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Day Care Centers/Children

SIC: 8351**NAICS:** 624410**Number of Businesses / Units:** 76,750

This industry comprises establishments primarily engaged in providing day care of infants or children. These establishments generally care for preschool children, but may care for older children when they are not in school and may also offer prekindergarten educational programs.

Rules of Thumb

40 to 45 percent of annual sales including inventory

2.5 to 3.5 times SDE

2.5 to 3 times EBIT

3 to 4 times EBITDA

2 times SDE includes inventory. Most childcare centers are acquired with the real estate. The 2 multiple of SDE is after the debt service required to buy the real estate.

Depending on the size of the facility (licensed capacity), location, and demographics of the area, the rule of thumb is:

Center Size	Multiple
<40	1 to times SDE
40 to 85	2 to 3 times (depending on expansion possibilities) SDE
100+	3 to 4 times SDE

"Pricing ranges from 1.5 to 4 times EBITDA depending upon the size (licensed) of the facility. The larger the facility, generally the higher the multiple."

Two times cash flow for smaller centers (licensed for under 75)
Up to four times cash flow for larger centers (licensed for 100 +)

General Information

"First, the childcare industry is strong and important to the employment picture in areas where it is provided. In the adult-education business, it is important to have a trained work force."

Pricing Tips

"Based on gross sale, is 2 to 3 times sales. Based on lic. capacity, it runs \$10,000 to \$14,000 per child."

"Size matters. Licensed capacity less than 75 expect a 2 1/2 to 3 times EBITDA, over 100 expect a 4 +/- EBITDA multiple."

"The larger the business, the higher the multiple of earnings. A 4X multiple is the maximum for a large center (licensed for 100+). Smaller businesses, depending upon how well they are maintained, can achieve 2.5 times SDCF."

"Price is a direct effect of Cash Flow. The amount the business provides the seller needs to cover debit service and provide a return to the buyer. Banks looks for a debit service ratio of 1.25 to 1.50. Price is also determined by the number of students and the income they provide to the school. An example childcare centers sell from \$10,000 per child (license Cap) to as low as \$6000 pre child. Price is also sometimes 2 times gross income."

"Attractors are good location, attractive and efficient facilities, low or fixed rent, high current enrollment, high historic enrollment, low staff turnover rate, very good reputation, many years in service, several program types, higher proportion of education to daycare services. Detractors are the opposite."

"Much of the value of a child care center is based upon number of children enrolled, gross revenues, net operating income and what percent of revenues are subsidized by the state."

"Multiples of EBITDA vary depending upon the size of the operation and depth of management. The larger the operation, the higher the multiple. Smaller operations will sell for over 2 times EBITDA, while larger operations with competent management will sell for in the 3 to 4 times EBITDA range. Reconstructed EBITDA should include adjustments to FMV for arms length transactions (salaries, rent, etc.)."

"There is need for both 'mom & pop' operations as well as larger 'institutional' type businesses. Each can serve their own niche and be literally right next door to one another. A good, clean, quality service provider can be profitable in almost any competitive environment."

"Striking the right balance between quality and profit is critical to long-term success. Many parents will place cost as a secondary consideration to quality and reputation."

"Average daily attendance"

"Check out licensing authority for complaints against the business. Understand frequency of rate increases. (Rate increases should be annual if only a couple of dollars.) Look at staff longevity to understand the caring nature of the business, which is critical to the reputation of the business."

"Check to see if state-subsidized."

"People look for unique program structure and location which they deem desirable (which vary by buyer). As birth rates stabilize and decline, program will be what keeps the progressive centers open and thriving in the future."

"Salaries as a percentage of revenues should be between 40 to 45 percent of gross revenue. If they are less than 40 percent, it could indicate the facility is exceeding staff-to-child ratios as established by the state. 45 to 48 percent indicates the current owner is not effectively managing staff, or has too many part-timers, (or the facility is older and does not optimize child-to-staff ratios) which a new owner may be able to improve, and therefore, add a little to the price...buyers don't care as much what type of community it is in, as long as the center has a good reputation and earnings."

"Expected profit should be \$1,000 per licensed child per year, or 20 percent return on investment. Monthly rental and length of lease or value of real property if included in sale are important factors."

"If the facility was built for day care— rather than converted from another use—it will bring a higher price. As always (+ -) depending on profitability."

Early Childhood Education for All

"And, early education is itself a significant industry, providing millions of jobs nationwide, paying billions of dollars in wages, purchasing billions in goods and services, and generating billions in gross receipts. In many states, it is often one of the largest employers and producers of revenues.

- ▶ In Massachusetts, it employs more people than telecommunications, computer manufacturing, or pharmaceuticals;
- ▶ In New York, more than hotels and lodging, air transportation, and public transportation;
- ▶ In Washington state, more than in agriculture, and
- ▶ In North Carolina, it produces more gross receipts than wholesale leaf tobacco.
"Yet while virtually every state has maintained economic development funding at high levels in order to aid job growth, state after state has made cutbacks in child care and early education."
Source: "Early Childhood for All," www.familyinitiative.org

Expert Ratings

▶ Competition	2	(1=Lot of : 4= Not Much)
▶ Amount of Risk	2.2	(1=Very : 4= Not Much)
▶ Historical Profit Trend	2.8	(1=Down : 4= Up)
▶ Location & Facilities	2.6	(1=Poor : 4= Excellent)
▶ Marketability	2.8	(1=Low : 4= High)
▶ Industry Trend	2.2	(1=Declining : 4= Growing)
▶ Ease of Replication	2	(1=Easy : 4= Difficult)

Benchmarks

"Labor expense of 35% to 45% is good."

"Payroll per child is dictated by state agency, based upon age group. Younger children require more staff than older children."

"10% net operating profit"

"Enrollment numbers, employee loyalty"

"According to NACCRRRA, California has the most child care centers, with 10,143, followed by Texas with 8,900. North Dakota has the fewest with only 131. Massachusetts leads the pack in the price of child care with an annual price of \$14,647 for Infant-Toddler and \$10,668 for Preschool age. However, in fairness, Massachusetts leads all states in the percent of centers that are accredited -- 53.18%. Louisiana is the lowest at \$4,387 for Infant-Toddler and Mississippi in the preschool-age segment at \$3,794."

Source: National Association of Child Care Resource & Referral Agencies, Revised July 2007. This is a very informative site and the information for all of the states is on it, along with a lot of other statistics. www.naccrrra.org

"2 time gross income. A range of \$12,000 to 6,000 per license cap. (Child Care) Average Gross Income Multiplier 1.40. Median Gross Income Multiplier is 1.05. Average Cash Flow Multiplier is 4.70. Median Cash Flow is 3.45. This is based on sales for the last 10 years."

"In order to make a reasonable owner operator income, in most states, a center will need to have a licensure and enrollment of 75 children or more. Additionally, most the regional and national chains will not consider a center with less than a 125 enrollment/licensure and would prefer more than 200."

"EBITDA should range from \$1,000 to \$2,000 per licensed child, providing owner operates a compliant business. Salaries below 40 percent of sales should be investigated to ascertain the operation is [being] legally operated. Salaries above 45 percent of sales could indicate (a) inefficiency in the physical facility layout, (b) too many employees, or (c) lots of long-term employees (some turnover of staff is expected in the industry, and can actually help the earnings of the business)."

"Signs of a bad day care center:

"A so-so reputation—If other parents aren't thrilled with the center, it's best to keep looking.

"Loose rules—If a home daycare doesn't have rules and organization, it's not likely to be right for you. Keep looking.

"A curriculum in hiding—Your child needs age-appropriate activities to encourage his development. If the center doesn't offer them, move on.

"An unqualified staff—If a center is understaffed, it's not for you. The National Association for the Education of Children (NAEYC) has set these guidelines:

'For babies, the ratio is one caregiver for every three children if a group has six infants, one for every four if a group has eight babies.

'For toddlers (12 to 24 months), the ratio is 1:3 for six children, 1:4 for eight children or kids, and 1:4 for children.

'For children between 24 and 36 months, the ratio should be 1:4 for a group of eight, 1.5 for a group of ten, and 1:6 for a group of 12.'

"When you tour the facility, watch carefully to see whether babies are tended to quickly or if the staff, overworked and overwhelmed, lets them wait.

"An under-compensated staff—If the staff's training isn't up to snuff, they seem overworked, or they don't stick around very long, the center isn't for you.

Expert Comments

"Depending upon growth rate of young population base, the better the curriculum the more difficult the business is to replicate."

"Risk is increasing due to over-competition in some markets, high entry cost due to real estate cost and regulations."

"Although some child care business can be 'relatively easily' duplicated (with know-how), the better programs are tough to duplicate the educational curriculum and track record (if they have been around for 20+ years)."

"It is not easy to get started in the school industry without some experience."

"Good childcare will always be needed and sought out by parents. The truest test of value in this business is going to be the premium you can establish for a 'quality' program with many years of history and a strong reputation for the caring of children as opposed to a "business operation."

"In most states, the laws and regulations governing child care centers are very complex. Many of these laws and regulations have a direct impact on the bottom line, i.e. requiring a certain minimum student to teacher ratio. These complex regulations have created a very high barrier to entry into the child care industry. And, compliance with regulations has, over the years, turned profitable centers into unprofitable, virtually impossible to sell centers."

"Business very popular at this time; full centers generate lots of profit."

"Size and demographics will have a positive impact on the ratings."

"Other than 'occupancy costs' all other expenses are pretty proportional to enrollment or gross revenues and are easily managed as such. If rent can be tied to enrollment, then risk is greatly reduced (example: 10% of gross receipts for rent)."
"\$1,000 to \$2,500 per licensed child capacity depending on the success of current business"

"Attractors are: good location, appealing type of building, low or fixed rent, high current enrollment, high historic enrollment, low staff turnover rate, very good reputation, many years in service, several program types. Detractors are pretty much the opposite."

"Number of children, location and competition. Track record helpful"

"Real estate can be the largest value in a day-care transaction. Rent should be adjusted to reflect Fair Market Value (FMV) rent based on a) comparable information available or, b) a percentage of the real estate appraisal value and, c) cross-checked by making sure, if financed, that the rent will cover the debt services (and a return on the down payment)."

"Are children state-subsidized?"

"Popping up all over the state. New locations opening rapidly on excellent and visible locations."

"Industry is very competitive and regulated in California. Almost impossible to move existing business to alternate location if facility lease is not renewable. License to operate not transferable to buyers."

Seller Financing

- ▶ "Business only—7 to 10 years"
- ▶ "Most are 90 percent SBA financed."

Questions

"Dirty, unsafe facilities—If the center seems dingy, cramped, or dangerous, move on."

"An expired license—A license isn't everything, but if a center doesn't have one, it's not for you."
Source: www.family.msn.com

Expenses as a Percentage of Sales

▶ Cost Of Goods	20% to 25%
▶ Payroll/Labor Costs	40% to 45%
▶ Occupancy Costs	15% to 20%
▶ Profit (pretax)	15% to 20%

Industry Trend

"Growing industry, but it costs more to set up center because of real estate cost."

"Stable to modest growth depending upon the demographic area."

"Regional and national chains will continue buyouts."

"La Petite's new owner, ABC Learning Centres, may be the worldwide king of kiddie care, but it knows that the battle for the country's 20 million children under age 5 is just beginning."

"In the \$55 billion U.S. child care industry, nap time is officially over. Nursery school chains are consolidating, and chief among the buyers is ABC. Headquartered in Brisbane, Australia, ABC jumped into the U.S. market early last year and has spent \$55 million in deals for La Petite and two other chains."
Source: "Cradle Snatch: The Preschool Industry" by Emily Lambert, *Forbes*, October 1, 2007

"Growth depending on the birth rate in the geography of the country, or near large new business parks"

"Growing business that has no end in site"

"Larger centers"

Advantages

- ▶ "Many business owners in this business do not operate their childcare center as a business. They got into this business because they love kids. A good business owner has an advantage over this type of owner."
- ▶ "Stable business, providing facility is kept up and presentable. This is a desirable business for teachers, nurses, and other caretaker type individuals."
- ▶ "Successful centers can enjoy repeat revenue and loyal customers for 5 plus years"
- ▶ "Monday to Friday business, 40 to 50 hours per week. No weekends. Some close business when schools are closed, or there is inclement weather. Having a positive impact on teaching children seems to be a motivational desire of buyers."
- ▶ "Great business to own and operate. Help the city and state with both training and re-training needs. Help with the care of child if a child care center. Helps the local economy."
- ▶ "Possible ownership of multiple locations"
- ▶ "Advantages include stability, steady profits (if operated

"Are they in compliance with the regulating authority, and what are the most recent violations? Are there any lawsuits threatened or pending?"

"Last price increase, capacity of school, number of children, ages of children"

"1. Waiting lists—a good sign of quality. 2. Enrollment schedules—try to understand these. 3. How are they hitting their numbers. 4. The quality of staff—age and training. 5. Community reputation—check several sources."

"Why do they want to sell? What is the current capacity of the school? What are the current gross income and expenses of the school?"

"Enrollment by age group, % government funded. License number. Do they own the real estate? Employee count, education level, credentials, experience, pay rate."

"Make sure the labor cost is in line with industry standards, and inquire as to deviations to make sure the facility is staffed properly (legally). Child care is a state-regulated business which mandates child-to-staff ratios. Look at the demographics in the area, as birth rates have an impact on future business. Location of the facility near affordable housing (which turns over) is a benefit. Rules of thumb based on gross sales can be misleading, as they do not incorporate operating-cost efficiencies."

correctly), good opportunity to build a solid professional reputation. Easy for high quality independent centers to compete with local or national chains in quality, tuition rates and profits."

- ▶ "Fairly stable industry which is desirable to a certain segment of the buyers. It can be a 'feel good' industry."
- ▶ "Big profit, five days per week, short hours"
- ▶ "Stability. The birth rate continues at a good pace. This, combined with dual-income families being the norm today, means parents need child care."

Disadvantages

- ▶ "Parents. Once in a while a small group of or individual parents can be a tough thing to deal with. Depending upon the growth of the geographical area, competition can be stiff (in high-growth, white collar areas), and the newest center with the most modern look will benefit in the short and potentially long run."
- ▶ "This is a highly regulated industry. There are not many other businesses where government (usually state government) mandates the amount of space you're required to operate in, the staff required to operate, the methods of operation, etc. By the same token, this keeps the general quality high."
- ▶ "Complex state and federal laws and regulations"
- ▶ "Staffing can be a difficult job. And occupancy costs (as real estate prices generally continue to escalate) is a concern. Be careful not to pay too much in occupancy costs as clients will only pay so much for the service."
- ▶ "Heavy competition, lots of employees"
- ▶ "In certain 'desirable' markets competition can be fierce. Service rates charged to parents can only go so high before alternative care will be found; e.g., spouse stays at home with 2+ children of similar age. Adding a second or third location may increase earnings in a linear fashion versus exponentially."
- ▶ "Employees can make or break you. Risk of new competition. State regulations constantly changing."
- ▶ "No guarantees that parents will like a new operator or that the state will not impose unreasonable regulations or go into competition through public school programs. Staffing and facility-size regulations make it difficult to increase gross revenues beyond market rates."

Profile

Additional Resources

Associations

- ▶ [National Association for the Education of Young Children](#)
- ▶ [National Association for Family Child Care](#)
- ▶ [National Child Care Association](#)