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M&A in the nurseries market

Key financial themes within the UK nurseries sector

The nurseries market continues to see significant levels of M&A due to favourable dynamics

Stabilisation following first lockdown

- With nurseries remaining open throughout the second and third lockdowns, businesses have thankfully stabilised over the last six to nine months
- This has seen financial performance in many cases return to pre-COVID levels and, as a result, strong M&A activity has returned

Private equity interest

- With robust demand drivers and a highly fragmented market, the nurseries sector remains attractive to private equity and other investors
- This has driven continued M&A activity, with a number of large groups now private equity backed, including:
  - Happy Days: Livingbridge
  - Kids Planet: BGF
  - Family First: August Equity
  - Poppy & Jack's: Foresight
  - Just Childcare: Phoenix Equity Partners

Acquisitions highly competitive

- Given the number of private equity backed companies seeking growth through acquisitions, processes for quality businesses are often highly competitive, driving up prices
- The attractiveness of businesses to acquirers is influenced by a handful of key value drivers which are outlined on the following page

Active acquirers in the nurseries sector

Valuation drivers

Valuation in the nurseries market is driven by a handful of key factors

Quality

- Ofsted ratings are the key identifier of quality for acquirers of nurseries
- "Good" and "Outstanding" ratings will attract premium multiples, whilst "Requires Improvement" or "Inadequate" ratings will materially hamper valuations

Fee levels

- Higher fee levels will drive greater multiples as they will generally result in strong margins
- Fees levels are inherently linked to the location of the nursery and the style and condition of the property (see below)

Occupancy

- High occupancy levels are a sign that a nursery is operating effectively
- Waiting lists are also a positive sign of demand for places
- Consistently high occupancy levels will therefore drive greater earnings multiples

Location

- As noted above, affluent locations are generally sought after by acquirers as they generate higher fee levels
- Proximity to residential areas and accessibility are also vital in order to ensure there is sufficient local demand

Property

- Clearly freehold property ownership will attract higher multiples than leasehold
- Well invested properties will be favoured, with acquirers reducing prices for any perceived "catch up capex" required
- Basic issues such as property access, parking and utilities should be considered

Scale

- The scale of a business (whether nationally or within a particular region) will also impact the valuation – generally larger businesses generate higher multiples
- This applies to both the number of registered places and the number of sites that a business operates

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