

# clearview

## Nursery market

Positive demographics and a highly fragmented market means the UK nursery sector remains attractive to both corporate nursery chains and financial investors



### Fragmented market

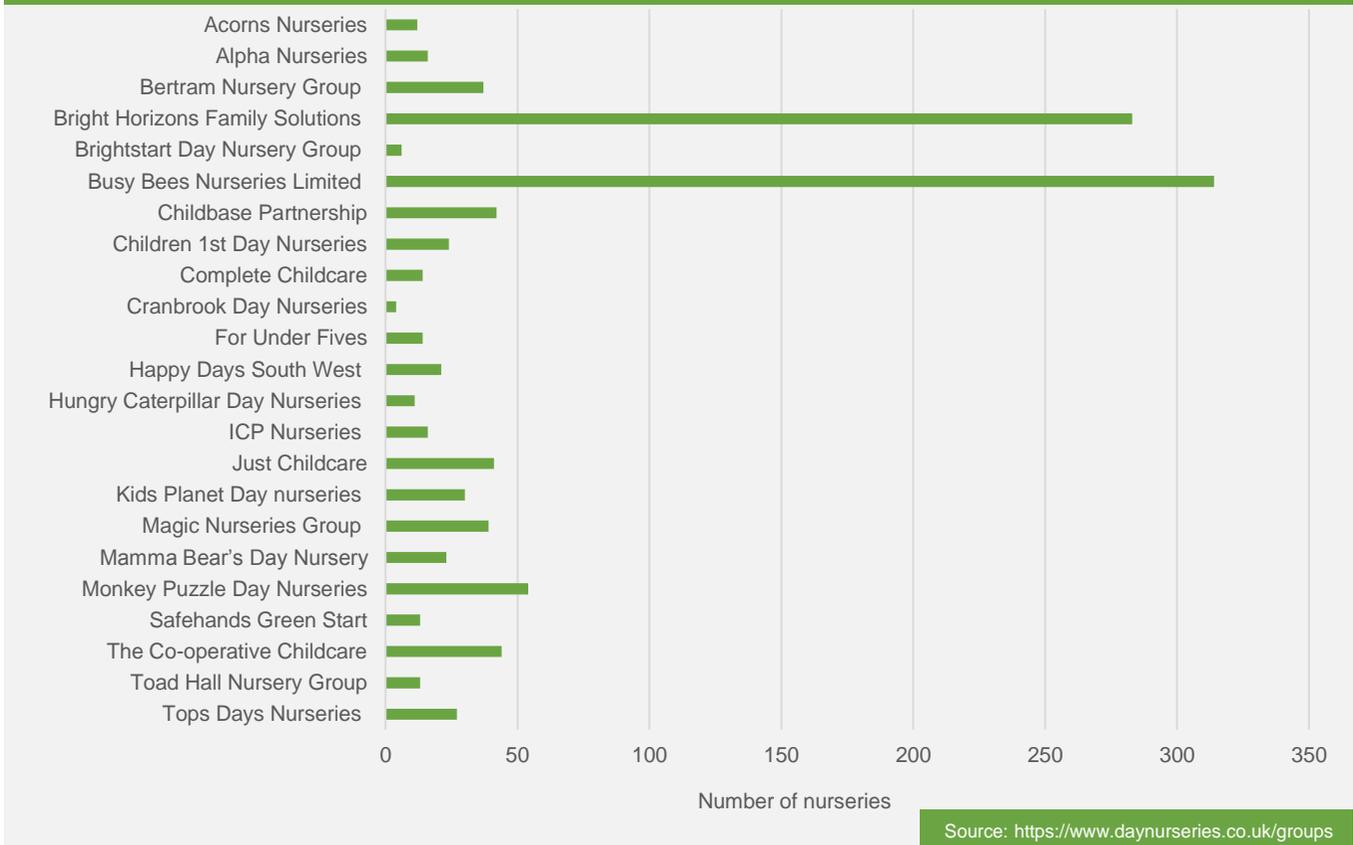
The UK market is highly fragmented with more than 20,000 operators<sup>1</sup>, many of which are single site nursery care providers, and no individual group has a market share above 5%<sup>2</sup>. As a result, the structure of the current market provides significant opportunities for investors looking to consolidate. UK nursery groups represent excellent buy and build platforms for further acquisitions.

Whilst the market is characterised by small nursery care providers, the value and size of the sector has continued

to grow, fuelled by the expansion of the two pre-eminent groups in the market - Busy Bees and Bright Horizons. The overall sector is worth nearly £5.3bn and has been growing more than 5% a year since 2008<sup>3</sup>.

A recent deal saw nursery group Noah's Ark acquired by Hadland Care Group, which operates Tops Day Nurseries. The group currently has 27 sites in the UK and is looking to expand via acquisitions to a 40-strong operation by 2021, showing the appetite for buy and build in the market.

### Key players in the UK nursery market



NB: Not an exhaustive list

## Positive demographics

Demographics in the UK are extremely positive, with ever-increasing demand for nursery care driven by an upturn in domestic childbirth rates, shifting attitudes towards working parents, and substantial immigration from overseas.

With the rise in the number of working parents, demand for high-quality childcare has surged as parents are becoming increasingly reliant on the services delivered by nurseries. At the same time, the childcare market itself is becoming increasingly professionalised, with childcare becoming a more advanced vocation. Underpinning all of these factors is the growing recognition that receiving the right education during early years is pivotal to a child's development and future prospects.

Consequently, the UK nursery market has seen unprecedented levels of demand with investors looking to support nursery care providers with their expansion and acquisition plans in order to establish larger and more diverse portfolios.

## Government initiatives

The reliability of the nursery sector as an investment opportunity has been reflected in the financial backing it receives from the government.

The government has recently introduced a number of initiatives to make the nursery industry even more attractive to investors. Introduced in September 2017, working parents of three- and four-year-olds in England, and households earning less than £100,000 per year, are now entitled to 30 hours per week of free childcare, significantly improving their accessibility to childcare services. The proposal is not without its challenges, with uncertainty surrounding some providers and their ability to deliver subsidised childcare in expensive areas of the country, due to financial constraints and a lack of sufficient subsidised government funding.

This has resulted in some providers targeting more lucrative private clients or charging subsidised parents additional fees for ancillary services to cover funding shortfalls.

## Playground for private equity

Investors are increasingly being drawn to the market, attracted by: positive underlying market dynamics; an improving economic / lending environment; a good choice of buy and build platforms; and opportunities to rollout nurseries in key locations.

Both freehold and leasehold business are becoming increasingly attractive to private equity. Many investors will seek to buy leasehold businesses, as the overall cost of entry is often lower than the costs associated with freehold acquisitions.

However, for freehold businesses lenders often offer a higher loan-to-value, freeing up more cash to aid nursery expansion, drive operational improvement and facilitate further acquisitions. Freehold also provides an alternative use security, whereas with leasehold there is often uncertainty around the length of leases, which can be hard to get out of.

## M&A PE activity

Notable recent deals:

- Epiris investment and subsequent exit from Treetops Nurseries to Busy Bees in April 2017, where it achieved a 6.5x return on investment. Busy Bees acquired Treetops Nurseries for a consideration of c. £93m
- BGF's additional 2018 investment in Manchester-based nursery group Kids Planet to support its acquisition strategy and nursery roll-out programme
- Livingbridge's investment in Happy Days, a nursery operator based in the south west of England
- Foresight's 2016 investment in the rollout of Nottingham-based nursery group Poppy & Jacks
- During 2018 Just Childcare, which is backed by Phoenix Equity Partners, acquired Bristol-based nursery group Abbeywood Tots

## M&A trade activity

Notable recent deals:

- In April 2018 Bright Horizons, which operates over 250 nurseries, acquired Yellow Dot Day. This follows previous acquisitions of Asquith Nurseries Ltd for c. £166m giving a 13x EBITDA multiple, and Phoenix Day Nursery Ltd, a UK early care and education provider.
- In February 2018, ICP Nurseries Ltd acquired The House Nurseries (Holding) Ltd, a London-based child day care, nursery and pre-school services company.
- In 2018, Kids Planet Day Nurseries Ltd acquired Harrison Day Nurseries Ltd, the UK-based operator of day care facilities for children.
- In 2018 Busy Bees acquired Daisy and Jakes Nursery Ltd and Mace Montessori Nursery Schools. During 2016, Busy Bees also acquired Bush Babies Children's Nurseries, which operates seven facilities in Leicestershire, and Positive Steps, a group of eight nurseries in the south of England.
- In September 2017 the Childcare Corporation Limited (Kiddi Caru Day Nurseries), was sold to Les Petits Chaperons Rouges, a leading private nursery chain in France, for £30.9m (8.8x EBITDA multiple).

<sup>1</sup> Department for Education 'Review of Childcare Costs: The Analytical Report' November 2016

<sup>2</sup> Redwoods Dowling Kerr Childcare Market Outlook 2017

<sup>3</sup> LaingBuisson's annual childcare market report (14th edition), published 19 March 2018

<sup>4</sup> House of Commons Treasury Committee Childcare Report (9th Report of Session 2017-2019)

## Overseas investment

Overseas interest in the UK nursery market has heightened over the last 18 months, due to the highly fragmented marketplace and currency gains against the Pound following the Brexit referendum.

Nursery groups are also becoming increasingly interested in international expansion, demonstrated by Busy Bees agreeing to acquire BrightPath Early Learning Inc. of Canada.

We have also seen investment in the UK from an overseas provider when Magic Nurseries, with 16 children's day nurseries, was sold to Les Petits Chaperons Rouges in France, which is backed by Eurazeo.

## Looking ahead

There are significant opportunities for investors in the sector as demand for quality childcare provision increases driven by a spike in domestic birth rates and shifting attitudes towards working parents.

The UK nursery market has now become a sizeable global business, with UK groups becoming increasingly attractive to international investors, while nursery care providers are also looking to grow through overseas expansion. PE will also continue to be attracted to the sector, given the opportunity a fragmented market presents to grow rapidly through rollout and consolidation.

## Case study: Crèches de France – September 2018

Clearwater International has advised the shareholders of Crèches de France on the disposal of the group to Crèche Attitude, a subsidiary of Sodexo Group, one of the world leaders in quality of life services.

Founded in 2004 by Philippe Austruy, Crèches de France is one of the largest players in the private childcare market in France.

SIS Group, a family-owned group founded by Philippe Austruy, specialises in dependency markets where major private hospitalisation structures have been established, and in infancy care in France and the rest of Europe.

The new entity aims to become one of the major players in the childcare market. Following the acquisition of Crèches de France, the group is now network of over 250 owned sites with a national coverage, as well as more than 1,200 sites in collaboration with other players.

French nursery players are considering entering other fragmented markets like the UK, which is ripe for

consolidation, with c. 20,000 UK nurseries and 80% are owned by individual operators. Smaller UK nursery groups of between 10 and 50 nurseries represent excellent buy and build platforms for investors, tempted by the growing demand for nursery services, underpinned by the growth in working parents who are now entitled to 30 hours free childcare a week, and attracted by the freehold stock and the benefit it brings in future financing.

The Clearwater International team, composed of Benjamin Zayat, Managing Partner, Guillaume Fenni, Associate, and Robin Perbet, Analyst, advised SIS Group in this transaction.

“The stable nature of the market, and access to freehold stock and the refinancing benefits this brings, will continue to attract inward investment to support managements buy and build strategy.”

*Ramesh Jassal,  
Director and International Head of Healthcare,  
Clearwater International*



**Ramesh Jassal**  
International Head of Healthcare  
ramesh.jassal@cwicf.com  
+44 7983 046318



**Joe Satchwell**  
Associate  
joe.satchwell@cwicf.com  
+44 7855 002472

## International team

Franc Kaiser, [China](#), Louise Kamp Nørbæk, [Denmark](#), Philippe Guezeneq, [France](#), Markus Otto, [Germany](#), John Curtin, [Ireland](#), Rui Miranda, [Portugal](#), Miguel Angel Lorenzo, [Spain](#)