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Private Equity Investments in Large For-Profit Child Care Organizations: In Brief

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Introduction

Every year, millions of children spend at least some time in paid child care. Paid care is often used when a child's parent or parents are at work. Recognizing that child care plays a key role in supporting working families and in child development, the federal government invests in this industry through a range of grants (e.g., Child Care and Development Block Grant) and tax provisions (e.g., Child and Dependent Care Tax Credit). These federal investments flow to a combination of families, employers, child care providers, states, and other key stakeholders in support of diverse missions that include subsidizing costs of care, increasing supply, and improving quality. Recent reports of supply gaps and workforce shortages have prompted renewed congressional interest in child care as an industry.[1]

The child care industry is highly fragmented, consisting of a range of center-based and home-based, for-profit and nonprofit service providers of vastly different sizes and administrative capacities. While many child care organizations face funding and profitability constraints, some of the industry's largest for-profit organizations appear to have greater access to resources and capital, including funding from private equity (PE) firms. PE is a type of pooled investment that, depending on the investment amount, can lead to investors having a controlling interest in business operations.[2] Child care organizations with a history of PE investments often operate through large-capacity chains and franchise models with individual centers spread across multiple states. Despite evidence that PE has been present in the child care industry for decades, little is known about the direct or indirect effects, positive or negative, of these investments on the child care industry or the families who rely on it. This report provides a brief overview of the paid child care industry, with a focus on the presence of PE investments among larger for-profit child care organizations.

Overview of Paid Child Care

In 2023, roughly 11 million children under age 15 spent at least some time in paid child care.[3] Many families rely on paid child care during periods when children are not being cared for by their parents.[4] This often occurs, for instance, when parents are working or in job training or educational programs. Paid care may be provided on a full- or part-time basis, including in the form of before-school or afterschool care and summer care.

The universe of paid child care settings ranges from larger child care centers (including some centers operated by franchises or chains) to smaller family child care homes (generally operated out of the provider's residence), as well as paid care in the child's own home (e.g., nannies). In general, center-based providers have larger capacity than home-based providers and serve a larger

[1] U.S. Congress, Joint Economic Committee, *Building Blocks for Success: Investing in Early Childhood Education*, 118th Cong., 2nd sess., April 10, 2024; U.S. Congress, Senate Small Business and Entrepreneurship Committee, *The Role of Child Care Small Businesses in Supporting Parents and the American Workforce*, 118th Cong., 2nd sess., April 10, 2024; U.S. Congress, Senate Banking, Housing, and Urban Affairs Committee, Economic Policy, *Child Care Since the Pandemic: Macroeconomic Impacts of Public Policy Measures*, 118th Cong., 1st sess., September 20, 2023; and U.S. Congress, Senate Health, Education, Labor, and Pensions Committee, *Solving the Child Care Crisis: Meeting the Needs of Working Families and Child Care Workers*, 118th Cong., 1st sess., May 31, 2023.

[2] For more information, see CRS Report R47053, *Private Equity and Capital Markets Policy*, by Eva Su.

[3] This estimate was developed by the Congressional Research Service using data from the Annual Social and Economic Supplement to the Current Population Survey.

[4] Parents may also rely on relatives or friends to provide unpaid care when needed. While such care is beyond the scope of this report, it represents an important part of the child care universe for many families.

share of the children in paid care.[5] Data from the National Survey of Early Care and Education (NSECE) suggest that centers served an average of 78 children per center in 2019, whereas home-based providers served fewer than 9 children on average.[6]

Center-based child care is provided by a combination of for-profit and nonprofit organizations, government agencies, and other entities. Data from the NSECE suggest that for-profit centers typically represent about one-third of all center-based providers serving young children.[7] It also suggests a relatively small share of all center-based providers were for-profit franchises or parts of chains (roughly 4%) in 2019.[8] However, it is possible the share of for-profit centers, including for-profit chains and franchises, has changed since then, as some reports suggest larger for-profit chains and franchises have been expanding in recent years (e.g., increasing capacity by 8% in 2023).[9]

Price of Child Care

Child care is generally viewed as a high-cost, labor-intensive industry. According to Child Care Aware of America (CCAoA), the national average annual price of child care for young children (i.e., below school age) was $11,582 in 2023, though prices vary significantly by location, age, and setting.[10] For instance, CCAoA reported that 2023 prices ranged from more than $25,000 for full-time center-based infant care in the District of Columbia to less than $6,000 for full-time

[5] Data from the 2019 National Survey of Early Care and Education (NSECE) find that center-based child care providers served roughly 9.5 million children in that year, while *listed* home-based providers (i.e., those on state or national lists of providers) served roughly 800,000 children and *unlisted* paid home-based providers (i.e., those who do not appear on state or national lists but regularly provide paid care) served roughly 3.5 million children. A.R. Datta, Z. Gebhardt, and C. Zapata-Gietl, *Center-based Early Care and Education Providers in 2012 and 2019: Counts and Characteristics*, U.S. Department of Health and Human Services (HHS), Administration for Children and Families, Office of Planning, Research and Evaluation, OPRE Report #2021-222, September 2021, https://www.acf.hhs.gov/opre/report/center-based-early-care-and-education-providers-2012-and-2019-counts-and; and A.R. Datta, C. Milesi, S. Srivastava, and C. Zapata-Gietl, *NSECE Chartbook - Home-based Early Care and Education Providers in 2012 and 2019: Counts and Characteristics*, U.S. Department of Health and Human Services, Administration for Children and Families, Office of Planning, Research and Evaluation, OPRE Report No. 2021-85, May 2021, https://www.acf.hhs.gov/opre/report/home-based-early-care-and-education-providers-2012-and-2019-counts-and-characteristics.

[6] The 2019 NSECE is being used because data from the recent 2024 NSECE have not yet been released. The 2019 data should be treated as illustrative, not predictive, given uncertainty regarding potential medium- and long-term effects of the COVID-19 pandemic on the child care industry. For more information, see A.R. Datta, Z. Gebhardt, and C. Zapata-Gietl, *Center-based Early Care and Education Providers in 2012 and 2019: Counts and Characteristics*, U.S. Department of Health and Human Services, Administration for Children and Families, Office of Planning, Research and Evaluation, OPRE Report #2021-222, September 2021, https://www.acf.hhs.gov/opre/report/center-based-early-care-and-education-providers-2012-and-2019-counts-and; and A.R. Datta, C. Milesi, S. Srivastava, and C. Zapata-Gietl, *NSECE Chartbook - Home-based Early Care and Education Providers in 2012 and 2019: Counts and Characteristics*, U.S. Department of Health and Human Services, Administration for Children and Families, Office of Planning, Research and Evaluation, OPRE Report No. 2021-85, May 2021, https://www.acf.hhs.gov/opre/report/home-based-early-care-and-education-providers-2012-and-2019-counts-and-characteristics.

[7] A.R. Datta, Z. Gebhardt, and C. Zapata-Gietl, *Center-based Early Care and Education Providers in 2012 and 2019: Counts and Characteristics*, U.S. Department of Health and Human Services, Administration for Children and Families, Office of Planning, Research and Evaluation, OPRE Report #2021-222, September 2021, https://www.acf.hhs.gov/opre/report/center-based-early-care-and-education-providers-2012-and-2019-counts-and.

[8] Ibid.

[9] Kathy Ligon, "Thirty-Sixth Annual Status Report on For-Profit Child Care," *Exchange*, January/February 2023, pp. 40-44, https://www.exchangepress.com/catalog/product/thirty-sixth-annual-status-report-on-for-profit-child-care/5026940/.

[10] This analysis excludes costs of care for school-age children, which are typically lower on average. Child Care Aware of America, *Child Care at a Standstill: Price and Landscape Analysis 2023*, https://www.childcareaware.org/thechildcarestandstill.

home-based care for a four-year-old in South Carolina and South Dakota.[11] Prices also vary as a percentage of family income, a measure that is sometimes used as a proxy for affordability. CCAoA's national average price estimate of $11,582 represents about 14% of median household income nationwide in 2023.[12] The cost of child care can be a significant household expense among families using paid care. Prices can influence parental decisions regarding use of paid or unpaid care, as well as labor force participation (particularly among mothers).[13]

Prices are set by child care organizations after taking into account a variety of factors, including how much revenue is needed to cover operating expenses or make a profit, as well as how much families are willing or able to pay.[14] Prices may also be affected by an organization's business models (e.g., for-profit or nonprofit). In general, child care prices tend to be the highest for a young child, decreasing as the child's age increases.[15] Some of this is driven by child-to-staff ratios and group size limits, which tend to ease as children age and are better able to operate with some level of independence. Given that child care is typically labor-intensive, personnel expenses are often the largest share of a child care center's budget, making wages a key component in the decision regarding how much a center must charge to make ends meet.[16] Remaining costs for child care centers typically include rent or mortgage, utilities, insurance, materials and supplies, and administrative expenses (e.g., licensing fees).

While the calculation of profit margins involves various methods,[17] profit margins for child care businesses are generally considered to be low, with estimates suggesting profits of less than 1%

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[11] Child Care Aware of America, *Child Care at a Standstill: Price and Landscape Analysis 2023*, https://www.childcareaware.org/thechildcarestandstill.

[12] Calculated by the Congressional Research Service using Census data for median income in Gloria Guzman and Melissa Kollar, *Income in the United States: 2023*, U.S. Census Bureau, P60-282, September 10, 2024, https://www.census.gov/library/publications/2024/demo/p60-282.html#:~:text= Highlights.%20Real%20median%20household%20income%20was%20$80%2C610,in%20real%20median%20household%20income%20since%202019.

[13] Heather Sandstrom, Catherine Kuhns, and Sarah Prendergast et al., *Parental Search and Selection of Child Care and Early Education: A Literature Review*, U.S. Department of Health and Human Services, Administration for Children and Families, Office of Planning, Research and Evaluation, OPRE Report 2024-082, April 2024, https://www.acf.hhs.gov/system/files/documents/opre/Parental_Search_and_Selection_of_Child_Care_and_Early_Education.pdf; Taryn W. Morrissey, "Child care and parent labor force participation: a review of the research literature," *Review of Economics of the Household*, vol. 15 (March 23, 2016), pp. 1-24; and Kimberly Burgess, Nina Chien, and Maria Enchautegui, *The Effects of Child Care Subsidies on Maternal Labor Force Participation in the United States*, U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, December 2016.

[14] National Center of Early Childhood Quality Assurance and National Center on Subsidy Innovation and Accountability, *Guidance on Estimating and Reporting the Costs of Child Care*, January 2018, https://childcareta.acf.hhs.gov/sites/default/files/guidance_estimating_cost_care_update.pdf; and U.S. Department of the Treasury, *The Economics of Child Care Supply in the United States*, September 2021, https://home.treasury.gov/system/files/136/The-Economics-of-Childcare-Supply-09-14-final.pdf.

[15] Child Care Aware of America, *Child Care at a Standstill: Price and Landscape Analysis 2023*, https://www.childcareaware.org/thechildcarestandstill; and National Center of Early Childhood Quality Assurance and National Center on Subsidy Innovation and Accountability, *Guidance on Estimating and Reporting the Costs of Child Care*, January 2018, https://childcareta.acf.hhs.gov/sites/default/files/guidance_estimating_cost_care_update.pdf.

[16] National Center on Early Childhood Quality Assurance, *Increasing Quality in Early Care and Education Programs: Effects on Expenses and Revenues*, November 2015, https://childcareta.acf.hhs.gov/sites/default/files/new-occ/resource/files/pcqc_increase_quality_final.pdf.

[17] For example, it could be gross margin, net margin, pre-tax margin, or after-tax margin, among other calculations. For more on profit margins, see Investopedia, *Profit Margin: Definition, Types, Uses in Business and Investing*, https://www.investopedia.com/terms/p/profitmargin.asp.

for most child care providers.[18] Reports indicate that profit margins may be higher (e.g., 15% or more) among some larger for-profit chains or franchises.[19]

While operating in a relatively low-profit-margin industry, large child care providers with significant scale of operations could still make significant profits. For example, in FY2023 KinderCare Learning Companies Inc., the nation's largest child care provider, reported $2.5 billion in revenue and $102.6 million in net income.[20] As of June 29, 2024, the company employed more than 43,000 workers and had around 1,500 centers with capacity to serve more than 200,000 children located in 40 states and the District of Columbia.[21]

Licensing and Regulation of Child Care

Federal law generally requires states to establish and enforce licensing requirements for child care providers.[22] State and local requirements effectively set standards for child care providers to operate legally. Licensing rules establish minimum acceptable standards of health and safety. While the content of licensing rules varies across states and child care settings, these rules commonly address such topics as physical premises safety, child-to-staff ratios, group size limits, and requirements for workers (e.g., minimum educational and training standards, criminal history record checks).[23] States often set different licensing rules for different types of child care providers (e.g., center-based, home-based).[24] In addition, states commonly exclude or exempt some providers from licensing requirements altogether (e.g., those caring for a small number of children). As a result, certain unlicensed providers may operate legally within a state.

The National Center on Early Childhood Quality Assurance conducts regular licensing studies, but their most recent assessment of licensed capacity is from an older 2017 study, which estimated nationwide licensed capacity at roughly 10 million slots.[25] The study found that child care centers represented less than half of all licensed child care providers but accounted for the majority of licensed slots (more than 80%), reinforcing the idea that centers serve more children,

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[18] This statistic appears in multiple papers, and appears largely to source back to Rob Grunewald and Phil Davies, *Hardly child's play: Times have been even tougher than usual for district child-care providers*, Federal Reserve Bank of Minneapolis, July 11, 2011, https://www.minneapolisfed.org/article/2011/hardly-childs-play.

[19] Dana Goldstein, "Can Child Care Be a Big Business? Private Equity Thinks So.," *The New York Times*, December 16, 2022, https://www.nytimes.com/2022/12/16/us/child-care-centers-private-equity.html; Bright Horizons Family Solutions, "Bright Horizons Family Solutions Reports Financial Results For Second Quarter of 2024," press release, August 1, 2024, https://investors.brighthorizons.com/news-releases/news-release-details/bright-horizons-family-solutions-reports-financial-results; and Audrey Stienon and Melissa Boteach, *Children Before Profits: Constraining Private Equity Profiteering to Advance Child Care as a Public Good*, National Women's Law Center and Open Markets, June 2024, https://nwlc.org/wp-content/uploads/2024/05/Children-Before-Profits-WEB.pdf.

[20] KinderCare Learning Companies Inc. SEC Form S-1 filing, https://d18rn0p25nwr6d.cloudfront.net/CIK-0001873529/ef6115a0-2b46-45c5-aa6f-8f5d5434fe6d.pdf.

[21] Ibid.

[22] Section 658E(c)(2)(F) of the Child Care and Development Block Grant Act (CCDBG Act, as amended).

[23] For more information, see the National Database of Care Licensing Regulations at https://licensingregulations.acf.hhs.gov/.

[24] The National Center on Early Childhood Quality Assurance conducts regular licensing studies. More information on recent trends can be found at https://childcareta.acf.hhs.gov/resource/trends-child-care-licensing-requirements-2020.

[25] National Association for Regulatory Administration, *2017 Child Care Licensing Study*, https://www.naralicensing.org/2017-cc-licensing-study. As these data were collected prior to the pandemic and other events affecting the child care industry (e.g., increases in federal funding), these estimates should be regarded as illustrative only.

on average, than their home-based counterparts.[26] These data should be treated as illustrative only; it is difficult to say how they compare to licensed capacity today. The period since 2017 has been particularly volatile, including a lengthy global pandemic, along with infusions of unprecedented temporary funding to stabilize the child care market. Multiple studies have shown a decades-long decline among family child care homes; during the same time, the number of centers has generally been increasing.[27]

Public Funding for Child Care

Child care is generally viewed as a family expense and tuition paid by families is often the largest source of revenue for child care providers.[28] That said, data from the NSECE indicate that a majority of center-based providers (76%) and listed home-based providers (62%) reported receiving at least some public funding from federal, state, or local sources in 2019 (e.g., funds from federal child care vouchers or grants, the federal Head Start program, or state or locally funded preschool).[29] It is possible that the unprecedented levels of federal investment in child care during the COVID-19 pandemic (e.g., nearly $24 billion in one-time Child Care Stabilization Grants that supported more than 225,000 child care providers with basic operating costs) may affect comparable estimates when forthcoming data from the 2024 NSECE are released.[30]

The federal government subsidizes child care costs for some eligible low-income working families through the Child Care and Development Block Grant (CCDBG) and offers some low-income families access to free early childhood care and education through the Head Start

[26] National Center on Early Childhood Quality Assurance, *Addressing the Decreasing Number of Family Child Care Providers in the United States*, revised March 2020, https://www.acf.hhs.gov/sites/default/files/documents/ecd/Addressing%20the%20Decreasing%20Number%20of%20Family%20Child%20Care%20Providers%20-%20Revised%20March%202020.pdf.

[27] National Center on Early Childhood Quality Assurance, *Addressing the Decreasing Number of Family Child Care Providers in the United States*, revised March 2020, https://www.acf.hhs.gov/sites/default/files/documents/ecd/Addressing%20the%20Decreasing%20Number%20of%20Family%20Child%20Care%20Providers%20-%20Revised%20March%202020.pdf; Child Care Aware of America, *Child Care at a Standstill: Price and Landscape Analysis 2023*, https://www.childcareaware.org/thechildcarestandstill; and Yuko Yadatsu-Ekyalongo, Weilin Li, and Audrey Franchett, *As the Number of Home-Based Child Care Providers Declines Sharply, Parents Are Leaving More Negative Online Child Care Reviews*, Child Trends, March 28, 2023, https://www.childtrends.org/publications/as-the-number-of-home-based-child-care-providers-declines-sharply-parents-are-leaving-more-negative-online-child-care-reviews.

[28] Council of Economic Advisers, Executive Office of the President, *Economic Report of the President*, March 2023, p. 141, https://www.whitehouse.gov/wp-content/uploads/2023/03/ERP-2023.pdf; and Anne Mitchell, Louise Stoney, and Harriet Dichter, "Financing Child Care in the United States: An Illustrative Catalog of Current Strategies," sponsored by the Ewing Marion Kauffman Foundation, 2001, https://eric.ed.gov/?id=ED458932.

[29] A.R. Datta, Z. Gebhardt, and C. Zapata-Gietl, *Center-based Early Care and Education Providers in 2012 and 2019: Counts and Characteristics*, U.S. Department of Health and Human Services, Administration for Children and Families, Office of Planning, Research and Evaluation, OPRE Report #2021-222, September 2021, https://www.acf.hhs.gov/opre/report/center-based-early-care-and-education-providers-2012-and-2019-counts-and; and A.R. Datta, C. Milesi, S. Srivastava, and C. Zapata-Gietl, *NSECE Chartbook - Home-based Early Care and Education Providers in 2012 and 2019: Counts and Characteristics*, U.S. Department of Health and Human Services, Administration for Children and Families, Office of Planning, Research and Evaluation, OPRE Report No. 2021-85, May 2021, https://www.acf.hhs.gov/opre/report/home-based-early-care-and-education-providers-2012-and-2019-counts-and-characteristics. Note that paid home-based child care providers not captured on state or national lists (e.g., lists of licensed, regulated, license-exempt, or registered providers) appear less likely to receive government funding; roughly 18% reported receipt of such funds in 2019.

[30] For more information on one-time child care funds provided during the pandemic, see CRS Insight IN12243, *What Is the Child Care Funding Cliff?*, by Karen E. Lynch and Conor F. Boyle.

program.[31] Federal tax benefits for child care expenses are also available through the Child and Dependent Care Tax Credit, the Employer-Sponsored Dependent Care Tax Exclusion, and the Tax Credit for Employer-Provided Child Care.[32] While CCDBG and Head Start funds ultimately flow to providers[33] (through vouchers, grants, or contracts), tax benefits generally flow to families or their employers. These various federal programs and tax provisions are designed with different funding mechanisms, eligible populations, and program rules. With limited exceptions, they are not intended to cover all expenses incurred, but rather to subsidize the costs of care. Not all families qualify for federal support and, particularly in the case of the CCDBG and Head Start, not all eligible families receive support due to funding constraints.

Private Equity in Child Care

Evidence suggests that some large for-profit child care organizations in the United States have access to PE funding, including PE funding from foreign investors. The history of PE investments in large, for-profit child care organizations appears to date back to at least the 1980s.[34]

PE is a type of pooled investment vehicle that is typically in the business of buying and managing companies with the goal of selling them for a profit. PE firms normally invest in private companies that are not publicly traded.[35] PE firms' business models focus on the maximization of financial profits. As such, PE transactions historically center around industry sectors with relatively high profitability.[36] Research suggests that PE plays a role in enhancing competition, enabling capital formation, assisting distressed company resolution, and transforming financially underperforming companies.[37] The PE business model can sometimes involve cutting jobs or increasing debt to pay back investors.[38]

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[31] For more information about these programs, see CRS Report R47312, *The Child Care and Development Block Grant: In Brief*, by Karen E. Lynch; and CRS In Focus IF11008, *Head Start: Overview and Current Issues*, by Karen E. Lynch.

[32] For more information about these tax provisions, see CRS Report R44993, *Child and Dependent Care Tax Benefits: How They Work and Who Receives Them*, by Margot L. Crandall-Hollick and Conor F. Boyle; and CRS In Focus IF12379, *The 45F Tax Credit for Employer-Provided Child Care*, by Margot L. Crandall-Hollick and Conor F. Boyle.

[33] Department-wide regulations for HHS at 45 C.F.R. §75.216 generally prohibit using HHS funds for profit. For purposes of these regulations, "profit" is "any amount in excess of allowable direct and indirect costs." The prohibition on using HHS funds for profit applies to the Head Start program (as clarified in Head Start regulations at 45 C.F.R. §1303.3), but does not apply to the Child Care Development Fund (CCDF) (per federal regulations at 45 C.F.R. §75.101(d)).

[34] Audrey Stienon and Melissa Boteach, *Children Before Profits: Constraining Private Equity Profiteering to Advance Child Care as a Public Good*, National Women's Law Center and Open Markets Institute, June 2024, https://nwlc.org/wp-content/uploads/2024/05/Children-Before-Profits-WEB.pdf; and Phillip H. Wiggins, "Market Place; Child Day Care Profits Mount," *The New York Times*, March 3, 1987, https://www.nytimes.com/1987/03/03/business/market-place-child-day-care-profits-mount.html.

[35] For more information on PE, see CRS Report R47053, *Private Equity and Capital Markets Policy*, by Eva Su. For more information on publicly traded companies and their securities offerings, see CRS Report R45221, *Capital Markets: Public and Private Securities Offerings*, by Eva Su.

[36] See Figure 1 in CRS Insight IN12443, *Private Equity Investments in Large For-Profit Child Care Providers*, by Eva Su and Ben Leubsdorf.

[37] For more information, see CRS Report R47053, *Private Equity and Capital Markets Policy*, by Eva Su. See the section on "Potential Benefits" that discusses the listed examples of benefits individually: https://www.crs.gov/Reports/R47053#_Toc99463676.

[38] For more information, see CRS Report R47053, *Private Equity and Capital Markets Policy*, by Eva Su. See the sections on "Example: Toys'R'Us" at https://www.crs.gov/Reports/R47053#_Toc99463679 and "Dividend Recapitalization" at https://www.crs.gov/Reports/R47053#_Toc99463671.

Table 1 lists 16 for-profit child care organizations with reported licensed capacity of at least 15,000 slots for children. This list was excerpted from lists of "North America's Largest For-Profit Child Care Organizations" included in *Exchange* magazine's annual status reports on for-profit child care.[39] The organizations in **Table 1** are the 15 largest for-profit child care organizations, by capacity, according to the 2024 *Exchange* status report, plus one additional organization from the previous version of the list.[40] The table presents information on PE investors and their level of ownership control. These data were collected by reviewing transaction and corporate structure information in the S&P Capital IQ Pro database. Publicly available data on PE investments and private companies are limited, and information in this table should be treated as illustrative rather than comprehensive.

Among the 16 companies listed in **Table 1**, 13 have been identified through the aforementioned search processes as receiving current or past PE investments. (These 13 organizations do not represent all child care organizations with a history of PE backing.) Some of these 13 organizations received funding from foreign PE investors based in Switzerland, the United Kingdom, China, and the United Arab Emirates, among others. Two received funding from Canadian pension funds.

Websites for the 13 child care organizations indicate their centers serve a combination of infants, toddlers, preschoolers, and school-age children (this sometimes varies at the center level). Child care centers from one or more of the 13 organizations are located in at least 47 states and the District of Columbia based on a search of company websites.[41] In aggregate, these 13 organizations were licensed to serve roughly 1 million children. For context, about 11 million children under age 15 were reported to be in paid child care in 2023.[42]

PE investment in large child care providers is not a new phenomenon—PE investors have been reportedly operating in the space since the 1980s and became more active after the 2000s.[43] Going public is one of the preferred exit strategies for PE firms.[44] KinderCare and Bright Horizons Family Solutions are two examples of PE firm exits where the investors received returns and enhanced liquidity for their ownership shares.

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[39] Kathy Ligon, "Thirty-Seventh Annual Status Report on For-Profit Child Care," *Exchange*, Spring 2024, pp. 68-72; and Kathy Ligon, "Status Report on For-Profit Child Care," *Exchange*, January/February 2023.

[40] To identify large for-profit child care organizations, the Congressional Research Service reviewed *Exchange* magazine's annual status reports on for-profit child care from 2023 and 2024 for all organizations reported to have licensed capacity of at least 15,000 slots. The Learning Experience, a large child care organization with more than 39,000 slots in reported capacity (as of 2020) is the one organization in **Table 1** that appeared in *Exchange*'s 2023 list but not the 2024 list. For more information, see Kathy Ligon, "Thirty-Seventh Annual Status Report on For-Profit Child Care," *Exchange*, Spring 2024, pp. 68-72; and Kathy Ligon, "Status Report on For-Profit Child Care," *Exchange*, January/February 2023.

[41] The website for one of these companies, Premiere Early Childhood Education Partners, does not appear to identify center locations.

[42] This estimate was developed by the Congressional Research Service using data from the Annual Social and Economic Supplement to the Current Population Survey.

[43] Audrey Stienon and Melissa Boteach, *Children Before Profits: Constraining Private Equity Profiteering to Advance Child Care as a Public Good*, National Women's Law Center and Open Markets Institute, June 2024, https://nwlc.org/wp-content/uploads/2024/05/Children-Before-Profits-WEB.pdf; and Phillip H. Wiggins, "Market Place; Child Day Care Profits Mount," *The New York Times*, March 3, 1987, https://www.nytimes.com/1987/03/03/business/market-place-child-day-care-profits-mount.html.

[44] For more information on what it means to go public, see the "Facilitating Public Offerings" section of CRS Report R45221, *Capital Markets: Public and Private Securities Offerings*, by Eva Su.

Policy Discussions

The child care industry is an important part of the economy because it consists of nearly 1 million workers and because most children live in working families.[45] Around 27 million workers, or 16% of the U.S. workforce, rely on child care services.[46] Child care prices are generally high, representing a significant household expense among families using paid care, yet child care worker wages are among the lowest in the nation.[47] Low wages may contribute to widespread gaps in child care supply. Multiple studies have found that the number of child care slots in communities across the country is less than the number of children in working families.[48] These supply gaps (sometimes called *child care deserts*) cut across communities of all incomes and urbanicities, though some studies have found them to be more pronounced among lower-income communities, in rural areas, or for specific types of care (e.g., infant care, care during nontraditional hours).

While the PE business model of profit maximization could be in tension with certain public service-oriented missions of the child care industry, the industry may potentially benefit from PE funding. Such investments could help to enhance business operations, increase competition, or expand the availability of child care, potentially reducing existing supply gaps.[49] However, growth spurred by such investments may be unevenly distributed, given the profit-minded nature of PE and indicators that at least some of the larger for-profit child care organizations with PE investment primarily target middle- and upper-income communities.[50] Moreover, growth stemming from PE investments may occur via acquisitions of existing independent providers, rather than through the creation of new slots—meaning that these investments may not lead to a net increase in child care supply.[51] In addition, the PE goal of increasing profits may have

[45] There were 970,800 child care worker jobs as of 2023; U.S. Bureau of Labor Statistics, *Childcare Workers*, https://www.bls.gov/ooh/personal-care-and-service/childcare-workers.htm. This does not include the many unpaid workers supporting the less formal parts of the child care industry.

[46] Harvard Business Review, *Why Early Childhood Education Is More Important Now Than Ever*, December 4, 2023, https://hbr.org/sponsored/2023/12/why-early-childhood-education-is-more-important-now-than-ever.

[47] Kevin Cooksey and Emily Thomas, "Childcare employment—before, during, and after the COVID-19 pandemic," *Monthly Labor Review*, U.S. Bureau of Labor Statistics, January 2024, https://www.bls.gov/opub/mlr/2024/article/childcare-employment-before-during-and-after-the-covid-19-pandemic.htm; and Liana Christin Landivar, Nikki L. Graf, and Giorleny Altamirano Rayo, *Childcare Prices in Local Areas: Initial Findings from the National Database of Childcare Prices*, U.S. Department of Labor, Women's Bureau, January 2023, https://www.dol.gov/sites/dolgov/files/WB/NDCP/508_WB_IssueBrief-NDCP-20230213.pdf.

[48] Studies vary regarding how to conceive of potential need and how to count existing slots. For example, see Child Care Aware of America, *Mapping the Gap: Examining Child Care Supply and Demand Across the Country*, https://www.childcareaware.org/our-issues/research/mappingthegap/; Linda K. Smith, Anubhav Bagley, and Ben Wolters, *Child Care in 35 States: What we know and don't know*, Bipartisan Policy Center, October 26, 2020, https://bipartisanpolicy.org/report/child-care-gap/; U.S. Department of the Treasury, *The Economics of Child Care Supply in the United States*, September 2021, https://home.treasury.gov/system/files/136/The-Economics-of-Childcare-Supply-09-14-final.pdf; and Center for American Progress, Child Care Deserts Series, https://www.americanprogress.org/series/child-care-deserts/.

[49] For more information, see the "Potential Benefits" section of CRS Report R47053, *Private Equity and Capital Markets Policy*, by Eva Su.

[50] Elliot Haspel, "'The End User Is a Dollar Sign, It's Not a Child': How Private Equity and Shareholders Are Reshaping American Child Care," *Early Learning Nation*, April 22, 2024, https://earlylearningnation.com/2024/04/the-end-user-is-a-dollar-sign-its-not-a-child-how-private-equity-and-shareholders-are-reshaping-american-child-care/; and Dana Goldstein, "Can Child Care Be a Big Business? Private Equity Thinks So," *The New York Times*, December 16, 2022, https://www.nytimes.com/2022/12/16/us/child-care-centers-private-equity.html.

[51] Audrey Stienon and Melissa Boteach, *Children Before Profits: Constraining Private Equity Profiteering to Advance Child Care as a Public Good*, National Women's Law Center and Open Markets, June 2024; and Elliot Haspel, "'The
(continued...)

implications for the prices charged to families (often the primary revenue source) or wages paid to staff (often the largest operating cost), though there is limited research that looks at these questions for PE in child care specifically.[52]

Experiences in other service industries, such as health care, raise questions about how a focus on profit may affect program quality at providers with PE backing.[53] While some child care research has examined differences in quality or program characteristics between for-profit and nonprofit providers, less is known about the question of PE specifically. Studies have generally found that nonprofit centers provide higher quality care than their for-profit counterparts.[54] Research has also found that high turnover rates among child care center staff are more prevalent among for-profit centers and centers paying low wages.[55] High staff turnover rates can be disruptive for child-teacher relationships (which are generally linked to child outcomes) and for center operations (due to costs of recruitment and effects on child-to-staff ratios).[56] That said, some research has suggested that for-profit centers may be more likely than nonprofit centers to provide care for longer hours and to enroll infants and toddlers—two types of care for which demand tends to outstrip supply.[57] Given that this literature is broadly focused on program auspice, not the presence of PE, further research may be merited.

End User Is a Dollar Sign, It's Not a Child': How Private Equity and Shareholders Are Reshaping American Child Care," *Early Learning Nation*, April 22, 2024.

[52] Elliot Haspel, "'The End User Is a Dollar Sign, It's Not a Child': How Private Equity and Shareholders Are Reshaping American Child Care," *Early Learning Nation*, April 22, 2024, https://earlylearningnation.com/2024/04/the-end-user-is-a-dollar-sign-its-not-a-child-how-private-equity-and-shareholders-are-reshaping-american-child-care/.

[53] CRS Legal Sidebar LSB11215, *Private Equity Investments in Health Care: Selected Enforcement Issues*, by Hannah-Alise Rogers and Alexander H. Pepper; and Audrey Stienon and Melissa Boteach, *Children Before Profits: Constraining Private Equity Profiteering to Advance Child Care as a Public Good*, National Women's Law Center and Open Markets, June 2024.

[54] Deborah A. Phillips, Sara Anderson, and A.R. Datta et al., "The changing landscape of publicly-funded center-based child care: 1990 and 2012," *Children and Youth Services Review*, vol. 91 (August 2018), pp. 94-104; Benjamin L. Bayly, Karen L. Bierman, and Linda Jacobson, "Teacher, Center, and Neighborhood Characteristics," *Child & Youth Care Forum Associated with Variations in Preschool Quality in Childcare Centers*, vol. 50 (January 2021), p. 779-803; Elizabeth Rigby, Rebecca M. Ryan, and Jeanne Brooks-Gunn, "Child care quality in different state policy contexts," *Journal of Policy Analysis and Management*, vol. 26, no. 4 (Autumn 2007), pp. 887-908; and Gordon Cleveland and Michael Krashinsky, "The Nonprofit Advantage: Producing Quality in Thick and Thin Child Care Markets," *Journal of Policy Analysis and Management*, vol. 28, no. 3 (Summer 2009), p. 440–462.

[55] For example, NSECE data suggest that 45% of independent for-profit providers and 47% of for-profit franchises and chains experienced high turnover, compared to 30% or less among all other types of providers (e.g., those run by nonprofits or government entities). A center is characterized as having high turnover if more than 20% of the staff working with children left the center in the last 12 months. See Sara Amadon, Ying-Chun Lin, and Christina M. Padilla, *Turnover in the Center-Based Child Care and Early Education Workforce: Findings from the 2019 National Survey of Early Care and Education*, U.S. Department of Health and Human Services, Administration for Children and Families, Office of Planning, Research and Evaluation, OPRE Report #2023-061, March 2023, https://www.acf.hhs.gov/sites/default/files/documents/opre/workforce_turnover_snapshot_apr2023.pdf; and Rob Grunewald, Ryan Nunn, and Vanessa Palmer, *Examining teacher turnover in early care and education*, Federal Reserve Bank of Minneapolis, April 29, 2022, https://www.minneapolisfed.org/article/2022/examining-teacher-turnover-in-early-care-and-education.

[56] Sara Amadon, Ying-Chun Lin, and Christina M. Padilla, Turnover in the Center-Based Child Care and Early Education Workforce: Findings from the 2019 National Survey of Early Care and Education, U.S. Department of Health and Human Services, Administration for Children and Families, Office of Planning, Research and Evaluation, OPRE Report #2023-061, March 2023, https://www.acf.hhs.gov/sites/default/files/documents/opre/workforce_turnover_snapshot_apr2023.pdf; and Rob Grunewald, Ryan Nunn, and Vanessa Palmer, Examining teacher turnover in early care and education, Federal Reserve Bank of Minneapolis, April 29, 2022, https://www.minneapolisfed.org/article/2022/examining-teacher-turnover-in-early-care-and-education.

[57] Deborah A. Phillips, Sara Anderson, and A.R. Datta et al., "The changing landscape of publicly-funded center-based child care: 1990 and 2012," *Children and Youth Services Review*, vol. 91 (August 2018), pp. 94-104.

At present, it is difficult to determine the full extent to which large for-profit child care organizations with access to PE receive federal funding, due to the financial complexities of parent companies, franchise models, and the varied ways federal child care funds flow to providers or other entities. Current reporting on the providers that receive federal funds is limited; generally, data are not collected on whether the provider is PE-backed. The payment rates from child care subsidy programs, including the CCDBG, are often not sufficient to cover private pay rates charged by many child care providers, including larger for-profit chains.[58] This may raise questions about the viability of PE as a vehicle to serve lower-income communities.[59]

Table 1. Examples of Private Equity Investments in Large For-Profit Child Care Organizations

Name	Centers	Capacity	Known PE Investments (Y/N)	Current PE Investor[a]	Level of Current PE Ownership	PE Country[b]
KinderCare Learning Companies, Inc. (NYSE: KLC[c])	1,555	212,000	Y	Partners Group Holding AG	Majority (71%)[d]	Switzerland
Learning Care Group Inc.	1,100	167,000	Y[e]	American Securities LLC	Controlling	USA
Bright Horizons Family Solutions Inc. (NYSE: BFAM[f])	1,063	120,000	Y[g]	N/A	N/A	USA
Primrose School Franchising Company LLC	508	94,600	Y	Roark Capital Management LLC	Majority (84%)	USA
Goddard Systems Inc.	626	93,000	Y	Sycamore Partners Management LP	Majority	USA
Kiddie Academy International Inc.	324	53,275	N	N/A	N/A	N/A
Cadence Education Inc.	294	48,923	Y	Apax Partners LLP	Majority (100%)	United Kingdom
Kids 'R' Kids International Inc.	182	47,320	N	N/A	N/A	N/A
Child Development Schools Inc. (DBA Childcare Network)	272	46,916	Y	Glencoe Capital LLC	Majority	USA

58 Elliot Haspel, "'The End User Is a Dollar Sign, It's Not a Child': How Private Equity and Shareholders Are Reshaping American Child Care," *Early Learning Nation*, April 22, 2024, https://earlylearningnation.com/2024/04/the-end-user-is-a-dollar-sign-its-not-a-child-how-private-equity-and-shareholders-are-reshaping-american-child-care/; and Dana Goldstein, "Can Child Care Be a Big Business? Private Equity Thinks So.," *The New York Times*, December 16, 2022, https://www.nytimes.com/2022/12/16/us/child-care-centers-private-equity.html. For more information about payments under the CCDBG, see the "Provider Payment Rates" section in CRS Report R47312, *The Child Care and Development Block Grant: In Brief*, by Karen E. Lynch.

59 Section 658E(c)(4)(A) of the CCDBG Act and 45 C.F.R. §98.45 generally require program payments to be "sufficient to ensure equal access" to child care for participating children. See related discussion in the "Provider Payment Rates" section of CRS Report R47312, *The Child Care and Development Block Grant: In Brief*, by Karen E. Lynch.

Name	Centers	Capacity	Known PE Investments (Y/N)	Current PE Investor[a]	Level of Current PE Ownership	PE Country[b]
Spring Education Group Inc.	182 (2023)	39,488 (2023)	Y[h]	Primavera Capital Group	Controlling	China (Primavera), Bahrain (Investcorp)
The Learning Experience	220 (2020)	39,038 (2020)	Y	Golden Gate Capital	Majority	USA
Busy Bees North America	211	30,860	Y[i]	N/A	N/A	Singapore (Temasek)
Endeavor Schools LLC	104	20,820	Y[j]	N/A	N/A	USA
The Sunshine House Inc.	140	20,000	N	N/A	N/A	N/A
Premier Early Childhood Education Partners	125	20,000	Y	Tyree & D'Angelo Partners	N/A	USA
Early Learning Academies	84	15,000	Y	Safanad Inc.	Majority	United Arab Emirates

Source: Table compiled by the Congressional Research Service (CRS) primarily using data from S&P Capital IQ Pro; Bloomberg LP; Kathy Ligon, "Thirty-Seventh Annual Status Report on For-Profit Child Care," *Exchange*, Spring 2024, pp. 68-72; and Kathy Ligon, "Status Report on For-Profit Child Care," *Exchange*, January/February 2023. Additional sources (and resources) are identified in footnotes. The selection criteria are explained in the "Private Equity in Child Care" section of this report.

Notes: Unless otherwise noted, the exact percentage of ownership is unknown. N/A = information unknown but may exist. CRS has not independently verified the accuracy of the information taken from these sources.

a. For more information about investors identified in this column and at the selected examples of previous PE and pension fund investors, see the following:
Partners Group Holding AG: https://www.partnersgroup.com/en/our-investments/private-equity.
American Securities LLC: https://www.american-securities.com/en/companies/learning-care-group.
Morgan Stanley Private Equity: https://www.morganstanley.com/im/en-us/financial-advisor/product-and-performance/alternative-investments/private-equity.html.
Bain Capital: https://www.baincapitalprivateequity.com/.
Roark Capital Management LLC: https://www.roarkcapital.com/about.
Sycamore Partners Management LP: https://www.prnewswire.com/news-releases/sycamore-partners-acquires-goddard-systems-the-leading-franchisor-of-premium-early-education-centers-301579066.html.
Apax Partners LLP: https://www.apax.com/.
Glencoe Capital LLC: https://www.glencap.com/about.
Primavera Capital Group: https://www.primavera-capital.com/our-firm/.
Investcorp: https://www.investcorp.com/what-we-do/.
Golden Gate Capital: https://goldengatecap.com/.
Temasek: https://www.temasek.com.sg/en/about-us.
Ontario Teachers' Pension Plan: https://www.otpp.com/en-ca/about-us/news-and-insights/portfolio-insights/busy-bees-nurseries-partnering-in-global-growth/.
Leeds Equity Partners: https://www.leedsequity.com/about-us.
Tyree & D'Angelo Partners: https://www.tdpfund.com/.

b. Includes selected examples of current and past PE investor countries.

c. KinderCare Learning Companies, Inc., filed for an initial public offering in 2024. More information is available in Form S-1 submitted to the Securities and Exchange Commission in September 2024, https://www.sec.gov/Archives/edgar/data/1873529/000119312524215139/d760946ds1.htm.

d. Partners Group, "Partners Group portfolio company KinderCare prices IPO and lists on New York Stock," press release, October 10, 2024, https://mailing-ircockpit.eqs.com/crm-mailing/5bc764eb-ea7c-11e8-902f-2c44fd856d8c/c395a9a1-f485-42ba-8376-82799b7bbf3a/da9f2788-2f7d-4fe4-91e9-8e1789ea0291/20241010_Partners+Group_KinderCare.pdf.

e. Morgan Stanley Private Equity owned 60% of the Learning Care Group in 2008. American Securities completed its acquisition in 2014. Canada's Public Sector Pension Investment Board made a "significant equity investment" in 2018. Morgan Stanley, "Morgan Stanley Private Equity Completes Acquisition of Majority Stake in Learning Care Group, Inc. as Part of Joint Venture with A.B.C. Learning Centres Limited," press release, June 26, 2008, https://www.morganstanley.com/press-releases/morgan-stanley-private-equity-completes-acquisition-of-majority-stake-in-learning-care-group-inc-as-part-of-joint-venture-with-abc-learning-centres-limited_6576; and Learning Care Group, "PSP Investments Makes Significant Investment in Learning Care Group in Partnership with American Securities," press release, March 14, 2018, https://www.learningcaregroup.com/news/psp-investments-makes-significant-investment-in-learning-care-group-in-partnership-with-american-securities.

f. Bright Horizons Family Solutions Inc. went public in 2013. For more information, see the December 2023 Form 10-K filed with the Securities and Exchange Commission, available at https://www.sec.gov/ix?doc=/Archives/edgar/data/1437578/000143757824000007/bfam-20231231.htm.

g. Bain Capital had long-term involvement. Peter Lattman, "How Bright Horizons Took Care of Bain Capital Over the Years," *The New York Times*, January 25, 2013, https://archive.nytimes.com/dealbook.nytimes.com/2013/01/25/how-bright-horizons-took-care-of-bain-capital-over-the-years/

h. Investcorp sold Nobel Learning Communities, with more than 25,000 students in preschool through high school, to Spring Education in 2018. PR Newswire, "Investcorp Announces Sale of Nobel Learning Communities," press release, August 1, 2018, https://www.prnewswire.com/news-releases/investcorp-announces-sale-of-nobel-learning-communities-300689740.html.

i. Busy Bees North America's parent company entered the U.S. market from the U.K. in 2019. PE firm Temasek was a minority owner in 2017 and Canadian pension fund Ontario Teachers' Pension Plan was the majority owner. For additional history, see https://www.busybeesna.com/our-history; and Ontario Teachers' Pension Plan, "Busy Bees announces new strategic investment by Temasek," press release, December 19, 2017, https://www.otpp.com/en-ca/about-us/news-and-insights/2017/busy-bees-announces-new-strategic-investment-by-temasek/.

j. Leeds Equity Partners invested in Endeavor Schools in 2018. Terms of the transaction were not disclosed. PR Newswire, "Leeds Equity Partners Completes Investment in Endeavor Schools," press release, February 20, 2018, https://www.prnewswire.com/news-releases/leeds-equity-partners-completes-investment-in-endeavor-schools-300601388.html.

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