CHRISTIE & CO

CHILDCARE & EDUCATION

Part of an ever-growing sector, many businesses yielding high earnings have seen increases in value, driven by continued attraction to investors and eager competitiveness from buyers teamed with their thirst for high quality.

COURTENEY DONALDSON
Managing Director
Childcare & Education

The premium prices being achieved by the most desirable businesses throughout 2018 look likely to continue into 2019 as we see an eager pool of new buyers continuing to emerge.

Our Childcare & Education team has seen unprecedented prices for quality businesses achieved over the past 12 months, albeit such may level out during 2019. While a very positive year for some, the past year has presented a divergent landscape and we expect the disparity between success and distress to widen during 2019.

INVESTORS AND OPPORTUNITIES

High quality single assets remain very much sought after by first-time buyers, existing providers and new, prospective investors alike, as the sector is increasingly being seen as an attractive investment class, offering scope for solid long-term earnings and success.

Established portfolios that can demonstrate a proven track record, sound reputation, a solid and consistent regulatory compliance track record, 'clean' tenure of assets, and a solid and experienced management team are, subject to economic and political conditions prevailing, expected to remain attractive, particularly to larger corporate groups, new international entrants and investors. High quality portfolios will continue to attract premiums, with these notable arbitrages reflective of value and recognition of how difficult it is to establish and grow a quality, successful and densely located portfolio with consistent and sustainable earnings. Consolidation opportunities remain across many of the established childcare and education sectors with existing providers and new entrants increasingly striving to succeed via consolidation in a bid to pursue buy and build growth delivery strategies, alongside organic developments.

CHILDREN'S DAY NURSERIES

Still a highly fragmented market, with around 80% of settings owned by independent operators, UK based children's day nurseries continue to see more inbound investor interest which in turn is driving up values for the most desirable businesses, fuelled by competitiveness in the market. With the average size of a setting currently around 44 places, as reported in research by Laing Buisson, larger, purpose-built facilities continue to be organically developed by both national and regional groups and sole traders alike, with many new build settings having capacities of 100+ places. Compared to new international day nursery developments, setting sizes of some 100 places remain smaller than those seen in some other parts of the world, such as in China or indeed Asia. We reported last year that Cognita opened the world's largest Early Years Learning Village, providing 2,100 places, some 10 times the size of the largest settings in the UK, showcasing the potential that exists in some locations to scale up early years businesses.

88%

of eligibility codes for 30 hours of free childcare validated by September 2018

With the development of new 'future proof, purpose designed' settings increasing, such are undoubtedly placing pressure on some local smaller providers. This is pushing many owners to reinvest in their settings and evolve, with growing demands and expectation of high standards from parents, service users and consumers. The past year has seen a rise in nursery closures, particularly among the smaller, less commercial, least well-funded and less viable businesses. Although this has created a new supply of vacant D1 properties coming to the market, many of these assets have either been in need of significant capital investment in order to reopen or, due to configuration and capacity, they are no longer wholly viable for longer term operational daycare purposes. With some of those assets being unable to compete with market progression and changes in parental expectations, some have reverted to prior use, which in many cases has been conversation back to historical former use as a single residential dwelling.

Research by NDNA highlighted a 66% increase in closures between September 2017 to 2018, attributing this to the introduction of the 30 hours of free childcare policy. While we can see that the policy has had a material impact on many operators, some have been better prepared to cope with it than others, dependent on location, service offering, USPs and the commerciality of the operator or owner.

As at September 2018, following a 12-month implementation, 88% of eligibility codes for 30 hours free childcare had been validated, showing that the majority of the impact the policy has had on the sector has occurred, however there is scope for additional pressure as take-up reaches capacity for Local Authority funded places.

A growing trend has been the increasing introduction of full day care provision on primary school sites. Maintained sector nurseries in many cases have historically been in receipt of higher local authority fee rates, in comparison to rates awarded to the private sector, we have seen an increase in school-based provision.

Historically having offered term time provision, there is evidence of school settings striving to become more commercial in extending from term time to full day care, with wrap around services, albeit private sector provision is typically far more adept in this respect.

As owners strive to differentiate their business from others, USPs, such as enrichment services, are becoming increasingly important and more prevalent. For example, bilingual offerings, provided by London-based Chinese-English group Hatching Dragons, skills development through skiing or swimming lessons as offered by North West regional group Kids Allowed, or sensory immersive children's activity rooms fitted with cutting edge augmented reality, as found in newly opened Rocket Productions, Chelsea.

Fixed costs continue to increase year on year for staffing, operations, and business rates, and so warranting sustainable fee rates and increasing operational capacities are potentially routes which could be taken to mitigate or offset sustainability pressures. Post Brexit, scope to review staffing ratios and re-examine floor area utilisation would be welcomed, awarding operators wider choice and flexibility in order to operate in a more efficient, cost-effective manner.

USPs, such as enrichment services, bilingual curriculum and cutting edge technology, are becoming increasingly more prevalent.

INDEPENDENT SCHOOLS

The landscape for independent schools is mixed, with private 'for profit' schools typically falling into one of three groups. The elite and prestigious private UK schools have been able to maintain high occupancy and school fees, assisting in offsetting increasing operational costs.

However, mid-market schools located in pockets of London, the South East and Home Counties are having to become increasingly commercial in order to ensure a healthy financial operation and ensuring profitability with necessary financial reserves.

The private independent schools which are most at risk are those located outside of London and the South East, with significant erosion in pupil numbers and little capital to reinvest. We anticipate increased evidence of distress during 2019 for this cohort of schools as costs rise and surpluses decrease.

Distressed assets aside, we expect the independent school market to remain strong and activity is anticipated to gain pace especially across mid-market pricing points of between £5 million and £50 million.

LOOKED AFTER CHILDREN AND YOUNG PEOPLE

Children's homes and foster care businesses are continuing to see high levels of activity as the fragmented nature of the market provides a variety of opportunities for trade buyers and investors alike, with demand continuing to outstrip supply.

Children's homes, in particular, look set to see capital value growth during the year ahead. With local authorities beginning to increase their referrals back toward children's homes, there is a significant shortage in supply, and this is expected to fuel demand from business property buyers during 2019.

SPECIALIST CHILDCARE

Trade and investor interest has continued unabated during 2018, as businesses that provide specialist care and education for children and young people continue to draw interest from a wide pool of acquisitive buyers. Alongside this, organic new business developments have been evident, with, amongst many others, 2018 seeing the opening of Brookways School in North Cheam, adding to the Keddleston Group's portfolio of specialist day and residential schools.

Overseas, against the backdrop of the Dubai Disabilities Strategy 2020, an aspirational vision to create a fully inclusive education system for children and young people with SEND is being realised. Riverston School, the first of its kind specifically catering for students with specialist needs or as referenced by the regulator, Children of Determination, opened in Dubai in 2018.

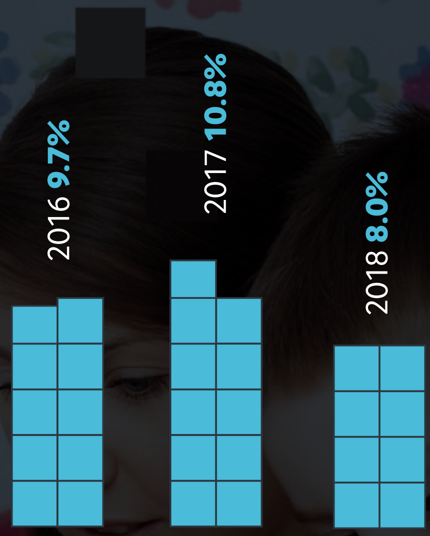
BREXIT & POLITICAL CHANGE

As with any other business, the impact of Brexit is likely to be felt through the overall economic state of the UK and confidence in the country overall. While a weaker pound may fuel inbound activity from overseas investors, domestic opportunities may be impacted as UK owners or investors will seek to divest risk.

Across the Childcare & Education sectors, there may be some challenges with visa issues impacting staff supply or a reduction in consumer supply as families who migrated to the UK might relocate due to changes in policy. However, over many decades, the UK day nursery sector has demonstrated resilience, with the best invested and prepared businesses being best equipped to weather potential change and challenges ahead.

Aside from Brexit, in the event of a snap election and the effect of a potential change in government, which would result in an immediate overhaul of a variety of aspects across both the nursery and independent school sectors, including reviews of the funding system, regulatory policy, and cost frameworks, could be the greatest challenge of all.

This could be an incentive for business owners, entrepreneurs and returns hungry investors to leave the sectors should political change seem evident and likely to impact on policy, consumer demand, revenue, operations costs, and associated diminution in returns and / or substantial changes to tax positions, control and /or business governance. We could see an influx of sales coming in 2019 if such were to happen.



Movement in average prices, year on year

CASE STUDY

Yellow Dot & Mace Montessori, UK

Christie & Co brought both Yellow Dot and Mace Montessori portfolios to the market in 2018, which were subject to competitive processes and extensive offers from a host of UK, European and wider international buyers from across Asia, Hong Kong and China. Multiple portfolio sales have been brokered by the team this year, but these two transactions are especially noteworthy due to the volume of offers presented by carefully vetted potential buyers in an off-market process, and the premium tone of offers received.

CASE STUDY

Project Queen, UK

A key transaction in the Specialist Childcare sector, Christie & Co was instructed on the portfolio sale of seven residential children's homes and a specialist school, located across the Midlands and East Anglia, by Direct Care Ltd. The group, a mix of freehold and leasehold, maintained an exceptional reputation and gained substantial interest from a range of regional and national operators when brought to the market, demonstrating the high demand for these types of businesses. It was ultimately purchased by Keys Group, a leading provider of innovative care and education services for children and young people with complex needs.

MARKET PREDICTIONS

We predict that we will see a marked increase in independent school closures during Q1 & Q2 2019, notably in relation to schools located outside of London and the South East. Particularly with the Teachers' Pension Scheme contribution rate increase from 16.48% to 23.6% from September 2019, this will be a further and potentially final blow for many already struggling with sustainability.

Quality UK single nursery settings and portfolios with solid sustainable earnings will remain sought after, but the void between successful, stagnant and failing businesses will widen. We expect to see further competition as more school-based providers presently offering reception classes extend into full day care provision.

Demand for UK residential schools for children and young adults with SEND will remain high and the children's residential care market will increasingly strengthen, as demand continues to exceed supply. Foster care businesses, especially those with access to large cohort family placements, will also continue to attract premium prices.

MAJOR TRANSACTIONS / CHILDRENS DAY NURSERIES

DATE	VENDOR	PURCHASER	DEAL
February	Little Rascals Nurseries	ICP Nurseries	Group of two outstanding nurseries in Tunbridge Wells
March	Yellow Dot Group Ltd	Bright Horizons	Group of 12 high quality settings in and around Hampshire
April	Elan Nurseries Ltd	Cranbrook Nursery Group	Group of 3 Impressive Nurseries Located in the South East
April	Playtime Nurseries	All about Children	Group of three impressive nurseries located in the South East
May	Mace Montessori Schools	Busy Bees Group	Nine high profile day nurseries with one school, all in Central London
May	Abbeywood Tots Ltd	Just Childcare	Four premium leasehold settings in Bristol
July	Daisy and Jake Nurseries	Busy Bees Group	Expanding group of six thriving purpose built settings
September	Miss Daisy Nursery Group	Dukes Education	Purchase of Miss Daisy's Group, comprising four premium nurseries in London
October	Headstart Nurseries Ltd	Kiddi Caru/Les Petits Chaperons Rouges	Group of four exceptional childcare settings across the Home Counties
November	Swingboat Nurseries Ltd	Storal Learning	Group of three exceptional freehold nurseries in Derbyshire
November	Elmwood Nursery School	Hjalli Model Ltd	87 place nursery sold to Icelandic nursery group, marking their first venture into the UK

MAJOR TRANSACTIONS / INDEPENDENT SCHOOLS & EDUCATIONAL BUSINESSES

DATE	VENDOR	PURCHASER	DEAL
January	GDST	Ipswich Education Ltd	A long standing all girls school purchased by Ipswich Education Ltd led by London and Oxford Group. London Oxford Group was founded by Swiss corporation bankers and is backed by China Wanda Group. Upon completion the School became a co-educational provision
February	Rosemary Edie	Robin Batlen	Sale of Hazel Hurst Prep School, a closed school in Nottinghamshire
July	Richard & Marzena Mace	Malvern International PLC	Communicate English School sold in a £2.34m deal
July	Prowting Family Concerns	Heather Partnership	A consortium of parents purchased Heathcote Preparatory School in Danbury, Essex
August	Windrush Valley School Limited	Fung King Jacqueline CHUNG	Windrush Valley School in Oxford was purchased by a Chinese investor with education investment interests
September	Westonbirt Schools Limited	Wishford Schools	Westonbirt School, an independent day and boarding school for girls near Tetbury in Gloucestershire
September	St Bees School	Full Circle Education Group	St Bees School Cumbria was purchased in 2017 by Chinese investor, Full Circle, and received significant investment to once again open its doors in 2018
September	ACG Limited	Inspired Learning	Inspired Learning, a UK based education provider, acquired the K12 unit of New Zealand's largest private school operator, ACG
September	Knightsbridge School Ltd	Dukes Education	Dukes Education acquired 75% or more of the shares in Knightsbridge School, an independent preparatory school in London
October	PGL Travel Limited	Midlothian Capital Partners	Private investment company, Midlothian Capital Partners purchased children's adventure holiday company, PGL, in a £467m deal
October	August Equity	Dukes Education	UK school's operator Dukes Education has acquired Minerva Education, a group of five London-based independent schools, from August Equity
October	Bournemouth Collegiate	Bright Scholar Management Limited	Bournemouth collegiate was acquired by Bright Scholar, which currently has more than 35,000 pupils studying at its 67 schools across China
December	Cognita Schools Limited Ltd	Jacobs Holding	The largest education transaction of 2018 was agreed in September. The sale of Cognita Schools Limited to Jacobs Holding, a Swiss investment firm, is set to complete imminently, subject to regulatory approval, with a price tag of £2bn

MAJOR TRANSACTIONS / SPECIALIST CHILDCARE

DATE	VENDOR	PURCHASER	DEAL
February	Aspirations Care Childrens Division	Keys Group	Ten homes and two schools
February	Kingdom Care	Keys Group	Two residential homes
March	Alliance Care & Education	Keys Group	Four residential homes and two colleges
August	John Edwards Care Homes Ltd	Montreux Group	Sale of a group of three CQC and Ofsted registered homes
October	Direct Care Limited	Keys Group	Portfolio of seven children's homes and a specialist school
November	Full Circle Care	Aspire One Care Ltd	Children's home in Manchester

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