Care Group - acquired by American Securities, 2014 (additional ownership by PSP Investments in 2018)

Two decades of growth…

Between 2020-2022, largest chains up 8% (more than 500 programs)

FIGURE 01
North America's Largest For-Profit Child Care Organizations: Capacity
Source: Exchange Press



…and growing political influence

The New York Times

Can Child Care Be a Big Business? Private Equity Thinks So.

Some high-end chains are surprisingly profitable, and they are trying to shape child care policy in Washington.

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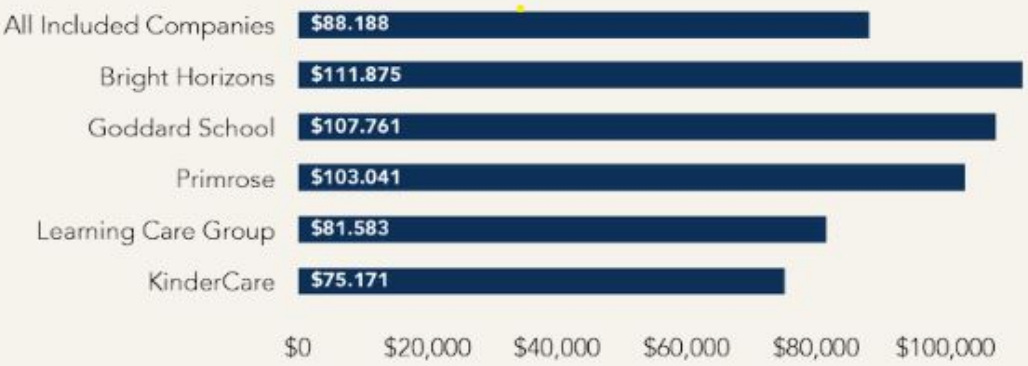
How do they make money?

- Maximized enrollment, minimized operational costs, high fees
- Institutional engagements and ancillary lines of business
- Franchise fees
- Real estate

Who do they serve?

FIGURE 04
Median Household Income in Census Tracts Around For-Profit, Equity-Backed Child Care Sites in Selected States, by Company



Potential Guardrails

- Legislative / regulatory
- Alternative ownership & ownership transition models
- Move child care away from a market altogether

Thank you!

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