

Tot trouble in \$4bn-a-year industry [AU]^[1]

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EXCERPTS

Cynics call it kiddie.com. Like the dot.coms that once flooded share markets, listed childcare companies believe they hold the key to the future.

In just 10 years, child care has ballooned from a cottage industry to a corporate nirvana worth an estimated \$4 billion a year.

Prominent backers have won and lost fortunes. One-time prime ministerial contender Andrew Peacock lost a bundle, while the Myer family added to its wealth.

But the unrestrained growth has not pleased everyone.

It has raised the hackles of community-based childcare operators who argue against any involvement by the money men and their advisers. Now, doubts are growing about how much money there is to be made.

Just ask the the Peacock family, including Andrew's Liberal powerbroker son-in-law Michael Kroger, who watched its \$5.2 million investment in the float of Child Care Centres Australia explode to more than \$20 million in just four days last October.

The well-connected Myer family subscribed to the float, and cannily sold its 240,000 shares within a week & for at least \$400,800 profit.

However, the business came spectacularly undone last month, raising serious concerns about its long-term prospects.

CCCA's implosion occurred just as management was trumpeting its boldest move: to buy 46 childcare centres in Western Australia in a \$25 million expansion.

It came to a halt when management realised it had misread its own financial records and said that, rather than posting a \$2 million profit, the number would be closer to \$205,000.

It ended the company's honeymoon with investors sending the share plummeting from \$1.55 each to as low as 60c.

While they have since made a slight recovery, partly on the back of speculation CCCA will be taken over, the Peacock-Kroger clan is still more than \$1.1 million under water on its investment.

Exactly why the top end of town is abuzz about child care is simple enough: trailblazing businesses such as Peppercorn and ABC Learning Centres have inspired others to imitate their success.

Among its key achievements, ABC was the first such operation to debut on the share market & in March, 2001, at 38c a share.

More than two years later, it is trading above \$3 a share and is well ahead of prospectus forecasts.

ABC was co-founded by Queensland entrepreneur Eddy Groves, who made his money distributing milk, along with his wife Le Neve. They opened their first childcare centre in 1988.

ABC consolidated its place as the nation's dominant private player in April, when it took out Victorian rival FutureOne for \$43 million.

Queensland-based Peppercorn responded when it bought a nearly 14 per cent stake in Child Care Centres Australia from its former chief executive, Christopher Stears, who resigned after CCCA's WA debacle.

Community-based players have greeted the recent hiccups with alarm.

A Victorian community childcare organisation warned that a childcare company going belly up could leave thousands of families stranded without child care.

The chairman of the SA Association of Community Based Child Care Centres, Penny Thompson, said she was concerned the Federal Government was no longer funding new community-based centres.

"If community-based centres close down in years to come the only child care you will have will be the private sector, and I don't believe that's good &em; we need to maintain some sort of competition," she said.

"I would be concerned about the quality of standards. `Community based' has a lot of parental involvement and decisions are made by those who are using it, not those who are running the business."

The Federal Government plans \$8 billion in childcare subsidies over the next four years, which perhaps explains the number of politically savvy individuals backing the industry, such as the Peacock-Kroger clan.

With almost 4200 childcare centres dotted around Australia, there are easy pickings to be had for aggressive, cashed-up predators such as ABC. Investment bank ABN Amro estimates the biggest three childcare companies still control less than 5 per cent of the national market.

Association of Child Care Centres of SA president Anne Clark said people were watching developments with interest but parents were not withdrawing their children from centres owned by the big corporates.

"It's not relevant who runs the centre so long as they comply with their state regulations, accreditation quality principles and maintain a high standard," said Ms Clark, who represents private operators.

She said the increasing presence of big business was giving some smaller operators the chance to retire with financial windfalls.

"I could name five or six people in SA who have sold to the larger corporate groups," Ms Clark said. "Some people have been in the business for 20 years and are nearing the end of their working life.

"No one feels threatened or overwhelmed by it &em; they are just taking the opportunity to retire."

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Region: Australia and New Zealand ^[2]

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