



# Risky Business: Profitization of Childcare in Canada

Armine Yalnizyan

*Economist and Atkinson  
Fellow on the Future of  
Workers*

May 17, 2024

2,289,662  
Canadian  
children  
aged 0-5 in  
2023

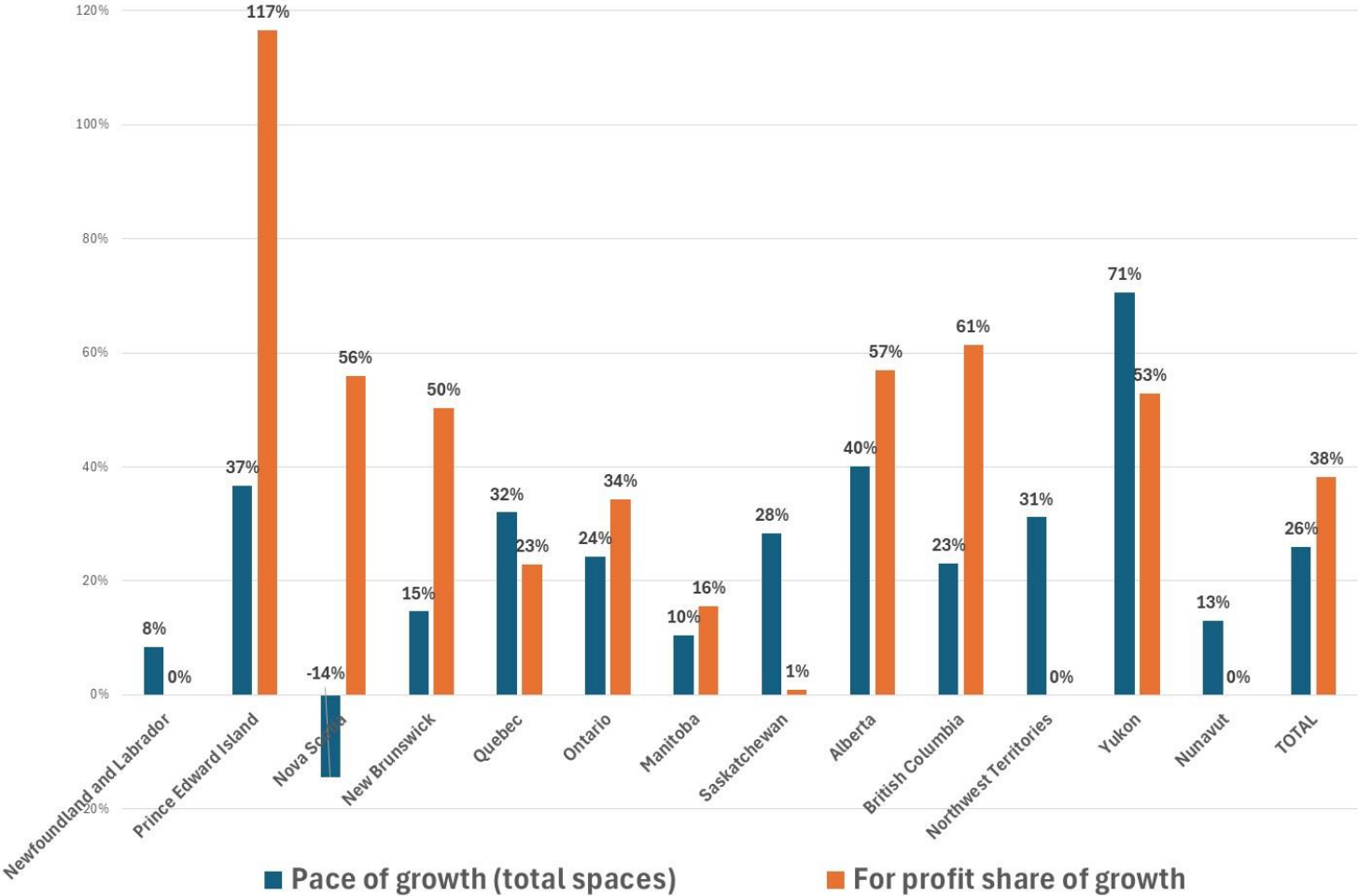
- **56%** were in some form of childcare, down from 60% in 2019 (now fewer family/home based providers)
- **34%** were in **licensed care**, up from 31% in 2019
- **12,664 licensed \*centres\*** in 2022, of which **47%** were **for-profit**



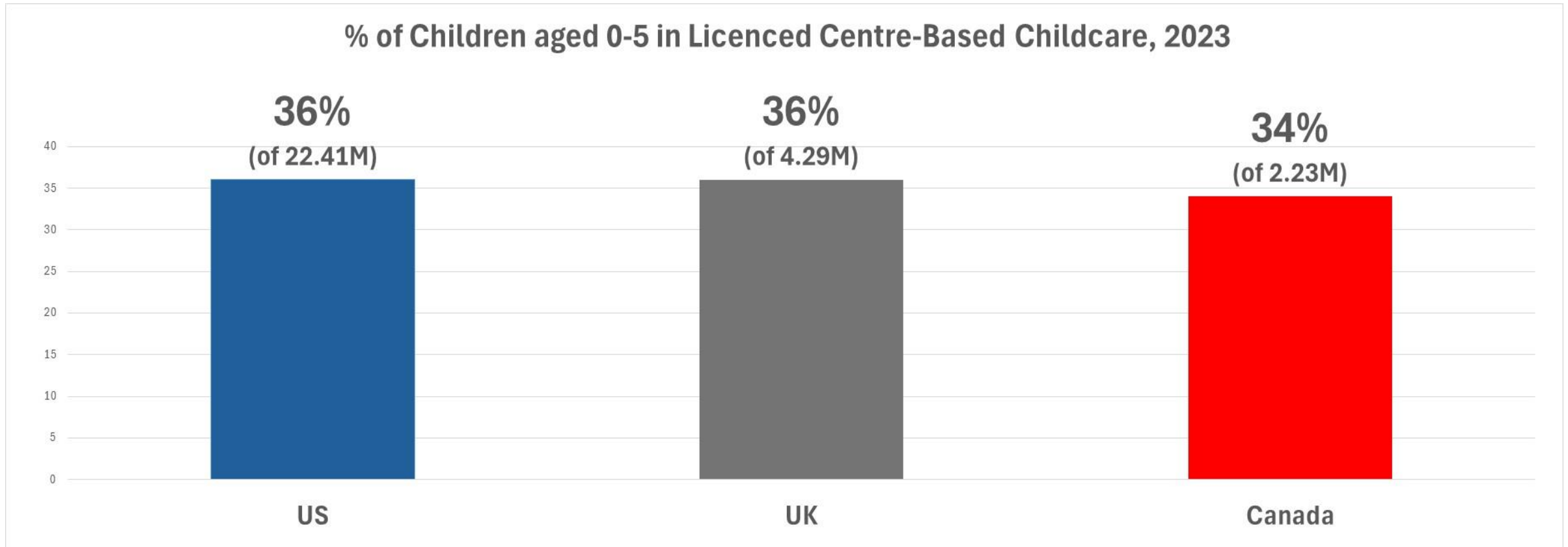
## Huge Variation in Reliance on For-Profits (0-12 year olds)

- In 2023
  - NU, NWT, SK: **0-1%**; MB: **6%**
  - ON **26%**
  - QC **46%**
  - NS **56%**, AB and BC **57%**
  - YK, PEI, NB: **60-64%**
- Canada-wide, **for-profit share of \*spaces\* was stable**, from 39% to **38% 2017-2023**, though 231,894 spaces added in that period (28% growth).
- **Most** growth (# of for-profit spaces): **ON** and **AB**.
- **Fastest** growth: **PEI** and **BC**
- **QC, NB, NL** and **YK: ↓FP %**

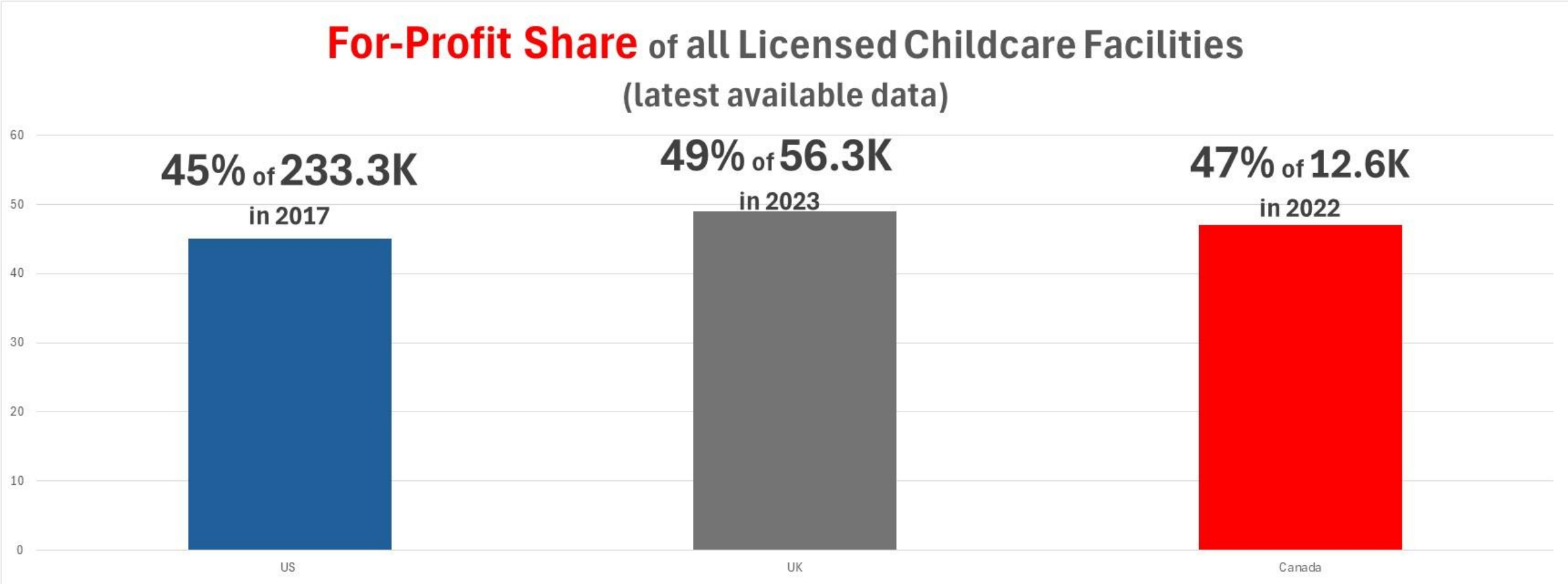
# Share of For-Profits in Growth in Number of Licensed Childcare Spaces 2017-2023 By Province, Territory and Total for Canada



# Compare: Capacity of Licenced Care



# Compare: % of licensed for-profit care



+

•

○

# The Many Meanings of For-Profit

## Definition includes

- mom [and pop] operations (often not profitable)
- small chains
- large chains

## Data *doesn't* include

- # of chains in market; or scale of chains and individual market share
- Type of for-profit financial backing (publicly traded or private equity: family offices, pensions, small cap, big cap)
- Turnover of ownership, especially private-equity-backed chains, which are on the rise globally in childcare



# The benefits of chains (for investors)



- **Economies of scale** (back-office functions, vertical integration, supply chains)
- **Standardization of procedures** that minimize costs and optimize revenues, with room to extra-bill or upsell
- **Mostly M&A:** acquiring known capacity and revenue streams
- **Sale and leaseback** of real estate; debt financing
- **Higher returns** for investors (up to 15-20% in U.S., 22% in UK)

# The problems with chains (for us)

- Standardization of procedures to minimize costs are often **labour-related** (lower staffing levels, fewer benefits, more turnover)
- Add-ons/options beyond base fee (**upselling**)
- Newest **locations often not ideal** for children (ex. strip malls)
- **Higher obligations for operators** (rents, debt payments); more potential for default
- Chains keep expanding their market share, **rising systemic risk**. (And maybe rising public sector costs, as in “too big to fail”)

# Growing Prevalence of Chains and Private Equity (PE)

- **Chains** now control **~12%** of the licensed childcare market in the **US**. **Eight of the 11 largest chains** are **PE**.
- **Chains** control **43%** of the for-profit market in the **UK**, up from 37% since 2018. **PE share** of market **doubled** 2018-2022 (4% to **7.5%**)
- **Not tracked in Canada**
- Private equity typically holds assets 4-7 years.

# Biggest players in Canadian childcare? All PE

- **Kids & Company** (156 centres in 2024, up from 110 in 2022; 37 in ON, 33 in AB, 30 in BC, 1 in MB, 7 in NS; 48 in 5 US states) **PE**
- **Busy Bees** (83 centres in 2024, 44 in ON, 34 in AB, 5 in BC; 170 in Brightpath group in the US) **PE**
- **CEFA** (43 locations, 35 in BC, 5 in AB, 3 in ON) **PE**
- **Lullaboo** (17 locations in GTA; 5 year growth in revenue of 262% by 2019; “doubles its revenue every 24 months years”) **PE**
- **Most growth through buying existing capacity (mergers & acquisitions), not adding new capacity (franchise or greenfield)**

# Private Equity and Childcare in Canada

Smaller players  
investing *in*  
Canada at the  
moment

Bigger Canadian  
players are  
mostly investing  
*abroad*

**Ontario Teacher's  
Pension Plan**

**Onex**

# Private equity plays out differently across the **care economy** in Canada



## Long Term Care

**First Mover**

**Chain creation/growth  
(buyouts)**

**More recently: Real Estate  
Focus**



## Healthcare

**Historically: tech, drugs (venture  
capital)**

**More recently: platforms. just-in-  
time staffing, remote (venture  
capital)**

**Primary care/medical clinic chains  
(buyouts)**



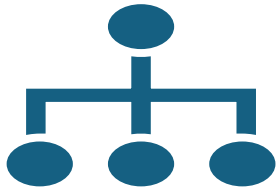
## Early Learning and Childcare

**Historically Canadian PE  
investors investing abroad**

**Just starting in Canada**

**Buyouts/Creation of Chains**

# Private equity uses **common strategies** across the care economy



**Less venture capital  
(new things)  
more  
buyouts.**



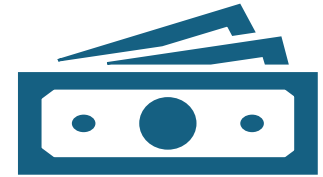
**Corporate consolidation:  
Roll up existing  
firms into small  
chains, turn  
small chains  
into big ones.**



**Grow market  
share: more  
price setting  
capabilities,  
more lobbying  
for rule  
changes**



**Complex  
corporate  
structures:  
Harder to follow  
the money,  
easier to shield  
from liabilities.**



**Buy/sell/reinvest:  
Each rotation  
generally means  
lower payroll  
costs, higher  
rental costs, more  
debt.**

# Why Private equity will grow in childcare

---

- **Demographic pressures:** needed to maximize employment rate of shrinking working age cohort to pay taxes
- **Public funding expansions:** insufficient supply/capacity, high demand, need to maintain women's labour force participation
- **Investment climate:** more money available, but fewer things publicly traded stocks and IPOs on exchanges
- **Guaranteed revenues/guaranteed growth:** government-backed subsidies; captive market; room to lobby for more
- **Ripe for corporate concentration:** Buying competition/rolling up existing business adds growth even as global growth slows.



# Doing it Differently

- Vancouver city – **develop** differently
- Saskatchewan LTC – **buy it back**
- **Keep it public** – don't divest assets
- **Pierce the corporate veil** – Require more disclosure if receive public \$
- **End looting** – limit how fast new owner gets dividends from acquired firm(s)
- **Bigger isn't better** – limit market share

# Themes for regulatory and legislative change



**Staffing** (levels, qualifications)



**Compensation** (wages, benefits, pensions)



**Disclosure** (type of investor backing, corporate directors, ownership changes)



**Scale limits** (number of sites, market share)



**Public Focus** (preserve capacity/buyouts, development rules, don't divest)



**Enforce rules** (more forensic accounting, inspections)



**Bigger penalties** (providers and P/Ts)

# Sources

Slide 2:

- Number of children aged 0-5: <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1710000501> (down 2.7% from 2019)
- 34% in licensed care: [The Daily — Child care arrangements, 2023 \(statcan.gc.ca\)](#) (up from 31% in 2019)
- 47% of licensed care is for-profit: [Characteristics of child care centres serving children aged 0 to 5 years in Canada, 2021 to 2022 \(statcan.gc.ca\)](#)

Slides 3 and 4:

- Provincial variation in for-profits [Per Cent Change in For-Profit Facilities/Spaces by Province/Territory 2020 and 2023 | Early Childhood Education Report \(ecereport.ca\)](#)
- Change from 2017 (unpublished data from ECE Report, multiple years)

# Sources

Slides 5 and 6:

- Number of children aged 0-5 in 2023:
  - U.S. – 22.41 million from <https://www.census.gov/data/datasets/time-series/demo/popest/2020s-national-detail.html#v2023>
  - UK – 4.29 million (calculated by adding year by year in population pyramid from [National population projections - Office for National](#))
- Share of children in licensed spaces
  - U.S. – 36% (from 2019, 2023 updates to be published soon) Table 1 from [2020075REV.pdf \(ed.gov\)](#) (62% of 59% in any kind of non-parental care = 36%)
  - UK – 36% Number of registered places 2018-2023 from [Create your own tables, Table Tool – Explore education statistics – GOV.UK \(explore-education-statistics.service.gov.uk\)](#)
- For-profit share of all licensed spaces
  - U.S. – 40-45% share of all spaces, estimate from Elliot Haspel
  - UK – 49% share of all spaces from [Create your own tables, Table Tool – Explore education statistics – GOV.UK \(explore-education-statistics.service.gov.uk\)](#)

# Sources

## Slide 8

- 15-20% return on investment in US from [Can Child Care Be a Big Business? Private Equity Thinks So - The New York Times \(nytimes.com\)](#).
- Average profitability of all daycare operators: 7.3% in the U.S. [Unlock the Profit Potential of Daycare: Discover Lucrative – Business Plan Templates \(businessplan-templates.com\)](#)
- 22% in UK over 5 years [Revealed: the bumper profits taken by English private nursery chains | Childcare | The Guardian](#)

## Slide 10

- Chains control 10-12% of US childcare market; 8 of 11 largest chains now owned by PE (private equity) [“The End User Is a Dollar Sign, It’s Not a Child”: How Private Equity and Shareholders Are Reshaping American Child Care - Early Learning Nation](#)
- Chains control 43% of private for-profit market in UK [Create your own tables, Table Tool – Explore education statistics – GOV.UK \(explore-education-statistics.service.gov.uk\)](#)
- PE-owned share chains almost doubled to 7% 2018-2022 [Childcare sector in England must not become ‘playground for private equity’, experts say | Children | The Guardian](#)

# Sources

Slide 11 – Biggest childcare chains in Canada (all private equity backed, whether family money, commercial backing, public pensions) in 2024

- Kids & Company [Child Care Locations - Kids & Company \(kidsandcompany.com\)](https://kidsandcompany.com), 156 locations, up from 110 in 2022 [Kids & Company \(kidsandcompany.com\)](https://kidsandcompany.com)
- Busy Bees, 83 centres in CDA, [Our History | Busy Bees North America \(busybeesna.com\)](https://busybeesna.com) 170 in US since 2019
- CEFA, 43 locations, mostly BC but heading east <https://cefa.ca/cefa-find-a-school/>
- Lullaboo, 17 locations, GTA [About Lullaboo | Infant Daycares, Toddler Daycares & Preschools in GTA](#); “doubling growth every 24 months”, [How a Toronto daycare was thrown into turmoil after it was bought by a corporate chain - The Globe and Mail](#). Just opened biggest childcare centre in Canada [Canada’s Largest Childcare Centre Opens in Brampton, Ontario - Crozier: Consulting Engineers \(cfcrozier.ca\)](#)

# Sources

Slide 17 – doing it differently

- Vancouver example: pp. 52-53 [moving-private-to-public-child-care-canada.pdf \(childcarecanada.org\)](#) and pp.30-35 [making-strides-vancouvers-childcare-strategy.pdf](#)
- Saskatchewan example: [SHA finalizes \\$13.1 million deal with Saskatchewan Extendicare homes | Globalnews.ca](#)
- Keep it public: [Den-internasjonale-velferdsprofitten\\_digital.pdf \(velferdsstaten.no\)](#) (use google translate)
- Pierce the corporate veil: [\(PDF\) Piercing the corporate veil: nursing home ownership in turbulent times \(researchgate.net\)](#)
- End looting: [Elizabeth Warren Wants To Slow Down The Booming Business Of Private Equity \(forbes.com\)](#)
- Limit market share: [The FTC's Lina Khan on Anti-Competitive Private Equity Roll-ups - Bloomberg](#)