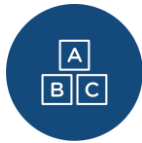


Summary Sector Report

Nurseries Industry





Nurseries Industry

Overview of the Market

In the UK, the pre-primary education industry is estimated to be worth approximately £3.6bn with a strong level of forecasted growth at a compound annual rate of 0.5% from 2018 to 2023. High employment levels and growth in the number of children aged 10 and below has resulted in increased demand for child care services. However, this is expected to slow slightly as inflation rates have outstripped wage growth.

The workforce participation rate of women with dependent children affects demand for childcare services. The traditional model of father as sole earner has gradually given way to the modern dual-income family. Parents that work full-time require more hours of childcare and favour providers that offer flexible services.

The government has pledged to increase schemes to subsidise childcare, this is expected to increase demand over the next five years with the amount of free child care set to double from 15 hours a week to 30. However, research conducted by the National Day Nurseries Association has suggested that the initiative is likely to be underfunded, which is likely to result in problems for many industry operators.

Nurseries are also expected to face increasing competition from child day-care centres, which may be required to up their educational standards. The UK's decision to leave the European Union may also have a significant impact on the above forecasts.



Nurseries in September 2018

A profitability analysis on the sector from a pool of 992 leading UK-based Day Nurseries revealed the following points:

- 374 companies in the industry increased in value over the last year, 187 of these increased by more than 25%
- 388 companies decreased in value, 179 of these decreased by more than 25%
- The most profitable 449 companies made an average profit margin of 8.4%
- The least profitable 543 companies made an average profit margin of -0.1%; the industry average was 2.6%

Based on the Plimsoll company performance matrix, a total of 393 companies were given the highest available rating of 'Strong' whereas there was almost the same amount, 348, that received the lowest rating, 'Danger'. Companies were also rated on their 'takeover attractiveness' and despite the large number of companies being in danger, there were 147 companies that were highlighted as highly attractive takeover prospects with a further 766 companies that are worth considering.

The competitive landscape in the childcare industry is highly fragmented, with no company generating more than 5% of total industry revenue. As a result, this represents an opportunity for market consolidation and for larger nursery chains to acquire smaller counterparts.

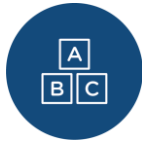
Market Share

The two major players in the market are as follows:

- Bright Horizons Family Solutions: Estimated 5.0%
- Busy Bees Day Nurseries: Estimated 0.9%

Source

IBISWorld (February 2018)
Plimsoll (September 2018)



Nurseries Industry

M&A Activity in the Sector

Statistics indicate a total of 162 significant deals in the Children's Day Nursery Industry from January 2011 to September 2018. Typically, only deals over £500k are registered including MBIs, MBOs and secondary MBOs.

There was a total of 154 acquisitions and two mergers as nursery chains look to expand by acquiring smaller competitors, increasing their turnover and reducing shared overheads. In addition, there were six investments that occurred, with large PE firms backing several large chains as they see value in the increasing demand and steady profits of the industry. The data suggests that market consolidation has occurred, with many businesses opting to choose a buy & build strategy.

M&A volumes averaged 9.5 deals per annum between 2011-2014, jumping to an average of 31 deals per annum in the most recent four years. The nine months to date 2018 has already surpassed 2017 levels with 37 deals compared to 34.

A geographical breakdown of these deals show that the North West has benefitted from 42 deals, the most in the UK. This was followed closely by the South East (excl. London) with 33 deals. The rest of the deals were spread relatively consistently across the other regions.

Source

MarketIQ - SIC-Codes '8891 - Child day-care activities' and '8510 - Pre-primary education', September 2018.

Industry Benchmarking Information - September 2018

Hallidays' client base consists of small to lower mid-market enterprises. Our benchmarking analysis reflects businesses with turnover below £10m, in line with the majority of our clients in this sector.

Nurseries Benchmarking Data	Mean	Median	Lower Quartile	Upper Quartile
Turnover Growth/Decline (%)	7.61	5.60	-13.33	18.89
EBIT Margin (%)	9.33	12.49	0.94	24.49
EBIT Growth/Decline (%)	7.31	5.81	-33.50	88.83
EBITDA Margin (%)	13.45	16.18	2.92	27.26
EBITDA Growth/Decline (%)	12.29	7.60	-25.00	63.57
Total Net Assets Growth/Decline (%)	7.87	8.70	-9.75	38.26
Current Ratio	3.39	1.00	0.45	1.94
Acid Test	3.37	1.00	0.45	1.94

Nurseries Benchmarking

Using full company accounts filed in the last two years under the SIC-Codes '8891 - Child day-care activities' and '8510 - Pre-primary education', Excluding companies with nil turnover in either period, we have summarised key benchmarking information for businesses under £10m turnover in the table above. September 2018.



Funding

Do you know all of the funding solutions available to help you grow your business?

There is a wide range of funding solutions available to you, many of which you may not have heard of, or even considered which we can help you with. It might be worth asking yourself...

Are you keen to find funding to support your innovative plans?
Do you have funding, but you're not sure if it's the right type?

As a registered credit broker, we can answer all of these questions and make accessing funding simple and straightforward. So, if you need a better facility for working capital, or if you're looking for a larger chunk of cash for investing in machinery, marketing or a new product line, then let us know.

Our collaborations with high street banks, Funding Circle, Funding Options and numerous other funders can help you find the funding you need.

If you wish to enquire further about funding, please contact:

Michael Berger - Corporate Finance Manager - michaelb@hallidays.co.uk - 0161 476 8276

Cashflow or Asset Finance

As a Funding Circle Introducer and with our network of funders, we can provide cashflow loans, where this is the right type of finance for your business.

Growth Funds, Venture Capital & Private Equity

If you have a high growth or innovative business, we can help you to secure the right equity and debt investment to reach the next stage in your business' evolution.

Stockport Business Angels

We are the Stockport Business Angels (affiliate of NWBA) and link businesses with the right collaboration and funding from business angels investors.

Invoice Finance (discounting/factoring) / Construction / Trade Finance

Invoice finance is becoming a more attractive option to a bank overdraft, this can ease cash flow, whilst providing a flexible facility.

Funding Success Stories

Hallidays has had a number of successes when it comes to obtaining growth funding for our clients:

- **ABN Amro Bank** £100k invoice finance facility (IFF) - To improve working capital for a seasonal company.
- **Aldermore Bank** £150k IIF - For a creative design studio requiring cash to expand.
- **RBS Invoice Finance** £100k IFF - For an engineering company to purchase bespoke machinery enabling them to fulfil a contract.
- **Lombard** £130k asset finance - For fittings and electronic equipment in a hospitality business.
- **FW Capital** - Growth funding of between £100k-£750k for multiple clients.



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