

**The pursuit of profit in child care:  
Risky business for parents and  
government**

**A CUPE backgrounder**

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## **The pursuit of profit in child care: Risky business for parents and government**

In May of 2010, child care entered a new era with the announcement that Edleun (EDucation LEarning UNiverse) Group, Canada's first publicly-traded child care corporation,<sup>1</sup> had started by acquiring its first centres in Alberta. By December 2011, Edleun had acquired centres in BC and bought its first seven Ontario centres.

The advent of publicly traded profit corporation creates a new and risky environment for child care. Having raised substantial funds from big investors and begun its operations in Alberta BC, and Ontario, Edleun now has the capacity to garner a significant share of the child care “market” to help meet its goal of owning 10% of Canadian child care.<sup>2</sup>

### **How and why corporate child care moved into Canada**

The Edleun Group began trading on the TSX Venture exchange in May 2010. As of January 2012 it has grown to operate 4,463 licensed spaces in 43 centres. This represents more child care spaces than in Prince Edward Island or any of the territories, and almost as many as in Newfoundland.

The history of large corporations seeking profit from the child care market reaches back some years before Edleun's public appearance on the Canadian scene.

In 1988, the first ABC Learning Centre (in Brisbane, Australia) was founded by Eddy Groves. ABC Learning Centres became a publicly-traded, Australian corporation in 2001 and ultimately—by first buying out for-profit and non-profit centres and local chains and then national chains, came to dominate Australian child care. ABC then moved abroad, first operating in New Zealand. It then went global, buying out US child care giant Learning Care Group in 2005 and Busy Bees in the UK in 2006, becoming the second biggest operator in the US and the biggest in the UK.<sup>3</sup>

In 2007, ABC—by this time linked with many associated real estate, facility leasing, management and construction, child care supply and ECE training and other kinds of related companies<sup>4</sup>—set up Australian registration for seven new 123 Global corporations.

123 Busy Beavers was established in Canada in 2007. The child care corporation had links to ABC Learning Centres and 123 Global. Letters seeking to buy out centres for 123 Busy Beavers, were sent to child care operators in BC, Alberta and Ontario, and 123 Busy Beavers was registered as a private company in Alberta, BC and Ontario.<sup>5</sup> Leslie Wulf, who ultimately became Edleun's CEO in 2010, signed the letters on the letterhead

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<sup>1</sup> globeandmail.com Mon Dec 19 2011

<sup>2</sup> Edmonton Journal Thu May 12 2011 Page: B3 and Calgary Herald, Page: B2, Edition: Final Calgary Herald - Mon May 9 2011

<sup>3</sup> Code Blue for Child Care. (2007).

<sup>4</sup> Brennan, D. , Newberry, S., and van der Laan, S. (2008)

<sup>5</sup> [http://cupe.ca/updir/buildchildcare/Multi\\_National\\_Corporate\\_Child\\_Care\\_FINAL.pdf](http://cupe.ca/updir/buildchildcare/Multi_National_Corporate_Child_Care_FINAL.pdf)

of US-based Adroit Investments LLC, together with Mark Davis.<sup>6</sup> Ultimately, eleven Alberta centres were bought out and rebranded as 123 Busy Beavers. Its management personnel included Marnie Testa, who had been an employee of ABC Learning.<sup>7</sup>

In 2008, the ABC/123 conglomerate experienced financial collapse. At its height, ABC Learning Centres owned 25 per cent of the child care spaces in Australia - more than 1,000 centres. When it folded in 2008, it had \$1.6 billion of debt. The companies were taken into receivership and to maintain access for thousands of Australian families to child care, the national government spent \$22 million to bail out ABC Learning and the following year the firm was sold to a not-for-profit.

In 2008, EduCare led by Leslie Wulf and Ted Rea emerged in Canada. EduCare Development LLC claimed a combination of child care expertise, construction knowledge and financial means to provide a complete turnkey solution to building child care centers. EduCare was a joint venture between Triland International and Adroit Investments LLC.

Leslie Wulf and Ted Rea contacted some provincial governments across Canada seeking funding for “turn-key” child care development contracts, described as ‘triple net sale leaseback real estate to Child care center operations under long term leases’ with the objective of developing, operating and leasing child care facilities.<sup>8</sup> While there were a number of meetings between EduCare and some provincial governments, no deals were reached.

In May 2010, Edleun became the first Canadian publicly traded childcare corporation when it began trading on the TSX Venture Exchange. Its initial Board of Directors included the President/CEO of Reichmann International Development Corporation, Jeffrey Olin, President and CEO of Vision Capital, John Snobelen, Minister of Education under the Harris government in Ontario, Mark Davis, Wulf’s partner in Adroit Investments and also involved with EduCare. Leslie Wulf was CEO and Ted Rea (his partner in EduCare and Triland’s International manager) was Edleun’s Director of Real Estate.<sup>9</sup>

Edleun and San Anton Capital, a capital pool company listed on the TSX (Toronto Stock Exchange), were involved in a reverse takeover transaction in order for Edleun to become publicly traded. Edleun is now linked to other firms with considerable investment capital that will allow it to grow rapidly.

The Edleun Group is growing rapidly. When the firm began trading in May 2010 it had already acquired 123 Busy Beavers (the eleven child care centres in Calgary and Edmonton), and 123 Realco (0813594 BC Ltd.), a wholly-owned subsidiary, and the

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<sup>6</sup> Ibid

<sup>7</sup> Ibid

<sup>8</sup> EduCare documents

<sup>9</sup> <http://www.edleungroup.com/EDU-edleun-management-officers.asp>

Alberta real estate interests of Learning Care Group Trust. Learning Care Group Trust owned and leased facilities and/or property to some of the 123 Busy Beavers Centres.

An active recruiting campaign to buy centres for large well-financed child care is well underway. An April 2011 letter<sup>10</sup> to child care centre owners from the President of Texas-based Trivestments was circulated widely. Trivestments is identified online as “created to seek real estate opportunities by constantly tracking investment and demographic trends in an effort to maximize value. Trivestments Capital LLC shared an office address with the Rea group’s Triland International firm and EduCare in Plano, Texas.”<sup>11</sup> The April 2011 Trivestments letter shares many features such as format and specific phrasing with the August 2007 Adroit Investments 123 Busy Beavers acquisitions letter.<sup>12</sup>

In Ontario, an email was sent to centre operators December 12, 2011, by Sean Collins, at one time an ABC Learning employee<sup>13</sup> in Australia. Collins Acquisitions has offices in Port Melbourne, Australia and Toronto and advertises that it “was established in Australia in 2006 to assist one of the nation’s fastest growing public companies acquire childcare businesses”<sup>14</sup> and that it “negotiated the acquisitions of more than 200 daycare centres in Australia, US and Canada”. The Collins letter<sup>15</sup> to Ontario child care centres states that “Edleun have asked me to follow up on any other potential centres and are prepared to pay **above market value** to secure any interested sellers we can secure over the next few months”.

As of March 13, 2012, Edleun had 43 centres in three provinces with a total of 4,463 spaces.<sup>16</sup> In October 2011, Edleun announced the appointment of a new CEO and president. Ty Durekas was founder and CEO of Sunnyvale, California-based Children’s Creative Learning Centres, operating in 20 US states. According to Edleun’s information “in 2007, he sold the company to Knowledge Universe (KU), the largest for-profit early childhood education company in the world. Mr. Durekas was subsequently appointed to the role of Chief Executive Officer for the Knowledge Universe employer-sponsored child care business unit”.<sup>17</sup> According to company information, he has also headed or been associated with a variety of Knowledge Universe corporations including Nextstepcare, Inc. of Sunnyvale, California, OnCare Online Child Care Services and The Grove Schools.

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<sup>10</sup> Martini, 2011 (letter)

<sup>11</sup> Trivestments website [www.trivestments.com](http://www.trivestments.com) retrieved May 4, 2011

<sup>12</sup> Wulf, 2007. (letter)

<sup>13</sup> Walsh, L. Courier-Mail April 19, 2010 <http://www.couriermail.com.au/business/pricing-questions-as-abc-learning-centres-probe-continues/story-e6freqmx-1225855165812>

<sup>14</sup> Collins Acquisitions website at <http://collinsacquisitions.com/childcare/acquisitions/> Retrieved January 28, 2012

<sup>15</sup> Collins, S., (2011). (email)

<sup>16</sup> Edleun acquires Eighth Ontario Centre March 13 2012 CNW Newswire.

<sup>17</sup> Edleun Group website at <http://www.edleungroup.com/EDU-edleun-management-officers.asp> Retrieved January 28, 2012

Knowledge Universe, headed by Michael Milken,<sup>18</sup> owns more than 3,000 early childhood centres world-wide under a variety of brands that include KinderCare and the United Kingdom's Busy Bees (previously owned by ABC) as well as elementary, secondary, higher education and technology schools.<sup>19</sup> Knowledge Universe is the world's largest profit-making education operation. The corporation advertises that they operate "3,700 education locations globally employing over 40,000 teachers and professional staff, as well as large online schools, colleges and school management systems which touch over five million students daily."<sup>20</sup>

In 2012, having raised substantial funds from big investors, begun its operations in Alberta, BC and Ontario, and established connections and networks with global child care, real estate and investment interests, Edleun now has the capacity to garner a significant share of the child care 'market' Desjardins Securities Inc. analyst Jeff Roberts is quoted in the Globe and Mail as "seeing this as a "a rare opportunity for investors to acquire a unique and highly accretive consolidation play in the Canadian child care market."<sup>21</sup>

Additionally, Edleun's links to the largest global education and child care businesses now position the firm in a good position to be taken over by even bigger interests in the future. According to the Globe and Mail, analyst Jeff Roberts, now a VP at one of Edleun's biggest investors, Vision Capital, "believes Edleun may become a takeover target, perhaps by a large U.S. operator, once it bulks up in size".<sup>22</sup>

### **What are the implications of this?**

For-profit child care has long been an issue of concern to child care advocates across Canada. Today, however, for-profit child care is taking hold in a new, bigger way. As expansion of non-profit child care has generally been quite slow, the for-profit sector in many provinces has grown steadily.<sup>23</sup> This is alarming in light of the entry of well-financed operations such as Edleun that are well-positioned for rapid acquisition and expansion by acquiring struggling small for-profit operators and non-profit organizations. Today as for-profit chains of five, ten or even more centres have become commonplace,<sup>24</sup> Edleun (like ABC's in Australia and Busy Bees in the UK) has found it easy to concentrate acquiring existing chains. The child care environment is such that owners of smaller for-profits as well as community-based boards are tempted to take advantage of Edleun's offer to pay "above market value" for their centres.

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<sup>18</sup> Michael Milken, known as the "Junk Bond King" was involved with KinderCare in the early 1990s, prior to his conviction and 10 year sentence for insider trading and other offenses. KinderCare founder Perry Mendel's conviction for tax evasion at that time was described as a "spinoff from the prosecution of Michael Milken" (LA Times, online). Following a reduced prison term, Milken reemerged to establish Knowledge Universe, now the world's largest for-profit education business (see Saltman, 2002).

<sup>19</sup> KU website at <http://www.kueducation.com>. Retrieved January 27, 2012

<sup>20</sup> Ibid

<sup>21</sup> Keith, D. (February 11, 2011). *RBC: Time for investors to warm up to Canadian Tire*. Report on Business, Globe and Mail.

<sup>22</sup> Ibid

<sup>23</sup> Beach, J. et al, 2008. (see references)

<sup>24</sup> CUPE, 2009. (see references)

There are four main reasons that this is a matter of significant concern for educators and policy makers:

First, a substantial body of Canadian research literature shows that for-profit childcare is more likely to be poorer in quality and to provide poorer access than public and non-profit childcare.<sup>25</sup> The research shows that quality tends to suffer primarily because in child care, the staffing determines the quality; staffs are the “backbone” of any child care program. Thus, cutting costs in a child care program so as to earn profits for owners or share holders primarily comes from cutting staffing costs—wages, benefits and/or ratios. These kinds of cost savings, as the research suggests,<sup>26</sup> are shown to come mostly by cutting into staffing in various ways that have an impact on quality.

Second, international comparisons, especially from Australia,<sup>27</sup> show how quickly and irreversibly child care provision can shift to become a highly corporately-dominated model when well-financed companies set out to take over. Canadians’ experiences with small scale for-profit operators have not prepared them for the rapid growth and size of international big-time corporate child care operations like Knowledge Universe, KinderCare, ABC Learning or Bain Capital’s Bright Horizons. The international research further suggests that large child care corporations, once they are well established, begin to influence government on regulations, as well as on other family policies like parental leave. As they dominate the sector, it is easy to see why parent fees have been shown to increase substantially even as government funding increases.<sup>28</sup>

Third, the experience in Australia in particular documents the hard lessons learned about how costly profitable child care operations can be for government revenues. The ‘Australia model’ shows that there are multiple ways child care corporations make profits at the expense of families and governments. In the Australian example, ABC calculated that more than 40% of revenue came from government funds.<sup>29</sup> Profits can be derived from direct provision of child care or “government subsidies to parents that comprise 30-50% of total fees” advertised to Edleun investors.<sup>30</sup>

Profit can also be made through ancillary companies, especially those dealing in real estate<sup>31</sup> and facility leases. Many of Edleun’s investors are from the real estate and property sector.<sup>32</sup> However, in a February 9, 2012 Globe and Mail column, David Milstead reports that “...our question is whether investors can profit from owning Edleun shares. In this as well, reasonable people can see both sides — but, in my opinion, a deep amount of skepticism is warranted.” Further in the article he writes: “It seems strange that in a country that supposedly has such a shortage of day-care options that there would be so many underperforming centres for Edleun to acquire and spruce up, or that it has a

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<sup>25</sup> Childcare Resource and Research Unit, 2011 (see references)

<sup>26</sup> Cleveland, 2007 (see references)

<sup>27</sup> Brennan et al, 2008 (see references)

<sup>28</sup> Brennan et al and Penn (see references)

<sup>29</sup> <http://www.crikey.com.au/2008/11/07/abc-learning-collapse-is-a-policy-failure/>

<sup>30</sup> <http://www.edleungroup.com/upload/edleun-group-presentation.pdf>

<sup>31</sup> Property trust turns a profit Feb 8 2012 <http://news.ninemsn.com.au/article.aspx?id=8416138>

<sup>32</sup> <http://www.montrealgazette.com/business/fp/money/Real+estate+encore/6053333/story.html>

clear path to, in its words, “‘Cherry pick’ prime sites with [the] best demographics and location enabling premium price.” (Edleun’s answer to this, Mr. Olin says, is that a modern centre takes more capital than today’s mom-and-pop operators can muster.)”<sup>33</sup>

Using the profit motive for child care can also be risky for families and governments. At the end of ABC/123, in addition to hefty revenues derived in various ways from government funds over the years, the bail-out following the conglomerate’s collapse initially cost the national government more than \$22 million. It has been estimated that the government spent \$100 million keeping the centres open until new owners were determined.<sup>34</sup> Parents were left in a very insecure situation until the dust settled on which centres were to continue and which would close.

The final key reason that the entry of corporate child care in Canada is a matter of substantial concern has to do with Canadians’ ideas and values about education. Child care has been moving to become part of education ministries. Education in Canada is almost entirely publicly delivered and publicly funded.

Canadians believe that education is a public good and do not support the idea that early childhood education along with all levels of education should be a big business. Child care should be a public investment for social good not profits. The history of corporate child care in the US, Australia and the other countries that have permitted child care to become a big business shows that early childhood education child care can be a very profitable, yet risky business.

## **In summary**

The research and policy analysis shows that overall, for-profit child care—especially when it becomes a big business—is a bad bargain for the public purse and for governments. Ultimately, it has all the earmarks of a very risky, expensive and possibly irreversible public experiment which Canadians should reject.

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<sup>33</sup> <http://www.theglobeandmail.com/globe-investor/the-real-daycare-challenge-making-money/article2331548/>

<sup>34</sup> <http://www.nurseryworld.co.uk/news/978257/Analysis-Australia---Childcare-reformed-wake-ABC-collapse/>

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