

# Childcare centres in post-Eddy rush for consolidation <sup>[1]</sup>

**Author:** Beveridge, John

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## EXCERPTS:

Can a souffle rise twice?

Well apparently it can if you change the formula.

Way back in 1988 Eddy Groves and his then-wife Le Neve started their first childcare centre in Brisbane before rapidly building and buying what became the world's largest listed childcare empire.

First they bought up many smaller childcare groups around Australia before getting even bigger ideas and buying large numbers of centres in the US, Britain and Asia.

Famously ABC went spectacularly bust in a welter of exploding margin loans late in 2008.

Now a very different childcare business also out of Queensland - G8 Education - is undertaking a similar consolidation rush in the now fragmented post-ABC childcare industry.

Yesterday the Gold Coast consolidator paid \$228 million for 91 private centres plus Sterling Early Education, bringing its childcare centre numbers to 388 or 28.5 per cent of the Australian market.

Unlike Eddy Groves and his crew, G8's chief executive Chris Scott isn't just growing at any cost for the sake of first mover advantage.

This transaction was made at an average of 5.79 times 2015 forecast earnings, which might be higher than some of its earlier deals which were struck at around four times pre-tax earnings but is by no means absolutely over the top.

With some sensible management changes, the acquisitions should be profitable fairly quickly.

Also, unlike ABC, G8 is fairly conservatively structured with most of the \$228 million purchase price being cash, debt and the remainder G8 shares.

A \$35 million placement earlier this year to institutions and sophisticated investors left G8 with around \$50 million to spend, so it has plenty of headroom, given that debt peaked at around 11 per cent of its market capitalisation and has since been falling.

Understandably G8 shares have been going for a stellar run, rising almost 150 per cent in the past year. With the stock suspended at the moment, the best strategy will be to watch it resume trading for a while before dipping the toe in the water.

There are some risks in childcare to consider, with the main ones being the potential for the Federal Government to unwind some of the current subsidies and for higher unemployment to shrink enrolments.

A buy in the dips.

IT has taken a while but our very own homegrown investment bank Macquarie Group is on track to crack the \$1 billion full-year profit mark in 2014.

A profit upgrade of as much as 45 per cent announced yesterday was not totally unexpected as markets continue to improve and individuals and companies develop a long dormant appetite for risk assets.

The company said the improvement is almost exclusively attributed to its fixed-income, currencies and commodities unit (FICC), which now trades a range of physical commodities including natural gas, power, oil, coal, base metals, iron ore, sugar and freight along with Asian, emerging markets, high-yield and distressed debt.

While Macquarie is now likely to crack the magic billion-dollar profit mark - and possibly exceed that if market conditions allow - it is still a long way from the high-water mark of \$1.8 billion struck in 2008.

Results have been much weaker since then but with the Macquarie balance sheet now in much better shape, costs down and a better and more conservative risk management framework, Macquarie's time in the sun could be returning and it is a buy.

-reprinted from the Herald Sun

**Region:** Australia and New Zealand <sup>[2]</sup>

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

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