October 2012

BACKGROUNDER

Commercial Child Care Report - a Cautionary Tale for Investors and for Governments

The arrival in Canada of the first publicly traded commercial child care chain created concern for at least two reasons. The company, Edleun, appeared to be modeled on the Australian chain ABC Learning whose rapid growth and subsequent failure caused havoc in that country[1]. Negatively impacted were: company investors; funders; the public purse; as well as access to and affordability of child care.

Over and above the concern raised by this business model there is a considerable body of Canadian and international research that indicates that quality early care and learning programs are best when provided through community based non-profit or public operations, not businesses.

In response to these concerns the Coalition of Child Care Advocates of BC decided that an analysis of the business model demonstrated by Edleun would be useful as it might provide a picture of the business model for a typical commercial child care chain. We recognized that this type of analysis should be undertaken by a business expert familiar with the costs and constraints of delivering child care services in Canada. Gerry Dragomir, a Vancouver CMA, was engaged. Dragomir's company, Pace Accounting Inc. has 30 years of knowledge and experience as public accountants including many years working with the child care organizations in British Columbia.

Dragomir's analysis is based on public information from government, the publicly traded child care chain, child care organizations, the public media and from information obtained by direct inquiry. His report provides information on the financial viability and sustainability of child care delivered via Edleun's business model.

The reality for a commercial child care chain, whether a publicly traded company, as in this analysis, or another form of business ownership, is that child care does not fit a classic business revenue generation model. The typical strategies used to achieve viability and provide a return for investors, shareholders and owners are increase production and/or increase price. These strategies do not easily apply to the 'business 'of caring for young children. Child care centre revenue is governed on the capacity side by regulations that protect children's health and safety

[1] **Supplemental Note:**
"ABC Learning's rise and spectacular fall is an example of what happens when a company ignores the fundamentals of sound accounting," CPA Australia CEO Alex Malley Sydney, Australia I, February 2010. The collapse of ABC Learning, once the world's largest child care provider, is the subject of *The ABC of a Corporate Collapse*, a DVD case study for educators from CPA Australia.
http://www.cpaaustralia.com.au/cps/rde/xchg/cpa-site/hs.xsl/pd-academics-abc-learning.html

and on the pricing side by the income levels of parents. Yet, Dragomir's analysis suggests that a dramatic increase in capacity or pricing or both would be required in order to meet minimum stock market expectations.

> Can child care thrive in a speculative investment environment? Based on the analysis, Dragomir's report concludes that the answer to this question is "not likely". Perhaps this finding should not be a surprise. After all, if it was that easy to profit by building quality child care services that most parents can afford, there wouldn't be just one publicly-traded commercial child care chain in Canada.

The Dragomir report is a cautionary tale for investors and for governments who may hope that the market place is the answer to the demand for affordable child care in Canada.