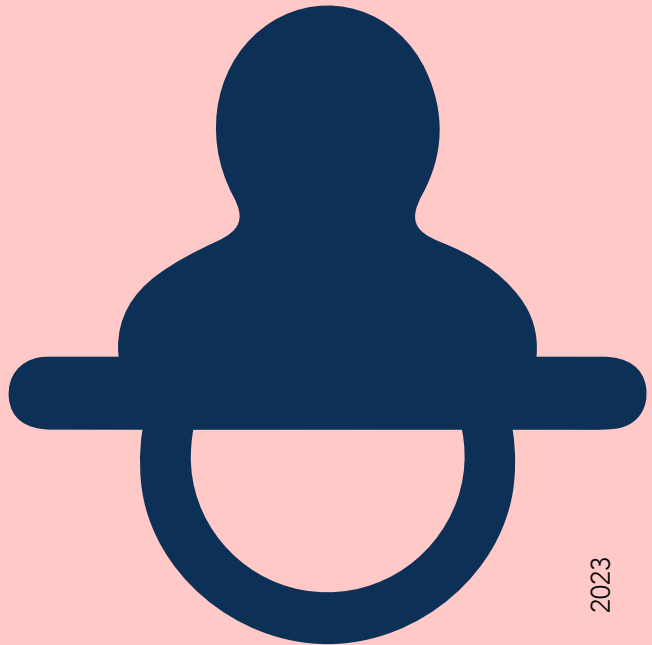
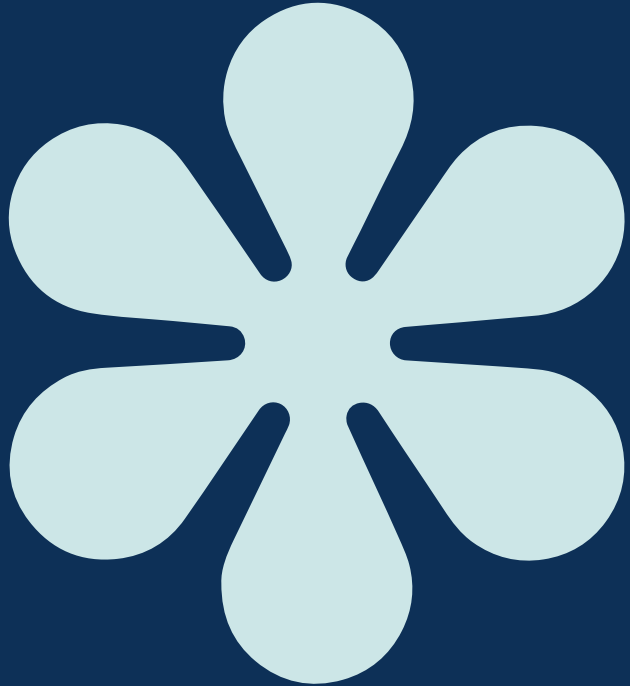


Toddlers and Investors Aren't Playmates: The Threat of Private Equity in Child Care


capita

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Introduction

When a child care owner is making decisions, should they be thinking about what's best for young children and families, or about what's going to make the most profit for their investors?

Private equity-backed for-profit child care chains are growing in size and power in the United States. As most child care programs scrape to survive while raising parent fees only as a last resort, investor-backed chains make between a 15 and 20% profit  while regularly hiking fees for parents.

These chains have increasing political clout. And they have proven themselves unwilling to support a child care system that would work for everyone: one that lowers parent fees, increases child care educator wages, and puts people over undue profits.

To date, the U.S. has not had a serious conversation about the threats posed by this profit-seeking subsector or potential policy actions to put guardrails around this model's expansion.

It is time for that to change.

Who are we talking about?

Investor-backed for-profit chains are the chief focus of this brief; we define them as chains owned by a private equity firm or publicly traded on the stock market. Currently, only one company (Bright Horizons) is publicly traded and only one other (KinderCare) is considering an IPO, so this brief uses "private equity" as shorthand for both types of investor-backed chains.

There are many independent child care programs that are organized as for-profit LLCs. That includes nearly all family child care programs. These tend to be programs with one to five sites in a local area. They have no outside investors and do not make much profit. These programs are an important part of a public-private mixed-delivery child care system. They are not being discussed in this brief.

Similarly, this brief does not relate to the child care educators who work within investor-backed for-profit chains. These educators are, in general, as hardworking and dedicated as those working in different types of programs.

Investor-backed chains are gaining market share

Nine of the top 11 for-profit chains by capacity—including all of the top five—are investor backed. Collectively, these investor-backed chains serve over 750,000 young children every day, representing a roughly 10% market share within child care.

The chains are growing. Between 2020 and 2022, while the rest of the sector was rocked by COVID-19, large for-profit chains grew by 8% ↻—not by adding substantial new supply to the system, but mainly through acquiring smaller chains and independent programs.

Child care is an undeniably attractive market for investors, who will continue to flock to it unless the government takes action. The global market is projected to more than double in size to over \$400 billion by the end of the decade. ↻

FIGURE 01

North America’s Largest For-Profit Child Care Organizations: Capacity
Source: Exchange Press

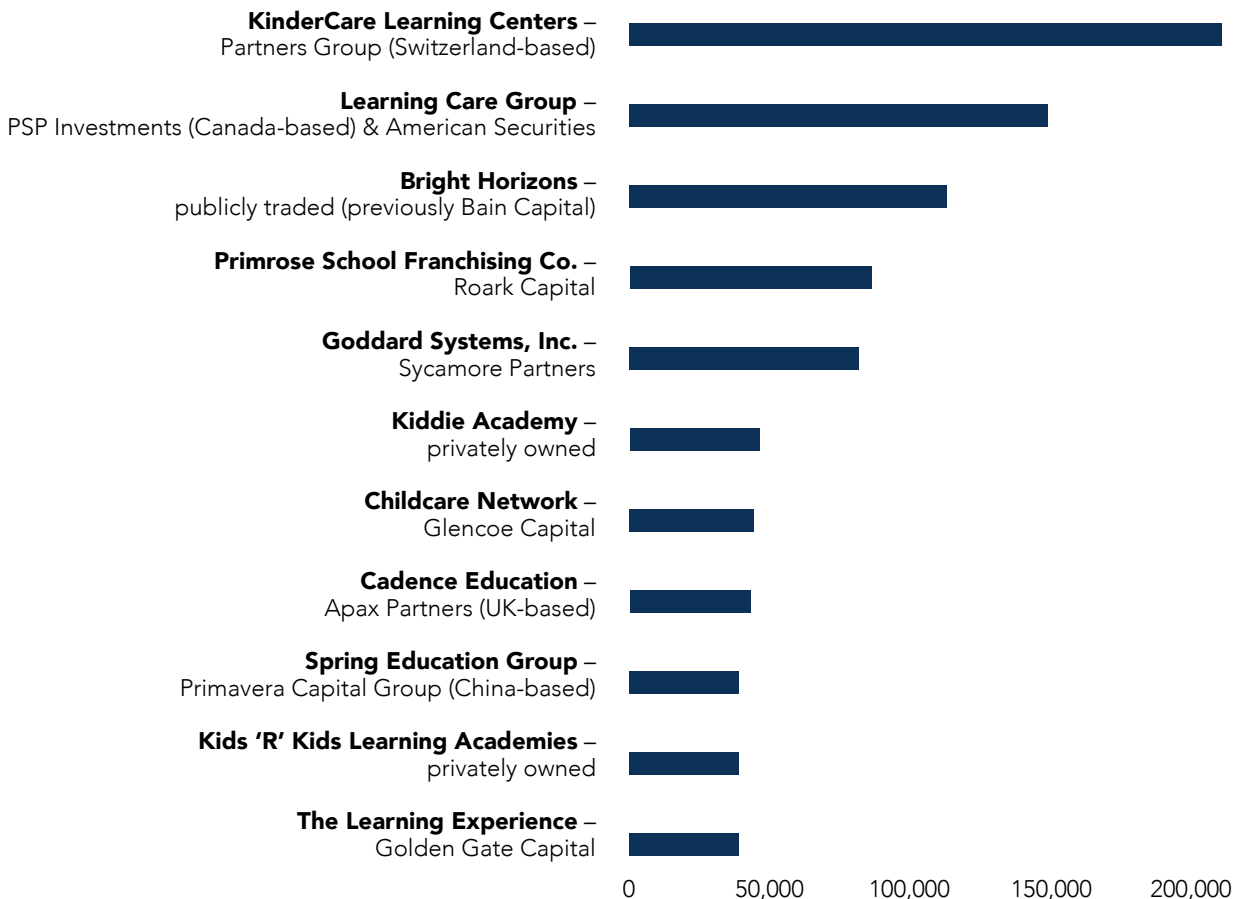
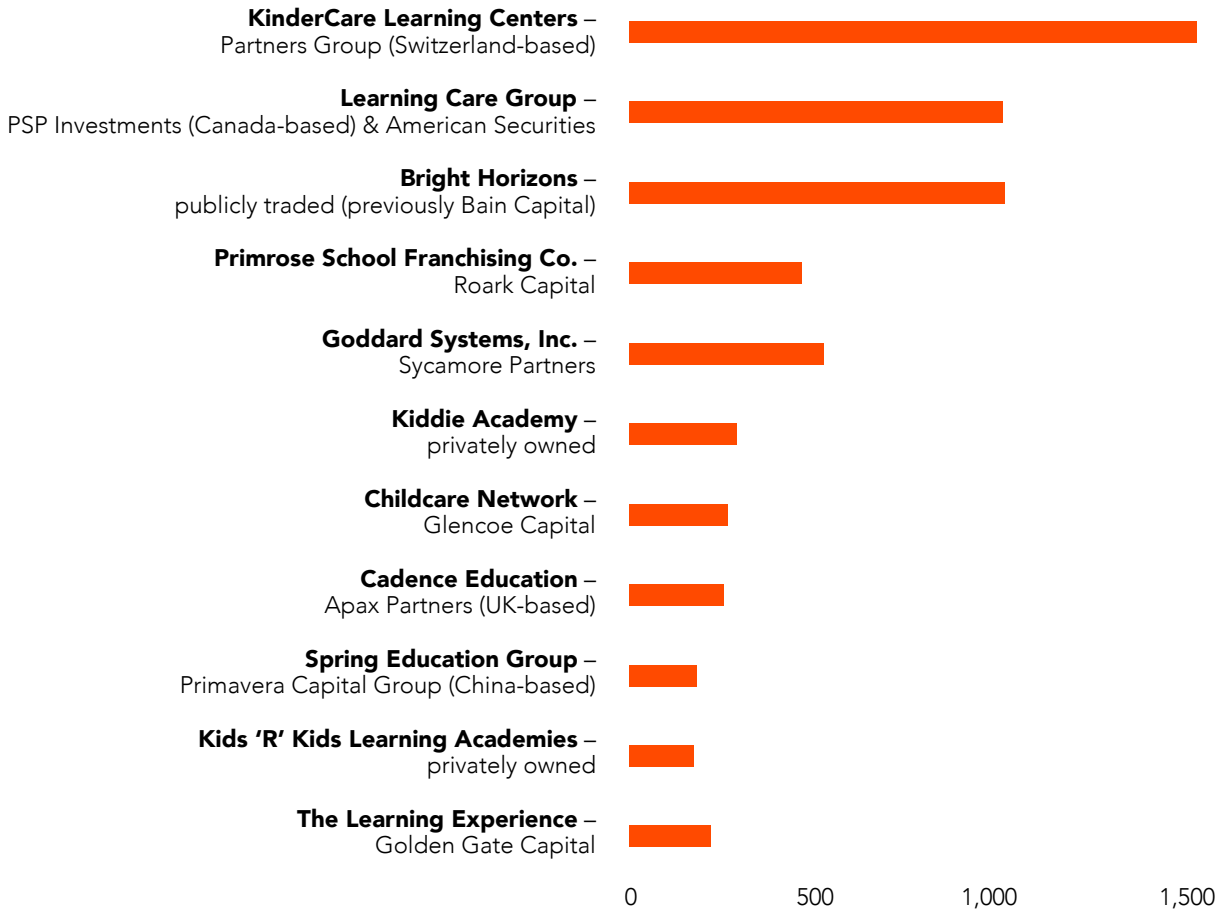


FIGURE 02

North America's Largest For-Profit Child Care Organizations: Number of Centers

Source: Exchange Press



Threats

“Childcare experts can now cite copious international research to underline the pitfalls of relying on the for-profit sector, which is demonstrably less likely to deliver affordable, accessible, quality, equitable services, pay decent wages to staff, or offer affordable parent fees as profits take precedence.”

Martha Friendly, Executive Director, Childcare Resource and Research Unit (Canada)

- **Lower quality**

Studies in several countries ↔, including the U.S. ↔, have found that, on average, program quality is lower ↔ in large for-profit chain programs than in nonprofit or independent programs. This is the same story we’ve seen when private equity meddles in nursing homes ↔, institutions of higher education ↔, and K-12 schools ↔. Investor-backed human services inevitably end up making trade-offs that put profits over people.

- **Risk of collapse**

Due to their highly leveraged and debt-financed nature, investor-backed chains are at risk of sudden collapse if economic conditions change, according to researchers in the U.K. ↔

Chains in the U.K. (which include the third-largest U.S. chain, Bright Horizons) are “heavily indebted, and they have very complex financial structures involving foreign investors and shareholders.” Such a collapse famously occurred in 2008 when Australia-based ABC Learning, with 2,300 programs worldwide, went under due to share manipulation and other profit-seeking financial mismanagement. ↔

- **Loss of independent, community-based programs**

As chains snap up independent programs that are struggling without enough public money in the system, communities lose valuable assets that have in many cases served their neighborhoods for decades.

- **Furthering geographic and income inequalities**

Because they intentionally cater to an affluent clientele or large businesses to whom they can charge excessive fees, investor-backed chains serve an extremely small proportion of low-income children. Chains also tend to cluster in high-income neighborhoods, doing little to help rural communities or low-income urban areas.

- **Harming the fight for a child care system that works for everyone**

As reported in an explosive *New York Times* investigation ↔, investor-backed chains have actively lobbied behind the scenes against universal child care measures which would reduce their profits.

Potential actions

There is a menu of potential actions government at various levels could take, including:

- Holding Congressional hearings or commissioning an expert working group to review the existing evidence base, promote a research agenda for unanswered questions, and publish findings
- Requiring public financial disclosures from all investor-backed chains—including their profit margins, fee structures, compensation practices, and beneficial owners—and making such disclosures easily accessible to parents
- Prioritizing nonprofit programs, community-based programs, cooperatives, and independent for-profit programs in the distribution of public funding; independent programs could be statutorily distinguished from investor-backed chains by using definitions laid out in the Small Business Act
- Requiring any program that receives public funding to cap fees and profits (otherwise, the cost of child care legislation will balloon) and to adopt wage scales for early educators
- Considering regulatory and funding mechanisms that maximize the potential of nonprofit and community-based programs, as well as worker or parent cooperative-owned programs
- Restricting the use of public funds to pay for executive compensation beyond a reasonable limit, and also restricting financialization activities (purchasing securities, paying dividends, etc.)
- Requiring private equity firms to accept joint liability with companies receiving public funds (so they are liable for bankruptcy, etc.)
- Capping the number of program licenses that investor-backed child care chains can operate or requiring such chains to convert to nonprofit status before gaining additional licenses
- Passing an outright ban on private equity investment and public trading in the child care sector, requiring divestment by current private equity owners and shareholders.

Further reading

["Can Child Care Be a Big Business? Private Equity Thinks So"](#) *The New York Times*, Dec. 16, 2022

["Childcare Is in Chaos. Private Equity and For-Profit Chains Are Swooping In"](#) *The New Republic*, Oct. 22, 2022

["Acquisitions, Mergers and Debt: the New Language of Childcare"](#) University College London Social Research Institute, Jan. 2022

["What Goes Around Comes Around When It Comes to For-Profit Child Care"](#) Child Care Resource and Research Unit (Canada), Sept. 6, 2022

["Is 'Big Day Care' the Solution to America's Childcare Woes—or is it Risky to Mix Profits and Toddlers?"](#) *Fortune*, Aug. 23, 2021

["Action to Preempt the Financialization of the Early Childhood Sector"](#) Center for the Study of Child Care Employment, University of California–Berkeley, Aug. 2021

["Building a Just & Humane Child Care Economy"](#) Capita Overview

About Capita

Capita is an independent, nonpartisan think tank with a global focus. Our purpose is to build a future in which all children and families flourish.

We stand at the edge of seismic shifts in the global economy and our political and environmental systems—systems that frequently ignore children. Yet by prioritizing our youngest and their support networks we have the potential to radically transform the social fabric of our societies for the long term.

Capita explores how the great cultural, planetary, and social transformations of our day affect our youngest children (0-8 years old) and our communities. We focus on the interrelated problems and injustices that prevent society from meeting the needs of children and families, particularly those furthest from opportunity. From the impacts of climate change to parental loneliness and social disconnection, our work catalyzes creative new ideas and solutions to some of the most pressing global challenges.