

Trends and Recent M&A Activity in the Early Childhood Education Market



Spring 2019

The Early Childhood Education market has been active recently in the area of mergers and acquisitions. This newsletter presents the main trends and M&A transactions in this market as well as implications for school owners.

Trends and M&A Activity

- **Private equity funds and asset managers continue investing in the sector**
 - The Public Sector Pension Investment Board (“PSP”) and American Securities announced a significant equity investment in Learning Care Group (US) Inc. by PSP. American Securities first partnered with Learning Care Group in 2014 and remains the controlling shareholder.
 - The Learning Experience, one of the top early learning and childcare franchises in the country, announced it had been acquired by San Francisco-based private equity firm, Golden Gate Capital.
 - Spring Education Group (portfolio company of Primavera Capital, an Asian private equity group) acquired Nobel Learning Communities. Nobel operates a network of over 190 private schools across 19 states in the United States.
 - Sterling Partners’ Education Opportunity Fund (“EOF”) announced its investment in Big Blue Marble Academy, a growing early childhood education organization that operates schools and public elementary afterschool programs in South Carolina, Georgia, Tennessee, Virginia, and Texas.
 - Leeds Equity Partners invested in Endeavor Schools, an operator of schools in several states with students from preschool through high school.
- **Large players continue acquiring preschools and childcare centers**
 - Babilou (France) acquired the chains Little Sprouts in the United States (45 centers), Nurture Education Group in Singapore, and Amelio in India (14 centers). Babilou plans to have between 200 - 300 preschools in the US in 5 years. Babilou is a portfolio company of TA Associates, a Boston-based private equity firm.
 - KinderCare acquired Rainbow Child Care Center and its 150 centers in 16 states. KinderCare is a portfolio company of Partners Group, a private equity firm.
 - Bright Horizons Family Solutions acquired Yellow Dot Nurseries in the UK. Bright Horizons is a public company.
 - Busy Bees (UK) expanded into the Australian market by acquiring Foundation Early Learning, a group of 30 child care centers.
 - Other large operators continued acquiring smaller chains of early childhood centers throughout the US.

Today’s Market

- There are buyers interested in analyzing opportunities with well located centers, with high quality infrastructure and real estate, good academic deliveries, good brand recognition, among others.
- The focus of these buyers will continue to be in states like Florida, Georgia, Texas, and California, among others.
- Large buyers look for multi site opportunities, even though high quality single site opportunities are also sought.
- A key challenge for school founders/owners seeking an exit opportunity like this is gaining access to these buyers, knowing how they operate (what they look for, how they negotiate and price schools), and having the support to facilitate and manage the deal on their behalf.

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Firm Overview

Mergium Advisors is an investment banking boutique providing M&A, capital raising, ad related advisory services (including business valuations) in the education and other sectors.

Education Focus

- K-12
- Preschools
- Colleges & Universities
- Continuing Education & Training
- Education Technology
- Language Training and Tutoring
- Publishing & Instructional Materials
- Special Education

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Deal structuring

• Valuation:

- Currently, buyers focus on EBITDA multiples that vary broadly depending on infrastructure quality, location, history, branding, academic delivery, and so on. These multiples are applied to EBITDA after accounting for normalized market rents for the real estate.

• Real estate and others:

- There are situations in which the Seller also wants to sell the real estate. Often, the value of the real estate is large compared to the value of the business. In this case, the return sought by large operators is much higher than the return of a real estate investor. Thus, typically, buyers bring institutional or private investors to acquire the real estate, and the operator (buyer of the childcare business) would lease the real estate from such investor.
- Other deal terms common in other industries also apply for deals in this industry such as escrow accounts/holdouts, earnouts (future payments based on performance), indemnities, warranties, and so on.
- Most buyers look for asset acquisitions instead of shares acquisitions.

The Sale Process

- The best alternative for a Seller is to have an advisor like Mergium running a process that presents the acquisition opportunity to as many qualified buyers as possible and trying to structure a competitive bid.
- Typical buyers are: (1) large domestic and foreign operators (privately held and public companies), (2) middle sized operators, running up to 20 sites, and (3) private investors.
- The best alternative is to run a structured process based on the following phases and activities:



- The advisor should have the right contacts at the potential buyers, know their investment criteria, know the industry, and the typical deal structures, so as to run a smooth process.
- The typical process can be as fast as 3 - 4 months and as long as 6 - 9 months, depending on the expediency of the sellers and buyers.

Thinking About Selling Your Centers?

If you are thinking about selling your centers and wish to know about potential buyers, deal terms, times to closing, what the sale process entails, and other details, we would like to speak to you. We specialize in selling early childhood centers and K-12 schools to large institutions (corporations, operators, institutional investors) and to high worth private investors who have large amounts of capital available to acquire centers in cash transactions. We have a large network of US and international contacts wanting to acquire centers in the US. We conduct well structured processes aiming to keep the confidentiality of the process and cause no disturbance to your business. We are professionals with individual experience of more than 25 years doing mergers and acquisitions. We are licensed to advise in asset and shares deals. Share deals are conducted through StillPoint Capital, member FINRA/SiPC. Our principal is an affiliate of StillPoint and has securities licenses including those of investment banking representative, uniform securities agent, general securities representative, and general securities principal. Please call us or e-mail us.