



Australian Childcare Alliance

Creating Value in Child Care Centres

Chris Geers – Director

MMJ Real Estate (WA) Pty Ltd

Office: (08) 9325 5880

Email: chris.geers@mmj.com.au

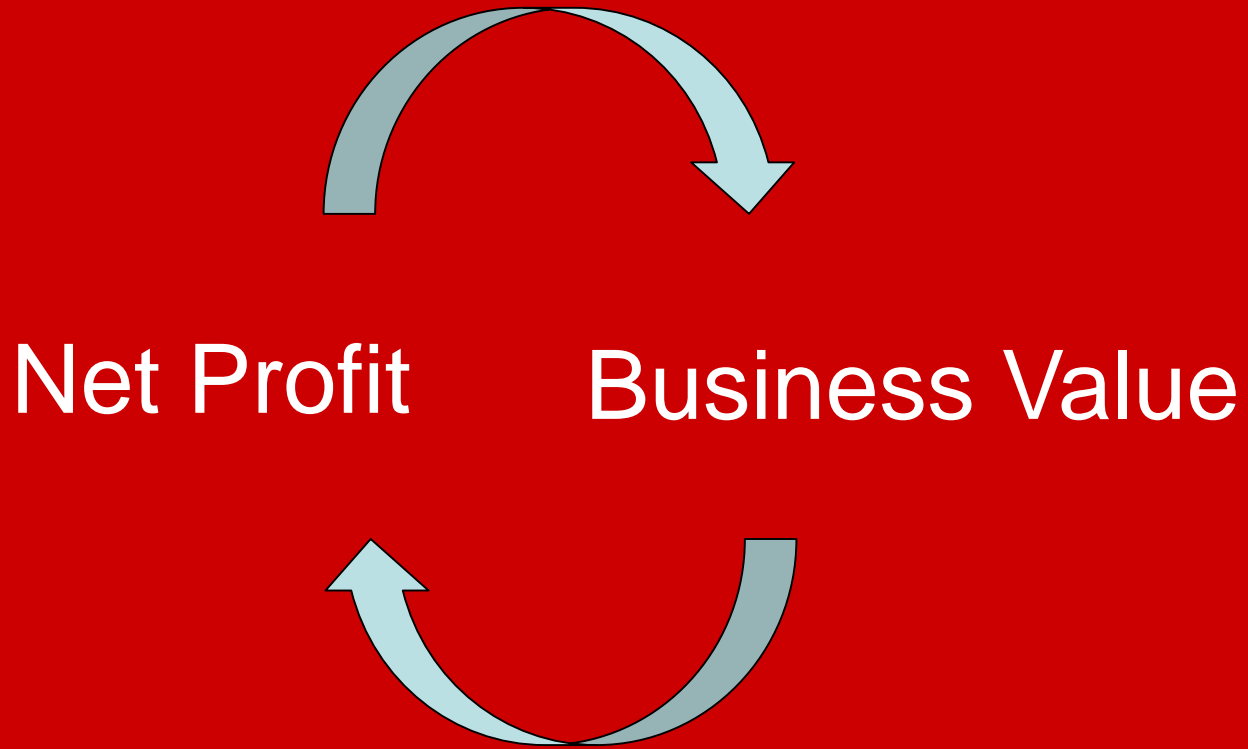
} Who Are We and Who Am I?

- MMJ are a full service Commercial Real Estate firm
- Locally owned and operated
- Licensed Valuer (CPV, AAPI)
- Specialist Child Care Valuer
- BankWest Panel Expert
- Licensed Real Estate Agent



Bluebird CCC, Busselton

} Creating Value in Child Care



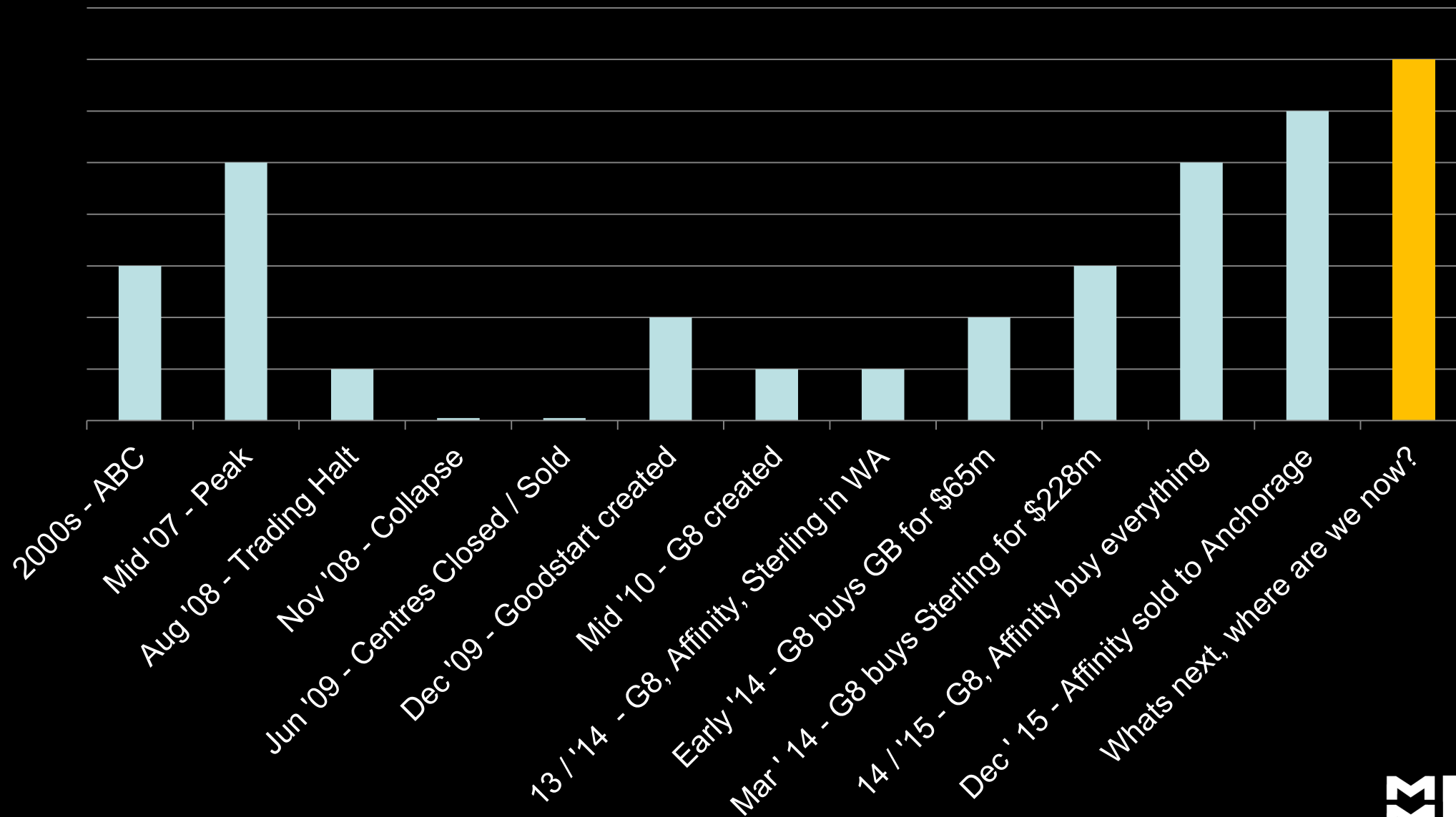
} Topics for Discussion

- State of the Child Care Market in WA
- How are business valued?
- Net Operating Profit, its importance
- What do Buyers look for?
- What can Sellers do?
- Creating Value – Traps



Care for Kids, Morley

State of the WA Market – History



State of the WA Market – Current

- 2013 – 2015 saw the re-emergence of listed child care operators & a number of privately owned groups, both aggressively seek market share
- Lead by G8 Education and Affinity Education Group
- More recently Affinity Education Group purchased by Anchorage Capital Partners
- Multiples have increased from:
2.75 – 3.50 → 4.00 – 5.00 times earnings
- Rents have increased by:
20% to 50% over the past few years
- Significant increases to Daily Fee charges
- Shortage of purchasing opportunities exists



Great Beginnings, Parmelia



Goodstart ELC, Albany

Who is gone? Who is left?

- Great Beginnings
- Buggles
- Jacarandah
- Jellybeans
- Kids Inn
- Huggy Bear



FREEHOLD CHILD CARE – SALE SNAPSHOT



Little Peoples Retreat
Swan View
\$935,000
48 places
7.40%
\$19,479/place
Sold April 2016



Great Beginnings CCC
Dawesville
\$1,520,000
94 places
8.32%
\$16,170/place
June 2013



How are Businesses Valued

- NET PROFIT
- NET PROFIT
- NET PROFIT
- Generally a multiple of NOP
- Based on comparable sales
- \$/child is a secondary, check method
- License / Service Approval
- Lease, terms and conditions and length





Business Valuations

- Gross Turnover
 - Profit and Loss Statement – 3 years
 - Weekly Fen Gen Reports
 - Occupancy Reports per Age Group
 - Daily & Weekly Fees
- Wages
 - Staff wage list
 - Owner involvement?
 - Run under management?



Bluebird CCC, Busselton



Business Valuations

- Other Costs
 - All expenses excl rent and wages
- Building Rent
 - Rent statement
- Addbacks
 - Any personal expenses
 - Expenses not related to business



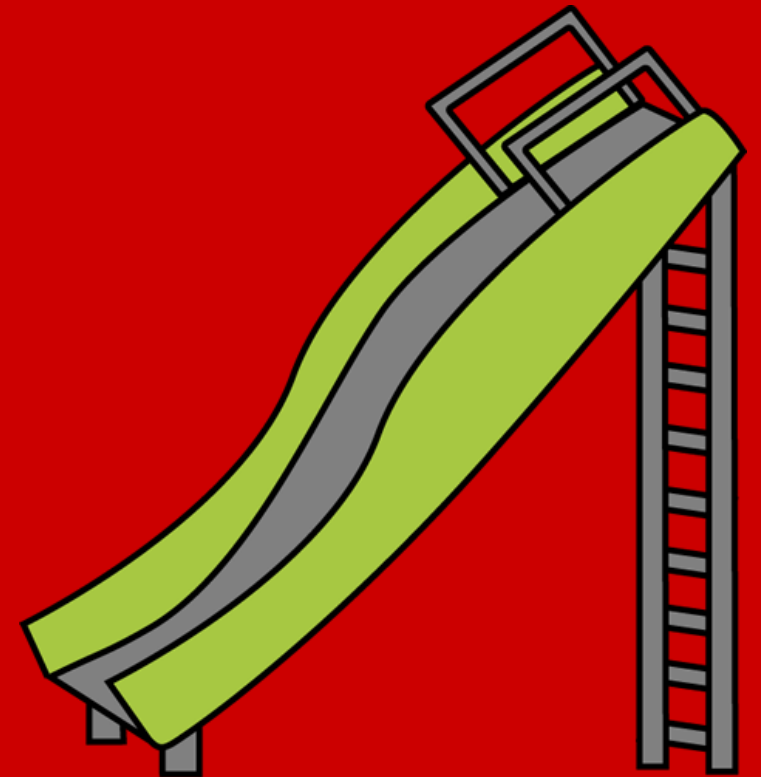
Bluebird CCC, Busselton



Business Valuation – Multipliers

- Demand
- Existing and historical performance
- High Net Profit?
- Location
- The buyer
- Value of the business itself

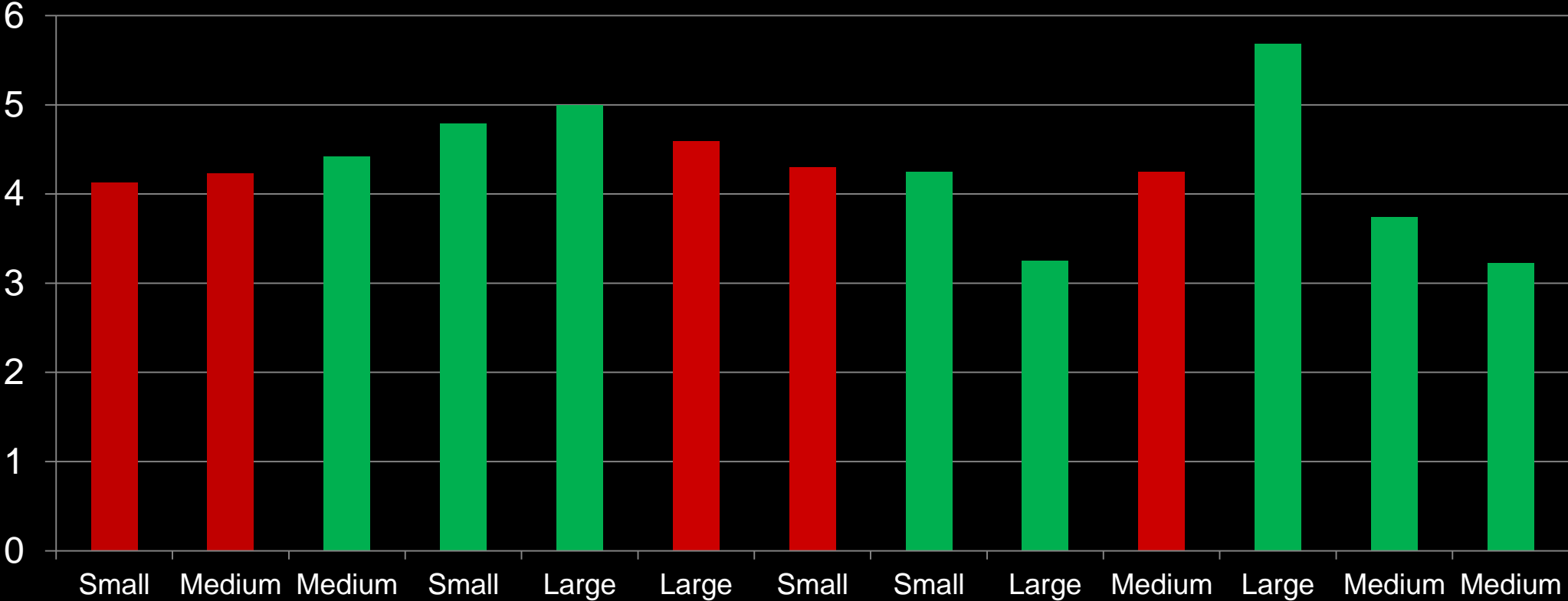
Good Business?



Poor Business?



Business Valuation – Multipliers



Small Business - <40 places
Medium Business – between 40 and 71 places
Large Business - >72 places

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Northern Suburbs CCC
Circa \$3.135m
84 places
5.00 times earnings
\$37,337/place
Sold 2015

LEASEHOLD CHILD CARE – SALE SNAPSHOT



Pearsall CCC
\$1.15m
71 places
3.65 times earnings
\$16,197/place
June 2013



Net Profit – Components

- Gross Turnover
 - Daily and weekly fees
 - Occupancy
 - LDC & OSHC / Vac Care
- Wages
 - Traditionally 50% - 60% of GT incl supa
 - Definitely increasing as a result of legislation
- Other Costs
 - All costs except rent and wages
 - 11% - 15% of Gross Turnover



Kids Inn, Forrestfield



Net Profit – Components

- Rent
 - Two tier market exists – purpose built vs converted
 - Increased between 20% - 50% last 24 months
 - Continue to increase
 - Still well below east coast
 - \$1,200 - \$1,500 per child for secondary centres
 - \$1,700 - \$2,000 per child for prime, modern centres
- Net Profit
 - Generally in the range of 10% - 20% of GT



Wagin Huggle Bears

} What do Buyers Look For?

- Profit and Loss Statements – individual not grouped
- Limited or common ‘add backs’ only
ie Depreciation and Interest
- Trading History
- Location of centre
- Competition
- Service offering and presentation
- Lease – particularly important for the Bank
- Good relationship with your Landlord or Agent if possible

**TOP PERFORMERS
PROVIDING A
DIVERSE RANGE OF
REAL ESTATE SOLUTIONS**

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South of the River
\$390,000
32 places
4.13 times earnings
\$12,188/place
January 2016
55% occupancy at sale

LEASEHOLD CHILD CARE – SALE SNAPSHOT



Clarkson CCC
\$220,000
32 places
3.25 times earnings
\$6,875/place
November 2010
90% occupancy at sale



What Can Sellers Do?

- Maximise Gross Turnover
- Fees at market levels
- Limited add backs
- Good, long term lease
- Minimise staffing cost
- Have all relevant tax, accounting advice in advance
- Be patient!!

**TOP PERFORMERS
PROVIDING A
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} Creating Value



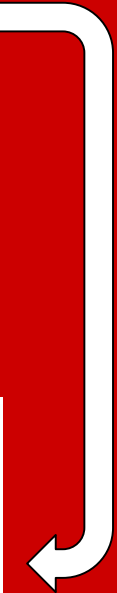
Revenue



Quality of Care



Reputation



Staff



Control what you can



NOP



Enjoyment / Success

} Creating Value – Traps

- Purchasing Existing Business
 - Undertake extensive DD – Accountant and Valuer
 - Verify occupancy and GT remain at expected level
 - Examine lease and any other documentation closely
 - Confirm current building rental
 - Quality of existing P + E
 - Staff
 - Talk to current industry participants



Little Fish's ELC, Yanchep

} Creating Value – The Traps

- Start Up
 - Realistic and market oriented cash flow projections
 - Research competition particularly potential new competition
 - Examine lease and any other documentation closely
 - Building rental
 - If landlord supplying P + E what? Who replaces etc
 - Staff



Addison Park, Merriwa



OUR REACH

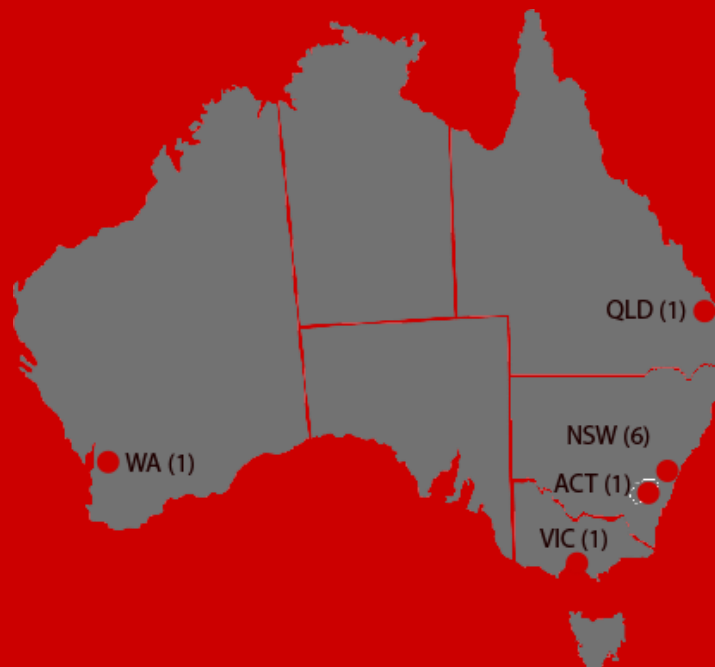
MMJ Real Estate provides services across WA, NSW, QLD, Victoria & the ACT, however, our client reach extends to the nation and the world.

We have the technology and systems in place to market to our local communities, the nation and the world.

You don't have to go to the big guys and pay double to get international exposure.

With technology rapidly advancing, staying in touch with the wider market is easier and more efficient than ever.

MMJ continually updates its systems and procedures to stay abreast of the latest trends and methods of advertising and marketing.



**WORLD CLASS
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KNOWLEDGE &
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