Daycare stocks cutting teeth [AU] [1]

Author: Taylor, Peter Shawn
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EXCERPTS

The Australian Stock Exchange (ASX) is in the midst of a baby boom. With investors demanding growth stocks without the high-tech risk, investment bankers desperate for initial public offering action and the demographic trends headed in the right direction, the ASX is suddenly awash in daycare stocks.

The Australian market's interest in diaper changing and chin wiping dates to the March, 2001, listing of ABC Learning Centres Ltd. of Brisbane, Queensland.

And its success has spawned a host of others. Child Care Centres Australia Ltd., with 30 centres, listed in October at A90¢ and quickly hit A$3.54, although it has since fallen back. FutureOne Ltd., with 10 centres, issued shares days later at A49¢ and now trades around A57¢. Peppercorn Management Group Ltd., the largest daycare company in the country with 178 centres, came out of the blocks on Nov. 6 and saw its share price rise 140% on the first day. A fifth firm, Hutchinson's Child Care Services, is mulling a public listing of its own.

This trend's happy parents are Eddy and Le Neve Groves. For Mr. Groves, who grew up on Canada's West Coast, the boom is justification for 15 years spent in an over-looked industry. "I had a lot of educating to do," he says, describing countless road shows trying to convince investors there was money to be made minding children.

His spiel is a kiddie twist on the classic consolidation story: Buy up independent operators in an industry light on administrative expertise and cut costs through centralizing management and bulk purchasing.

Mr. Groves is mindful of what his chain requires to keep growing. "It is all about the product -- children," he says. "We are creating a brand name with ABC Learning Centres and the brand stands for quality childcare."

But the notion that childcare can be branded, marketed and sold on the stock market doesn't sit well with those who see nurturing as a pursuit above profits.

"I ethically dislike the notion of making money on a children's service," says Alma Fleet, head of the Institute of Early Childhood at Sydney's Macquarie University. "People who make money from childcare do not have as fheir irst priority the best interests of the local community."

The benefits of amalgamation and centralization are precisely what gets Prof. Fleet annoyed. "Centrally delivering programming from an office building in Brisbane to different centres around the country is a move that disenfranchises the local community," she says.

With 97% occupancy levels at his centres, however, Mr. Groves claims that parents are the only judges he needs to face. "If a parent walks into one of my centres, they don't care if it is non-profit or for-profit. They want to know if they feel comfortable leaving their children here. And my centres are the best I have ever seen."

Australia is not breaking entirely new ground. A decade ago, the United States childcare sector saw a similar movement, though the boasts that childcare was a recession-proof industry have since been proven misplaced. Several of the highest-profile firms have been in and out of bankruptcy protection and others have posted large losses in recent years. Today, the dominant firm is Bright Horizons Family Solutions Inc. of Watertown, Mass. which restricts itself exclusively to providing on-site daycare services for corporate clients.

At first blush, Canada might seem ripe for a transformation similar to what is going on in Australia. Canada shares similar demographics with Australia and has an equally large, yet dispersed, daycare industry. According to Statistics Canada spending on all types of daycare is $3.5-billion per year, and it has risen 16% in real terms over the past 15 years. As well, nearly 70% of mothers with children under the age of 16 are employed. All of which should drive demand for childcare and boost the potential for profit.

The biggest obstacle to a Canadian version of an Aussie baby stock market boom is the long history of government animosity toward profit-making daycare centres.

A key component in Mr. Groves' successful business plan is that the Australian federal government offers a subsidy to parents using daycare, regardless of whether the centre is for-profit or not-for-profit. In Canada, most provincial governments have been profoundly opposed to for-profit child care for the same reasons Prof. Fleet gives -- that it is somehow improper to earn a profit looking after children.

The former NDP government in Ontario embarked on an ambitious plan to eliminate for-profit daycares by excluding them from subsidy programs and directing that all new primary schools be constructed to include a non-profit daycare. Today three-quarters of the day-cares in the province are non-profit and only a quarter are for-profit. Thirty years ago those figures were reversed.

In Quebec the construction of new for-profit daycares was expressly forbidden in order to facilitate the government's vision of $5 a day universal childcare. There are only a handful of for-profit daycares left in Saskatchewan and Manitoba because of licensing restrictions and preferential government programs for non-profit operators.

While Alberta has a long tradition of tolerating for-profit childcare, this stance caused the province to miss out on millions of dollars from Ottawa in the 1970s under the defunct Canada Assistance Plan as those funds were only available to non-profit facilities.

Small chains and franchised operations do exist in Canada and it is quite possible that most independent daycares could benefit from greater management expertise and economies of scale through consolidation.

Yet institutional opposition toward the profit-making sector suggests daycare amalgamation is one stock market trend that will be passing Canada by.

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