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HOW TO AVOID THE 10% DROP IN ENROLLMENT AND REVENUE

THE "3 MAJOR RISKS" IMPACTING SCHOOL OPERATORS

For every tailwind propelling school owner's values forward, there are headwinds that can hinder growth and impact profits, thus drawing down on those values.

Over the last 12 to 18 months, many school operators have experienced modest scale dips in their school enrollment and revenues despite a good local economy.

Invariably, this drop in earnings and revenue is almost always caused by one or more of these "3 Major Risks" our clients are currently experiencing:

1 GOVERNMENT-FUNDED COMPETITION

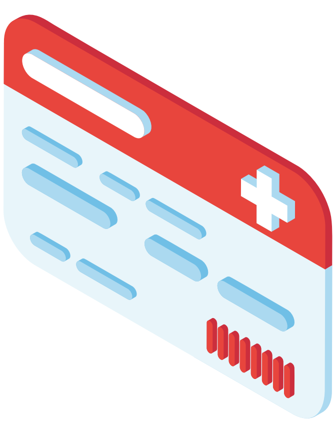
Government-funded competition is taking a toll on the private, for-profit education sector. Specifically, local public school districts and state governmental entities are undermining preschool operators across the U.S. These entities are beginning to offer free, full-day schooling to parents.

Additionally, they are offering low-cost before- and after-care programs at rates private preschool operators cannot match — which is quickly beginning to rob operators of significant enrollment and revenue.

Over the past 15 years, public pre-K enrollment has nearly doubled. In 2017, state-funded preschools accounted for more than $7.6 million in spending[1].

2 EMPLOYEE BENEFITS AND WAGE INCREASES

On the surface, it may seem like an increase in minimum wage and added employee benefits are positive trends, in actuality, these changes are rapidly increasing school operators' costs, which squeezes profit margins downward.



Health Insurance Benefits

This trend in governmental regulations started with Obamacare health insurance benefits for employees. Of course, businesses with fewer than 50 employees were exempted, so small-scale school operators did not suffer this significant cost change.

Are you prepared to respond to the "3 Major Risks" that are causing asset value losses? Contact Bailey Routzong today to schedule a confidential discussion with our team for help and advice on responding to threats like these.

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> **Average industry costs for providing healthcare to school employees is $4,000 to $5,000 annually per participant, and that is only the employer's share!**

However, many non-exempt school operators are now supplying this health insurance benefit. Thus, the available labor pool of candidates now know to expect and ask for health insurance and other benefits.

Higher Minimum Wage Scales

Many locales are pushing for a $15-per-hour minimum wage level. Even where there is no legal requirement for this change, the major retail goods-services companies have voluntarily adopted that wage for their store operations in the U.S.

Some school operators have indicated they are incurring a growing loss of hourly-wage employees to major corporations offering higher wages and costly employee benefits. As a result, national buyer companies will likely begin to evaluate potential school acquisitions based on what they believe are the coming wage rates for the subject school.

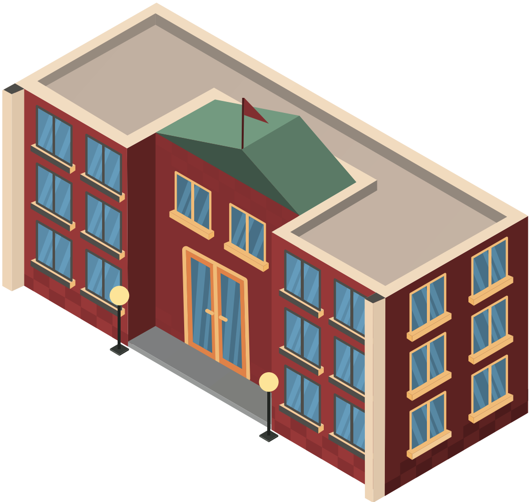
3 INCREASING COMPETITION FROM "NEWLY BUILT" SCHOOLS

> **The U.S. birthrate fell to 3,788,235 births in 2018, representing a 2% decline year over year. The U.S. fertility rate also sank to a record low[3].**

The U.S. childcare industry is prospering, but with that comes increased competition for school business owners and operators. Franchising companies and other new school locations are on the rise as new state-of-the-art schools are added each quarter[2].

The increase in new school locations is happening during a period when the U.S. birth rate is at its lowest in 32 years — creating concern across the industry about supply far outnumbering demand.

Ultimately, new school sources are combining to create a significant increase in competition. Franchise schools and other new locations enroll children who otherwise would be available to existing school operators in the area.



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