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Two-Pager: Understanding Private Equity in Child Care

Private equity has a long history of exploiting and abusing businesses that they acquire in the pursuit of profit.

Three of the largest child providers in the United States are owned by private equity -- KinderCare, Learning Care Group, and Bright Horizons.

It's important to understand the risks that this business model poses to families and communities -- which prioritizes its investors profits above all else -- and to proactively enact guardrails and solutions to **advance a vision of affordable, high quality child care where child care workers are paid a thriving wage, and parents can find child care that meets their needs and preferences**.

What is private equity?

Private equity firms—like KKR, Carlyle Group, Blackstone, or Bain Capital—are investment funds that typically buy companies using debt-financed acquisitions, restructure these companies to maximize their profit margins, and try to sell them to the highest bidder within three to five years.

Private equity funds are distinct from many other types of investment vehicles in that they lack structural incentives to care about the long-term health of the companies in their portfolio, let alone these companies' workers, customers, creditors, or suppliers.

Private equity funds also face few financial or legal consequences should their tactics to maximize profits fail. In sector after sector, private equity investments have caused substantive harms to the workers and communities who depend on the companies that these funds have targeted.

The Problem: Private equity is targeting child care programs:

- **Child care centers are largely small businesses**, which makes them an easy target for private equity's consolidation tactics.
- **Child care is in high demand**, and in certain communities, families and employers are able to pay high profit-generating fees, making it an appealing investment for private equity.
- **Child care has the potential to receive an influx of federal and state funding**, which would expand the share of families that private equity could profitably pursue as customers.

The Consequences: The vision for child care could be undermined by private equity ownership:

- In an effort to maximize profit, **investors will restructure child care programs to free up money from elsewhere in their business** -- either from raising prices or cutting labor costs, which undermines care affordability and quality and weakens worker wellbeing.
- Corporate providers who are dependent on family payments for their profits are **more likely to avoid communities where families cannot pay these costs**, which decreases supply in areas that need it most.
- **Provider diversity drops** when multiple local providers either get rolled up or converted into franchises, allowing private equity to monopolize the sector and push out competitors, resulting in higher prices and fewer choices for families. Since private equity funds grow more through acquisitions than by creating new programs, they are unlikely to contribute to a significant growth in supply, even as they increase their control over child care markets.
- Once corporate providers become the dominant players in either local or national markets, **they have more leverage to advocate for policies that advance their profit goals**, as opposed to doing what is best for early educators and families.

The Solution: Child care needs more public funding and better guardrails to prevent profit-first tactics from hurting families and early educators:

- **Set the rules of the game** by raising the minimum standards of the industry so that anyone operating in child care markets must behave in ways that align with the broader vision of creating a sustainable child care system where families and child care workers can thrive.
- **Design a public funding strategy** that sets high expectations for what providers must supply in exchange for public money, including higher wages and benefits for workers.
- **Protect fair and competitive markets** by helping non-corporate providers remain in the market without turning to Wall Street for funding or support, including by increasing transparency about businesses' owners and investors, enforcing regulation against uncompetitive market practices, and eliminating tax preferences for private equity.
- **Increase private providers' accountability for contributing to the creation of a sustainable**, affordable, and high-quality child care system by building out sources of countervailing power, such as strengthening child care unions and actively including a range of stakeholders in the regulatory process.