

Building blocks of an empire [AU] ^[1]

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EXCERPTS

Australia's biggest corporate child care group ABC Learning Centres has had sand kicked in its face in recent weeks.

ABC's figures have been questioned and the company's hardball legal tactics have struck trouble. Also, in contrast to its advertisements of smiling children it has faced images of angry parents and unionists.

But the Brisbane-based company has stuck by its guns and analysts are seeing profitable times ahead.

What started in 1988 as a kindergarten-preschool in Brisbane's leafy Ashgrove has grown into a listed 644-centre company. From 7am to 6pm, the operation cares for children ranging from infants to preschoolers.

Co-founder Eddy Groves, 39, is now operations chief executive officer. He also controls one of the state's largest milk distribution operations and owns the Brisbane Bullets basketball team. They are businesses mentioned in ABC's annual report & the child care operator says it notes "all relevant businesses or other interests".

Interestingly, he is listed in company searches since November 2003 as a director of Bet Worldwide Pty Ltd, which owns Canberra's online gaming venture Sports Acumen.

It's a business for the 21st century & like the ever-expanding child care industry where ABC has come up trumps.

A symbol of its clout came in March when ABC appointed former federal children's affairs minister Larry Anthony to the board. The appointment raised eyebrows because ABC benefits from millions of dollars in government rebates to parents.

Then there was the Li'l Sprouts case in South Australia. Single-centre Li'l Sprouts was looking at opening a 45-place centre when ABC, which planned to expand its centre, appealed council approval. But the local court ruled for Li'l Sprouts.

The matter settled this month, with ABC dropping another planned appeal.

Fears that ABC would build too much muscle arose last year when it merged with Peppercorn Management Group, Peppercorn Investment Fund and Child Care Centres Australia.

ABC is now "trimming the fat" by closing some centres. Yet the shutdown of 19 centres was executed in a manner which ticked off unions and parents. Some parents got only two weeks' notice or, they say, were offered no alternatives.

Mr Groves maintained all were offered replacement spots.

At the end of last month came a Merrill Lynch research report saying ABC was dropping managed centres acquired from PMG and reducing the targeted number of owned centres it operated by about 100.

Merrill Lynch said profit forecasts could be met but "the profit could be of lower quality from such things as capital gains, lower interest charge or a boost in other income".

Other observers then chipped in positively. UBS said concerns about profit and that ABC had overpaid for Peppercorn Management were "overstated".

"We believe (ABC) is well-positioned to generate strong earnings growth," UBS said.

An increasing cost for ABC has been maintaining and developing centres, with items like replacing playground equipment.

Its annual report shows ABC paid about \$13 million last year for this to Queensland Maintenance Services & which is listed as a related party transaction because unidentified relatives of Eddy and Le Neve Groves operate QMS.

The ties apparently extend further than family. Property searches record sole QMS director Frank Zullo (also listed as a former shareholder in an ABC entity) and Mr Groves as having bought property together last year.

Asked questions including whether the QMS work was tendered out, ABC said: "The relationship with QMS has been a long-standing one

based on their professional delivery and commercially competitive rates . . ."

Mr. Zullo did not return calls.

- reprinted from the Courier-Mail

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