



M&A Sector Briefing

Nurseries and Child Day-Care

Introduction

The Strategic Corporate Finance team at Price Bailey provide lead advisory support to help negotiate M&A and funding transactions, undertake Financial Due Diligence, and provide strategic advice.

We offer a significant depth of cross-sector knowledge. With the skills and expertise at our disposal, we're ideally placed to support clients with a broad range of corporate finance advisory requirements.

We put together a series of briefings on the sectors that we have particular experience in, in order to go beyond the theory of M&A and provide commentary to either buyers or sellers on the following:

- Current M&A dynamics and trends;
- Valuation metrics and key value drivers;
- Insights from experienced operators in the sector;
- Our experience of advising on transactions in this sector;
- Our advice for sellers considering their exit opportunities.

The contents provided in this report are for guidance purposes only. The report does not constitute formal advice, and it does not reflect or imply Price Bailey's opinion on any specific application to a particular company. The report should be used for informative purposes only and, accordingly, should not be relied upon for any investment purposes or otherwise. Price Bailey is not liable for any losses suffered by either party in the use of this report. Specifically, it should not be taken as investment advice to which the Financial Services and Markets Act 2000 may apply. The report is not for the use of, or to be relied upon by any person and, therefore, to the fullest extent permitted by law, we do not accept or assume any responsibility to any party.

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I have complete peace of mind that the sale of our business to a fantastic group such as Bright Stars has secured the continued success of our nurseries.

We would like to thank Stephen and the team at Price Bailey for their support throughout the transaction. Their care and attention in understanding our needs helped in ensuring the transaction was a success

Annabelle Conway
Jack in the Box
Nurseries Limited

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The sale process sounded straightforward but there were new challenges almost daily, and we leaned heavily on Price Bailey to handle many complex technical items, and to guide us through our decisions, not least because we were still running the business throughout the sale process.

Price Bailey have been our accountants since we established over 18 years ago, and their understanding of our business, and how we manage it, was so valuable to us. Phil and Chris worked closely & tirelessly, making sure that we understood, and bringing in other Price Bailey experts as needed to help us to optimise the outcome. From that first ‘sale preparation’ session, through reassuring and productive weekly meetings, until literally the last minute of the sale - and even post-sale - we will always appreciate their support, expertise and kindness.

Thor Thomassen and Jayne Chapman
Harlequin Childcare

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Looking to Sell?

Price Bailey's Strategic Corporate Finance team can ensure you maximise the value of sale opportunities and position your business in the best light for prospective buyers, whether that be your existing management team or an external buyer.

We understand that in the nursery and day-care market, a small pool of active players and consolidating acquirers are on the look out for prospective opportunities. We can support you in navigating interest or approaching attractive acquirers and ensure the best outcome for all through offering:

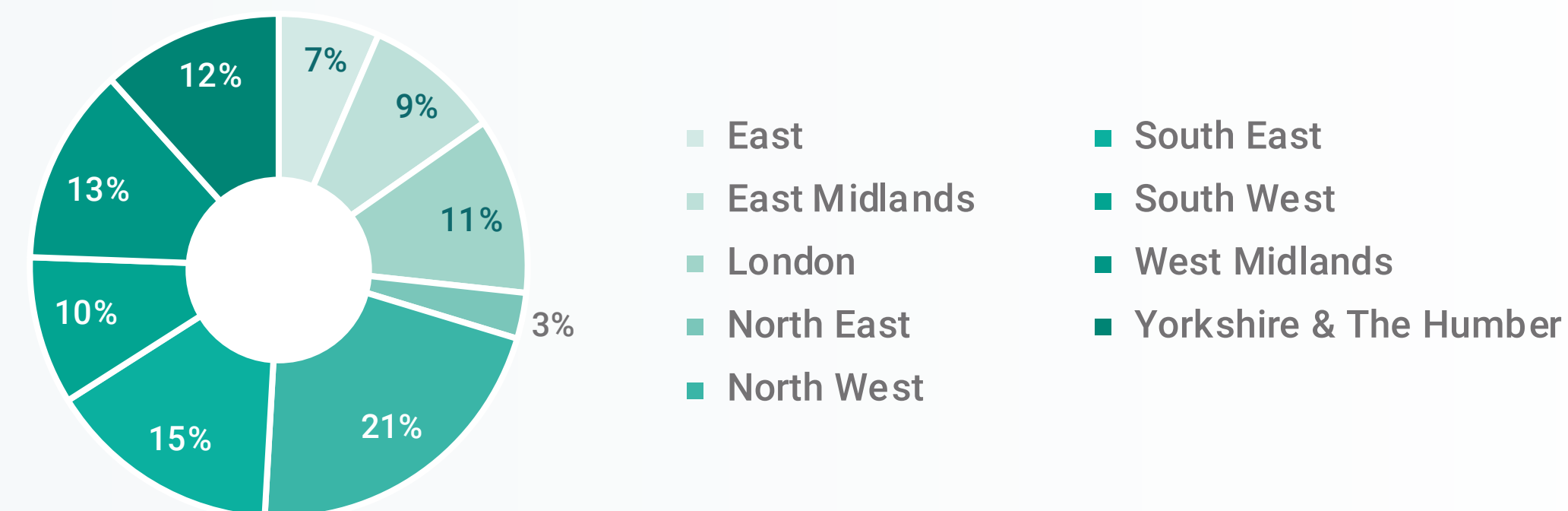
- Significant transaction and advisory experience in nurseries and early-years education
- Project management throughout the sale process with a dedicated supportive and approachable team
- Access to experienced due diligence experts who will support both preparation for and navigation through the due diligence and disclosures process
- Harness new and existing relationships with potential buyers, Private Equity and broker groups to identify the most appropriate list of potential acquirers, and approaching them at the right time, in the right manner.

Looking to Grow?

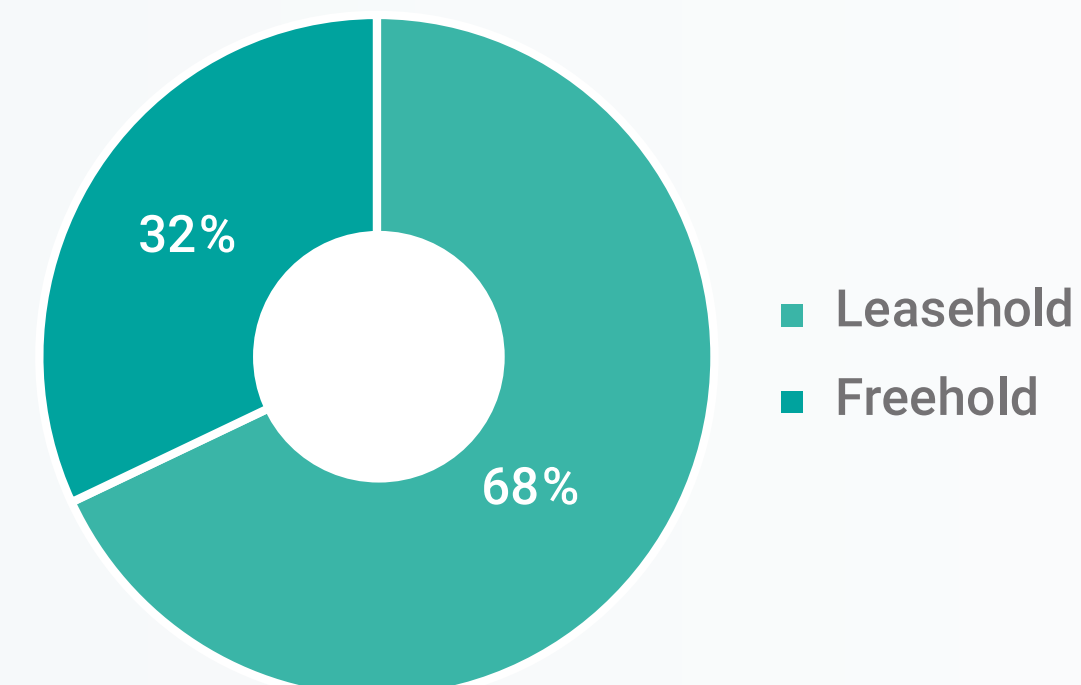
Whether you are looking to expand your nursery sites by geographic reach, consolidate your brand in a local area or expand your current site capacity - our team of experts can support with that too.

- **Strategic growth planning** – we can support in your development of a data led, commercially viable growth plan built upon the key growth drivers in the industry
- **Private equity funding** – where external capital investment is required, our experienced team can support in profiling, targeting and project managing the equity investment process
- **Target profiling** – if you're seeking to grow via acquisition, our team of buy-side experts can support in identifying potential targets and manage the entire M&A process

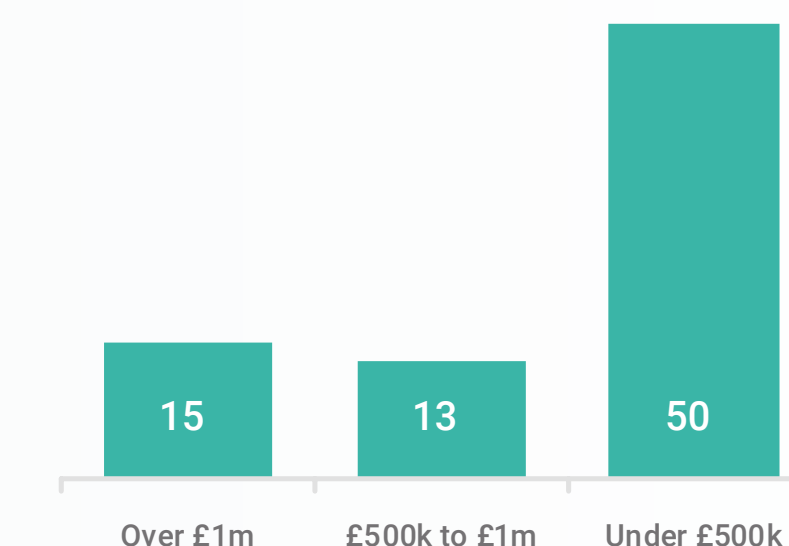
Summary of Current On-Market Opportunities



The majority of current on-market opportunities in the East of England region are Leasehold properties



Asking price range for on-market opportunities:



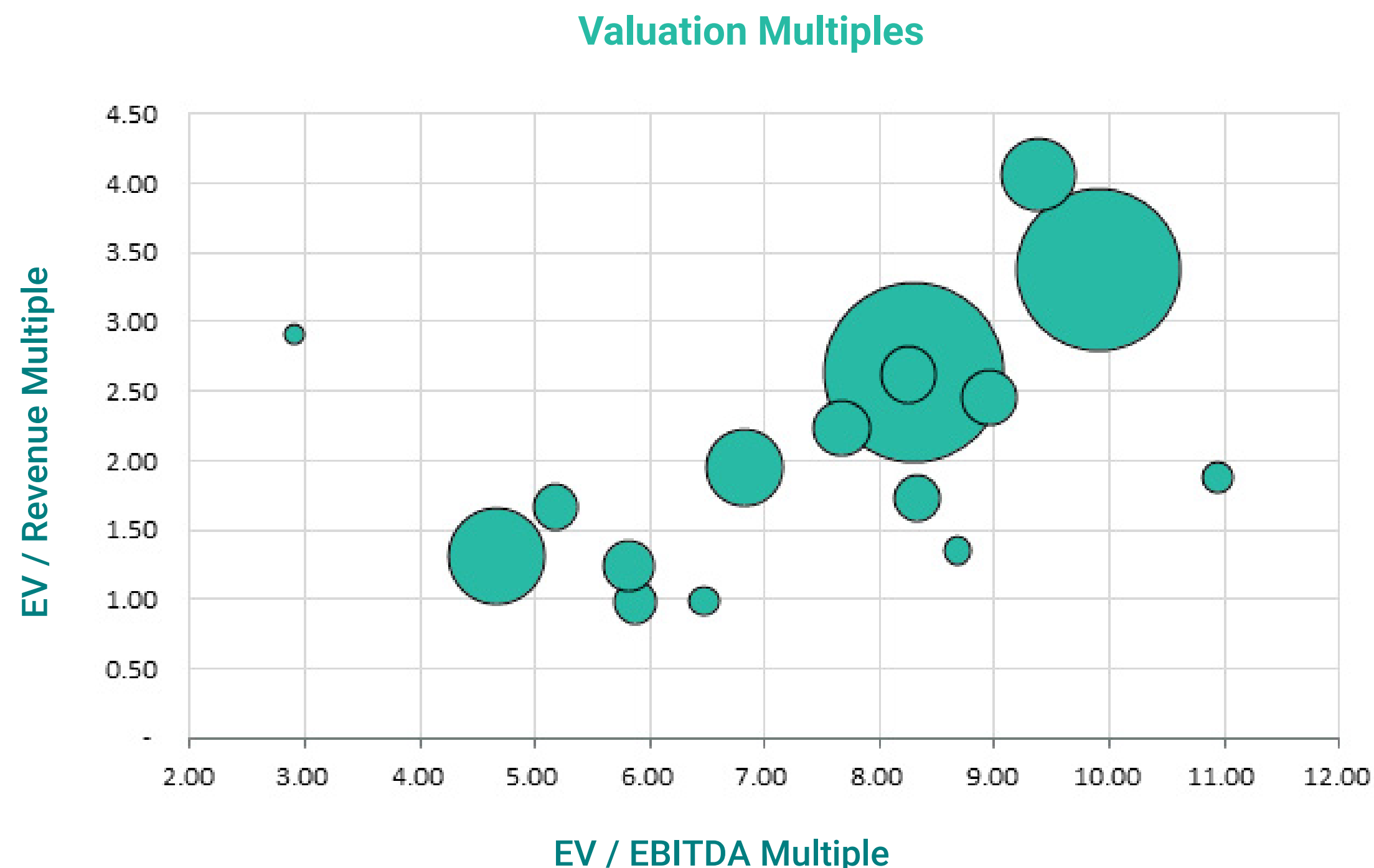
Your ability to demand higher valuation multiples

We understand that when it comes to selling your nursery, receiving a return on all the hard work you have invested into building your business is a key priority. We look here at recent valuation data in the sector and the key value drivers, to help you understand where value is created.

The graphic opposite shows that high valuation multiples are not just reserved for larger groups with those having 1 or 2 sites (reflected here by enterprise value - where the larger the EV, the higher the number of sites) demanding strong valuation multiples. In our experience, the nurseries attracting a premium valuation are those that meet a number of an acquirer's key value drivers over page.

A key focus of a buyer's due diligence process will be in understanding the occupancy levels of your business, and those with historically high levels of occupancy as well as good visibility of future demand will be viewed more favourably.

Geography also plays a key role in acquirers' appraisal of an opportunity. This can involve expansion into a new region or consolidation of an existing location, but in attributing value to an acquisition, a buyer will be keen to understand how their current operations can manage the geographic reach.



*The size of the 'bubble' indicates the Enterprise Value of the target business.
**Transactions date between 2015 and 2022

Source: Mark to Market

Your ability to demand higher valuation multiples

Key Value Drivers

- ✓ Track record of good profitability and operating margins
- ✓ High historic occupancy levels with a strong visibility of future demand
- ✓ Freehold Properties or those with expansion potential tend to command a premium
- ✓ Located in proximity to family residential areas and regions with high employment/population density
- ✓ Acquirers often demand 'Good' OFSTED ratings as a minimum, with potential premiums for those consistently rated as 'Outstanding'
- ✓ A strong reputation in the local community
- ✓ External play areas and parking/drop-off spaces are also often among key criteria of acquirers

Who are the Buyers?

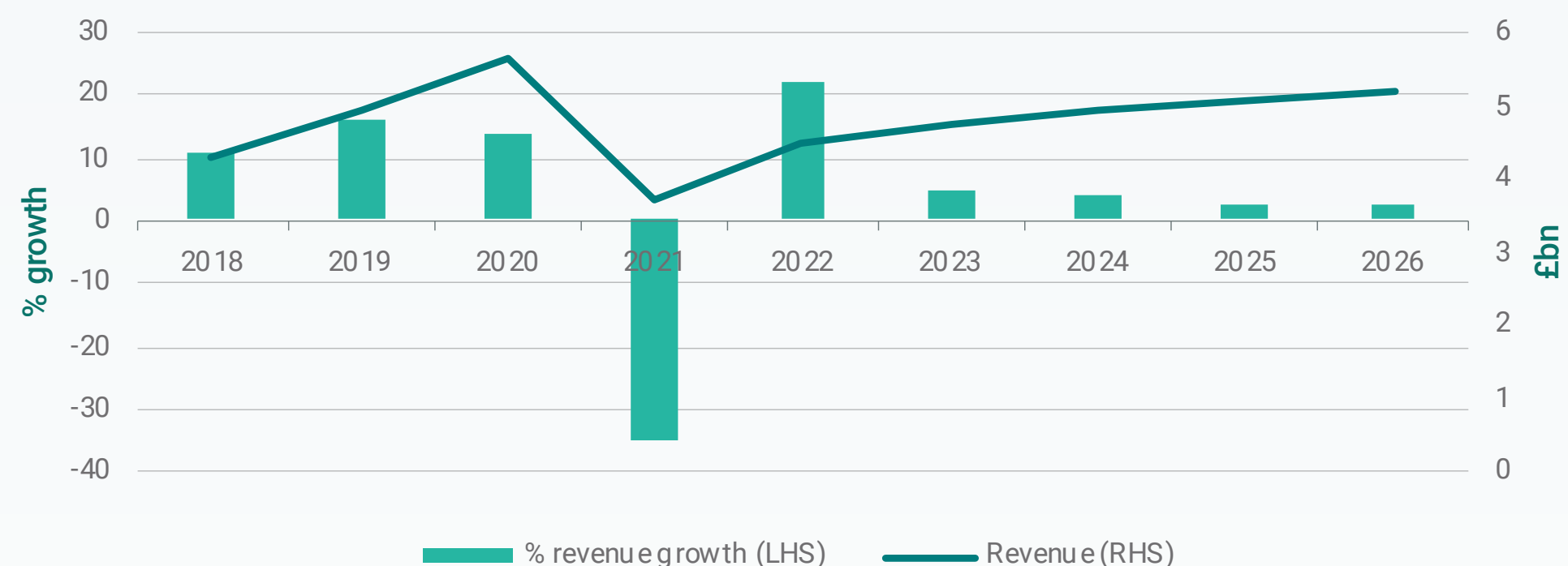
There are a number of consolidators in the industry, with a number having disclosed making over 10 acquisitions since the start of 2020. This is despite the reduced M&A activity during the COVID-19 period.

The most active of these acquirers disclosed 14 acquisitions in the UK during their 2022 financial year alone, with an average consideration of £4.6m. This ranged from over £20m to just £400k.

Buyers can generally be split into three categories:

1. Firstly, your management team or staff, through the form of a Management Buy-Out
2. Secondly, acquirers that will amalgamate your business into theirs – imposing their brand, processes, policies and structures on your business
3. The final group looks for settings that can stand on their own two feet. They look to minimise disruption and often maintain existing branding

The post-pandemic M&A bounce-back



Source: IBIS World

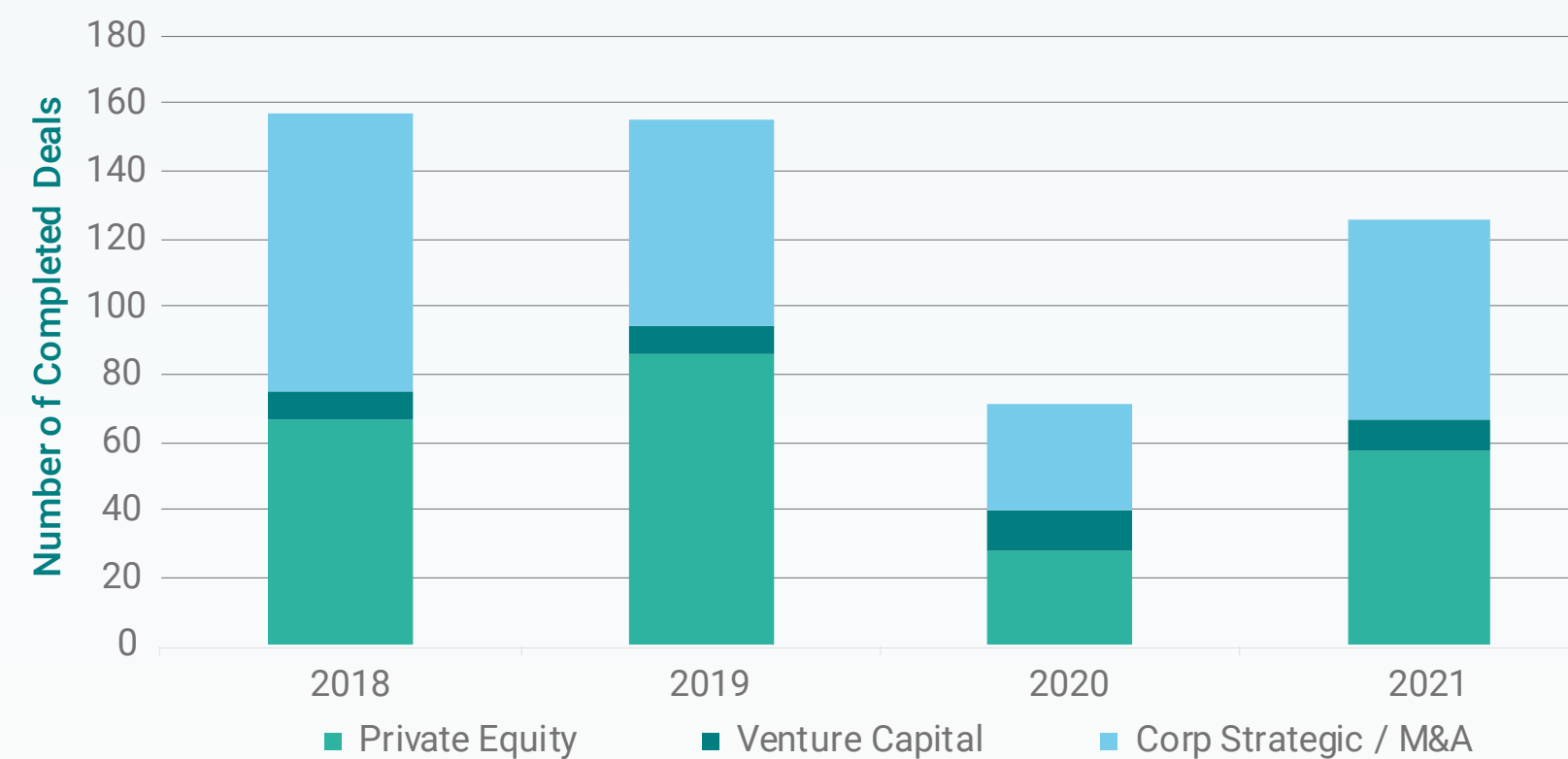
A resilient market

Almost 40% of the Pre-Primary Education settings in the UK are Private, for-profit nurseries, with a total revenue of over £1.83bn.

The nursery sector, however, is highly fragmented, with the two largest nursery groups holding a combined 7.7% market share in the UK. Growth ambitions of large corporates and investors, both domestically and abroad, who have recognised the potential to consolidate their position in this growing market have driven up UK M&A activity in the sector.

After a difficult period during the COVID-19 pandemic, the outlook for the sector is positive, with revenue forecast to grow at a compound annual rate of 2.5% through to 2028, to an overall industry revenue of £5.4bn.

This growth in revenue is driven partly by the additional government funding for free childcare, totalling over £510m for the three years to 2025, and expected to continue beyond then. Operators that are primed to take advantage of this funding will be best placed to capitalise on the continued growth in the sector.



Source: IBIS World, Pitchbook

Transaction activity in the sector

In the aftermath of dampened activity during the pandemic, deal activity reacted strongly, with transactions increasing by **21%** between 2020 and 2021. Buyers have remained active into 2022, with those involved in transactions tending to fall into one of two groups:

1. Traditional and more established chains, or
2. Newer, private equity-backed, consolidators with specific buy-and-build strategies in the sector.

Given the strong demand drivers and market fragmentation, the sector has become an attractive proposition for financial buyers, with a growing number of groups in the UK backed by significant Institutional investor funding. This significant funding and liquidity available to buyers can lead to competitive bidding processes for the most attractive sites.

Smaller groups in particular are scaling quickly and larger established chains are continuing to expand both domestically and internationally.

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We are grateful to Price Bailey for bringing the opportunity to our attention

and their involvement in the transaction was refreshing, as their understanding of their client's business and sector, and all-round approach to managing the deal helped smooth the process and ensure a mutually beneficial result.

The transparency and quality of information that this approach afforded us as acquirers, particularly reflected in the Information Memorandum quality presented to us, made the process far more productive and efficient.

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Kirsty Ibbott

M&A Director
for Bright Stars Nursery Group

Our advice to you

One of the great things about M&A in the nursery sector is that, as a result of how the sector is regulated, there is an abundance of information available that businesses are required to report on.

However, this also increases the quality requirements of marketing documents, and heightens the scrutiny of due diligence processes. From our experience, some key areas that acquirers are particularly interested in are:

OFSTED ratings

acquirers look for a track record of 'good' or 'outstanding' ratings. Poorer ratings highlight a risk of significant resource drain that might require investment to achieve sustainable improvements.

Optimal capacity and waiting lists

nursery occupancy between the high 80% and low 90% mark represents realistic sustainability. 100% occupancy reduces the ability for the nursery to manoeuvre and respond to changes.

Site size and growth opportunities

fees and funding per child provide a good barometer for the level of turnover and profitability per setting. Additionally, the capacity to increase places or develop the site further will support in understanding the scope for future growth opportunities.

Demand for growth

capacity to grow has to be supported by proof of demand for that growth. This can be evidenced through secondary data sources such as local population sizes, planning portal data for upcoming developments and transport links. Waiting lists also help.

Freehold vs. leasehold

leasehold is perceived as more restrictive to growth than freehold. Equally, purpose built sites are generally more appealing to acquirers than repurposed buildings as there tends to be greater flexibility and adaptability built in.

Reputation

OFSTED ratings are a key metric of success in this sector, acquirers also look to other feedback sources such as parent testimonials, feedback, and data from mobile apps that provide parents with regular updates on their child's progress. The skill level of staff is also a key factor.

Financial performance

while impacted by a number of factors, not least of all those mentioned above, an acquirer is generally looking for at least a 50% profit margin per setting.

If you are considering an exit then advanced preparation is key. Casting a critical eye over the performance indicators stated well in advance, and taking remedial steps can add real value at the point you exit.



By your side as you navigate the future of your business

Price Bailey acts for a number of clients in the sector supporting with a variety of services from payroll, annual accounts filing, personal tax for owners, and strategy and deal advisory services. If you are looking to sell your business, our M&A experience can support you through the process:

Positioning your business in the best light for sale

We first ensure we fully understand your business and, alongside utilising data on previous transactions, we ensure the marketing documents we curate highlight key value drivers

Lateral approaches to target acquirers

We don't rely solely on existing relationships with acquirers. Profiling target buyers is a process and we work with you to build a comprehensive list of options including both Trade buyer and Private Equity options

Ahead of the game on Due Diligence

We aim to give you early access to the information requests expected and pre-populate the data room allowing you to pre-empt and thoroughly prepare in advance

Managing negotiations and post-sale matters

Once we have negotiated an acceptable offer, unlike brokers, our support doesn't stop there. Our specialists will project manage the entire process from negotiating detailed Heads of Terms with the preferred bidder, navigating due diligence, assisting the lawyers with drafting the legal agreements, including maintaining valuation, minimising your risks under the contractual terms and liaising with other advisors where appropriate



Price Bailey have recently advised on successful sales of nursery businesses to national nursery groups.

Bright Stars Nursery Group Limited (“Bright Stars”) acquired Jack in the Box Nursery (Norfolk) Limited.

Jack in the Box is home to two nursery sites in South Norfolk, grown by founder, Annabelle Conway, from a small childminding business operated in her own home to a nursery with a capacity for over 80 children. The nurseries have received an Outstanding OFSTED grade on each of the last three inspections, and boasts an excellent, purpose-built facility constructed in 2015 and later extended in 2018.

The Strategic Corporate Finance (SCF) team, led by Stephen Reed, supported Annabelle to realise the value of her hard work in growing the business over a number of years. The team project managed the process, through marketing, negotiation, due diligence and through to completion. Our Business Team provided information support to the SCF team throughout the planning and due diligence process.

The Company was acquired by Bright Stars Nursery Group in November 2022 for an undisclosed sum.

Talk to our team today

If you are considering your future growth or exit plans, or have been approached by a potential acquirer, and would like to understand your options further – please don't hesitate to contact one of our team today.



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