

# The Impact of COVID-19 on Global Early Childhood Education & Care (ECEC) Markets





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# INTRODUCTION

First and foremost, I hope you, your family, friends and colleagues remain safe and well in these challenging times.

As I write this foreword, it is almost 16 months to the day since I received a phone call from my son, an ECEC practitioner in Hangzhou China, who told me that a new virus had been identified in Wuhan, and a national lockdown was being enforced. At that point neither of us could have imagined the sequence of events that were about to unfold, not just here in the UK, but across the globe.

The COVID-19 pandemic has led to a catastrophic loss of life, social unrest and significant economic and political disruption across the world. In many countries, the profile of early childhood education and care (“ECEC”) has risen to the fore. Many ECEC providers worldwide, amid great unknowns and uncertainties, and in some cases at their own financial expense, kept their settings open to provide emergency childcare to the children of first responders and frontline workers. As COVID-19 was identified on new shores, we saw a domino effect of multiple countries entering national lockdowns and governments issuing ‘Stay-at-Home’ Orders. With nurseries and schools closed to the general public, millions of parents and families were locked down at home, trying to entertain and educate their children. Across many countries, as the lockdowns wore on, parents and guardians increasingly cited how challenging this was, and even more so for parents balancing the demands of parenting while working from home. The profile of the exceptional work that ECEC practitioners do on a daily basis has undoubtedly been raised during the pandemic; providers and practitioners have begun to receive the long overdue recognition which is so richly deserved.

Christie & Co is positioned at the forefront of ECEC market activity, working with single asset nursery settings, through to the largest ECEC global groups, alongside advising wider stakeholders including banks, investors, government bodies and ECEC associations, all of which provide us with unique insight. Throughout the pandemic, our Childcare and Education team been on hand to aid and support our clients, many of whom have faced the most challenging of periods, both operationally and personally.

This report has been produced out of a desire to investigate and compare the impact of COVID-19 on the ECEC market against the landscapes of five selected countries of focus – the USA, UK, Germany, Sweden and Australia. Each of these countries are very different from a structural ECEC contextual perspective; they have different market ownership compositions, different early years policies, funding arrangements and regulatory environments. Across our five selected countries of focus, COVID-19 related decisions made by governments at a national, state and municipal level, have all had vastly different effects.



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This report explores the impact that COVID-19 has had on the ECEC sector across five selected countries of focus and how the pandemic may shape the markets going forward.



# MARKET ACTIVITY 2020 - 2021

Christie & Co was founded in 1935 and our Childcare & Education team has specialised in the ECEC sector for many decades. Having been involved in virtually every major UK ECEC portfolio transaction since 2006, increasingly, over the course of the past decade, our expertise and insight has been called upon by international ECEC trade buyers and investors seeking support with acquisitions and new market entry investments to facilitate their strategic growth plans.

Entering 2020 we saw huge levels of market activity and demand for ECEC businesses. The year got off to an exciting start. The stellar sale prices that we achieved for the highest quality ECEC businesses during 2019, driven by high demand and competitive tension from buyers, evidently appeared set to continue in to 2020. Despite a 'pricing headiness for ECEC sales' having been muted for some time, we continued to see buyers pay market setting prices for the most desirable ECEC businesses.

January and February 2020 were indeed exceptional months, with a number of notable ECEC portfolio business sales completed, such as the sale of Kids Allowed to Kids Planet, which drew much interest from international trade operators and investors seeking to secure this award-winning, high calibre ECEC portfolio as their new UK market entry platform. Alongside completions of ECEC portfolios and single settings, with owners keen to capitalise on the buoyant prices being achieved, there was a steady pipeline of new portfolio projects being launched to carefully selected shortlists of eager and well-funded prospective purchasers.

During the first two months of 2020, Christie & Co completed on 110 UK business sales, amounting to an aggregate capital value of £153 million. The pipeline of ECEC 'deals agreed'

as at the end of February, many of which were due to complete in March and April, looked incredibly strong.

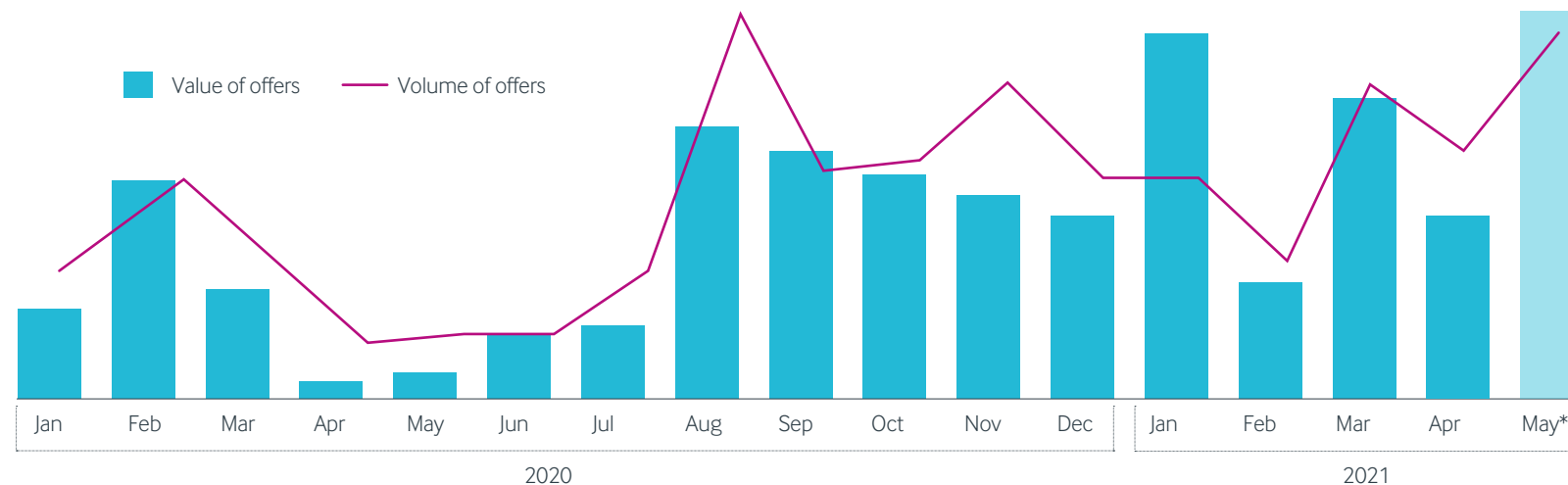
## And then COVID-19 hit...

Operator, buyer and prospective investor attention was immediately diverted away from 2020 growth and acquisition plans to focus on existing business interests, operational challenges and business survival plans.

ECEC market activity did not stagnate for long. Despite all the challenges, by the end of 2020 we had witnessed a 9% increase in the number of offers received per transaction in 2020 compared with 2019 and, of those received, the majority were within a very close range of pre-pandemic asking prices. Investor interest has remained very strong, and so far banks, to varying degrees, have continued to be supportive of their existing and established customer's acquisition and expansion plans.

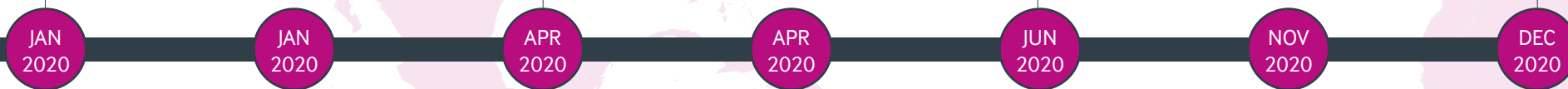
Due to the global impact of COVID-19, in seeking to overcome some of the challenges around international travel and 14-day quarantine requirements, as introduced by some countries, we have seen much success with a number of notable mergers, acquisitions and new investments having been agreed via the facilitation of virtual tours. These have enabled buyers to undertake initial tours of ECEC settings, and hold virtual meetings with owners. During Q1 2021, demand from trade buyers, and investors for high quality ECEC businesses has remained incredibly strong, this trend is expected to continue.

## Value of offers vs volume of offers



*\*May figures are based on month to date performance (17 May 2021) and our expectations for end of month. NB: This graph excludes ECEC portfolio offers received, chart data represents volume and aggregate offers associated to single asset ECEC transactions only. While excluded from the chart data illustrated above, for reader interest, the aggregate value of offers received by Christie & Co for ECEC portfolios, between 1-17 May 2021 amounted to GBPE140.5 million driven largely by bid deadlines for 'live' ECEC portfolio sale projects.*

# ECEC MARKET ACTIVITY 2020 - 2021



## **KIDS ALLOWED (ENGLAND)**

ECEC portfolio of eight settings sold to Kids Planet amid much competitive tension from international ECEC buyers

## **FUTUREPATH (ENGLAND)**

ECEC portfolio comprising five leasehold settings in Hampshire. Sold to Grandir UK, part of Les Petits Chaperons Rouges (LPCR) headquartered in Paris

## **MINDCHAMPS (AUSTRALIA)**

Malek Family Pty Ltd purchase the rights to develop ten new purpose-built MindChamps childcare centres in New South Wales and Victoria

## **IMAGINE CHILDCARE, CRANBOURNE WEST (AUSTRALIA)**

Freehold Investment comprising 142 place purpose built ECEC centre sold AU\$6.91 million, achieving a yield of 5.58%

JAN 2020

JAN 2020

APR 2020

APR 2020

JUN 2020

NOV 2020

DEC 2020

## **EDUKIDS (UNITED STATES)**

ECEC provider with 15 locations providing care for 1,600 children in Western New York acquired by UK Headquartered Busy Bees

## **MINDCHAMPS JV WITH GULF COOPERATION COUNCIL (SINGAPORE & GCC COUNTRIES)**

JV founded to establish a fund to acquire ECEC's across Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. Post acquisition centres will be rebranded to MindChamps. Initial fund tranche planned of circa US\$50 million to US\$100 million

## **BABILOU (FRANCE, GERMANY, BELIGUM, DUBAI AND SWITZERLAND)**

Antin Infrastructure Partners acquire majority shareholding in Babilou. Headquartered in Paris, Babilou operate over 500 ECEC centers, caring for 20,000 children across five countries. The portfolio was sold off a circa EU€80 million EBITDA

# ECEC MARKET ACTIVITY 2020 - 2021

DEC  
2020

## **ROWNTREE MONTESSORI SCHOOLS** (CANADA)

Global private school operator International Schools Partnership (ISP) acquired Rowntree Montessori Schools (RMS) group in Brampton, Toronto, Canada. RMS were founded in 1969, comprise four campuses catering from pre-kindergarten

DEC  
2020

## **CHARTER HALL SOCIAL INFRASTRUCTURE TO SELL 20 ECEC INVESTMENTS** (NEW ZEALAND)

Australia's largest real estate investment trust Charter Hall Social Infrastructure announced intent to sell its remaining 20 ECEC centres in New Zealand for NZ\$40.1 million in a deal that will mark its exit from the country. The centres are all tenanted by Best Start, New Zealand's largest ECEC provider

JAN  
2021

## **THINK CHILDCARE - OPERATIONAL PORTFOLIO COMPRISING 78 ECEC CENTRES** (AUSTRALIA)

UK headquartered Busy Bees, revisit the offer they tabled in December 2020 and subsequently increase their non binding offer to AU\$2.10 per share

FEB  
2021

## **ESCOLA VILLARE** (BRAZIL)

Cognita acquire Escola Villare in São Caetano do Sul, Brazil, in a merger acquisition, which caters to 1,200 children aged from four months old in its nursery through to 17-year-olds in the high school

MAR  
2021

## **SIX ECEC INVESTMENTS - SYDNEY** (AUSTRALIA)

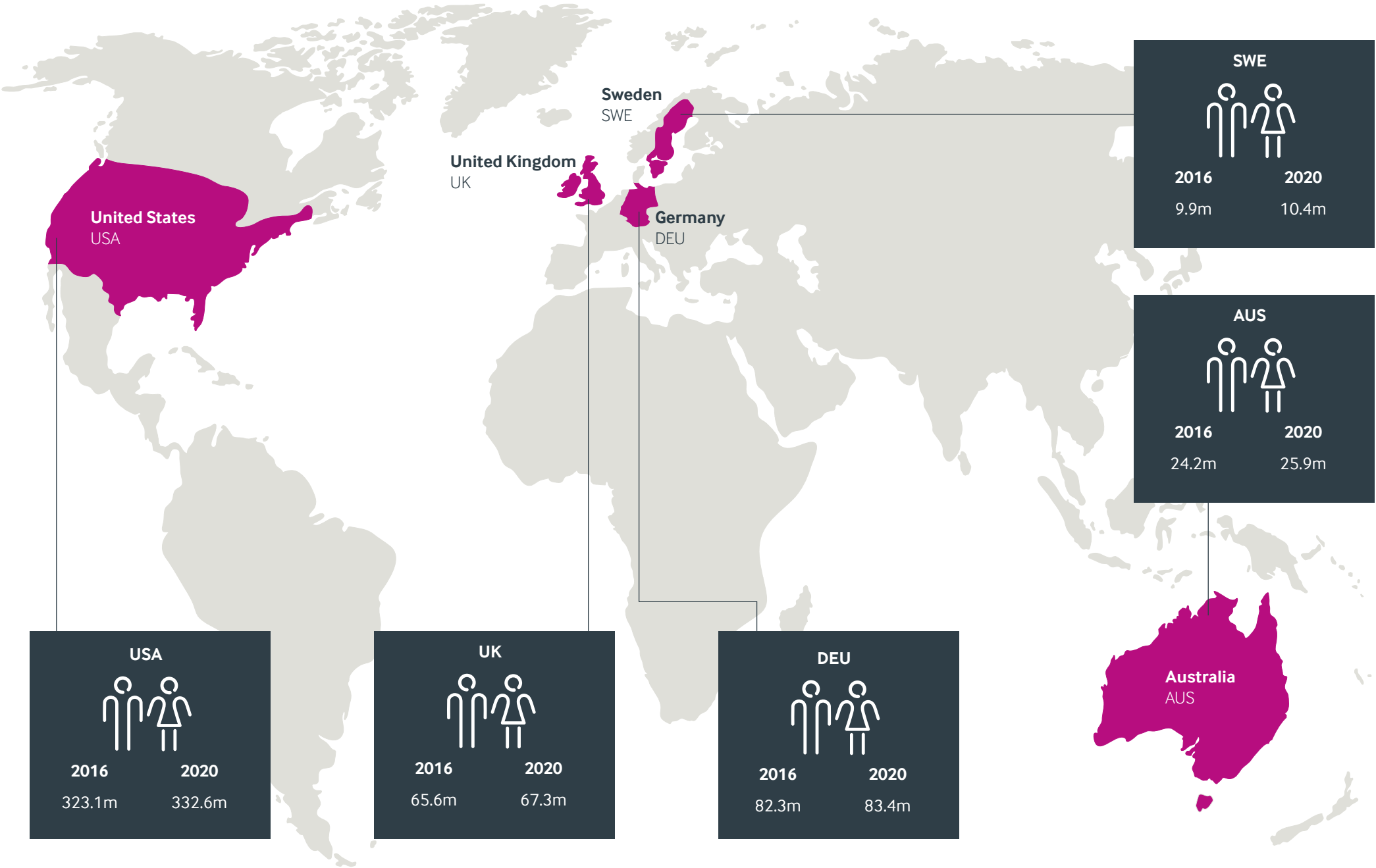
Assembly Funds Management announce intention to acquire six Sydney ECEC investments for around AU\$43 million

MAR  
2021

## **POPPIES DAY NURSERIES LTD** (UNITED KINGDOM)

Family First Nurseries acquires Poppies Nurseries Ltd, six leasehold nurseries providing high-quality childcare for up to 395 children, located in Buckinghamshire, sold March 2021 off an asking price of GBPE7.5 million

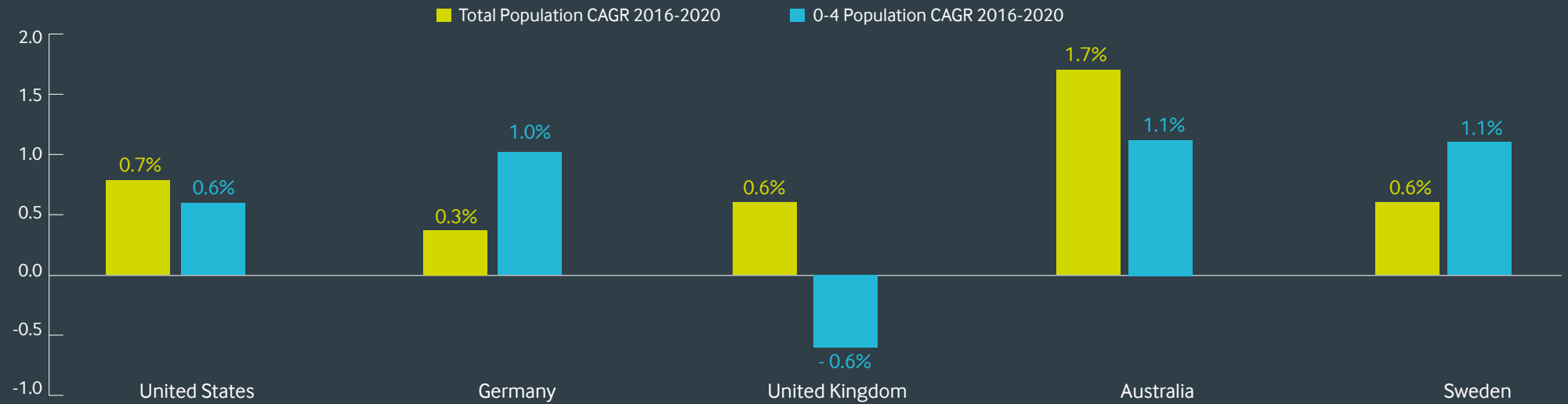
# CONTEXT OF SELECTED COUNTRIES





# CONTEXT OF SELECTED COUNTRIES

COMPOUNDED ANNUAL GROWTH RATES OF TOTAL POPULATION AGED 0 TO 4-YEARS-OLD FROM 2016 TO 2020



## THE SUPPLY LANDSCAPE - KEY HEADLINES BY COUNTRY



Total Population



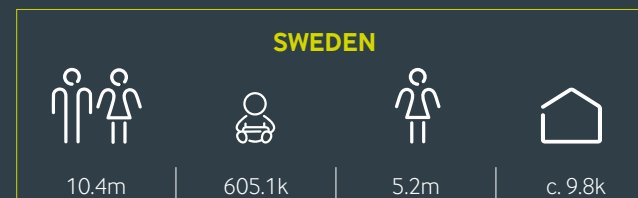
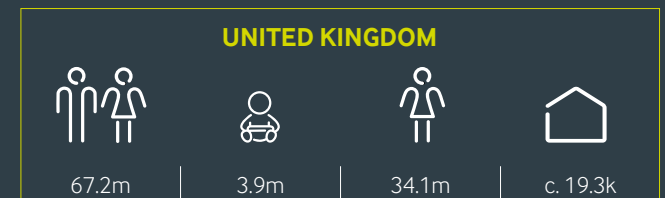
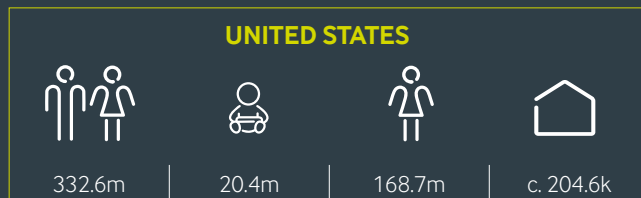
Children aged 0 - 4



Women aged 20 - 44



ECEC group settings



# GLOBAL EMERGENCE OF COVID-19 ACROSS OUR FIVE COUNTRIES OF FOCUS

Across our selected countries of focus - the USA, UK, Germany, Australia and Sweden - the first cases of COVID-19 were recorded between 20 and 31 January 2020. During that 11 day period, in addition to individual cases being identified in each of our countries of focus, COVID-19 was identified in many other countries and territories.

Governments have taken very different approaches, introducing, or indeed, in some cases, not introducing strategies to deal with mitigating the spread of COVID-19. Twelve months on, it is evident that some countries have been far more successful in slowing the spread, and impact of the virus, compared with others.

## 19 DECEMBER

First cases of the novel coronavirus causing COVID-19 were reported by officials in Wuhan City, China

## 25 JANUARY

The first confirmed case in Australia was identified when a man who had returned from Wuhan, China, tested positive for the virus

## 31 JANUARY

The first confirmed case in Sweden was from a woman in her 20s who returned from Wuhan, China

## 4 SEPTEMBER

Australia recorded its highest reported death toll in a day: 59 deaths

## 20 JANUARY

First case of COVID-19 in USA was reported by officials from a man who had returned to Washington state from Wuhan, China

## 27 JANUARY

The first confirmed case in Germany was identified near Munich, Bavaria

## 31 JANUARY

The first two cases of COVID-19 in the UK were confirmed

## 8 DECEMBER

First COVID-19 vaccine administered in the UK

2019

2020

# GLOBAL EMERGENCE OF COVID-19 ACROSS FIVE COUNTRIES OF FOCUS

**14 DECEMBER**

First COVID-19 vaccine administered in the USA

**27 DECEMBER**

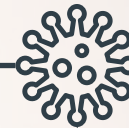
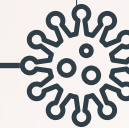
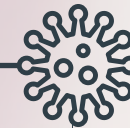
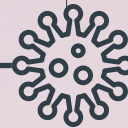
First COVID-19 vaccine administered in Sweden

**29 DECEMBER**

Germany recorded its highest reported death toll in a day: 1,244 deaths

**20 JANUARY**

UK recorded its highest reported death toll in a day: 1,823 deaths



**27 DECEMBER**

First COVID-19 vaccine administered in Germany

**28 DECEMBER**

Sweden recorded its highest reported death toll in a day: 121 deaths

**12 JANUARY**

USA recorded its highest reported death toll in a day: 4,483 deaths

**22 FEBRUARY**

First COVID-19 vaccine administered in Australia

● 2020

● 2021

# COUNTRIES OF FOCUS – SNAPSHOT: 15 MAY 2021

Each of the five countries of focus have introduced different strategies to deal with COVID-19, resulting in ECEC providers and the services they offer being affected in many different ways. Some countries have imposed national lockdowns whereby settings were closed to members of the public and could only stay open to serve the needs of key workers.

In some locations, ECEC settings had to close and then apply for certificates to provide emergency childcare to key workers. Some countries have seen multiple lockdowns and, in some countries, ECEC provision has remained open throughout the pandemic, as has been the case in Sweden.



No. of COVID-19 cases at 15/05/21



No. of COVID-19 deaths at 15/05/21








No. of cases per 1,000 of the population



No. of deaths per 1,000 of the population



Proportion of population with 1 dose of the vaccine at 15/05/21

	UNITED STATES	UNITED KINGDOM	GERMANY	SWEDEN	AUSTRALIA
	37.78m	4.4m	3.6m	1m	30k
	599,858	127,675	86,699	14,275	910
	101	66	43	102	1
	1.8	1.87	1.03	1.41	0.04
	46.71%	53.87%	36.32%	31.63%	0.62%

# COUNTRIES OF FOCUS – UNITED STATES OF AMERICA



## ECEC MARKET ACTIVITY:

Learning Care Group, Inc., North America's second-largest for-profit ECEC provider, saw a busy start to 2021, announcing in January their acquisition of U-GRO Learning Centres, an ECEC portfolio comprising 14 pre-schools, originally founded by Janice Holsinger, in Palmyra, Pennsylvania. Just a few months later, in April 2021, Learning Care Group announced their acquisition of The Young School, an ECEC portfolio comprising six pre-schools.

Alongside acquisition activity, recognising that high-quality ECEC provision will be vital to aid economic recovery post COVID-19, ECEC investment activity includes announcements by New York City's Mayor, Bill De Blasio, that the city will invest US\$300 million in creating new pre-school places for three-year-olds. An additional 40,000 ECEC places, across each of the city's 32 districts are to be developed by the start of the 2021/22 academic year.

## CONTEXTUAL LANDSCAPE:

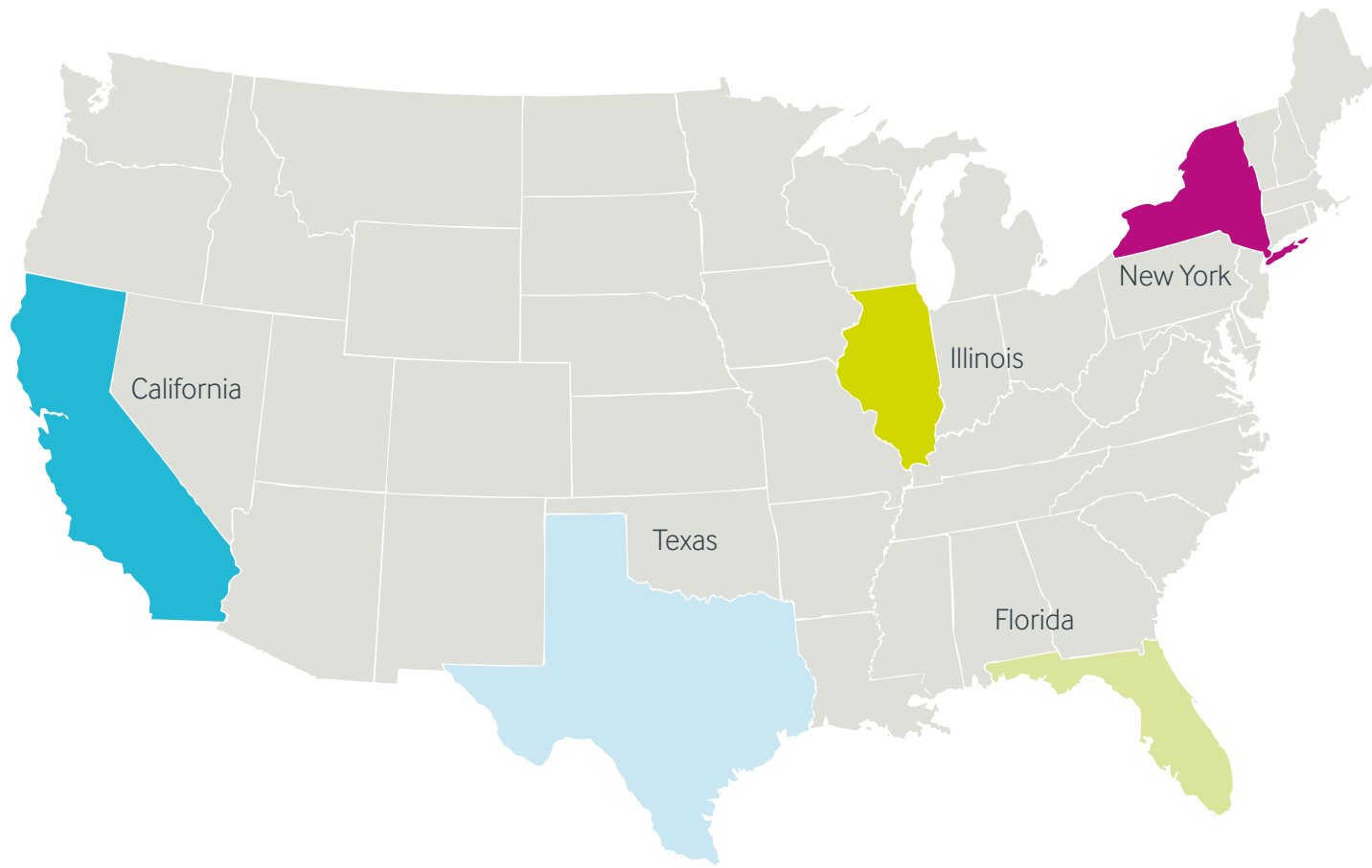
Prior to the pandemic, 88% of two parents and 83% of single parent families working full-time accessed childcare for children under 5<sup>1</sup>. However, COVID-19 created an unprecedented increase in unemployment levels, which rose from 4.4% in March 2020 to 14.7% by April 2020.

By May 2020, many ECEC settings had temporarily closed, save for providing 'emergency care', due to a combination of 'Closure Orders', 'Stay-at-Home' Orders, lack of demand, in conjunction with operational, and economic challenges.

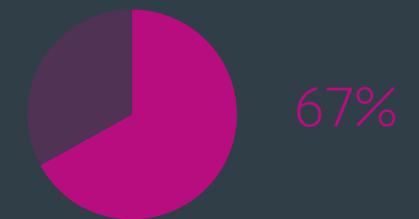
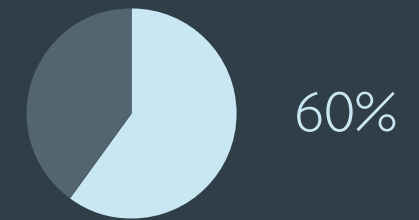
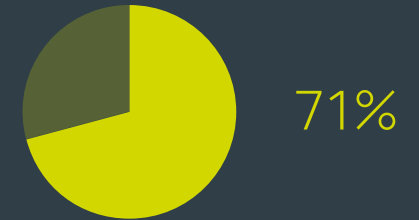
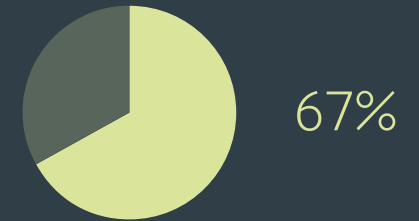
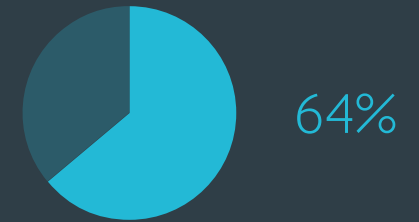
With a very notable amount of working families' expenditure being spent on ECEC, the introduction of the Coronavirus Aid, Relief and Economy Security (CARES) Act in March, which provided \$3.5 billion and wider emergency state funding support, transformed ECEC financial support and funding regimes. The gargantuan increase in the States' unemployment rates specifically due to the impact of COVID-19 has severely impacted thousands of ECEC providers. Akin to what other countries have experienced, fixed operational expenditure - such as rent, rates and utilities - have not been offset, forcing some ECEC providers with no alternative but to permanently close which has led to concerns over insufficient childcare provision and the potential impact of this on economic recovery.

(1) What's Next for Child Care? | What States are Learning in the COVID-19 Crisis, The Hunt Institute, February 2021 - <https://hunt-institute.org/resources/2021/02/whats-next-for-child-care-what-states-are-learning-in-the-covid-19-crisis/>

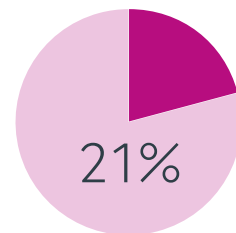
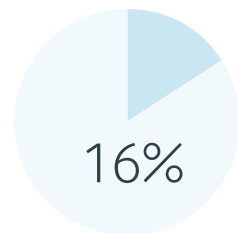
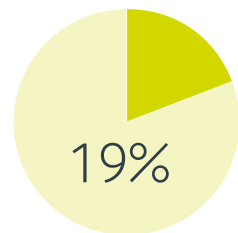
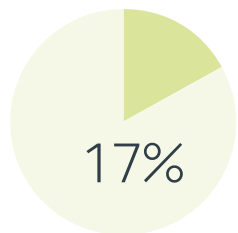
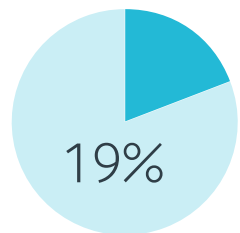
# COUNTRIES OF FOCUS – UNITED STATES OF AMERICA



% OF CHILDREN (AGED 0-5) WITH ALL AVAILABLE PARENTS IN LABOUR FORCE <sup>2</sup>



PRICE AND AFFORDABILITY OF INFANT CARE - SHOWN AS A PERCENTAGE OF MEDIAN FAMILY INCOME <sup>2</sup>



(2) The Hunt Institute. Early Childhood State Narratives, 2018

# COUNTRIES OF FOCUS – UNITED STATES OF AMERICA

## KEY OBSERVATIONS:

CALIFORNIA	FLORIDA	ILLINOIS	TEXAS	NEW YORK
<p>Throughout the pandemic, ECEC settings have been given the option to remain open to provide emergency care for children of essential staff; for children at risk and for those with special needs.</p> <p>California received US\$350.3 million through the federal CARES Act for COVID-19 related ECEC activities.</p> <p>Close to a fifth of all childcare settings have reported cases among staff, children and parents.</p> <p>2,160 million ECEC centres have permanently closed, resulting in a loss of 33,387 places.</p> <p>By March 2021, over 12,000 positive COVID-19 cases had been formally reported by childcare settings, and 30 adults associated with ECEC settings had died following a COVID-19 diagnosis.</p> <p>On 6 April 2020, the Department of Public Health published 'Beyond the Blueprint for a Safer Economy' in preparation for California reopening its economy on 15 June 2021.</p>	<p>ECEC settings were given the option to remain open.</p> <p>Florida received US\$223.6 million through the federal CARES Act for COVID-19 related ECEC activities.</p> <p>During the pandemic, the Department of Children and Families made certain waivers associated to licencing requirements enabling ECEC providers to continue operations.</p> <p>Operationally, there were no restrictions on capacity within settings but strict 'bubbles' of children and staff were enforced.</p> <p>Guidance issued on 12 March 2021 by the Centre for Disease Control and Prevention (CDC), recommended that everyone 2 years and older and older should wear a mask when around people who do not live in their household, except when eating or sleeping.</p>	<p>A 'Stay at Home' Order was issued on 20 March 2020 enforcing the closure of all licenced ECEC centres and childminding facilities that catered for six or more children. For settings that stayed open to serve children of frontline workers, emergency licences needed to be procured.</p> <p>Following the initial 'lockdown', Illinois permitted the reopening of ECEC settings from early June 2020.</p> <p>Restrictions on capacity were introduced - 10 children per classroom, initially for a trial period to ensure COVID-secure guidelines and new procedures were established.</p> <p>Health and Safety standards announced in December 2020 by the Illinois Department of Children and Family Services (DCFS) introduced requirements in relation to the operation of group bubbles and maximum group sizing, subject to different types of ECEC settings.</p> <p>COVID-secure staff to child ratios were introduced to ensure adequate supervision and administration of COVID-secure procedures.</p>	<p>Restrictions limiting the provision of ECEC services to frontline workers were lifted on 8 May 2020.</p> <p>On 25 June 2020, the Texas Health and Human Services Commission enacted new emergency health and safety standards rules for ECEC operations. No restrictions on groups sizes were introduced. 'Health Recommendations' were revised on 10 March 2021 in which modified childcare ratios, group sizes and square footage requirements were extensively reviewed. New COVID-secure staff to child ratios were introduced as follows:</p> <p><b>AGED 2 YEARS</b> Pre-COVID-19 ratio - 1:11 New COVID-19 staff:child ratio - 1:8</p> <p><b>AGED 3 YEARS</b> Pre-COVID-19 ratio - 1:15 New COVID-19 staff:child ratio - 1:10</p> <p><b>AGED 4 YEARS</b> Pre-COVID-19 ratio - 1:18 New COVID-19 staff:child ratio - 1:10</p>	<p>An executive order effective 21 March 2020 enforced work restrictions for which some essential businesses, such as ECEC settings, were exempt.</p> <p>On 3 April, ECEC settings within NYC were issued 'Orders to Close' to all but frontline workers.</p> <p>Extensive operational guidance was issued upon re-opening to the wider public, including restriction on childcare groups sizes.</p> <p>As a result of a reduction in capacity due to COVID-19, in April 2021, notable financial support packages were introduced including stabilisation grants to support operational costs and additional COVID-secure cleaning and safety costs. The fund of US\$1.3billion was announced in tandem with various other packages, including a US\$105 million federal fund to expand ECEC programmes for 4-year-olds state-wide. All childcare programmes in NYC must follow COVID-19 guidelines issued by the New York State.</p>

# COUNTRIES OF FOCUS – UNITED KINGDOM



## ECEC MARKET ACTIVITY:

Despite the UK property market essentially being closed for three months, between March and May 2020, by year end, circa 150 ECEC business sales were completed – a phenomenal achievement given all the challenges that COVID-19 created.

During the first five months of 2021, ECEC transactional activity has continued to gain momentum. Notable ECEC business sales completed so far during 2021 by Christie & Co's childcare team include the sales of Puddle-Ducks and Elm Park Nurseries to Cresswell Nurseries; the sale of Bishopswood Nursery in Berkshire to expanding regional group Little Birches; the sale of renowned HRH Nursery Group to Kindred Nurseries, and the sale of a group of six settings trading as Poppies Day Nurseries to Family First Nurseries.

There are a number of very notable confidential ECEC portfolio sales in progress at present. Acquisition announcements are imminent and we predict that these will further fuel buyer appetite.

Average price of individual ECEC assets sold YTD 2021:

**GBP£1.199 million**

YTD 2021 ECEC transactions:

**60%** leasehold **40%** freehold



The government announced that all non-essential businesses had to close to the public in a bid to halt the spread of infection and to alleviate a potential NHS capacity crisis. Across all child centric sectors - ECEC centres, independent schools, children's homes and foster care businesses - owners and operators immediately redirected their focus toward business operational and survival mode. Many deals and transactions that had been agreed and were well progressed through legal and operational due diligence processes had to be placed on hold.



Restrictions on UK property professionals were lifted on 13 May 2020 and the reopening of the property markets immediately led to a surge in activity which has continued through into 2021.



## COUNTRIES OF FOCUS – UNITED KINGDOM



During the first lockdown in March 2020, ECEC closures were mandated with settings encouraged to stay open for children of key workers only.

As the pandemic progressed, the four UK nations - England, Scotland, Wales and Northern Ireland - made different decisions in relation to the reopening timetables for ECEC centres.

While financial support has been broadly replicated across all four nations, measures to curb the spread of the virus have been adopted at local and nationwide levels.

Operations in ECEC group bubbles have sought to mitigate infection outbreaks but this has created acute staffing challenges leading to additional costs for some providers.

For some ECEC providers, financial challenges, already heightened due to FEF funding shortfalls, have been further compounded by additional expenses; such as the initial purchasing of lateral flow tests for staff, PPE purchases, cleaning costs and additional staffing expenditure.

ECEC providers have had to bear these extra costs, alongside lost fee income, with fees being waived due to children, families and staff needing to self-isolate. Some ECEC providers have had to take out additional loans and extend overdraft facilities in order to access sufficient cash-flow to meet increasing operational costs, which for some, places ECEC operations under unsustainable financial pressure.

# COUNTRIES OF FOCUS – UNITED KINGDOM

Between November 2020 and January 2021, 72% of settings in England and Wales had to fully or partially close, with 31% of settings closed at least once during this period, 18% closed between two and four times, and 23% closed five or more times.

Of those settings that had to close, the most common reason for doing so was insufficient demand for places (44%), followed by staff members or children self-isolating (22%). In Scotland, where settings were asked to remain open only for vulnerable children and children of key workers during the national lockdown in early 2021, 84% of settings remained open and 16% closed while the measures remained in place.<sup>3</sup>

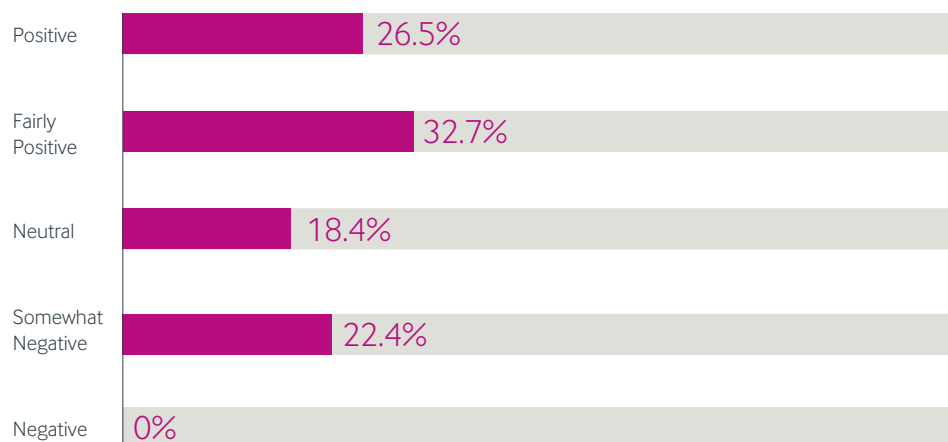
ENGLAND	SCOTLAND	WALES	NORTHERN IRELAND
<p>While the first lockdown in the UK, in March 2020, created significant anxiety, many ECEC providers have cited to us that the period between November 2020 and February 2021 has, from an operational perspective, been the most challenging, especially in England where settings remained fully open during a period whereby new variants began to be identified and infection rates increased rapidly, which necessitated a further lockdown.</p> <p>Research commissioned by the Department for Education (DfE), arising from a survey conducted between November and December 2020, was published in March 2021. It established that, directly due to the pandemic, nurseries were losing GBP£1,176 a week in fees.</p> <p>Data recently published by Ofsted for the period April 2020 and March 2021, has revealed that 442 ECEC settings resigned their registrations, and 2,185 childminders left the sector.</p>	<p>Following nationwide lockdowns during 2020, much of the UK entered 2021 with new 'Stay at Home' Orders in effect. In Scotland the Order became effective from 5 January 2021.</p> <p>The Scottish Government confirmed that ECEC settings including nurseries, childcare providers and schools could stay open for children of key workers and vulnerable children.</p> <p>Education Secretary, John Swinney, announced an extra £3.8 million for each four-week period of restrictions for ECEC providers that remained open for vulnerable children during the Q1 2021 lockdown.</p> <p>ECEC settings in Scotland were permitted to reopen to all children on 22 February 2021. Scotland's 'Stay at Home' regulations were subsequently lifted, in part, on 2 April 2021.</p>	<p>During the first wave of COVID-19 many providers were unable to remain open for key workers' children due to financial pressures.</p> <p>The Welsh Government worked with local authorities to identify sufficient childcare for 0 to 4-year-olds in settings for vulnerable children and the children of key workers.</p> <p>As in England, during the 2021 'Stay at Home' Order, while schools closed, ECEC settings, including Flying Start childcare programmes, were permitted to remain open. Some nurseries in Wales, especially those with smaller capacities in rural areas, reported acute financial pressures. Some settings have also seen places previously reserved for babies being cancelled as new mothers have chosen to extend their maternity leave.</p>	<p>In mid-March 2020, ECEC centres were forced to closed, with the exception of those catering for key workers.</p> <p>The first financial support package amounting to £12 million was announced in April 2020 and the Childcare Recovery Plan was subsequently announced in June 2020.</p> <p>In July 2020, Northern Ireland's Education Minister announced a new £10.5 million emergency scheme to support childcare providers with operational costs allowing as many as possible to re-open to assist parents returning to work.</p> <p>The Northern Ireland Childcare Survey 2020, published in November by Employers For Childcare, evidenced the impact of COVID-19 on parents and providers alike. Though the report was specific to Northern Ireland, some of the feedback from parents contained messages of appreciation which have been heralded worldwide: "COVID-19 has brought into very sharp focus just how much we rely on those who look after our children and the massive benefit they have provided to them."</p>

(3) 'The COVID-19 pandemic and the early years workforce', Education Policy Institute (EPI) and National Day Nurseries Association (NDNA), 26 March 2021

# COUNTRIES OF FOCUS – UNITED KINGDOM

## OPTIMISM OVER RECOVERY IN 2021

Children's Day Nursery owners are feeling optimistic about recovery in 2021.



**74%**

feel positive about potential opportunities in 2021, with

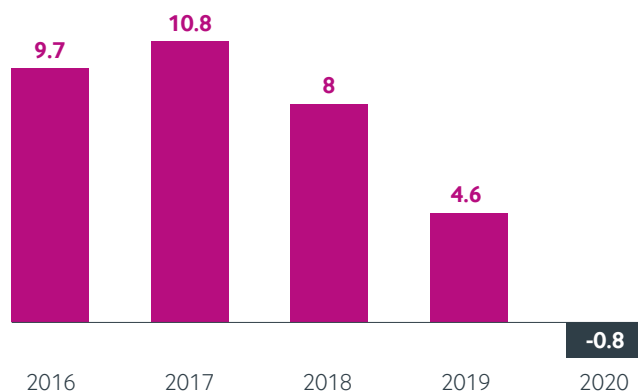
**43%**

identifying opportunities through market consolidation and acquisitions, demonstrating strong appetite for Day Nurseries in 2021.

## CHRISTIE & CO PRICE INDEX (%)

Since 2015, we have seen a continued uplift in average prices paid for Day Nurseries. Whilst we saw a marginal decline in 2020, in the midst of a challenging year, this price movement is reflective of the harsher trading conditions and potential risks associated to earnings and recovery, and not a decline in demand.

Approximately one third of Day Nursery owners expect pricing levels to remain static in 2021, with some more optimistic than others.



**51%**

said they are interested in buying nursery businesses in 2021.

**22%**

said they are looking to sell their nursery business in 2021.

## Despite COVID-19 challenges, 74% of UK ECEC operators feel positive about business opportunities in 2021.

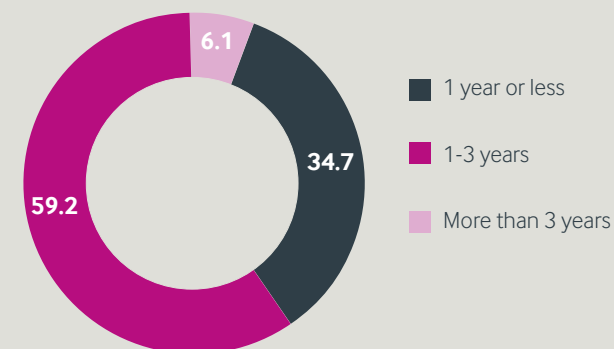
Across the UK, many ECEC providers have reported a complex and seemingly endless cacophony of challenges from an operational perspective, starting initially with a lack of COVID-secure operating guidance, inaccurate information in relation to the furlough scheme, funding, the self-isolation of children and staff and, most recently, challenges associated with lateral flow testing and access to vaccinations.

Despite this, Christie & Co's Business Outlook 2021, survey conducted during Q4 2020, found that ECEC business owners generally felt optimistic about recovery, with 59% of respondents saying they felt 'positive' or 'fairly positive' about the market going forward. 74% felt 'positive' about potential opportunities in the year ahead, with 42.5% identifying opportunities through market consolidation and acquisitions.

52% of respondents confirmed that they were interested in buying a nursery business during 2021, and 22% said they were looking to sell their business.

When asked 'how long do you think it will take for the sector to return to pre-COVID-19 levels?' The majority of operators (59%) said that they thought it would take between 1 and 3 years, while 34.7% were more optimistic and said 1 year or less.

## HOW LONG DO YOU THINK IT WILL TAKE FOR THE SECTOR TO RETURN TO PRE-COVID LEVELS? (%)



# COUNTRIES OF FOCUS – GERMANY



## ECEC MARKET ACTIVITY:

One of the most notable global transactions amid COVID-19 has been the sale of Babilou, comprising some 500 ECEC centres with dense representation across Munich, Augsburg and Stuttgart. Amid strong interest from buyers, the portfolio was sold off an EU€80 million EBITDA to Antin Infrastructure Partners, a leading independent private equity firm focused on infrastructure investments.

Providers and practitioners may find it difficult to associate the term infrastructure with ECEC. Frequently, infrastructure is perceived as being transportation services, communication networks and utility networks, such as electricity, gas and water supplies, but infrastructure extends to essential services that enable a community, region or nation to function. The vital role and importance of ECEC has been brought into stark focus during COVID-19. ECEC providers have rallied to support frontline workers throughout the pandemic and high-quality ECEC will be vital to the economic recovery of each nation.

## KEY OBSERVATIONS:

The first case of COVID-19 was detected in Germany on 27 January 2020 near Munich, Bavaria.

By 31 January 2020, seven cases had been confirmed, including one child.

During mid-March, in many federal states, most ECEC settings and schools closed. Those that remained open did so to provide 'emergency care' only.

An exploratory survey by the DJI (German Youth Institute, Munich) which surveyed 83 ECEC managers to gather their experiences of operating during the initial lockdown and 'emergency care phase' led to a collaboration between the DJI, the Robert Koch Institute (RKI) and the foundation of the interdisciplinary Corona-KITa-Studie.

Planned re-opening of ECEC provision was announced on 5 May 2020. In Bavaria, First Minister Markus Söder encouraged all kindergarten children to return to day-care.

Like the US, Germany's 16 states hold considerable political power. Germany's federal states have different laws and education systems and there are different COVID-19 rules for all 16 federal states. This, similar to in the US and the UK, created additional operational burdens for ECEC portfolio owners that operate settings across multiple different states, with COVID-secure rules and regulations varying to differing degrees based on location.

Alongside new health monitoring, hygiene and ventilation protocols, strictly controlled childcare groups facilitated the closure of individual groups when cases were identified or infections suspected, rather than whole setting closures, thus enabling non affected ECEC centre operations to continue.

In mid-December 2020, Germany prepared to go back into lockdown following a surge in COVID-19 cases. ECEC closures varied between federal states and post lockdown reopening phases ran between mid-February and March 2021.

# COUNTRIES OF FOCUS – GERMANY

With a large proportion of ECEC provision supplied by city, municipal and public authorities, thus far the German public have largely borne the additional financial burdens resulting from the implementation of COVID-secure protocols.

The ECEC market structure in Germany has awarded greater protection from large scale permanent ECEC settings closures, in comparison to the experiences seen in the US and to some degree the UK.

For ECEC workers, "after almost a year of employment under pandemic conditions, the general burden is felt to be particularly high. In addition, day care workers are particularly afraid of a potential infection within their work. For them, this concern is independent of whether they belong to the risk group or not. Stress factors such as 'existential fears' or 'fear of closure' are relatively high. In contrast, the 'financial worries' of the day care centres are comparatively low."<sup>4</sup>

## CORONA-KITA-STUDIE

The Corona-KiTa-Studie, led by the German Youth Institute and the Robert Koch Institute, is one of the most operationally encompassing government-funded studies from an ECEC, social science and medical-epidemiological perspective.

Across four modules of investigation, the German Youth Institute and the Robert Koch Institute's research explores how the pandemic is impacting upon, and affecting ECEC centres, alongside seeking to understand what role pre-school children have in the spread of COVID-19.

65,000

children aged 0-5 years visited a doctor's office between 10-16 August 2020 because of acute respiratory diseases.

266

cases were transmitted in children aged 0-5 years between 10-16 August 2020.

23%

of day care settings reported staff problems during Q4 2020.

37,500

staff absent between 2 to 8 November.

## THE MODULES: STRUCTURE OF THE CORONA-KITA-STUDIE

### MODULE I: ON-SITE CHALLENGES AND SOLUTIONS

What is everyday life like in day care centres, and for families during the COVID-19 pandemic?

What organisational, educational and hygienic challenges are you facing and what solutions have those involved developed?

How do families and institutions work together?

### MODULE II: DEVELOPMENT OF THE CARE CAPACITY

How does the return to normal operations in day care centers and day care take place?

Which care capacities can the facilities offer?

To what extent are protective and hygiene measures carried out?

How is the infection process developing at the facility level?

(4) Corona-KiTa-Studie, monthly report March 2021 <https://corona-kita-studie.de/ergebnisse#aktuell>

# COUNTRIES OF FOCUS – GERMANY

## MODULE III: CORONA-KITA SURVEILLANCE

How often do children of kindergarten age get COVID-19?

How receptive are you to the virus?

How severe are their illnesses?

## MODULE IV: EVENT-RELATED EXAMINATIONS IN DAY CARE CENTRES

What role do day care children play in the transmission of the novel coronavirus?

What symptoms do infected children have over what period?

How often do children develop SARS-CoV-2 infections without symptoms?

### CONTEXTUAL LANDSCAPE:



Germany is a democratic, federal parliamentary republic with federal legislative power vested in the Bundestag. The Bundesrat is the legislative and the representative body of the Länder; Germany's 16 regional states.



Since 2013, all children from 12 months of age have had a legal right to a place within an ECEC setting, with the cost partially subsidised. In many locations across Germany. Demand for ECEC places significantly outweighs supply. Competition for places can be fierce, particularly within larger German cities.

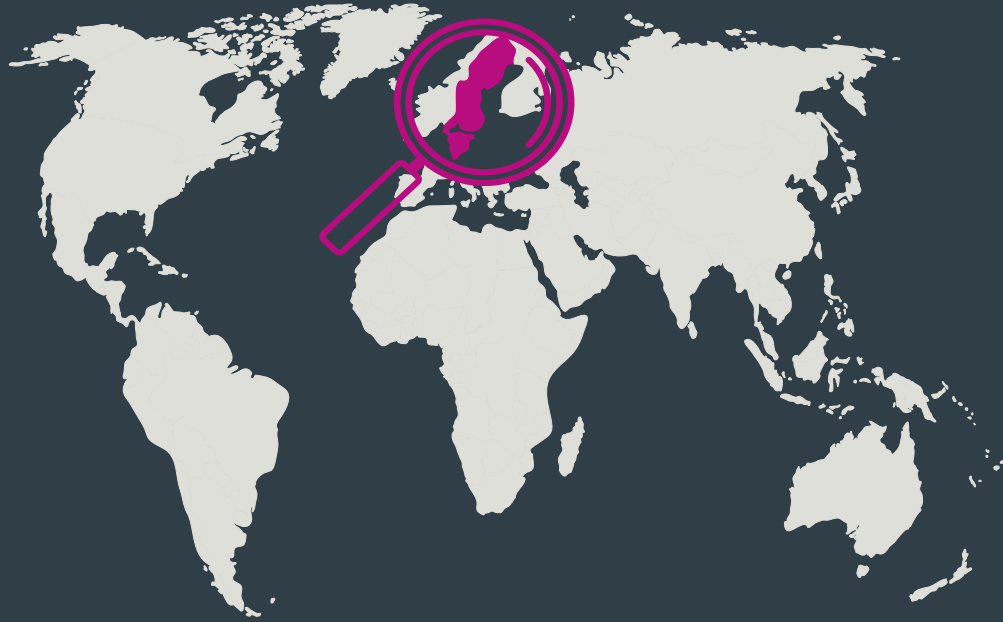


On 1 January 2019, the 'Good Daycare Facilities' Act came into force. €5.5 billion was allocated for investment between 2019 and 2022 to further develop the quality of ECEC nationwide.



Traditionally, children under the age of 3 years are looked after within nurseries (Kinderkrippe) which are run by a mixture of private, public and religious organisations. Preschools (Kindergärten) cater for children aged between 3 years and 6/7 years, and they are primarily run by city authorities, religious bodies, specially-founded organisations or other private entities.

# COUNTRIES OF FOCUS – SWEDEN



## ECEC MARKET ACTIVITY:

One of the most notable ECEC investment deals in the Nordics occurred amid the COVID-19 pandemic when Læringsverkstedet Gruppen AS - the largest private kindergarten chain in Norway, with some 230 settings, along with ECEC operations across Sweden, Finland, Germany, Dubai and Latvia - announced the decision to sell its property portfolio comprising 138 assets. Stockholm-based Samhällsbyggnadsbolaget i Norden AB (SBB) - a leading Nordic social infrastructure fund with its primary business focus on ECEC, education, healthcare and care sectors - was the successful acquirer, with a headline deal value NOK kr4.25 billion reported. As part of the deal, each of the ECEC assets were to be made available on new 35-year triple-net leases.



## OBSERVATIONS:

No national lockdown was enforced at the onset of the pandemic.

On 19 March 2020, a new law was enacted, awarding the government the opportunity to close ECEC settings and schools.

Sweden kept ECEC centres (ages 1-6 years) and schools (ages 6-16 years) open without any notable changes to operations, class sizes, break time rules or lunch policies.

The government strongly voiced that pre-schools and schools should be open if possible as students have the right to an education and closure of schools could lead to a large loss of

knowledge and have negative effects on long term health, well-being and educational attainment.

A range of measures to support parents and families were introduced. Payments of child support and maintenance were permitted to be postponed due to income drops. Temporary parental leave to take care of sick children was made more flexible.

During the first eight months of the pandemic, social distancing was encouraged but the wearing of masks or other facial coverings was not.

Research of linked case-based data of occupational registries conducted by the Public Health Agency of Sweden between 13 March and 19 October 2020 found that preschool, primary school and secondary school teachers were not at an increased risk of being diagnosed with COVID-19 compared with other occupational groups.

However, when examining the presence of COVID-19 in different occupational groups, specifically within ECEC settings and schools, it was found that the highest relative prevalence of COVID-19 was found to be one and a half times higher within the pre-school principals (ECEC managers) group, compared with other school occupational groups. Note: Not all school occupational groups were included in the survey e.g. caretaker and cleaners.<sup>5</sup>

<sup>(5)</sup> 'Presence of COVID-19 in different occupational groups within the school 13 March 2020 to 19 October 2020', Public Health Agency of Sweden, 2020. Article number: 20183

## CONTEXTUAL LANDSCAPE:



The Swedish school system is tax-financed and regulated through the Education Act. Municipalities provide and subsidise ECEC preschool (förskola) for children aged 1-5 years, the amount of subsidy depends on the child's age and family circumstances.



During the academic year 2019/20, 3,613 schools provided preschool classes, evidencing a slight decrease in school provision from 2010/11 at which time there were 3,780 pre-school classes within schools. 85.4% of children aged between 1-5 years attended preschool during 2019, compared with 82.1% during 2009. Statistics associated with supply and attendance have not yet been published for 2020/2021.



The Swedish Government's response to COVID-19 has been notably different from that of other European countries. Sweden did not go into a national lockdown during the first coronavirus wave in early 2020 - settings and schools remained open and Sweden's strategy focused on slowing, rather than stopping the spread of virus.



"From the onset of the COVID-19 pandemic, the Public Health Agency, Folkhälsomyndigheten (FHM), embarked on a de facto herd immunity approach, allowing community transmission to occur relatively unchecked." <sup>6</sup>

## COUNTRIES OF FOCUS – SWEDEN

New regulations issued by the Public Health Agency came into force on 14 December, effective until 30 June 2021.

The first time authorities advised people to use face masks on public transport at peak time was in December 2020.



In November 2020, Sweden began to battle a second wave of COVID-19 infections.



Amid tighter measures, in December 2020 the Public Health Agency published a new factsheet - "Pre-school is important during the pandemic" – which details the importance of ECEC for young children's development and well-being and highlights that, where children are able to attend ECEC settings, parents can work, and society can continue to function.



On 17 December 2020, Sweden's King, Carl XVI Gustaf, said his country had "failed" to save lives with its relatively relaxed approach to the COVID-19 pandemic.



18,587

Number of COVID-19 cases as at 7 April 2021 in children aged 9 years and younger.

113,077

Number of births in Sweden during 2020 – the lowest since 2011.

3.2%

Post COVID-19 GDP growth forecast in Sweden 2021.

80%

of women between 20 and 64 were employed, as of January 2020.





# COUNTRIES OF FOCUS – AUSTRALIA



## ECEC MARKET ACTIVITY:

Demand from ECEC buyers for high-quality portfolios was wholly evidenced by the recent bidding war, which ran at full pelt between UK-founded ECEC group Busy Bees and investors Alceon Private Equity, for ASX-listed Think Childcare Group.

Amid heated tension between bidders, in April 2021, the Ontario Teachers' Pension Plan-backed Busy Bees' revised offer for Think Childcare of AU\$3.20 per security, with the offer implying an enterprise value (EV) of around AU\$234 million. Think Childcare reported Full Year 2020 results stating an EBITDA of AUS\$26.8 million.

Alongside trade sale OpCo activity, Australia's ECEC investment market is perhaps one of the most established in the world, with high demand from a wide range of buyers for high yielding assets. The same can be said when opportunities to acquire OpCo share holdings in operational entities are made available.



## OBSERVATIONS:

On 23 January 2020, health screening of passengers arriving on flights from Wuhan to Sydney commenced and, just three days later, Australia recorded its first cases of coronavirus. Some four weeks later Prime Minister, Scott Morrison, activated the Australian Health Sector Emergency Response Plan for Novel Coronavirus (COVID-19).

On the 12 March, the Prime Minister announced the first economic stimulus package. On the same date, US actor Tom Hanks and his wife Rita Wilson, both in Australia at the time, announce they were COVID-19 positive and were isolating.

By mid-March measures were introduced including the voluntary self-isolation of travellers to slow the spread of the virus and international and national border control measures were introduced for some states and territories with physical distancing encouraged throughout the country.

On 20 March, Australia's borders were closed to all non-residents and, just a day later, a second economic stimulus package including the 'JobSeeker' scheme was announced.

In early April, the government announced 'free childcare' funded by federal government. This was one of several measures implemented to help the ECEC sector throughout the pandemic. The overarching package of measures included a Relief Package (6 April to 12 July 2020), a Transition Payment (13 July to 27 September 2020), and a Recovery Package (28 September to 31 January 2021).

By mid-May 2020, Australian lockdown measures began to ease but thereafter, where clusters were identified, localised lockdowns were put in place, as evidenced in the State of Victoria in August 2020. Circuit breaker lockdowns were implemented in locations where cases spiked, most notably a three-day period of restrictions for the Greater Brisbane area which commenced on 29 March 2021, during which ECEC centres were permitted to remain open for vulnerable children and the children of essential workers.

In May 2021, it was reported that Australia's borders will remain closed until mid-2022.

# COUNTRIES OF FOCUS – AUSTRALIA

The first half of 2020 was undoubtedly the most challenging for ECEC providers across Australia, fuelled initially by substantial drops in occupancy and concerns around financial stability, while striving to operate against the backdrop of continually changing policy and new financial funding measures; challenges ECEC operators around the world will be familiar with.

One of the most noticeable differentiators between the experiences of the ECEC sector during the pandemic in Australia, in comparison to our other four countries of focus, is the free childcare package announced on 2 April 2020. The scheme was introduced as a rescue package due to large swathes of parents removing their children from ECEC settings as families faced fears about COVID-19 and nervousness around financial uncertainty and safety. Severity of the impact of these withdrawals created grave concerns for the sector from a sustainability perspective.

In announcing the package, the Prime Minister, Scott Morrison, declared the 200,000-strong workforce to be “vital”. The relief package, he said, would build “a bridge for these valuable services to the other side of this virus so they can continue to play their valuable role in our workforce and education systems and so Australia can bounce back strongly”.



During March 2020 ECEC nationwide enrolments dropped by

80,000

49%

of registered childcare services are made up by private for profit services.

The free childcare measure cost the government

AU\$131m

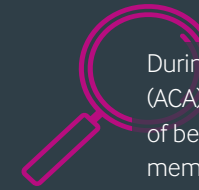
per week.

It was estimated that

67% of 193,000

ECEC workers in the sector would be eligible for JobKeeper funding.

## CONTEXTUAL LANDSCAPE:



During March 2020, the Australian Childcare Alliance (ACA) reported occupancy drops at ECEC settings of between 15-50% and, in some isolated cases, ACA members reported occupancy had dropped by 90%. The reasons cited for the reduction included parental fears about uncertainty and safety of their child attending ECEC settings, and job losses resulting in diminished household income and the cost of maintaining a childcare place.



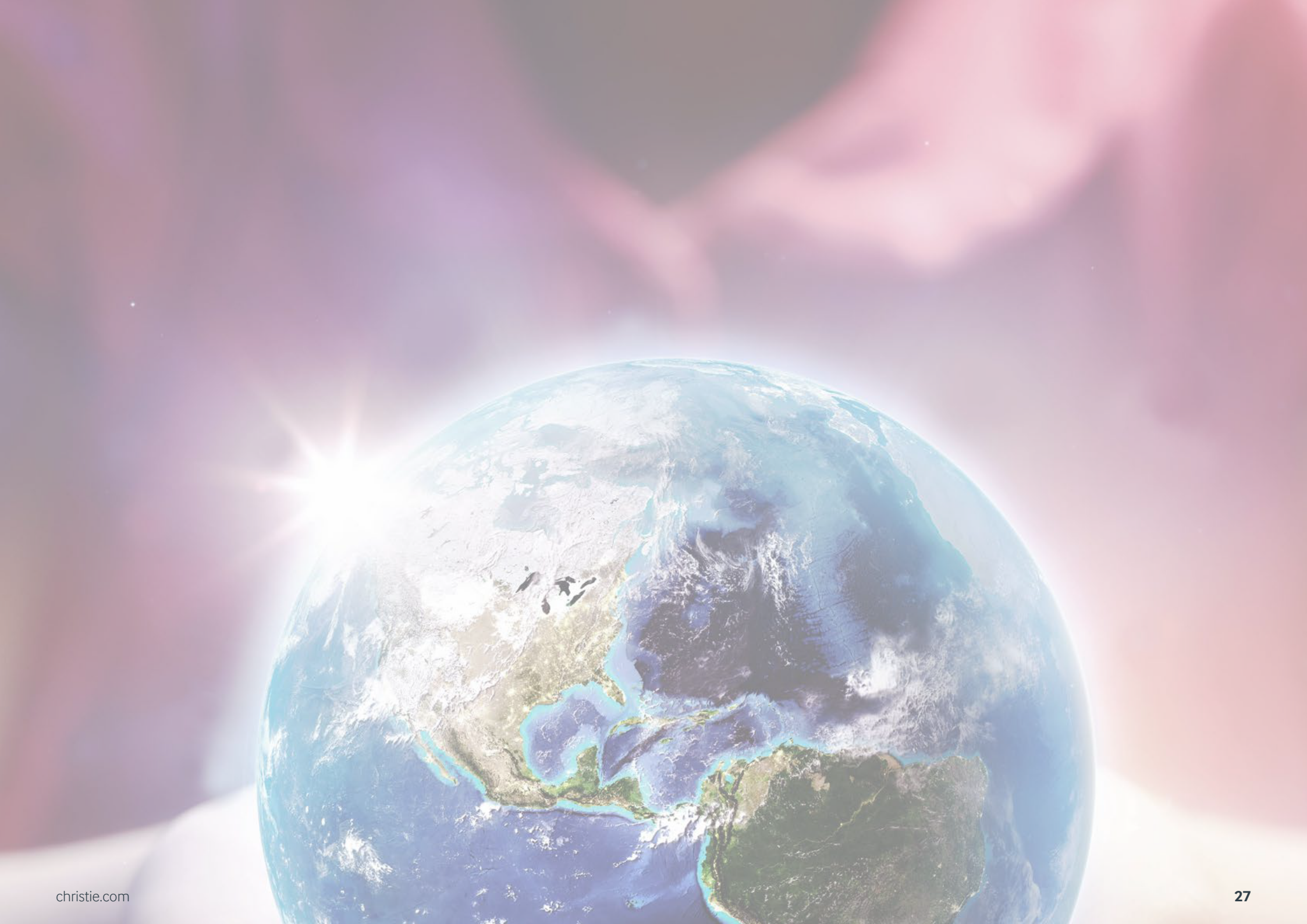
At the time, United Workers Union (UWU) spokeswoman, Helen Gibbon, commented, “Early childhood educators are really nervous that they’re not going to be paid and that they don’t have any job security and any viability going forward for their jobs.” She said many also feared for their health, with a lack of equipment to adequately protect staff and children.



A childcare subsidy system has been in operation since 2018 but some ECEC providers have long called for universal free ECEC. The pandemic fuelled the government’s decision to offer ‘free childcare’ albeit a temporary coronavirus protection measure which ended on 13 July 2020.



It was very much felt that the ECEC sector was unfairly singled out when it was announced that childcare workers would lose access to the JobKeeper programme in July 2020, just three months after the ‘free childcare scheme’ ended.



# COVID-19 FINANCIAL SUPPORT

Our five countries of focus introduced various fiscal support packages in a bid to financially support their nations, their health services, populations, businesses and the ECEC community: providers and workforce alike.

Each of our focus countries introduced job protection schemes, albeit the provisions of each scheme vary significantly. Many countries also introduced fiscal support specifically for the ECEC sector.



# ECONOMIC IMPACT OF COVID-19

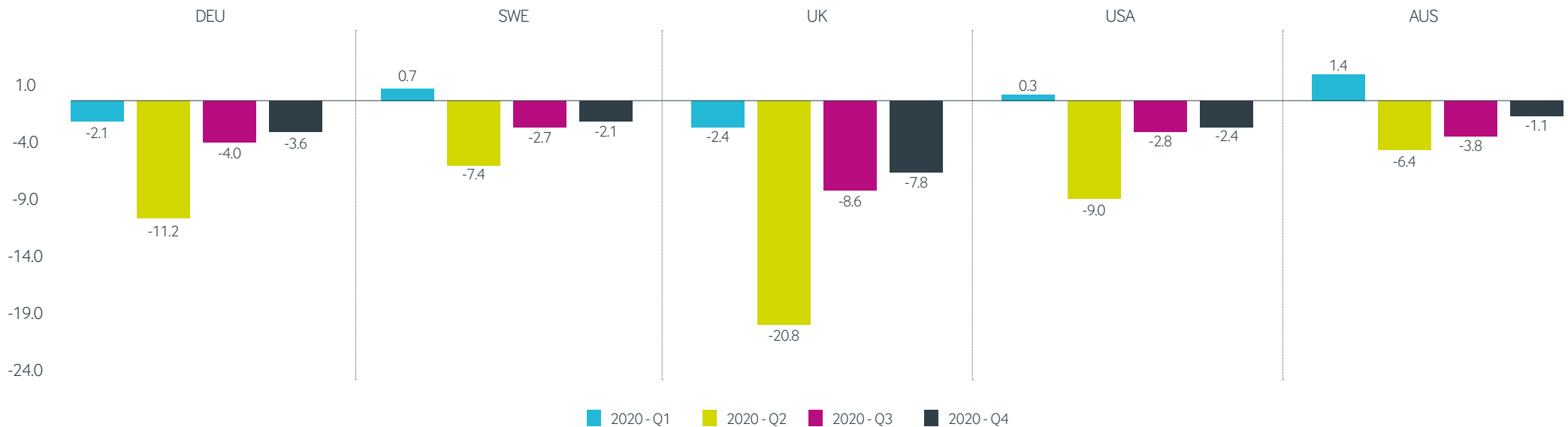


The COVID-19 pandemic has caused major disruptions in the global economy. Economic activity has been hit by reduced personal interaction, owing both to official restrictions and private decisions; uncertainty about the post-pandemic economic landscape and policies has discouraged investment; disruptions to education have slowed human capital accumulation; and concerns about the viability of global value chains and the course of the pandemic have weighed on international trade and tourism. As with previous economic crises, the pandemic is expected to leave long-lasting adverse effects on global economic activity and per capita incomes.

It is likely to steepen the slowdown in the growth of global potential output - the level of output the global economy can sustain at full employment and capacity utilization - that had earlier been projected for the decade just begun. If history is any guide, unless there are substantial and effective reforms, the global economy is heading for a decade of disappointing growth outcomes. Especially given weak fiscal positions and elevated debt, institutional reforms to spur growth are particularly important. A comprehensive policy effort is needed to rekindle robust, sustainable, and equitable growth.

**Global Economic Prospects Report, January 2021, World Bank Group.**

## GDP PERCENTAGE CHANGE BETWEEN THE QUARTER SPECIFIED AND ITS PRIOR YEAR EQUIVALENT



Across all of our five countries of focus, the most notable GDP percentage change during 2020, compared with 2019 was evidenced in Q2 2020 (April-June) and coincided with the first wave of coronavirus infections.

**-20.8%**

UK

**-11.2%**

DEU

**-9.0%**

USA

**-7.4%**

SWE

**-6.4%**

AUS

# ECONOMIC IMPACT OF COVID-19

One of the greatest challenges and threats to any market is 'uncertainty'. Uncertainty can stagnate markets and for business buyers at present, alongside all of the market drivers, due diligence and financial appraisal considerations, some of the most notable gaps in assessing what might happen as we move out of the pandemic, off the back of a successful vaccine rollout across the world, is the speed or rate of potential economic recovery.

As an unprecedented event in our lifetime, and being unlike a global recession, there is longer-term uncertainty. In many locations there has been talk of double dip recessions, but equally there has been talk of 'revenge spend' but so much is unknown. Economic predictions can be made, but as we have seen thus far with new COVID-19 variants being identified, COVID-19 and its impact is highly unpredictable.

## GDP PERCENTAGE CHANGE VS THE PREVIOUS QUARTER



The acute and negative erosion of GDP as seen in Q2 2020 across all five countries of focus, rebounded strongly during Q3 2020 coinciding with some easing of 'lockdown' restrictions.

16%

UK

8.5%

DEU

7.5%

USA

4.9%

SWE

3.3%

AUS

# EFFECT OF COVID-19 ON UNEMPLOYMENT RATES

The United States recorded an unprecedented peak in unemployment rates in April 2020, not seen since data collection commenced in 1948, of 14.8%, before steadily declining to 6.7% in December 2020. Every State saw unemployment rates greater than those documented during the Great Recession.<sup>7</sup>

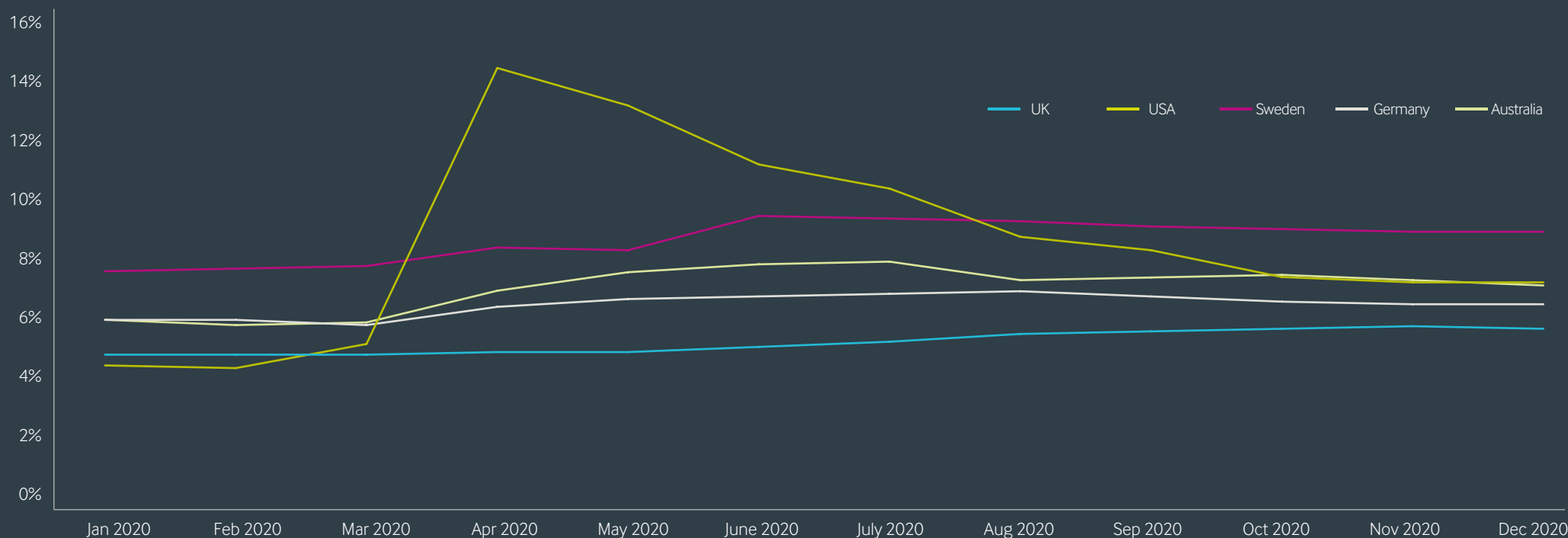
None of our other countries of focus have seen such marked movements in unemployment rates, but a degree of nervousness prevails as we move forward in 2021. Each of our five focus countries introduced fiscal measures to financially protect jobs which otherwise could have been at risk due to the impact of COVID-19. These job protection and financial support packages differ country to country, with schemes such as Short-Time Compensation (STC) programmes in the United States, Kurzarbeit in Germany, the Coronavirus Job Retention Scheme in the UK, Short-Time work allowances in Sweden and the JobKeeper scheme in Australia.

Each of the schemes have different eligibility criteria and each will end at different times, times. The JobKeeper payment scheme in Australia finished on 28 March 2021.

Take up rates of the STC scheme introduced in the United States have been very limited for a variety of reasons, including administrative bottlenecks, lack of employer awareness, weak financial incentives for employers (employers are liable for their part of social-security contributions for hours not worked) and limits to the maximum reduction in working hours. To bypass such problems, the United States introduced several limited wage subsidies schemes such as the Paycheck Protection Programme (PPP) and the Employee Retention Tax Credit (ERTC).<sup>8</sup>

Across our five countries of focus, where fiscal support job protection measures have seen high utilisation rates, there are varying degrees of apprehension of the ending of these schemes and the impact this could have on unemployment levels very shortly thereafter.

## UNEMPLOYMENT

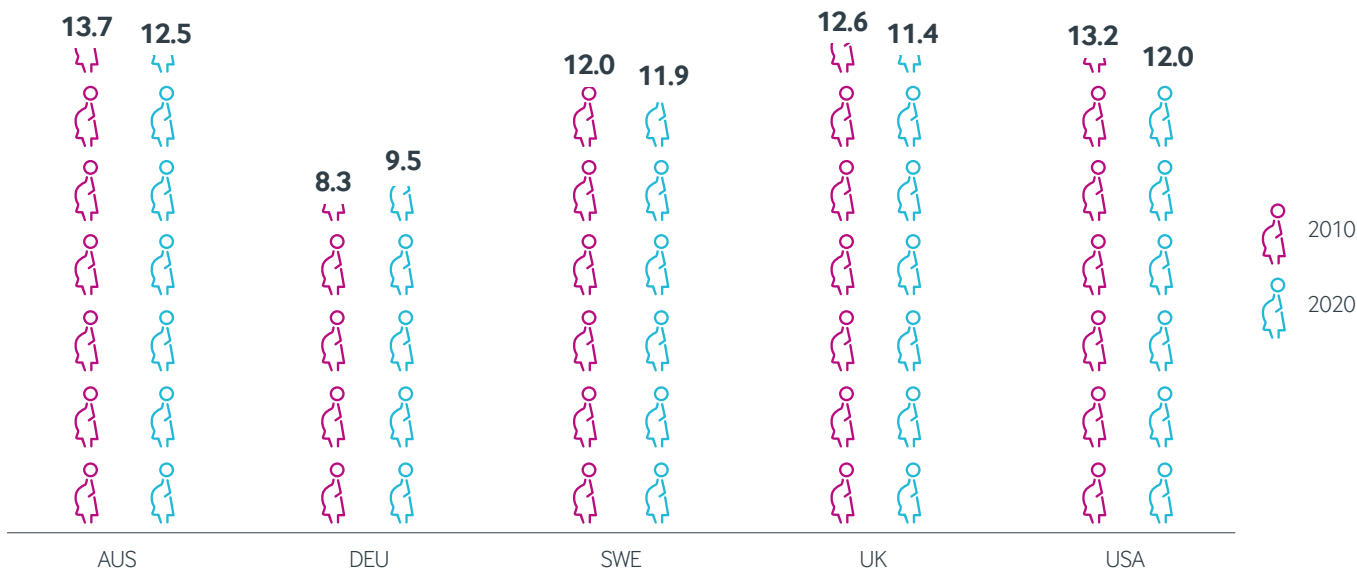


(7) 'Unemployment Rates During the COVID-19 Pandemic: In Brief', Congressional Research Service, 12 January 2021.

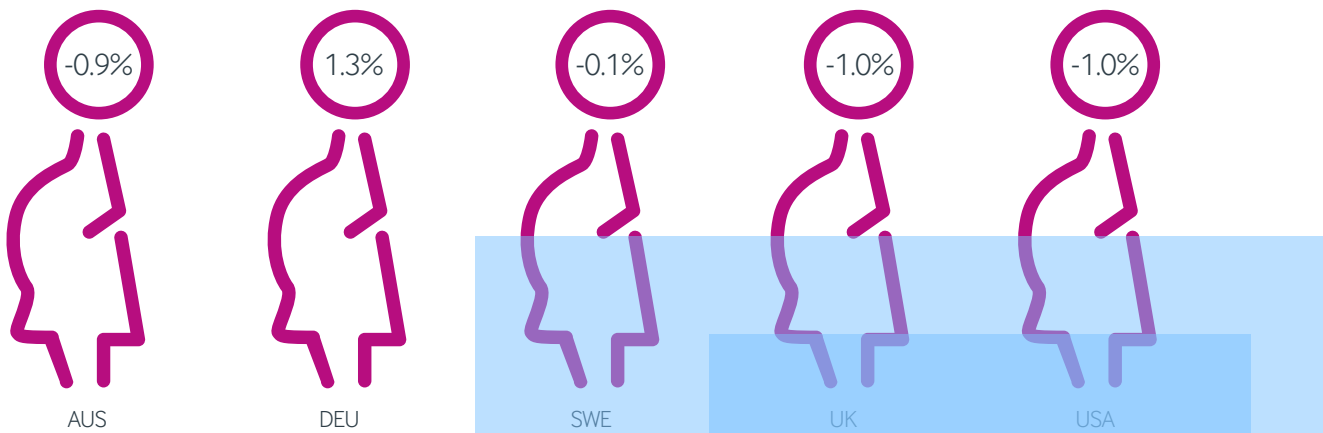
(8) 'Job retention schemes during the COVID-19 lockdown and beyond', OECD Policy Responses to Coronavirus, updated 12 October 2020.

# POTENTIAL IMPACT OF COVID-19 ON BIRTH RATES

BIRTH RATE (BIRTHS PER 1,000 POPULATION) FROM 2010 VS 2020



COMPOUNDED ANNUAL GROWTH RATE FOR BIRTH RATES FROM 2010 VS 2020



(9) 'Pandemic blamed for falling birth rates across much of Europe', Financial Times, 10 March 2021 <https://www.ft.com/content/a70268b4-8f2a-4b59-9942-435dc1e39d86>

(10) '2021 UK and Global economic outlook', PWC, 7 January 2021 <https://www.telegraph.co.uk/global-health/climate-and-people/birth-bust-pandemic-stopped-people-making-babies/>

During the COVID-19 pandemic some countries, but not all, have gone through a period of lockdown, or indeed several lockdowns with 'Stay-at-Home' orders being issued. On being forced to stay at home, initially there was speculation that confinement could potentially create a spike in birth rates.

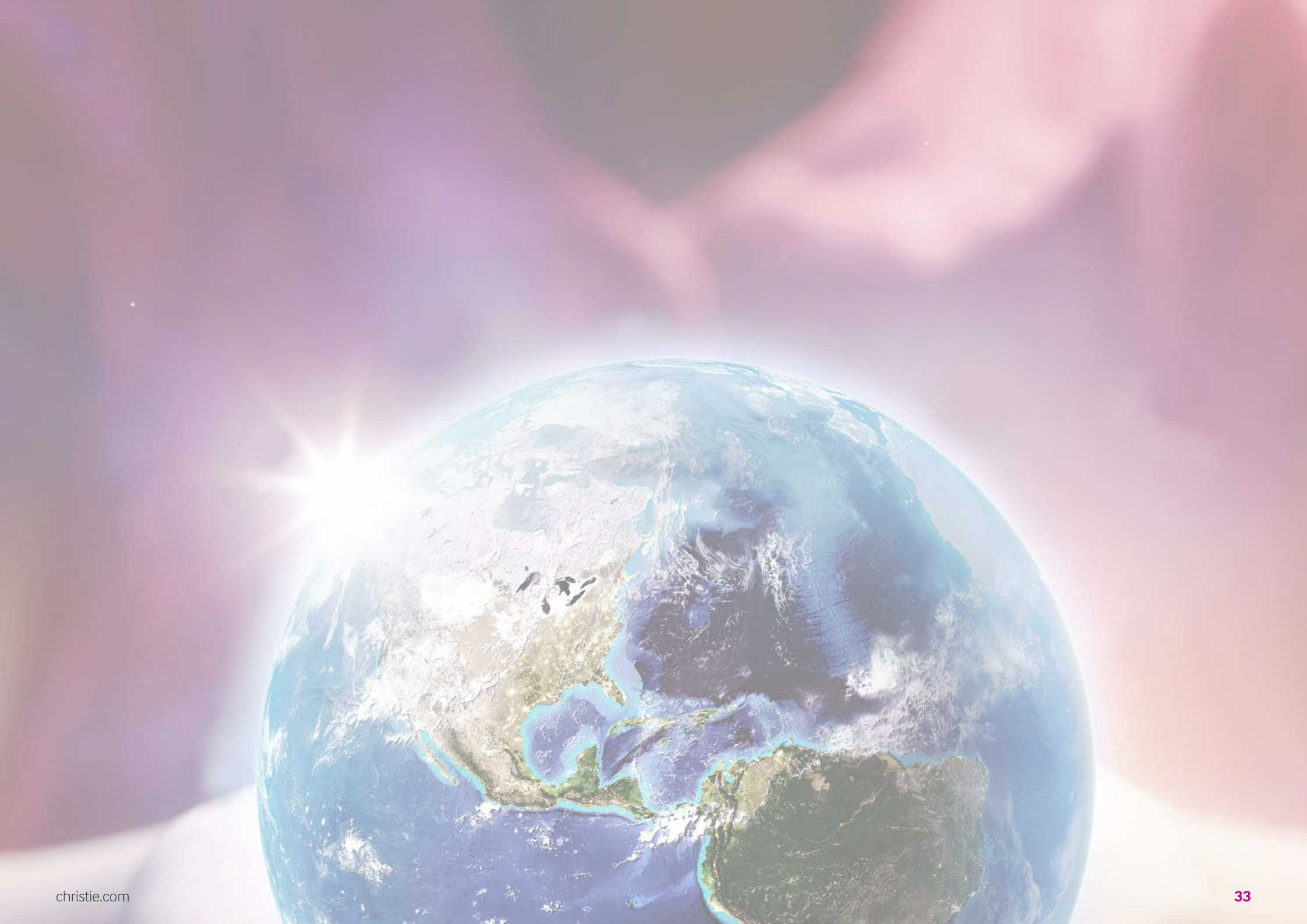
However, France's national statistics institute was one of the first to publish figures for the number of children born in January 2021, nine months after the country's first COVID-19 lockdown and the provisional data indicated a startling decline: there were 53,900 births in the month, 13% down on the figure for January 2020.<sup>9</sup>

In the UK, research published by PWC in January 2021 reported that the "unprecedented nature and size of the economic shock could negatively impact family planning". We expect the health, social and economic effects of the pandemic to result in a 'baby bust', where the postponement of pregnancies translates into a dramatic decline in birth rates in 2021".<sup>10</sup>

Data emerging in the US on a state-by-state basis from December indicates that birth rates fell on average by some 7% in comparison to 2019.

Across our countries of focus Germany is reported to have bucked the potential 'baby bust' trend. During mid-March 2021 Germany's federal statistical office reported that "an initial evaluation" of birth registrations during December and January an increase of 0.8% was recorded in comparison to the same period in 2020.





# ECEC MARKET – MACRO & MICRO FACTORS

During recent years, we have seen a significant increase in the frequency and volume of ECEC international mergers and acquisition activity.

While ECEC operational business and real estate markets in each country all have their own particular nuances, for ECEC trade buyers and investors alike there are macro and micro factors that will drive their interest and appetite when considering domestic or international ECEC acquisitions and investments.

When we think about what drives the ECEC market – there are a number of macro factors at a global level and micro factors at a local level.

As an example of micro factors, if you think about the settings in your neighbourhoods, wherever that may be, there will be different types of ECEC provision offering different types of service, with different capacities, trading out of different types of buildings, in different locations, catering for different families from different demographics, some may be centre based, and others home based. At a micro level, no two ECEC settings are the same.

Whether a buyer has GBPE100,000 to invest in acquiring a single ECEC business in their own domestic location, or GBPE100 million to invest in an international platform acquisition overseas, there are many macro factors, such as, demographics, competition, supply, demand and sustainability, that will be taken into account.

When independent, privately owned ECEC centre settings are sold, acquired or refinanced, micro factors play a part in determining the desirability and the attractiveness of the ECEC centre, or portfolio of centres, to potential buyers. From a buyer's perspective it is the combination of the micro factors that in part will determine the financial sustainability of a setting, and its value or worth to them as a buyer. These micro factors drive localised markets in tandem with the macro factors specific to the country in which the ECEC centre is located. Macro factors include considerations associated with the countries' demographics, cultural considerations, national economy, government stability, ECEC policies, supply, demand, the buyer's access to funds for acquisition finance, all of which are measured against risk, reward and potential return on investment. Returns on investment are not solely measured in financial terms. Low central bank interest rates continue to fuel buyer appetite.

## CENTRAL BANK INTEREST RATES (AS AT 16/04/2021)

0.25%

USA

0.1%

UK

0.1%

AUS

0.0%\*

DEU

0.0%

SWE

*\*German interest rates are set by the European Central Bank*



There are many factors that shape a prospective buyer's thoughts when preparing to make new ECEC acquisitions and investments.

Mergers and acquisitions can be time-consuming and in some cases highly complex, so when teamed with the emergence of COVID-19 it would be understandable for market activity deals, refinances, mergers and acquisitions to have come to a grinding halt - but this has simply not been the case.



# ECEC MARKET – MACRO & MICRO FACTORS

## DEMOGRAPHICS

The five countries of focus overall populations vary vastly, from the USA with a population of 332.6 million in 2020, through to Sweden, our focus country with the smallest population of 10.4 million. From an early years' perspective, birth rate trends are one of the many due diligence markers that investors, trade buyers and new international acquirers will focus on as a KPI of market prospects, alongside labour force participation, trends of mothers returning to work, household reliance on dual incomes and socio-economic indicators of affluence.



## ECONOMY

Investing in ECEC centres located in a stable economy will be important to investors because economic stability awards wider economic confidence and therefore stability in pricing which can award stable and sustainable growth.



## ACCESS TO FINANCE DURING COVID-19

The initial impact of COVID-19 on international and domestic capital markets was acute, with sharp price adjustments observed across fixed-income and equity markets.<sup>11</sup> During the initial period of the pandemic, lending institutions struggled to deal with the volume of customers reaching out in need of financial support. Simple everyday banking requirements like requesting to extend an overdraft became incredibly difficult to facilitate. Some 14 months on, banks, investors and private equity are getting back to business, however some are more open to new business than others. During the second half of 2020, and continuing into Q1 2021, we have seen an increase in buyers facilitating acquisitions with debt, rather than cash, albeit there continues to be a large number of buyers that have 'cash in the bank' that they remain keen to deploy.



## GOVERNMENT STABILITY

Political stability is essential to investors as stability awards greater certainty and confidence about the long-term business and economic prospects of a country in which an investor may be seeking to deploy capital. When contemplating new market entries, trade buyers and investors alike will undertake comprehensive due diligence on political parties' policies, specifically in relation to ECEC legislation, funding and regulation. Unexpected changes to policy, funding or regulation can quickly disrupt and de-stabilise markets, impacting on value hence ingoing new market entry feasibility projects are highly favoured by buyers when entering new international territories.



## ECEC DEMAND & SUPPLY

ECEC demand and supply landscapes at both a local or country level will shape the appetite of buyers, as will the composition of existing supply. Buyers will seek to concisely understand the shape, structure and composition of the market. Regard will be given to the 'future-proofing' of ECEC centres from a property perspective. Prospective buyers and investors will seek to determine the overall quality and composition - is it predominantly converted real estate, for example converted former houses or villas, or are assets predominantly purpose-built? Trade buyers and investors alike will wish to determine whether existing supply meets the needs of the market. They will question if there is scope for organic growth and the creation of new state of the art childcare settings and/or are there challenges that would create barriers to entry and organic or acquisitive growth.



# POLITICAL STABILITY

The impact of the COVID-19 pandemic has touched all corners of the globe. At the time of writing (18/05/2021), 3,406,027 lives have been lost. Many countries' medical facilities have been overwhelmed, financial markets have fallen, global supply chains hit hard at the outset, and some first world countries saw stockpiling amid fears of supply shortages as lockdowns loomed.

Investors and acquisitive companies, be they global conglomerates, multi-nationals or domestic organisations ordinarily favour stability – it creates visibility and mitigates risk. During the period of the pandemic geopolitical risks have been heightened to varying degrees, and some very notable events have taken place.



## UNITED STATES

**Trump vs Biden and the storming of the Capitol Building:** With one of the most heated and controversial elections in American history, coupled with allegations of election fraud, the storming of the capitol on the 6 January 2021, led to civil unrest and violence.

## UNITED KINGDOM

**The end of the Brexit transition period:** On the 1 January 2021, the free movement of people, goods and services between the UK and the EU ended. This date marked the end of a transition period effective from 23:00hrs 31 January 2020 which marked the precise moment when the United Kingdom withdrew from the European Union. Post-Brexit trading arrangements have created barriers between Northern Ireland and the rest of the UK. Tensions culminated in a series of riots, which started on 30 March 2021, in loyalist areas of Derry, Northern Ireland.

## GERMANY

**2021 - German Chancellor Angela Merkel to step down:** The end of an era will be marked later this year as German Chancellor Angela Merkel steps down from her position after serving the country for 15 years and as one of the de-facto leaders of Europe.

## THE NETHERLANDS

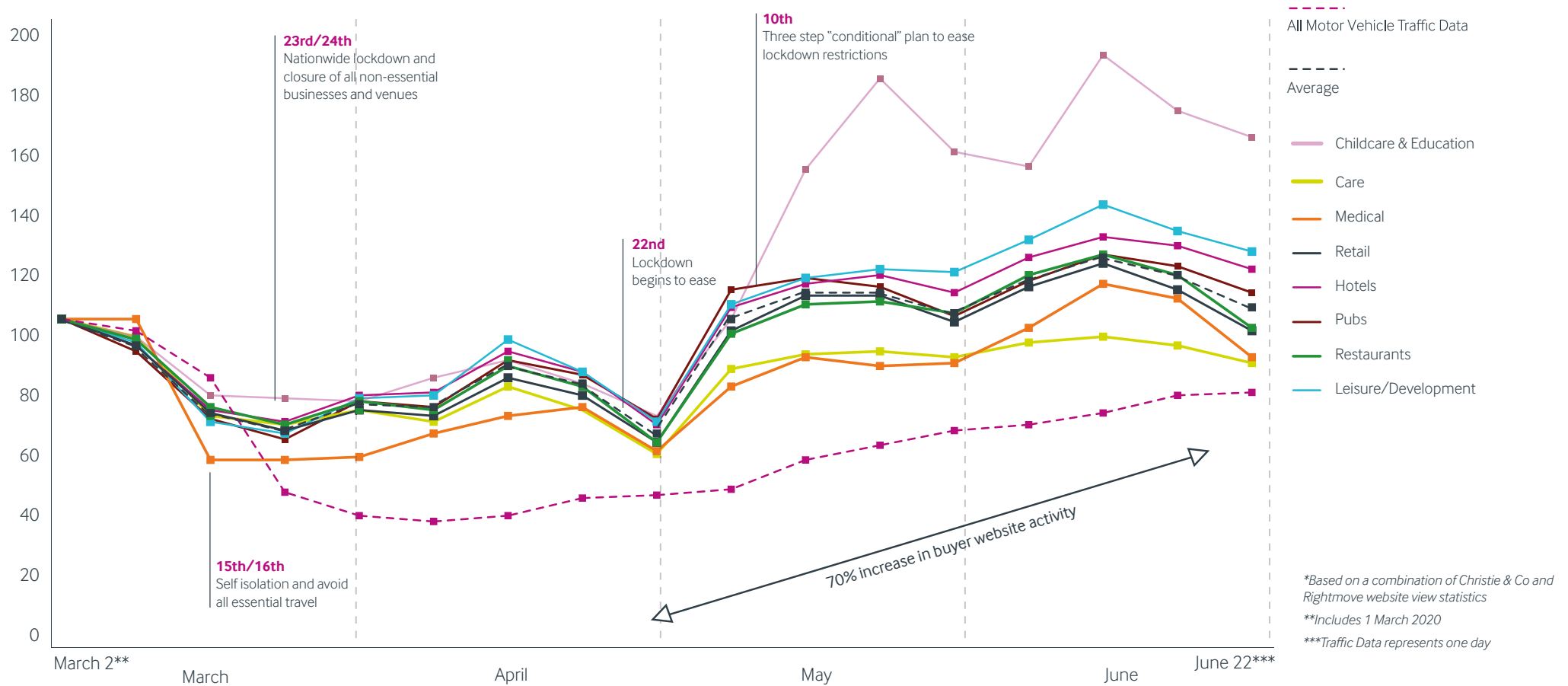
**January 2021 – Dutch cabinet resign en mass in wake of childcare subsidies scandal:** Between 2013 and 2019, the Tax and Customs Administration wrongly accused an estimated 26,000 parents of making fraudulent benefit claims, requiring them to pay back the allowances they had received in their entirety. In many cases, this sum amounted to tens of thousands of euros, driving families into severe financial hardship.

The scandal was brought to public attention in September 2018. Investigators have subsequently described the working procedure of the Tax and Customs Administration as “discriminatory” and filled with “institutional bias”. On 15 January 2021, two months before the 2021 general election, the third Rutte cabinet resigned over the scandal following a parliamentary inquiry into the matter, which concluded that “fundamental principles of the rule of law” had been violated.

## ITALY

**The 2021 Italian Government crisis:** This political event in Italy saw the change of the sitting Prime Minister without a general election. On 13 January 2021, after weeks of disagreements within the government coalition, the two ministers of Italia Viva, the other party making up the coalition government, resigned from their posts. Having lost the full support of one of the parties forming the government, Prime Minister Conte resigned on 26 January 2021.

# ECEC MARKET FACTORS: DEMAND & SUPPLY



Christie & Co is the leading specialist adviser for buying and selling businesses in a number of specialist operational real estate sectors including childcare and education (ECEC), hotels, pubs, restaurants, healthcare, convenience retail, leisure and medical. Across the sectors in which we specialise, mid-pandemic we recorded a spike of 140% of buyers seeking childcare and education businesses, most notably ECEC centres, as detailed in our Buyer Registration Index.

The Index recorded new buyer registration activity between 27 April – 22 June 2020. We consider this compelling and stark evidence to demonstrate the profile of the ECEC sector which had been notably raised during the initial first wave of COVID-19 lockdowns whereby many parents were required to stay at home and saw first-hand the importance and value of the exceptional work the ECEC centres and

services provide. This, in tandem with investors looking for alternative, more COVID-19 reliant business sectors in which to invest.

Businesses across the leisure, tourism, restaurants and licence sectors were highly restricted in trading during the lockdowns, hence attention being diverted to sectors such as ECEC which rallied to the fore during an incredibly challenging time. Having established operational strategies to trade throughout the changing conditions of the pandemic, in several countries we saw regional, national and indeed global ECEC operators and trade buyers returning steadily to recommence their strategic plans on mergers and acquisitions.

## CONCLUSIONS & MARKET OUTLOOK

Comparing the impact of COVID-19 across our five countries of focus, there are some notable differences; each have different market ownership compositions, different early years policies, funding arrangements and different regulatory environments. COVID-19 related decisions made by governments have resulted in a variety of outcomes, shaping different ways in which ECEC settings in these countries have operated over the past 14 months. While there are stark differences, there are also stark commonalities, evidenced by the experiences of ECEC providers; their dedication, drive and determination. All have been affected by the uncertainty that COVID-19 has created, and many have experienced acute operational challenges.

At the start of the pandemic, against a backdrop of 'Stay-at-Home' Orders and lockdowns, ECEC providers had to make nimble decisions amid difficult circumstances and rapidly changing advice and guidance. ECEC providers worldwide are to be applauded for their dedication, collaboration, commitment and contribution during the most difficult of times.

Settings across our countries of focus have introduced new COVID-secure operating procedures and policies. Many have encountered significant operational challenges associated to workforce self-isolation requirements, reductions in occupancy arising from a combination of factors and, in some cases, regulatory restrictions imposed on operations and operational capacities. Equally, ECEC providers have had to deal with concerns relating to financial sustainability, the wellbeing of their ECEC workforce, alongside dealing with their own personal family circumstances and concerns.

As countries cautiously try to 'get back to normal', ECEC providers and practitioners are increasingly requiring support in order to successfully settle in babies born during COVID-19 that are showing signs of separation and attachment anxiety. Within pre-school classes, additional support needs are being identified to help pre-school children with developmental

gaps and skills required to effectively support and enable school-readiness. Across our five focus countries, extensive financial support and stimulus packages have been introduced. The cost of childcare, and universal childcare have been hotly debated topics across each of our five all our countries of focus for many years. More so now than ever, sufficient ECEC funding is essential to enable providers to deliver high quality services: to recruit, train and retain qualified and experienced staff and therefore effectively nurture and support children throughout their early years. High-quality ECEC provision will be pivotal to each nation's future success, not just in economic terms but in the health and well-being and prospects for our younger generations as we move forward.

Amid the heartbreak, hardship and suffering caused by COVID-19, the pandemic has undoubtedly brought the profile of ECEC to the fore of parents', the public's and indeed politicians' thoughts, giving the sector long overdue recognition. At the height of the crisis, Tulip Siddiq, the UK Shadow Minister for Children and Early Years, stated, "Childcare is the fourth emergency service in this crisis, but it is being overlooked." In the months that followed, Australian Prime Minister, Scott Morrison, declared the 200,000 strong ECEC workforce to be "vital", referencing the essential role of ECEC in enabling Australia's economy to "bounce back strongly".

From a market perspective, we have seen new interest from new investors and buyers generated. These new, eager market entrants add further fuel to the long-established blaze of demand from private equity, high-net-worth individuals and philanthropic investors, all of whom face direct competition from a wider range of ECEC trade buyers including independents, regionals, corporate and international ECEC groups – the combination of which has created additional buoyancy in the market.



More so now than ever, sufficient ECEC funding needs to be made available so that the ECEC providers can meet the costs of delivery; recruit, train and retain qualified staff and support children throughout their early years.



## CONCLUSIONS & MARKET OUTLOOK

While we have not experienced a pandemic such as COVID-19 in our lifetime, historically, across our five focus countries, and indeed extending our viewpoint advantage to the wider world, financial recessions have evidenced that ECEC markets are resilient – due largely to the macro factors detailed herein and the fragmented nature of provision in many countries.

Despite all of the challenges created by COVID-19, looking to the remainder of 2021, towards 2022 and beyond, the outlook for the global ECEC markets appears positive. In the short to medium term, we anticipate that pre-pandemic pricing will prevail for the most desirable ECEC businesses, be they single assets or portfolios.

### We also expect to see:

- Demand fundamentals for ECEC businesses are expected to remain strong.
- Pent up demand among ECEC buyers is very evident. Those with ambitious buy and build targets will be keen to make up for lost time.
- ECEC deal flow is expected to increase.
- Many ECEC domestic markets remain fragmented. The opportunity to consolidate will continue to be one of the primary drivers of appetite from trade buyers and investors alike.
- As vaccination roll out programmes gain pace, and as infection rates and operational challenges subside, we expect to see an increase in the supply of opportunities that come to the market from ECEC business owners who, due to COVID-19, put their 2020 exit and retirement plans on hold.
- International transactions may take slightly longer to complete in the short term due to logistical challenges.
- International ECEC portfolios presented for sale with occupancy levels in 'post-COVID-19 recovery stage' will remain sought after - flexible deal structures will bridge potential value gaps.
- Unfortunately, some high quality and long established ECEC businesses will fail as COVID-19 related fiscal support measures come to an end.
- Should the ECEC market be flooded with new opportunities, be they domestic or international, single assets or portfolios, supply and demand factors could have a detrimental impact on value.
- Private equity divestment of assets is expected, potentially due to debt over-gearing rather than business performance.
- Due to buoyancy in ECEC markets, the trend in direct off-market approaches from prospective acquirers to trade operators will increase. Buyers don't like competition for ECEC businesses. If acquirers are able to negotiate and secure off market deals without competition from other buyers, they will.

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# ABBREVIATIONS AND DEFINITIONS

**ACA:**

Australian Childcare Alliance

**AUS:**

Australia

**AUS\$:**

Australian Dollar

**Bubble:**

Number of people allowed to mix with one another for the purposes of education, work, childcare needs or social support

**Bundestag:**

German Federal Government

**CAGR:**

Compounded Annual Growth Rate

**CARES Act:**

Coronavirus Aid, Relief and Economy Security Act

**CDC:**

Centre for Disease Control and Prevention

**COF:**

Countries of focus

**Coronavirus:**

Large family of viruses that cause illness ranging from common cold to more severe disease

**COVID-19:**

An infectious coronavirus disease caused by SARS-Cov-2, identified in late 1999, resulting in a global pandemic

**DCFS:**

Department of Children and Family Services

**DEU:**

Germany

**DfE:**

Department for Education

**DJI:**

German Youth Institute, Munich

**EBITDA:**

Earnings before Interest, Taxation, Depreciation and Amortisation

**ECEC:**

Early Childhood Education and Care

**EU€:**

Euro

**FEF:**

Free Entitlement Funding

**FHM:**

Folkhälsomyndigheten, the Swedish Public Health Agency

**Förskola:**

Swedish preschool for children 1-5 years

**GBP£:**

British Pound Sterling

**GDP:**

Gross Domestic Product

**JobKeeper Programme:**

Australian financial support scheme for employees and employers in businesses negatively affected by the pandemic

**Keyworkers:**

Individuals classed as working in essential services and/or carrying out essential work

**Lockdown:**

Government imposed restrictions enforced to limit the movement and mixing of people

**NHS:**

National Health Service

**No.:**

Number

**NYC:**

New York City

**NZ\$:**

New Zealand Dollar

**Pandemic:**

Disease prevalent over a whole country or the world

**PPE:**

Personal Protective Equipment

**Pre-K:**

Pre-kindergarten

**PWC:**

Price Waterhouse Coopers

**Q1:**

First quarter of the year

**Q2:**

Second quarter of the year

**Q3:**

Third quarter of the year

**Q4:**

Fourth quarter of the year

**RKI:**

Robert Koch Institute

**SWE:**

Sweden

**UK:**

United Kingdom

**US:**

United States

**USA:**

United States of America

**US\$:**

United States Dollar

**UWU:**

United Workers Union in Australia

**VAT:**

Value-added tax

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