

# Nurseries are proving to be safe places for investors <sup>[1]</sup>

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## EXCERPTS:

With the rise in the number of working mothers, demand for places has surged despite the recession. Pre-school daycare is delivering steady income, making it an increasingly attractive sector for long-term investors, such as pension groups.

The anticipated £220m acquisition of nursery chain Busy Bees by Canadian pension fund Ontario Teachers has highlighted the soaring value of the childcare sector.

The nursery industry is estimated to be worth a potential £30bn to the UK economy, with 3.5m children aged four and under in the UK.

According to research house Key Note, the value of the market has risen by 16.1pc between 2007 and 2012, although growth slowed in 2010 and 2011, to 1.4pc and 1.6pc respectively.

The reasons for the industry's growth are not hard to see. As well as the upswing in domestic childbirth rates in recent years, there has also been substantial immigration, mainly among 20-40-year-olds, which has added to the spike in the number of children attending pre-school classes.

Childcare costs are increasing significantly in some parts of the country and, according to figures compiled by the Daycare Trust charity, there has been a 5.8pc increase in weekly fees at facilities for children aged under two.

Busy Bees, which is Britain's largest nursery chain, runs 212 nurseries, catering for 19,000 children. It is being targeted by Teachers' Private Capital, the investment arm of the Canadian pension fund, which is understood to prefer founder-operated businesses because it seeks long-term returns.

Busy Bees was the brainchild of John Woodward, a former deputy head who taught children with behavioural difficulties. He and his wife, Lynn, wanted a great nursery education for their young son so they sold their house, persuaded friends to do the same, and bought their first nursery. That was 30 years ago.

From that risky start he built up the chain, which he still runs and part-owns, though US education firm Knowledge Universe now has a majority stake.

"Teachers likes to support education companies," said a source close to the deal. "It looks after Canada's teachers' pensions so the learning sector is part of its DNA."

In 2010 it snapped up UK-based Acorn Care, which provides education for vulnerable children.

It is not the only overseas company buying into the industry. Earlier this year, Bright Horizons, which is listed on the New York Stock Exchange, bought British nursery chain Kids Unlimited and acquired all of Casterbridge Nurseries' 27 branches, in what was the largest deal that the UK nursery sector had seen for some years.

Another attraction of Britain's nursery sector is the financial backing it receives from the Government, which spends more than £7bn a year on pre-school support, among the highest in the world.

Much of this goes on the childcare voucher scheme, which provides tax relief on nursery, nanny and childminding costs. It is only available via employers, but many large and small companies take part.

Personal finance expert Martin Lewis said: "Childcare vouchers can save many parents with kids aged up to 15 more than £1,000 a year on childcare. The key is they enable you to pay for childcare out of your pre-tax and National Insurance income. While this doesn't sound much, the benefit is huge."

The Government's plans to expand this scheme makes the nursery industry more attractive to investors.

Andrew Nicholson, M&A partner at financial advisers KPMG, said: "The childcare market is fragmented and it is therefore appealing to private equity investors and pension funds looking to consolidate and build economies of scale. Another appealing facet, from a private equity investor's perspective, is that the sector is highly regulated, which creates barriers to entry.

"At the same time, the childcare market itself is becoming increasingly professionalised, with childcare becoming a more advanced vocation. The combination of these three factors is driving a good deal of interest in childcare businesses at the moment."

-reprinted from the Telegraph

**Region:** Europe <sup>[2]</sup>

**Tags:** privatization <sup>[3]</sup>

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