“The End User Is a Dollar Sign, It’s Not a Child”: How Private Equity and Shareholders Are Reshaping American Child Care

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Elliot Haspel · Child Care Crisis, Public Policy, Research Lab · Apr 22, 2024

Editor’s note: *Over the past two years, there have been more and more stories arising about the role of investors, especially private equity firms, in child care. Given Early Learning Nation’s mission to illuminate “journalism from, and for, the early learning field,” I eagerly agreed when Elliot Haspel approached me about doing a long-form look at investor-backed child care chains.*

Elliot is a well-known child care policy expert and author, as well as a freelance journalist and opinion writer who has published stories with The Atlantic, The New York Times, and The Washington Post (among others), and a longtime ELN contributor and columnist. For this story, he employed investigative journalism techniques to provide a deep look into the workings and implications of growing investor and private equity influence.

It should be noted up front that Elliot has an established perspective about private equity in child care which leans toward skepticism, and he has also conducted research and analysis on the subject. As such, this article should be considered “reported opinion,” which former ProPublica editor-in-chief Paul Steiger once defined as “where fact gathering takes place in service of advocacy.” That said, this piece has been thoroughly vetted by an experienced, independent fact checker.

As usual, this piece and all opinions therein are Elliot’s alone, written in his capacity as a freelancer, and do not necessarily reflect the views of Early Learning Nation or any organization with which Elliot may be affiliated.

–Linda Shockley, Early Learning Nation

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Join the Conversation on April 29th at 12pm ET

Rebecca Gale, a writer with the Better Life Lab at New America where she covers child care, will interview author Elliot Haspel in a one-on-one conversation about the role investors, especially private equity firms, play in the American child care sector. Don’t miss it: Monday, April 29th, 2024 at 12:00pm ET. Registration is free, and required.

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Introduction

In January 2024, the Yale New Haven Hospital system (YNHH) announced a change at the two child care centers they run for employees and community members. Per the Yale Daily News, YNHH would no longer operate the centers themselves but were instead entering into a “partnership with Bright Horizons,” the second-largest U.S. corporate chain and the only one traded on the stock market. The Daily News reports that, “Without advance warning, daycare educators were told to reapply for their current positions. In response, many employees have since left, leaving the center short-staffed and at risk of state closure.” A parent who attended a call with YNHH leadership reported the leaders “told them that the hospital was losing money on the daycare and had been looking for ways to cut costs. As a result … the hospital had zeroed in on no longer managing the daycare.”

The question of how allowing Bright Horizons to take over the centers would cut costs—while still making Bright Horizons a profit—is becoming apparent: the company has moved to alter employee benefits and increase classroom group sizes. In addition to requiring long-tenured educators to reapply for their jobs, the Daily News reports leadership told staff that "during the rehiring process … the staff members would lose their YNHH benefits and paid time off." Moreover, "center leaders gave parents flyers informing them that some of the daycare's infant rooms would be combined. [Parent Jon West] told the News that each classroom previously had three teachers for every six to seven kids. Now, there are two to three teachers for every eight kids. Parents also described how the facility's receptionist and the daycare supervisors were also taking on educator roles to meet the state educator-to-student threshold."

Cast in America as a pay-to-play system with limited public funding, child care has long struggled with issues like difficult budgetary math, low educator pay, and highly variable quality. Some argue that the presence of investor-backed chains offers economies of scale, business know-how, and an injection of capital into a starved sector. The reality appears to be much more problematic. An unprecedented degree of investor activity—especially from private equity firms, which now own 8 of the 11 largest U.S. chains by capacity (a ninth, Bright Horizons, was previously private equity-owned), as well as several smaller chains—is creating a cascade of risks for the sector. These risks threaten the path toward an inclusive child care system which works well for all children, parents, and early educators.

This piece draws on interviews with current and former chain employees and child care experts, reviews of scholarly research, and analysis of financial records and legal filings. The picture it paints is one of a sector increasingly captured by excessive profit-seeking behavior and systemic vulnerabilities that can come at a human cost to one of the most vulnerable populations imaginable: young children who often have, literally, no ability to speak up for themselves.

Ultimately, says Melissa Boteach, vice president for Income Security and Child Care/Early Learning at the National Women's Law Center, the issue is whether investor-backed chains can ever overcome an inherent conflict of interest. "The bottom line for private equity, and investor-backed chains more broadly, is profit for [investors]. The bottom line for child care should be early learning and care for children. And it's not that you can't ever reconcile those two things," she explained, but, "when you implement standards, whether it's living wages for early educators, low child-to-adult ratios, or other measures that affect the quality of that care, investor-backed chains will face external pressures to comply with these standards in the cheapest way possible, which in turn has implications for either lowering the quality of the care or raising the fees charged to parents."

Boteach added that such reactions are "not necessarily because they're bad people, but because they have an obligation of profit for their investors. And I think we should talk about it like that. It's not a dirty thing to want to make money if you're in business. The question is whether an investor-backed business model–and in the case of private equity, a heavily financialized model focused on short-term profit—is the appropriate model for something that is a public good."

Boteach's comments nod to a discontinuity between how America treats early care and education versus K-12 education. Elizabeth Leiwant is director of Government Relations at Neighborhood Villages, a

Massachusetts-based nonprofit that focuses on improving the state's child care system. She mused in an interview, "how would you feel if I told you that, say, Morgan Stanley owned your child's elementary school?" Leiwant continued, "It would just seem ludicrous to anyone that these companies and investment firms are making decisions about how your child is educated. And yet people either don't know that's going on in early care and education, or they somehow feel comfortable about it, because they don't associate early education with education in the same way that they do with K-12."

This article is split into six sections: First, how private equity firms and shareholders manage to make money in a sector that is well-known to struggle financially; Second, the systemic risks from debt-driven growth and consolidation; Third, the political risks to universal child care efforts posed by rising investor influence; Fourth, what clientele investor-backed chains seek to serve and how they treat their employees; Fifth, the implications of profit maximization for program quality, health, and safety; and Sixth, what actions policymakers have or might take to put up guardrails against excessive profiteering — particularly as more public funding becomes available. One way or the other, what decisions those policymakers make in the coming years will indelibly shape the future of American child care.

Part I: "Profit from an unprofitable industry"

The Changing Nature of For-Profit Chains

The concept of for-profit chain child care is nothing new. Two of the largest chains, Learning Care Group (which now operates several brands including TutorTime and La Petite Academy) and KinderCare, were founded respectively in 1967 and 1969. Their growth rapidly accelerated as middle-class mothers flocked into the workforce but the government failed to provide public funding for a child care system. That failure was most dramatically marked by President Richard Nixon's 1971 veto of the bipartisan Comprehensive Child Development Act, which would have invested billions into the beginnings of a nationally-funded, locally-run network of child care programs.

In 1977, the New York Times ran a profile of KinderCare entitled "Drive-In Daycare." The piece offers that, "its promoters confidently promise that KinderCare will be to the preschool child what McDonald's was to fast food and Holiday Inn to the salesman's one-night stand." KinderCare has since grown to be the nation's largest provider of private child care services, with over 1,500 centers serving around 200,000 children — far more than the total number of licensed child care programs in many U.S. states. (KinderCare has a complicated corporate history that includes periods of being privately owned, publicly traded, in bankruptcy, and, from 1996 to 2005, owned by a different private equity firm.)

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What has changed in the past 20 years is widespread involvement from outside investors, specifically a bevy of private equity firms. Private equity ownership meaningfully differs from both simple privately-held companies and traditional investment or venture funds. As Brendan Ballou, former special counsel for private equity at the U.S. Department of Justice, explained in his book, *Plunder: Private Equity's Plan to Pillage America*, the private equity business model rests on three pillars to return high profits to investors: buying businesses for the short term (typically three to seven years), loading the companies with debt while drawing out fees, and protecting the private equity firm from legal consequences of any negative outcomes. Many private equity firms also have a history of getting involved in politics to protect their investments, actions which are not always aligned with the public interest: as Ballou writes, "quite simply, Congress works for few constituencies harder than it works for private equity."

In the 2020s, the chains have been growing at a rapid clip, largely—though not exclusively—through mergers and acquisitions as opposed to opening entirely new programs. Currently, they control (depending on the measure used) between 10 and 12% of the licensed child care market. And as industry analysts told the New York Times in late 2022, these companies may return profit margins of 15 to 20%.

One can even see the private equity profit motive baked into how some chain executives are compensated. For instance, in 2022, per filings to the U.S. Securities and Exchanges Commission (SEC), KinderCare CEO Tom Wyatt made nearly $2 million in salary and bonuses. KinderCare also uses what they term "equity-based compensation," whereby most of the company executives' stock options accrue depending on how much money the company returns to their private equity owners, Switzerland-based Partners Group. The incentive structure includes a segment of stock that vests when Partners Group makes back twice its investment, and another segment that vests when Partners Group makes back three times its investment.

At a time when most mom-and-pop and nonprofit child care programs are struggling to keep the lights on, and as parents struggle to find or afford any open slots, the question lingers: how are these companies making so much money?

Maximized Enrollment, Minimized Overhead

The private equity playbook is well-established. Audrey Stienon of the Open Markets Institute has researched how private equity operates in many human service sectors, including child care. Stienon has explained that private equity is good at "making profit from unprofitable industries." She notes their heavy involvement—often with negative consequences—in areas like nursing homes and autism services that have challenges similar to child care operations: high costs from staffing needs combined with limited public funding. When it comes to child care, Stienon said in an interview, "they don't need to serve the whole market, they only need to serve the profitable parts of the market," adding the chains do this, among other strategies, by "targeting the higher income families, raising the fees." She went on to emphasize that, in

general, “if you’re a private equity investor, you’re there for the short term. Your goal is not necessarily to make a sustainable child care business, your goal is to extract as much as you can during the time that you own the business.”

Interviews with current and former staff of investor-backed chains make it clear a top priority, reinforced by pressure from corporate management, is steady revenue via maximized enrollment and minimized operational costs. Emma Biggs worked as a teacher at three chain sites in North Carolina and was the director at one; she is now the director at an independent center. Biggs said that there was constant pressure around enrollment via management emails and visits, while staffing was kept intentionally lean, leading to strain on staff and “constant high turnover.” Cost-cutting occurred in multiple areas: Biggs recalls being told to limit children to “one sheet of paper per day” for arts and crafts. (She went out and bought more using her own money.)

Additionally, corporate management pushed Biggs to serve only portions of food that were federally reimbursable. Verna Esposito, who worked as a teacher, assistant director, and director at chain sites and now owns an independent center, confirmed in an email that such measures were common in her experience. Esposito noted that teachers in programs at which she worked tended to disregard the pressure and give children more food if hungry. Another former director, who worked for a chain both before and after it was bought by a private equity firm, said that after its acquisition, the chain became “really strict” about overhead. That included restrictions on buying items like new toys, while shifting daily cleaning responsibilities from a cleaning service to classroom teachers.

Biggs’ experience is also concordant with that of a former KinderCare director in the Pacific Northwest who wished to remain anonymous for fear of professional consequences. The director shared that one of the metrics she was consistently evaluated on was the number of “FTEs,” an acronym for full time enrollments. She said that in conversations, corporate management was clear the enrollment push was more about profits and growth than childrens’ or families’ experiences. “They’re like, well, if everybody has full enrollment, then we can continue to open centers. And so that was your goal — bonuses would be [partially] contingent on whether you had full enrollment.” The director added that in her view, “the end user is a dollar sign, it’s not a child.”

A Captive Customer Base

Even when parent concerns do arise, chain programs tend to do well because child care has another hallmark Brendan Ballou cites as making an industry attractive to private equity: captive customers. The child care sector in general is extremely supply-constrained: because personnel costs are so high and public funding so meager, high demand has not resulted in high supply. The U.S. Treasury Department has stated child care is a sector in “market failure,” and some experts suggest child care is fundamentally miscast as a market good. With many programs sporting waitlists in the hundreds that can take months or years to get off, parents have little recourse if they have quality or cost concerns: there is often no alternative care provider to turn to.

This reality came up in 2023 when a small chain in Vermont was acquired by regional chain Little Sprouts, which is owned by the largest for-profit child care chain in France, itself owned by a French private equity firm. Shortly after the Vermont acquisition, Little Sprouts announced it was raising rates between 30% and 40%. On a call with the Little Sprouts CEO, the news site *VTDigger* reports, one parent called out the lack of other options, saying that "You know none of us can leave, so you're manipulating and taking advantage of that situation." (Amid heavy criticism, Little Sprouts adjusted the plan to spread out the rate increases over two years.)

The Primacy of Enrollment

At times, the inexorable enrollment push can lead to risky situations. A former Bright Horizons director in California, who also requested anonymity for fear of career consequences, shared a story of a classroom at her center where several children had behavioral challenges and the teachers were not, in her professional opinion, well-enough qualified or trained to handle the classroom. "I made the decision to shut the classroom down and got a lot of pushback" from corporate management, she said. "They were like 'you have to get it open right away. You can't do this. And I was like, 'well, they're not safe.'" The director went on to add, "Safety versus the bottom line: I hit that wall several times, and I know peers that did as well."

Legal filings also suggest how chains may at times react to teachers' allegedly extreme behavior. In 2021, three sisters working at a KinderCare site in Burlington, New Jersey, filed a civil lawsuit against the company alleging they were subject to racist epithets, and that little-to-no corrective action was taken. The lawsuit alleges that a white teacher at the site referred to the sisters, who are Black, as "the colored people," and a separate white teacher called them "ghetto." The filing alleges that the latter incident occurred "in front of the assistant director of KinderCare, who failed to do anything to reprimand" the teacher. After one of the sisters called the district manager to lodge a complaint, the lawsuit alleges, the same teacher called her the n-word. According to the lawsuit, the district manager decided not to discipline the teacher for using the n-word because "no children were hurt." In the end, the lawsuit alleges, "none of the employees that racially harassed the Plaintiffs were ever disciplined in any way." (The lawsuit would later be settled out of court with undisclosed terms. Kindercare did not respond to a request for comment about the case.)

Beyond Tuition: Institutional Contracts, Real Estate, and Franchise Fees

Parent fees from enrollment are not the only way investors make money in child care. Several chains, most prominently KinderCare and Bright Horizons, work heavily with corporate clients, as well as public institutions like universities and government agencies, to offer on- or near-site child care options for employees — as with Bright Horizons and Yale New Haven Hospital System. Since these large clients have far more funding available than even an affluent parent, such engagements can be incredibly lucrative. For instance, in 2023 Arizona's Maricopa County (which contains Phoenix and surrounds) entered into a $13 million contract with KinderCare to operate a center that will serve county employees.

Increasingly, governments are incentivizing businesses to offer child care benefits to their employees. That includes tens of millions of dollars in state tax credits and grants being offered in both Republican- and Democratic-led states. The federal government, in addition to an existing tax credit, made having a plan for

child care assistance a requirement for semiconductor manufacturers seeking to access funding from the CHIPS Act.

The contracts resulting from these incentives are likely to flow mostly to investor-backed chains. Child care analyst Annie Dade has sounded a note of caution that large chain providers "are really primed to win these contracts" and in doing so may disadvantage community-based providers. Both Bright Horizons and KinderCare have divisions dedicated to corporate clients, and KinderCare has an entire "Government Funding" team. Bright Horizons CEO Stephen Kramer has stated that the CHIPS Act requirements were "wonderful gratification of many, many years of really pushing the idea that employers have a vested interest [in child care]."

Julie Kashen and Lea Woods of The Century Foundation, a think tank, have written that when it comes to the CHIPS Act, "Companies that choose simply to partner exclusively with corporate child care providers … risk failing to meet families' diverse needs. They could actually be undermining efforts to build a robust workforce by inadvertently skipping over a sector of the child care services that cater to nontraditional hours and multi-age child groups, such as family care providers, as well as crowding out the women- and minority-owned businesses and nonprofit organizations that provide the majority of child care today. In doing so, they may also provide an opening for private equity to use the child care sector to extract wealth at the expense of children's safety and early educators' wages."

Stienon of the Open Markets Institute explained that private equity firms also commonly utilize a strategy known as "leasebacks" (sometimes called "sale-leasebacks"), whereby the owned business is required to sell its real estate—with the profit going to the private equity firm as opposed to the business—and then rent it back from the new owners. This results in businesses offloading one of their major assets and adding a new budget drain from the same property. Ballou writes that frequently, because private equity firms only put in a small amount of their own money when buying companies (the rest coming from investors, both private ones and, increasingly, public entities like pension funds), real estate sale proceeds alone can cover the firm's outlay.

Sale-leasebacks in child care appear to be on the rise. A 2022 trade article noted that "in an environment of rising interest rates, net lease assets occupied by early childhood education centers are growing in popularity." The article quoted Jim Ceresnak, a director at the brokerage firm B+E who specializes in sale-leasebacks, as explaining that "more and more investors and lenders have become familiar with the growing players in this market, which has helped their growth in popularity."

An additional way corporate chains turn a profit is by piling fees onto individual sites. This tactic is used in chains that operate on a franchise model as opposed to corporate-run centers. Chains that rely on franchises include major ones like Primrose, Goddard, and The Learning Experience, all of which are owned by private equity firms. A review of those three chains' Franchise Disclosure Documents (a legal document presented to potential buyers) reveals that in addition to basic royalties — commonly 7% of a program's gross revenue, which is a mid-range rate per the U.S. Small Business Association — franchises are often forced to pay to utilize company assets.

These fees can include usage of proprietary curricula and technology. For example, in 2021, The Learning Experience mandated that each center is "required to have a minimum of one interactive, wall-mounted 'whiteboard'" which runs proprietary curricula on prescribed software. As of 2021, the franchise must pay up to a $8,000 one-time setup fee per whiteboard, as well as a $149 monthly "service fee" and a $3.75 to $5.00 per child monthly fee. Franchise Disclosure Documents reveal that in 2019, The Learning Experience made over $25 million on royalties and fees from 242 franchises.

There is one other major way that investor-backed chains fuel their ongoing growth: debt.

Part II: When Chains Fail

The Cautionary Tales of ABC Learning and Estro Group

Investor involvement and corporate consolidation raises the prospect of widespread system failures. A common feature of private equity engagement is extracting profit while saddling companies with debt that can leave them on shaky ground. Brendan Ballou notes in *Plunder* that "while private equity doesn't doom a company to failure, the chance of failure dramatically increases. Roughly one in five large companies acquired through [private equity deals] go bankrupt in a decade. This is vastly more than the roughly 2% of comparable companies not acquired by public equity firms that do." As large child care chains both consolidate and gain market share, then, the systemic risk rises.

Corporate child care chains can and do fail. Arguably the most infamous example was Australia's ABC Learning. In the mid 2000s, ABC Learning was the world's largest child care provider, owning over 2,200 centers by 2008. It accomplished this feat by acquiring programs at a meteoric pace —ABC owned only 43 centers in 2001 when it was first listed on the Australian stock exchange—including buying Learning Care Group (then the third-largest chain in the U.S.) and Busy Bees (then the sixth-largest chain in the U.K.). ABC was at one point valued at over $2.5 billion and its founder, Eddy Groves, became a minor celebrity in Australia; among other things, he bought the Brisbane Bullets basketball team.

However, misleading accounting and financial statements belied a tremendous amount of debt—not profit—that was fueling ABC's aggressive expansion. The bubble burst once ABC was no longer able to, as a group of accounting researchers later wrote, "mask its declining profitability." It turned out that, in fact, at least 40% of ABC's sites were losing money.

Amid the global financial crisis, debts were called in and ABC Learning could not meet its obligations. In August 2008, the company collapsed, trading on its stock was suspended, and the Australian government had to step in with a bailout of over AUS$50 million to prevent tens of thousands of families from abruptly losing their child care. (The impact was blunted in the U.S. because, ironically, ABC had sold a majority stake of Learning Care Group to the private equity arm of Morgan Stanley in April 2008 to help reduce ABC's debt obligations). The fallout included government receivership, parliamentary hearings, and the criminal conviction of the company's former CFO. Eventually, the remains of ABC were acquired by an Australian nonprofit consortium. The researchers concluded that "ABC Learning presented a classic clash of private interests and public need."

Similarly, in 2014 the largest Dutch child care chain, Estro Group, which owned 380 child care programs across the Netherlands, declared bankruptcy. This came after years of financial problems following its 2010 acquisition by U.S.-based private equity firm Providence Equity Partners. Per a later Dutch court inquiry, the acquisition was marred by "mismanagement," including the fact that the child care company was saddled with the very debt used to finance its acquisition. This debt —30 million Euros a year onto an already debt-burdened balance sheet—was a contributing factor in Estro's collapse, as were changing economic and political conditions that led to a pullback in previously generous public child care subsidies.

Estro's experience also shows how even when things go south, private equity firms can insulate themselves from the consequences. The company's bankruptcy was carefully planned, and another investment firm immediately snapped up and rebranded more than 200 of Estro's sites at a bargain basement price. In doing so, writes Ewald Engelen, a finance professor at the University of Amsterdam, the new owner "was also able to shed more than one third of employees and locations, especially the less profitable ones in the periphery of the Netherlands, without having to fulfill its legal social obligation to more than 1,000 workers being laid off." (This led to a lawsuit that fired employees eventually won.) Engelen concludes that "the parents, children and workers in the over one hundred former Estro-locations that were closed down [permanently] in the aftermath of the bankruptcy were, without doubt, the biggest losers from this sorry story of serial plunder." The private equity firms involved in the debacle, though, mostly avoided losses — and many actually made money.

The Current Threat Level

Could an ABC Learning or Estro Group fiasco occur in America? It is difficult to assess the risk among U.S. chains because, with the exceptions of KinderCare and Bright Horizons, the companies do not generally provide a detailed public picture of their finances. (KinderCare submitted SEC documents in advance of a potential Initial Public Offering; the company has since pulled back on its IPO plans and Partners Group is instead reportedly soliciting bids for sale to other private equity firms.)

In considering risk, there is a relevant question about the extent to which private equity firms dictate significant business decisions. It is notable that firms regularly take positions of influence with their owned companies. (All private equity firms that own the large chains declined to comment or did not respond to a request for comment.) For instance, two of KinderCare's seven Board of Directors are executives at their Swiss-based private equity owners Partners Group. Similarly, two of the three Directors of The Learning Experience are executives of their private equity owners, Golden Gate Capital. (Note: the author has an immediate family member employed by Golden Gate Capital.) In the case of Child Development Schools—the seventh-largest U.S. chain by capacity—the Chairman and CEO, David Evans, is also the Chairman and CEO of Glencoe Capital, the private equity firm Evans founded which in 2006 acquired Child Development Schools.

Even Bright Horizons, which is publicly traded, retains a relationship of sorts with its previous private equity owner, Bain Capital. Bain is a significant shareholder, and two former or current Bain executives are on Bright Horizons' Board of Directors. Bright Horizons' SEC filings note that Bain has special privileges with regards to Bright Horizons' business dealings: their "certificate of incorporation … imposes some restrictions

on mergers and other business combinations between us and any holder of 15% or more of our outstanding common stock other than Bain Capital Partners LLC."

Research from the U.K. is both informative and relevant as to the current threat level, as Bright Horizons is the second-largest U.K. chain. A team of researchers led by Antonia Simon, a professor at University College London (UCL), published a report in 2022 entitled "Acquisitions, Mergers, and Debt: The New Language of Child Care." The authors highlight the high debt many chains carry, which increases the risk of collapse:

[W]e found that private-for-profit companies in the [U.K. early care and education] sector are heavily indebted, and they have very complex financial structures involving foreign investors and shareholders … We also identified that a considerable amount of money is being extracted for debt repayment. For example, two of the largest private-for-profit chains we examined were heavy borrowers, with leverage ratios of debt to total assets of between 51 per cent and 101 per cent.

They go on to note the example of one U.K. chain, Just Childcare, that was making a profit and paying taxes as of its 2015 takeover by private equity firm Phoenix Equity Partners, and thereafter was "in debt and pays no tax, although it continues to expand." Overall, Simon's team writes, "What we have observed leads us to conclude that the high levels of borrowing led to lower profits (or even losses) and reduced or negligible payment of taxes due to the tax relief obtainable on loan interest payments. In our analysis of some publicly submitted financial accounts, we found increasing executive remuneration and rewards for the private equity holding company at the same time that the subsidiaries are making losses."

The following year, the UCL team's fears were realized. On December 29th, 2023, the U.K. chain Alpha Nurseries abruptly announced the immediate closure of its 22 centers across the nation. The reason, the company stated in a letter, was "due to its financial position." Simon said in an interview for this article that while it was impossible to conclusively say profit-seeking behavior led to Alpha Nurseries' downfall, "it seems highly probable." Simon added that "if it can happen here, it can happen there."

As the largest U.S. chain, KinderCare currently appears to be in a moderately, if not entirely, stable financial position (the company entered bankruptcy for five months between 1992 and 1993). In March 2024, Fitch Ratings—one of the three leading ratings agencies—gave the company a "B+" default rating alongside a "stable rating outlook." Single B ratings are defined by Fitch as investments that are "highly speculative," in that they "indicate that material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment."

Fitch's report notes that KinderCare projects an EBITDAR (earnings before interest, taxes, depreciation, amortization, and rent) leverage between 5.8 and 6.4, meaning the company's debt is around 6 times as high as its EBITDAR. Financial analysts generally consider this leverage fairly high but not disastrous, particularly in sectors like child care with stable and predictable cash flows. Fitch goes on to project KinderCare's "total revenues to grow modestly … mainly driven by an expansion in center count and an increase in tuition rate supported by offering high-quality service."

Alongside the economic outlook lies another important factor shaping the future of American child care: as KinderCare and the other U.S. chains continue to gain market share, so too does their political influence grow.

Part III: Economic Power Equals Political Power

Investor-Backed Chains' Political Inclinations

Private equity firms wield immense political power. And few things, it seems, get private equity firms to pick up the phone like legislation that threatens the profitability of their portfolios. For instance, Brendan Ballou notes that private equity companies spent $54 million in 2019 to successfully oppose legislation that would have curbed surprise medical bills, as they owned many of the largest companies collecting the money.

Audrey Stienon believes this dynamic is at play in child care, saying that "the more market share, the more economic power, that translates into political power. And so if [investor-backed chains] become a growing share of the child care market, they come to define what that means to be a child care provider. They have more money at their disposal to start lobbying and build relationships with policymakers and enforcers and regulators at all levels of government." In doing so, she adds, the chains can define what the sector "needs from the government."

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When it comes to child care, investor-backed chains have already shown their political inclinations. The Build Back Better Act of 2021 contained $400 billion worth of investments in early care and education. It also carried caps on parent fees, and requirements that child care programs receiving public money adopt at least a living wage for its employees, as well as move towards pay parity between early educators and K-12 educators who shared similar credentials and experience. These provisions posed a significant threat to chains' business models. As reported by the New York Times' Dana Goldstein, the Early Care and Education Consortium (ECEC)—an advocacy and lobbying group that represents many of the largest chains, including KinderCare, Bright Horizons, Learning Care Group, Big Blue Marble Academy, Goddard, and The Learning Experience—allegedly went to work behind the scenes opposing the bill.

Goldstein reports that despite a public statement of support, "according to three Democratic Senate staffers who worked on Build Back Better … the consortium in meetings reacted skeptically to the idea of subsidizing tuition for upper-middle-class families and preferred a plan that could pass with Republican support." After

Sen. Joe Manchin effectively killed Build Back Better, Goldstein's reporting continues, executives from chains including KinderCare, Bright Horizons, and Primrose "made donations [the following month] to Mr. Manchin's campaign fund and his political action committee, Country Roads."

Similarly, ECEC quietly and unsuccessfully tried to get provisions struck from a Massachusetts child care reform bill that restricts chains' access to a publicly-funded grant program. The bill, S.2697, was passed in March 2024 by the Massachusetts Senate (as of this writing, the legislation has not been voted on by the Massachusetts House) and contains arguably the most robust guardrails against excessive profit-seeking in child care yet seen in America.

The conditions concern what large for-profit chains must do to access a generous pandemic-era program run by the state—centers receive an average of nearly $150,000 a year to help them maintain staffing and quality—which the legislation makes permanent. If a chain has more than 10 sites in the state, they must agree to accept a reasonable number of children receiving subsidy aid, dedicate a percentage of the grant to educator compensation and follow a career ladder with minimum salary requirements the state would establish, and provide detailed financial information about how the grant money is used. The legislation also caps the amount that any single chain can receive at 1% of the total program money (which as of 2024 is $475 million) and requires that the state prioritize programs serving large numbers of children from high-needs backgrounds.

The bill language was made public on March 7. On March 11, ECEC's Director of State Government Relations, Elsa Jacobsen, drafted a letter to the Chair and Vice Chair of the relevant committee, a copy of which was obtained. The letter requests "critical amendments" which would eliminate most of the sections with conditions that specifically apply to large for-profit chains.

The ECEC letter variously argues that, as written, the bill "unnecessarily singles out a specific population of providers and severely restricts their access to operational grant funds"; that "it is unreasonable to ask providers to demonstrate a willingness to accept more children receiving child care assistance *directly in proportion to that provider's size*" (emphasis theirs) given a lack of full funding for the state's subsidy assistance program; and that "it is not reasonable to require providers to dedicate a certain percentage" of operational funds to increasing early educator compensation based on a career ladder "unless sufficient funding is provided to meet the high requirements of the career ladder." (ECEC declined an interview request for this piece but provided the following statement: "Members of ECEC share a commitment with the entire early education community to supporting families with high-quality early education and care, while also elevating our teachers who have chosen a career in education. More than 100,000 children are without child care in Massachusetts. We can only close that gap by working together. Providers, all of whom are still recovering from the impacts of the pandemic, should be treated equally, with a focus on quality and community impact.")

In the end, no legislator offered the requested amendments before the Massachusetts Senate passed the bill unanimously.

What Chains Want

By contrast, ECEC has been vocal in support of increasing child care funding that comes with no strings around parent fees or educator wages, such as proposals to increase the Child Care and Development Block Grant, which provides states with federal funding to administer the existing subsidy system. Goldstein reports that at a dinner with Manchin shortly after making their donations, “the executives expressed their wish for federal child care funding to be included in the bill that became the Inflation Reduction Act but said it should be targeted toward lower-income families.”

This orientation is, again, not hidden. In its 2023 annual report to the SEC, Bright Horizons stated that:

National, state or local child care benefit programs comprised primarily of subsidies in the form of tax credits or other direct government financial aid to parents provide us opportunities for expansion in additional markets. However, a broad-based benefit with governmentally mandated or funded child care or preschool, could reduce the demand for early care services at our existing early education and child care centers due to the availability of lower cost care alternatives, or could place downward pressure on the tuition and fees we charge, which could adversely affect our revenues and results of operations.

The chains’ political activity at times goes beyond direct child care policy. Harper’s Magazine has noted that in 2009, when Bright Horizons was still owned by Bain Capital, “the company paid the union-busting law firm Jackson Lewis L.L.P. $10,000 to lobby Congress on the Employee Free Choice Act.”

In general, several chains have shown hostility toward unionization efforts. Both Bright Horizons and KinderCare cite unionization as a profit risk factor in their SEC filings, and in 2016 KinderCare notified the University of Southern California they would be shutting down an affiliated site on USC’s campus, one month after workers there voted to unionize amid alleged “deplorable working conditions.” KinderCare claimed the decision to shutter the site was unrelated. Similarly, in 2024 Guidepost Montessori chain—a chain with over 100 sites that is owned by Higher Ground Education, in turn backed by several venture capital firms—abruptly announced they were closing two sites in the Portland, Oregon area for multiple months. This action allegedly came on the heels of staff members at both sites voting to unionize, and the staff members have since filed complaints with the National Labor Relations Board.

If investor-backed chains are steadily gaining political power and helping shape the contours of child care policy, questions around what they see as an ideal system become paramount. In particular, who are the chains wanting to serve, and what does their continued growth imply for efforts to create a system that meets the needs of all families and the educators who care for young children?

Part IV: Who is Child Care For?

The Desirable Clientele

In 2018, the Justice Department reached settlements with both Learning Care Group and KinderCare over alleged violations of the Americans with Disabilities Act (ADA). As a result of an investigation, the Department asserted that Learning Care Group staff “refused to provide assistance with insulin administration (by pen or syringe) to children with Type I diabetes based on a corporate-wide policy requiring

such refusal.” The KinderCare settlement, which came out of the U.S. Attorney’s office in Connecticut, also focused on allegations related to accommodations for children with diabetes.

Similarly, in 2019 the Justice Department entered a settlement agreement over an alleged ADA violation with a child care chain owned by Spring Education Group (in turn owned by China-based private equity firm Primavera Capital Group). The complaint concerned a child with Down’s Syndrome, Maggie, who the center allegedly expelled when she was unable to meet toileting requirements, a consequence of the chain “refus[ing] to make reasonable modifications to its toileting policy for children with disabilities.” As part of the settlement, Spring agreed to announce a policy of reasonable accommodations for children with disabilities and pay a $30,000 civil penalty (via the settlement, Spring admitted no wrongdoing).

Such lawsuits fit a pattern of chains seemingly trying to cultivate a clientele that can pay their high prices with a minimum of hassle. They also implicate challenges around teacher turnover and training. Lauren Halpin, a former Bright Horizons director, recounted that some of the teachers in her center did not, in her professional opinion, have an adequate understanding of supporting children with special needs. These teachers preferred that children struggling with behavioral challenges be removed from the classroom. Halpin said she was limited in her ability to help because of the other corporate demands on her time.

Halpin’s experience is echoed by a current Primrose teacher. The teacher wrote in an email that, “I’ve asked for resources for students with emotional issues and because corporate doesn’t have set things for it, my requests have been pushed aside, dismissed, or forgotten about.” She added, “I had a student with some pretty severe behaviors — self-injurious and also injuring staff and students, mainly staff as we would keep that student away from others during moments of agitation. I called for help multiple times a day and would ask repeatedly for more assistance. I asked for anything and everything I could think of but the only assistance I was offered until I tried to quit was that they’d help me rearrange the room furniture.”

Beyond whether students have need of extra support, most of the large investor-backed chains—with one notable exception—naturally gravitate toward middle class and affluent families, showing little interest in serving lower- and moderate-income families. This strategy is not subtle: for example, The Learning Experience states plainly in its Franchise Disclosure Document that “our target market for each location is dual income, middle-class families or single parents who seek a quality child care facility…” The company will only develop sites in areas with a minimum $75,000 average household income (according to U.S. Census data, roughly half of American households make less than $75,000 a year). Similarly, as The New York Times reported:

The percentage of Bright Horizons students who qualify for government assistance is a “single digit,” according to Stephen Kramer, the chief executive. At Lightbridge Academy, about one-third of its 66 sites accept subsidized students, said Gigi Schweikert, the chief executive. And at those sites, subsidized students make up 20% or less of the center’s total population.

(Ross Brendel, co-founder of Westerly Group, one of two private equity firms which partnered to acquire Lightbridge in 2021, said in a 2022 interview that “we wanted to be on the premium end of the spectrum. It’s

just very much more healthy unit economics, a lot more tailwinds, and a lot more insulation from come-what-may from the government.")

Research on the five largest U.S. chains conducted by the think tank Capita (note: the author, though writing in an individual capacity, also holds a title as senior fellow at Capita and helped coordinate the cited research) revealed that across seven analyzed states, the median household income in census tracts surrounding Bright Horizons, Goddard, and Primrose sites exceeded $100,000. In all analyzed states, the median income surrounding chain sites substantially exceeded the state median income.

The major exception is KinderCare. While KinderCare also caters to an affluent clientele—one former director said that full-pay parents were seen as "gods"—the surrounding median income in the seven analyzed states was around $75,000, and the company also has a team of "subsidy coordinators" whose goal is to help eligible lower-income families acquire government subsidies. While government reimbursement rates tend to be significantly lower than full sticker price, these subsidies provide a steady source of revenue at scale, and many states have in recent years been increasing their reimbursement rates. As seen with the Build Back Better episode, more generous public funding for lower-income families could therefore change chains' calculations.

The other side of the budgetary equation, of course, is not about how much parents can pay, but how much staff are to be paid.

Educator Churn

Beyond basic health and safety, quality in child care settings is heavily determined by educator stability. Young children thrive on what researchers call "safe, stable, and nurturing" relationships. When there is high teacher turnover or teachers are experiencing acute stress, they are less able to provide the warm relationships children need. While the child care sector writ large struggles with high turnover, for-profit programs appear to put added stress and demands on their workforce.

A study from the U.S. Department of Health and Human Services found that, using 2019 data, franchise and chain programs showed the most "high turnover" (defined as more than 20% of the staff who work with children leaving over a 12-month period), with 47% of analyzed sites having high turnover. 45% of independent for-profit programs also had high turnover, while nonprofit and government programs were at 30% or below.

Working conditions seem to be part of the explanation. For instance, in 2023 the state of Massachusetts fined KinderCare over $540,000 for violating labor laws. A statement from the Massachusetts' Attorney General's office said their investigation:

[R]evealed that employees at KinderCare's Massachusetts locations were often unable to take meal breaks due to understaffing. Under Massachusetts law, employers must allow employees who are working a shift of more than 6 hours to take a 30-minute, uninterrupted meal break. Similarly, KinderCare was found to have violated wage laws by deducting breaks that were 20 minutes or less from employees' paychecks. These short breaks are considered compensable time and therefore must be paid.

In addition, individual center directors were found to have violated the Massachusetts Earned Sick Time law by restricting employees' ability to take paid sick leave or imposing extra barriers like doctor's notes.

(In response to the fine, KinderCare released a statement largely blaming state regulation, writing in part that "staffing in the state has unique challenges because it requires that we have a certified teacher in the classroom at all times." The statement also suggested that teachers can opt out of their meal breaks, although it goes on to note, "we had difficulty proving that teachers had voluntarily missed their meal breaks.")

Rebecca Gwilt, a mother in the Richmond, Virginia area, sent her son to a local KinderCare. She shared in an interview that one day when she went to pick up her son, one of his teachers pulled her aside. As Gwilt recalled, "She said, 'listen, we're treated really terribly here. They treat us awfully, and I can't take it anymore, and I'm quitting. And I want you to know I care a lot about your child, but I can't be here anymore.'"

Beyond working conditions, the chains' high fees and profitability do not seem to translate into substantially higher wages for employees (despite, as noted, the multi-million dollar packages for some chain executives). While large chains commonly offer health insurance and other fringe benefits many independent and nonprofit programs are unable to offer, their starting wages are not meaningfully different. For instance, as of 2024 in Colorado—where companies must post salaries on job descriptions by law—KinderCare teachers in cities like Colorado Springs start at $14.70, with lead (mentor) teachers at $17-$20 per hour. The state reports that average early educator pay in that area, inclusive of all teacher roles, is $17.41. Similarly, starting wage ranges for Primrose and Goddard teachers in Colorado are in line with surrounding county averages.

This mismatch between profit and pay has at times led to labor conflict. In 2023, staff at a Cadence Academy center (the company is owned by U.K.-based private equity firm Apax Partners) went on strike to protest low wages. The Olympian quoted Cadence educator Rose Bayer, who "said she earns $16 per hour, just 26 cents per hour more than Washington state's minimum wage of $15.74 per hour. When she was hired, she claims she was told the school raises tuition every six months so that those increases can be passed on to staff in the form of higher wages, but that hasn't happened." The staff also demanded adequate funding for classroom materials, which they said they had to pay for out of their own pockets.

Part V: Inconsistent Outcomes

What Research Says

It is difficult to draw broad conclusions about investor-backed chains without distinguishing what characteristics are more common to these chains versus independent or nonprofit programs. Any such conclusions are necessarily generalized: there is variation within all types of child care settings, just as experts like Brendan Ballou are clear there are better and worse actors among private equity firms.

Few research studies have been conducted in the U.S. around for-profit child care. What research exists does not make a distinction between investor-backed for-profit chains and those not backed by investors — although that distinction may be less relevant as the vast majority of large chains are now owned by private

equity firms. That said, international evidence is suggestive. Drawing on research from Australia, New Zealand, the U.K., the Netherlands, and the U.S., a team of researchers noted in 2023 that the totality of child care evidence "suggests quality is lower in for-profit services." (This evidence is not, however, ironclad: one recent study in the Netherlands concluded that while parent fees were higher in Dutch private equity-backed child care programs compared to non-profit programs, quality levels were more or less equivalent and focus groups found "the experiences of parents and staff differ little between the two types of ownership.")

The most significant U.S.-focused study was published in 2007 by researchers at Yale University, who analyzed data from a National Institute of Child Health and Human Development study. The team concluded that "significant group differences were consistently in the direction of higher quality care provided by nonprofit centers compared with for-profit centers." In all but one age group, wages were higher in nonprofit programs, and for toddler classrooms in particular, both child-to-adult ratios and teacher turnover were lower. Compared to not only non-profit programs, but also independent for-profit programs, for-profit chains came out worse on nearly every metric studied. The researchers conclude "the findings suggest that … for-profit chains were often lower in quality and never highest in quality (though occasionally were the same)."

That said, all U.S. chain programs—private equity-owned and otherwise—are licensed by the states in which they are located, some are accredited by national organizations, and many receive decent-to-high marks in their state quality rating systems. For instance, of the KinderCare sites listed in Illinois' "ExceleRate," rating database, 26 are rated "gold circle of quality," 9 are rated "silver circle of quality," and 63 are in the "licensed circle of quality," meaning they meet Illinois' licensing requirements but most staff have not taken state-approved trainings on additional quality improvement measures.

That variation nods to a feature of many investor-backed chains: their scale can be both a boon and a risk.

The Benefits of Scale

There are certain advantages to the size, scale, and business savvy investor-backed chains can bring to bear. Interviewees regularly praised the professional development that was made available. Nicole Allen has been in early care and education for nearly 25 years, including stints as a Primrose teacher and a KinderCare site director. Allen said her experience with Kindercare "was top notch," adding that, "I can't say enough about the professional development that I got from KinderCare."

In particular, Allen explained, KinderCare helped her learn how to sustainably operate a program in a financially difficult industry. She received training on "how to manage your ratios versus your enrollment, how to manage your food program money that comes in and the other additional dollars that you get from subscribing to whatever scholarship program or subsidy program that you receive in your center. They really do teach you how to see those line items and how to turn a profit."

Allen added that the training went beyond business practices, crediting "the professional development that you get on child development, curriculum implementation, really understanding teacher-child interactions."

Denise Hilbert concurs. Hilbert worked with Goddard Systems from 2007 until 2020, helping lead and perform quality assurance as well as helping to open new Goddard schools. She said that her experience was largely positive, as she had a chance to help sites with licensing and onboard new teachers before a new site opened, "showing them the Goddard ways, safe ways." That said, Hilbert added that when Goddard got a new CEO in 2019, the corporate culture began to shift. "Toward when I first started, it was all about the education. Toward when I was getting ready to leave, it was all about the money." For instance, Hilbert said there was an organizational restructuring that saw the vice president in charge of education have his influence diminished in favor of those more focused on the business bottom line.

What Hilbert lifts up appears to be a common tension between the pedagogical side and business side of corporate chains. In a 2024 blog post, Rachel Robertson, Bright Horizons' Chief Academic Officer, offered thoughts that many child development experts would agree with: "Early education is not, in fact, simply a preparatory stop on the way to real school, it *is* real learning. It is a time when the most brain development is happening, when the foundational architecture for all that comes next is forming and strengthening. It's the place where children discover who they are, how the world works, and what is possible. It should be full of joy and wonder and exuberant play; not desks in rows, worksheets, and cookie cutter crafts that squelch curiosity and imagination when they are at their very peaks … *We must insist on developmentally appropriate practices and ensure developmentally fundamental experiences*" (emphasis hers).

The former Bright Horizons director in California, who also did trainings across network sites, affirmed that, "there were some big advantages to corporate: having training resources available, having libraries of tools and things for teachers to refer to, funding for teachers to go do professional development or be part of national groups." The director noted, however, that the extent to which those assets were actually utilized was highly variable depending on the individual managers who were interfacing with sites. In some cases, she said, managers would work with sites on quality measures, while in other cases, managers would focus on budget savings. The director added that, "there are people [at the corporate office], and I've met them, and they're lovely, and they're very smart, who have a really good sense of quality. The way that that trickles down through the management structure, it gets completely lost."

Quality Failures

An assertion commonly made about corporate child care is that their standardization provides at least a floor of quality — the first aspect of which is health and safety. It is useful to look closely at KinderCare in this regard given their dominant size and history in the American child care sector. The argument goes back decades: the 1977 New York Times article about KinderCare noted that the company "aims to be safe and predictable — a common denominator that's appreciably higher than the lowest but not so high as to interfere with its own expansion." A KinderCare SEC filing from 2022 states plainly, "We hold sacred our responsibility to protect and nurture the children in our care." Nearly all chain companies have prominent statements about safety on their websites.

Yet in addition to the research findings that suggest quality in for-profit programs often tends to be lower, these promises have questionable empirical backing. An analysis of licensing violations reveals, as with quality ratings, enormous variation within a chains' sites. For example, in California, 86 KinderCare sites

have had zero “complaint” visits from state inspectors since 2018 (visits responding to a lodged complaint about the program, which can range from being out of compliance with ratio requirements to safety concerns). During the same period, 81 sites have had four or more complaint visits, and 16 of those have had eight or more, with one site in Solano alone receiving 17 complaint visits.

Moreover, while instances of child abuse and neglect can and do occur in every type of child care setting— and the simple math of corporate chains having many sites increases the probability — there have been many examples of terrible outcomes and quality failures in chain programs that should ostensibly prevent them.

For instance, in January 2024, the Wisconsin Department of Children and Families began the process of revoking the license of a KinderCare program in Schofield, Wisconsin. The local news station, WSAW-7, reported that:

[T]here have been dozens of violations and fines committed by KinderCare staff over the past few years, including three dozen in the span of a few months. Overall, the violations included a lack of attention given to kids, more kids to teachers than allowed by state requirements, unchecked behaviors from kids that could cause harm, unsanitary and hazardous conditions, and some staff who did not have background checks or who were not qualified to teach.

A former staff member who spoke with 7 Investigates but who did not want to be named to protect her children due to them being mentioned in some of the violations, said she would report issues to center leadership, but those issues would not be addressed. She said she began talking with the state the first week she started working there.

She said she was caring for the kids by herself with as many as 13 kids above the age of 2, beyond the state’s ratio requirement of at most eight kids per one teacher.

“With the amount of behaviors some of these children have, I’m not able to give myself to the other children who also need my attention,” she said. “I felt like I was lying to the parents (in reference to providing quality care).”

(In a letter to families, the KinderCare director and its district leader stated that they will appeal the revocation and that, in part, “we believe this decision places unnecessary stress on our families … We work closely with state officials to investigate concerns as they arise. In the past few years we’ve trained our teachers and staff on a variety of teaching skills, best practices, and their responsibilities as caregivers.”)

Reports like these are not, however, limited to KinderCare. For example, in 2022, the Colorado Department of Early Childhood suspended the license of a Primrose franchise. State inspectors documented that staff members “restrained children by placing their legs over them at nap time,” that “twice, staff members were sleeping when they were supposed to be supervising children,” and that the director did not report allegations of abuse and neglect to the proper authorities. (Primrose said in a statement at the time, in part, “The health, safety and well-being of the children entrusted to our care is at the very core of our brand promise at Primrose Schools … Upon learning of the situation, we immediately launched an internal

investigation and terminated the franchise agreement. We are deeply saddened by the stress this closure is causing the children and families who attended the school.")

Even some smaller chains have such experiences. Big Blue Marble Academy (BBMA) operates 67 programs primarily in the Southeast. It had been owned by private equity firm Avathon Capital since 2018 and was sold in early 2024 to another private equity company, Leeds Capital. In 2023, dozens of parents at a BBMA site in Daphne, Alabama filed a civil lawsuit alleging widespread abuse and neglect.

Among other allegations, the lawsuit claims BBMA staff members "improperly punished plaintiffs and other children, including but not limited to: unauthorized use of corporal punishment; withholding food; locking children in [sic] unattended in rooms including the bathroom as punishment; refusing nap time as punishment; physical abuse; verbal abuse; shaking; pinching; and pushing." (BBMA denies the allegations, saying in a statement at the time that "State licensing has concluded its investigation into each of the claims, which were ultimately dismissed as unfounded. Additionally, Big Blue Marble Academy in Daphne has had a series of satisfactory licensing visits and is not currently under investigation for any licensing violations.") Also in 2023, the former director of a BBMA site in South Carolina was arrested for allegedly forging the results of legally-mandated employee background checks while running the program.

At times, these quality failures can result in the worst case scenario. In February 2024, Cadence Education settled a wrongful death lawsuit for $16 million nearly three years after a five-month-old, Cash, died at a South Carolina site. Per the lawsuit, the death allegedly occurred after Cash was placed down to sleep in an unsafe position and then left unattended for 30 minutes. (In a statement to the Rock Hill Herald following the settlement, Cadence stated in part: "The health, safety and well being of all of the children in our care is our highest priority," and, "In June 2021, an infant at our school had an isolated, emergency health situation. Our teachers and staff reacted immediately, performing CPR and calling emergency services. Our hearts remain with the parents and loved ones of the infant, and everyone who was impacted by this tragedy.")

Part VI: The Policy Response

With all of these facets in view, several possible futures emerge as the United States and peer nations wrestle with the growing influence of investor-backed child care chains. One such future involves the chains' unchecked growth as more public money becomes available: a situation where, as former adviser to the U.K. Department for Education Sam Freedman said to the Financial Times, "We're putting a lot of state money into the sector and they're taking a lot of money out." Verna Esposito, the former chain employee and current owner of Little Friends, an independent center in Connecticut, worries about what such a future means for the children whose families will be left out of such a system. "If this is allowed to happen—if private equity becomes the national model—we're in big trouble," she said. "Children are going to be in unlicensed care. Children are going to be isolated. Children are going to be missing out on the many, many benefits of high-quality early care and education."

Elizbaeth Leiwant, of Neighborhood Villages, agrees. She said that, "as we talk about the future of early care and education, we really need to be thinking about what does a quality and sustainable sector look like, and what are we allowing to happen in early education that we wouldn't stand for in K-12?"

Ownership Transitions

Issues of ownership transition loom large when considering potential future scenarios. Chains frequently grow via acquisitions of existing programs, although there are some exceptions (The Learning Experience, for instance, relies heavily on newly built sites). As the owners of independent programs look to sell, either because they are reaching retirement age or otherwise wish to move on, they face few viable options beside selling to a chain. There are, generally speaking, no public options for acquiring programs, and very few U.S. programs go through the process of converting to a worker- or parent-owned co-op model.

Chains know this. For instance, the private equity-backed company Premier Early Childhood Education Partners has sent unsolicited letters to Wisconsin centers offering to start a conversation about acquisition. One such letter, provided by a program owner, comes from Premier's chief development officer. It starts with "Have you ever considered how you might transition your business to a new owner?" and goes on to offer, "My best advice to all owners of businesses is to consider what their transition could look like well before actually wanting to wrap things up as the process will take time."

Similarly, on an earnings call in February 2024, Bright Horizons CEO Stephen Kramer nodded to the idea that the expiration of pandemic-era stabilization funds could lead to more acquisition opportunities due to the fragmented nature of the sector. "Competitors, specifically in our industry, tend to be individual owner-operators. They are very vocationally minded and they ultimately will focus on families. They'll focus on their teachers and may do things that are uneconomic for some period of time," Kramer said, adding that such programs may now be struggling as finances tighten. He went on to note, "There are isolated examples where owner-operators are turning in the keys or deciding to be acquired. But I think at this point, it's still very early in that process, and we expect the effects to unfold over the next 12 to 18 months."

In practice, acquisitions can look like what happened with AppleTree & Gilden Woods, an independent Michigan-based child care chain with 24 sites across the state. In 2022, AppleTree & Gilden Woods was sold to Learning Care Group. In explaining the decision to sell, owner and president Bridgett VanDerHoff said to *Crain's Grand Rapids Business*, "To be able to do this acquisition, it was about finding somebody that had the wherewithal." VanDerHoff went on to say she was confident that Learning Care Group would keep her chain growing and profitable. Although terms of the sale were not made public, an attorney for AppleTree & Gilden Woods said, "it was a very meaningful transaction for its owners."

Erecting Guardrails

Ownership transitions aside, governments have a menu of potential policy responses at their disposal. In 2021, as Build Back Better seemed poised to uncork major public funding for child care, a group of organizations, including the Center for the Study of Child Care Employment and the Service Employees International Union (SEIU), released a brief entitled "Action to Preempt the Financialization of the Early Childhood Sector." The brief suggested several principles: prioritizing public child care funding toward public, nonprofit, and/or small business entities; requiring state agencies to boost the infrastructure supporting such programs; and attaching conditions to the funding "that promote equity, transparency, and accountability."

Such conditions, the brief contends, might include limits on executive compensation, prohibiting the use of public funds for dividends or other financial maneuvers that enrich investors, requiring public reporting of how taxpayer funds are being used, establishing living wage floors for employees, reducing fees for parents, and so on. The brief notes conditions like those have precedent, for instance around restrictions for airlines receiving pandemic-era CARES Act funding.

There are domestic and international examples of what guardrails can look like in practice. As previously mentioned, Massachusetts currently has the most robust proposed policies against excessive profit-seeking. Additionally, in 2023, Vermont passed Act 76, a significant piece of child care legislation that included more than $120 million a year in permanent funding fueled largely by a small payroll tax. Working amid media coverage around Little Sprouts—the French private equity-owned chain—hiking their fees, Vermont legislators added a requirement that programs receiving public money publicly disclose their tuition and all of their owners and affiliates.

More consequentially, the law states programs may not increase their tuition by more than 1.5 times the national average increase in child care wages. Functionally, that means that for the first year of the law's implementation, programs were capped at a 7.2% fee increase. (Leaders from Vermont's Department for Children and Families report many providers of all types have raised concerns about the fee caps because of the timing in which they take effect compared to when the new state money starts flowing, suggesting the importance of how policy guardrails are designed on a technical level.)

Similarly, New Jersey allows for-profit centers to be part of its state-funded preschool system, but imposes significant budgetary requirements. To participate, for example, programs must adhere to educator compensation standards in line with school district salary bands. They may not do a sale-leaseback deal that results in the program owing more in rent than they previously spent when owning the property. Profit is restricted to no more than 2.5% of the total allowable program costs paid by the state. Likely as a result, the major corporate chains have chosen not to participate in New Jersey's preschool system.

Other nations are also beginning to act. Canadian provinces are taking various steps to curb undue profit-seeking as the country rolls out their nationwide "$10 a Day" child care system. Martha Friendly, executive director of Canada's Childcare Resource and Research Unit, explained in an interview that per the Canadian federal government's budget which outlayed billions of dollars for child care expansion and fee reductions, expansion was to be led by "primarily public and nonprofit" providers.

Provinces have interpreted this guideline differently. British Columbia requires that funding prioritize nonprofit, public, and Indigenous programs as well as family child care businesses. Alberta, a more conservative-leaning province, is more permissive of for-profit programs but has prohibitions on using public money to pay dividends back to investors, and has adopted a "Cost Control Framework and For-Profit Expansion Plan." Perhaps most importantly, Friendly said, are provinces that are using public funds to adopt fixed parent fees while working toward implementing wage grids for child care educators. Doing so moves the system "away from the market, essentially, and then the possibility of making profits starts to shrink."

There are also guardrail options that go beyond the child care sector itself. Recommendations which Brendan Ballou makes that could impact the child care sector include having the Department of Justice aid efforts to end liability shields that protect private equity firms from the consequences of their owned companies' actions; having the Securities and Exchange Commission bulk up mandatory financial disclosures; and having the Treasury Department designate the largest private equity firms as "systemically important," which adds new reporting requirements and oversight. Ballou contends Congressional action should also be on the table, such as the Stop Wall Street Looting Act, which would substantially reform multiple dimensions of private equity.

Whatever action policymakers do—or do not—take, investor-backed child care chains will be a defining influence in the coming years. Reckoning with that influence will have enormous implications for children, parents, educators, government, and the child care sector writ large. These issues go to the heart of how child care is positioned in society, and to an overarching question: how comfortable is America with having, as one former KinderCare director put it, "commodified children."

Note: The following organizations either declined to comment/be interviewed or did not respond to multiple requests for comment/interviews: Partners Group, Apax Partners, Sycamore Partners, PSP Investments, American Securities, Providence Equity Partners, Golden Gate Capital, Primavera Capital Group, Roark Capital, Glencoe Capital, KinderCare, Learning Care Group, Bright Horizons, Primrose, Goddard Systems, Cadence Education, Child Development Schools, The Learning Experience.

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