Subject: Lifting profit simple as ABC (**http://thecouriermail.com.au** report)

The Courier-Mail

Lifting profit simple as ABC
Emma Chalmers
30 August 2005

ABC Learning Centres has bumped up its 2006 profit forecast by $10 million on the expectation of further expansion from its merger with two rival child care companies.

Shares in ABC skyrocketed more than 10 per cent yesterday after forecasting 2006 profit at $88 million, up from $77.6 million it predicted earlier.

At the same time, the company said it had exceeded its expected 2005 results, booking a $52.3 million net profit.

Discounting a one-off $14.5 million benefit from the sale of shares ABC held in itself after the Child Care Centres Australia acquisition, the company's profit was still almost 77 per cent more than last year's result of $21.4 million.

ABC chief executive Eddy Groves said the result and outlook stemmed from "completing the task" of integrating CCA and merger partner Peppercorn Management Group into the ABC fold.

"We're very pleased with this result. It's about as good as it can get," he said.

As ABC's centres grew from 327 in 2004 to 660 last year, the company increased its reported revenue by more than 200 per cent to $292.7 million.

ABC said its September 2004 mergers with Peppercorn and CCA had progressed faster than expected and were now 95 per cent complete. The company expects to add more centres to its books this year and reap further benefits.

"Increases in occupancies of acquired centres and head office cost savings are now starting to flow through to the bottom line and the full impact of these will be seen in the 2006 year," Mr Groves said.

During the year, ABC acquired 398 new centres and divested 65 centres to take control of about 25 per cent of the Australian child care sector.

Its strong results come after pressure on the childcare sector earlier this year with concerns over excess competition and ABC's capacity to integrate its new centres.

With the company holding about 25 per cent of the sector in Australia, Mr Groves said there were no new acquisitions planned with organic growth set to underpin ABC.

He said ABC had about 680 childcare centres, of which 20 were in New Zealand, and expected a total of 850 by the end of the 2006 fiscal year.

Mr Groves said ABC would build about 50 to 60 childcare centres a year but believed there would be a "critical mass" of about 1200 centres in three years.

He said there might be opportunities in New Zealand, Canada, the US and Britain.

ABC shares rocketed more than 10 per cent to $6.33 yesterday off the back of the results, which included the announcement of a fully franked final dividend of 6¢ to take the total dividend to 11¢.

Wilson HTM private client adviser Myles Smith praised the result and said he expects the share price to rise further still.

"We still think there's upside to its share price and over the next 12 months it will track to that $7 mark.

"I think shareholders can be pretty happy with the way Eddy Groves is handling that acquisition."

ABN Amro Morgans analyst Amanda Miller said the result was "very good" and the outlook given was "very solid".

Canadian mines 'big-box' daycare; Made fortune in Aussie child care
Ottawa deal may spur for-profits
Child-care deal awaited
Australian system alarms experts
The Toronto Star
February 5, 2005
Laurie Monsebraaten

Meet Eddy Groves.

The 38-year-old Canadian citizen who drives a Ferrari and owns the Brisbane Bullets basketball team is one of Australia's richest people under 40.

He made his fortune in day- care.

Groves was spurred on by the Australian government's decision in 1991 to invest heavily in child care and give commercial operators access to public cash. As a result, Australian child care is no longer a folksy field of community-based centres and mom-and-pop operations. It's big business.

Today, more than 70 per cent of centres are owned by commercial interests.
And Groves, whose ABC Learning Centres merged with its biggest corporate competitor last fall, is the undisputed king of the hill.

He controls about 20 per cent of Australia's 4,400 child-care centres. His private fortune is reportedly worth $175 million and his publicly traded company is valued at about $1.2 billion.

Could Eddy Groves be coming to a daycare near you?

"It sounds like a great opportunity," said Groves in an interview from Brisbane yesterday.

"What a great excuse to go back to that beautiful country that I love so much," he added.

"There's something about Canada that Australia doesn't have. It would be great. A great opportunity."

Those are terrifying words for Canadian child-care experts who have been urging Ottawa to protect this country from so-called "big-box" daycare by restricting funding for new centres and daycare spots to non-profit operators only.

If Ottawa signs a $5 billion national child-care agreement with the provinces next week that allows new federal money to flow to commercial daycares, they say Groves or someone like him will start making millions here too.

"I don't think Canadians want public money for child care lining the pockets of big corporate child-care operators," said Martha Friendly of the University of Toronto Child Care Resource and Research Unit. "But that's a very real risk if we don't get this right from the outset."

In Ontario, less than 20 per cent of centres are run by private companies.
About 30 per cent of child-care centres in Toronto are commercially operated. The vast majority of them are individually owned.

Groves, who grew up in Australia, but lived in Victoria, B.C. as a baby while his father served in the Canadian Army, says only large publicly traded companies like his can access the kind of money needed to provide high-quality child care.

"I don't doubt that (Canadians) have their reservations about corporations getting into child care," he said. "If people gave it the chance - and people need to broaden their horizons - and if it's run by the right people, it is the greatest thing for lifting standards in early childhood education."

Next Friday in Vancouver, Canada's Social Development Minister Ken Dryden is hoping to forge a long-awaited national child-care agreement with his provincial and territorial counterparts. The deal is to be based on the principles of quality, universality, accessibility and developmental enrichment.

Dryden has said he views child care as Canada's next national social program in the spirit of Medicare and public education. But he is reluctant to exclude commercial daycare from expansion plans and argues the system must be allowed to evolve into a public one over time.

Most commercial child-care centres in Canada are small, family operations that are not much different than the non-profits, he told reporters at a national child-care conference in Winnipeg last fall. And in many parts of the country, there is no non-profit child care sector ready to take on this role, he said.

But Friendly and others say Dryden is naive to think Canadian child care will be immune to the market pressures and entrepreneurial opportunism of people like Groves.

Since Groves holds a Canadian passport it would be relatively easy for him to expand here, they note.

Australian child-care activists also urge caution.

"It would be good if Canada could learn from what's happening here," said Jo-Anne Schofield, Assistant National Secretary for the Liquor Hospitality and Miscellaneous Workers Union of Australia, which represents child-care workers in both non-profit and commercial centres.

"The growth in corporation (child-care) services really did take everyone by surprise. We're dealing with a very different sector than we were even five years ago. And it's unlikely to change."

From a single child-care centre in 1988, Groves and his ABC Learning Centres now control almost 900 centres in Australia and New Zealand. And he shows no sign of slowing down.

He has gobbled up non-profit, municipal, and commercial centres in almost every corner of the country. And in addition to building new centres in profitable areas, he is partnering with large corporate employers who want to offer workplace child care as a company benefit.

Each of his centres, which sport a cuddly mauve teddy bear with outstretched arms, makes an annual profit of about $100,000. Almost half of his revenue comes from government child-care benefits, paid to parents or directly to centres to help cover the cost of care.

An innovative and aggressive young entrepreneur who got his start in the milk distribution business, Groves' company was the first of three child-care corporations to list on the Australian Stock Exchange in 2001.
Since then, ABC stock has increased more than tenfold.

And with the Australian government pumping $1.7 billion a year into child-care benefits - and corporate daycare profits - the diaper dividends Down Under aren't expected to dry up anytime soon.

"There's no question Eddy Groves is a very smart businessman," said Collette Tayler, head of the School of Early Childhood at Queensland University of Technology in Brisbane. "But the corporatization of child care in Australia is very troubling for many of us."

Groves makes no apologies for the money he has made on child care and credits his success to happy parents who flock to his meticulously maintained centres full of dedicated, well-trained staff. About 100,000 families with children from six-weeks-old to age 5 use his centres.

"When we buy a centre, we spend a huge amount of money to bring them up to standard, so that the people have an excellent environment to work in," he said, adding that his company has spent $35 million in the past three years refurbishing centres.

"You can only do that if you are publicly listed. Otherwise, you just don't have access to the funds," he said.

Going public has also allowed Groves to offer staff company shares to boost wages.

As a result, while the average staff turnover in child care is almost 50 per cent, ABC Centres boast a turnover of just 7.5 per cent, he said.

But Tayler at Queensland University and other Australian academics who study child care are troubled by the large profits being made on kids.

"I don't think anybody would have imagined that in Australia such massive fortunes would be made in child care," said University of Sydney business professor Deborah Brennan, who has written a political history of Australian child care. "I would really urge Canada to be very, very careful about opening up your system to such profit-making."

Brennan and others concede that many commercial centres in Australia provide good programs and parents are happy with the care their children receive.
But they argue that non-profit centres, when well run, offer more benefits to children, families and communities.

"Child care needs to be neighbourhood-based. It's about so much more than where you put your kids when you work. It's about relationship building, networking, community building," she said.

"The philosophy of corporate centres is entirely different. Owners have obligations to shareholders."

As in Canada, child-care worker salaries in Australia have been notoriously low while corporate profits have grown. And despite a national accreditation process that centres must pass every 2 1/2 years to qualify for government child-care benefits, academics say regulations are lax and quality is elusive.

But with no recent Australian research on quality, academics have nothing but anecdotal evidence of trouble to back up their uneasiness about corporate child care.

In the absence of definitive research, anecdotal evidence shows that corporate centres in Australia are more likely to stick to the bare minimum when it comes to staff qualifications and child-staff ratios, while community-based centres run by parents tend to use any profits to improve quality, academics say.

Stock-market research on the Australian child care sector has found that 80 per cent of budgets in non-profit centres go to staff salaries while less than 60 per cent of budgets are spent on salaries in corporate centres.
However this could be due to the fact that non-profits have little access to cash for capital improvements while commercial centres like ABC have been spending large sums in this area.

A financial analysis of the child-care industry by Australian business research giant IBISWorld noted that stiff competition was causing child-care centres to keep prices down by reducing operating costs.

"There are concerns that large for-profit operators will be more likely to cut costs to an absolute minimum by, among other things, operating at minimum staff-child ratios," the 2003 report said.

Meanwhile, the corporate child-care sector is a strong political lobby that has opposed increased staff wages, stiffer regulations and higher child-staff ratios.

In an investigation of corporate child care last fall, Melbourne's Sunday Age newspaper reported that several independent centres bought by corporate chains saw their food budgets slashed and cleaning staff let go. Child-care workers had to assume cleaning jobs during the hours they were supposed to be looking after the children.

Groves has been in the Australian news for suing a union for defamation, fighting to reduce qualified staff during children's lunch and nap times and for going to court to stop a small independent owner from opening near an ABC centre.

Groves has defended his actions as prudent protection of his company brand.

But at least one Australian child-care activist said designing a system based on who provides the service is starting at the wrong end.

"Focus on quality," said Pam Cahir, of Early Childhood Australia, one of the country's largest advocacy groups for children.

"Qualified child-care workers are costly. Low teacher-child ratios are costly, good environments are costly."

"I think what's happening here is very worrying," she said. "But there would have been no interest on the part of people like Eddy Groves ... if we had really strong regulations and quality assurance. They couldn't have made the money."

So far, advocates in Canada have been told that provinces and territories will be free to decide who should get federal cash to start new child care services.

Some provinces, like Saskatchewan and Manitoba, where more than 90 per cent of existing child-care services are in the non-profit sector, won't likely give money to new commercial centres. But others, like Alberta where more than half of the centres are commercially owned, will likely fund both for-profit and non-profit child care.

Ontario Children and Youth Minister Maria Bountrogianni has said she will leave it up to regional municipalities responsible for delivering child care services to decide.

Kerry McCuaig of the Better Child Care Education Foundation says quality must be the starting point for a Canadian child-care system.

But she thinks Canadian values should also be part of the equation.

"Dryden is right when he says this is as significant as the building of medicare and public education," she said. "Those two programs not only provide us with a service, they provide us with community cohesion, they define who we think we are as Canadians and what we owe each other as Canadians.

"Child care is the next step. How we build it will say a lot about what we, as Canadians, feel we owe our youngest members."

Millions milked

November 17, 2003

Claims of mismanagement threaten the rapidly expanding child-care industry, writes James Kirby.

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Australia's child-care boom is turning ugly. Behind the painted smiles and cuddly brand names, this $3 billion service industry is at war with itself. A *BRW* investigation reveals that big profits are drawing free-wheeling entrepreneurs into the industry. But bitter industrial disputes and claims of miserable operating conditions are creating a potent mix that will change the business comprehensively. Child-care tycoon Eddie Groves, of ABC Learning Centres, has begun an unprecedented defamation action against the biggest union in child care, the Australian Liquor, Hospitality and Miscellaneous Workers Union (LHMU), and the sector is still reeling from a dispute in Western Australia, where police were called to intervene in a protest by child-care workers.

With profit margins of up to 50% and $1.6 billion of taxpayers' money flowing into the sector each year, everyone wants a piece of the child-care action. Diamond miners, dot-com pioneers and real estate agents are getting on board. But the average worker is paid about $10 an hour and there are few regulations governing who can start a child-care business.

On the stockmarket, the two biggest companies in the sector - ABC Learning Centres and Peppercorn Management Group - are recording performance figures that are the envy of the market. ABC reported a 75% increase in profit to $12 million this year. Peppercorn's maiden profit of $3 million was 81% above prospectus forecasts. But the high multiples for these stocks - Peppercorn is on a price/earnings multiple of 51 times - means the pressure to grow earnings is intense.

Moreover, the industry is getting bigger than anybody might have expected when ABC Learning Centres listed on the stockmarket two-and-a-half years ago. ABC Learning Centres has 240 centres and Eddie Groves believes he may have 700 within 10 years. At the 261-centre Peppercorn Management Group, managing director Michael Gordon says: "There's nothing stopping us having 1000 centres." Because there are 50 children on average at each centre, Gordon's forecast could represent 50,000 children under the care of one company.

There are few barriers to entry and expenses are low, so the child-care industry is a licence to make money. A Gold Coast real estate agent and "child-care specialist", Bryan Hayden, says: "I've got a client and he's got 20 bottle shops, 10 hotels and three child-care centres. I say to him, 'I'm 77 and the child-care business is the best business I've ever seen in my life.' The Government pays subsidies, the parents pay you two weeks in advance and property prices keep going up."

Across Australia, child-care centres are proving to be first-class investments. Scott Hookey, a former opening batsman for the New South Wales Sheffield Shield team, is a successful child-care developer, having sold two centres that are now managed by Peppercorn. Hookey hopes to have eight centres by the end of next year. Sitting in the canteen of his Kids Academy centre at Frenchs Forest in suburban Sydney, Hookey says he is concerned about the speed of change in the industry: "Everyone is jumping on the bandwagon now; pretty soon you'll have a corporate centre on every corner," he says.

It may be a prosperous period, but 2003 has proved a troublesome time for the industry. In June this year, the Australian Securities & Investments Commission (ASIC) announced that it was making inquiries into compliance and disclosure issues at Child Care Centres of Australia

(CCCA), the listed company associated with the Liberal Party figures Andrew Peacock and his son-in-law Michael Kroger. Although lacking experience in the industry, Peacock was chairman of CCCA, and Kroger's investment bank, J.T. Campbell, had been an adviser to the company.

CCCA had announced a stockmarket placement to finance a takeover of a WA child-care chain. About four months after the placement announcement, CCCA r evealed a 90% downgrade in its profit forecast. The debacle ended when CCCA made the decision - unprecedented in the local market - to return the placement money to shareholders. "What happened at CCCA was unbelievable," Hookey says. ASIC has since dropped its inquiries, Peacock is no longer with the company and CCCA has formed a "strategic alliance" with Peppercorn, which will manage CCCA's 51 centres. Kroger will not comment on the affair. The CCCA debacle pointed to some new realities for the child-care industry: the child-care business can be immensely profitable on an individual basis, but managing a large group of centres is a very different challenge. It also revealed the central failing of a system that regulates the standards but not the ownership of child-care centres. As it stands, anyone in any business, from cigarettes to strip joints, can buy a chain of child-care centres.

As alarms begin to ring in the child-care industry, corporate Australia is watching closely. In recent months some of the biggest companies in Australia have planned to enter the child-care industry by outsourcing child-care facilities to specialist operators. (Child care can be provided as a tax perk for staff. If a company provides child-care facilities - even through outsourcing - staff can pay child-care fees with pre-tax dollars.) Next March, Westpac is due to open a centre managed by ABC Learning Centres. Axa, BHP Billiton, Deloitte Touche Tohmatsu and Esso also have sought tax rulings on child-care plans.

Until recently, private child care has been a closed world dominated by small-scale operators that often ran the centres through their do-it-yourself superannuation funds. Banks and stockbrokers paid little attention to the industry and nobody got too greedy. But in 1997, the Howard Government scrapped special subsidies to non-profit child-care centres and in a single stroke, child care was changed. Privately owned and non-profit child-care centres could charge roughly the same fees. Now, six years later, the reality of a privatised child-care sector is hitting home.

Tough calls

Allegations of leaking toilets, broken doors and missing child locks - the crumbling assets of Perth's Gateway Centre managed by the Peppercorn Management Group signal bigger problems ahead for the privatised industry. In a draft agenda prepared by the LHMU for a meeting on November 5 with senior Peppercorn management, matters of concern to the union at the Gateway Centre included:
*Children travelling on unregistered buses.
*No medicine forms or accident forms at the centre.
*Insufficient furniture.
*Broken doors.
*No shade and no sunscreen.
*Leaking toilets and taps.

Issues raised by the union at other WA Peppercorn centres, including the Alexander Heights centre in Perth, included:
*Staff being underpaid.
*Centres understaffed.
*Doors missing.
*Dangerous playground equipment.
*Not enough "bedding, chairs, shade and bins".

Peppercorn is the biggest child-care operator in Australia in terms of number of centres managed. The Brisbane group has 261 centres, against ABC Learning Centres' 240. Peppercorn's annual report for 2003 promises "to create outstanding results for children and their parents and for those investing in superior quality child-care assets". At nearly $10 a share, the company's stock is more than nine times its $1 price at listing last November.

Interviewed in his Brisbane office, Peppercorn's managing director and 55% shareholder, Michael Gordon, thumps the table when asked about the problems in Perth: "This makes me very angry. I thought we had the union issues resolved in those centres. I disagree [that] the conditions are like that." Gordon says Peppercorn is working to improve the centres. Peppercorn has owned the Alexander Heights centre for 11 months and Gateway centre for four months. "If there are problems, I will fix them," says Gordon, a former banker with the Primary Industry Bank.

There is no suggestion that the general quality of centres within the Peppercorn network mirror the level claimed by the LHMU to be the case at the newly acquired centres in WA. At issue is how long the company will take to bring the centres up to the standard enjoyed by other Peppercorn centres around the country. Nevertheless, the dispute reveals how a rapidly expanding industry can inadvertently create situations that might not have been expected by the owners or investors in the company.

In March this year, an IBISWorld report on the child-care industry estimated that there were 82,000 employees in the child-care industry, making it one of the 10 biggest employers in Australia. The report said 720,000 children now attended some form of child-care service. The report warned: "There are concerns that large for-profit operators will be more likely [than non-profit centres] to cut costs to an absolute minimum."

Accusations of intense cost-cutting by the bigger operators do not come only from unions or analysts. In Melbourne, Carl Fitchett, the owner of a private day-care centre, Green Cottage, in Seaford, says: "There are new people in this industry making profits in a new way. They just stick to the absolute minimum regulations and cut expenses to the bone. I get former staff from these big operators coming over all the time saying they won't work under such conditions."

The flamboyant Eddie Groves and his ABC Learning Centres group (which has a market capitalisation of $391 million) have avoided public criticism over substandard facilities. "I couldn't sleep at night if one my centres was not up to scratch," Groves says. "I've got three teams of renovators flying round the country out of Brisbane and their job is to keep our centres up to standard. We just did a centre in Melbourne, you should see it, I tell you, it's like the Taj Mahal."

Canadian-born Groves, 37, is a former bank teller. With his partner, Le Neve Groves, he has a fortune of $146 million. Wearing brown winkle-picker boots, jeans and a white T-shirt, Groves is a larger-than-life empire builder who drives a Ferrari and owns the Brisbane Bullets basketball team.

The head office of ABC Learning Centres is lavishly painted in lurid lilac and green, with red tables. There are pictures of happy children on the walls and teddy bears at reception. The largely female staff scurry around the brightly lit office as Groves runs the show with an infectious energy and enthusiasm. Established in 1988, ABC Learning Centres is the leading brand in the child-care industry.

But Groves, too, is facing bitter industrial issues. A wrangle that began last year over who should pay for staff uniforms is casting a cloud over the company's jolly public image. Groves says he cannot afford to spend an estimated $3.5 million on new uniforms for more than 3500 "girls". Still, he wants them to wear uniforms and refuses to budge on the issue of paying for the clothes.

In retaliation for Groves' alleged penny-pinching, the LHMU started an "Uncle Scrooge" campaign against him. He says the union handed out pamphlets defaming him to parents at ABC Learning Centres sites. Groves is furious and has begun a defamation action.

On March 27, Groves lodged a claim in the Brisbane Supreme Court for $500,000 against the LHMU and its Queensland branch secretary, Ron Monaghan. The claim was amended to an unquantified claim on October 25. The trial by jury is expected to be heard in the Queensland Supreme Court before the end of the year.

Groves says: "I don't care what they say about ABC Learning Centres. But they made it personal and they are going to regret it. I'm looking for $500,000 in damages, and I don't care whether they are quantified or not." Jo Anne Schofield, an LHMU assistant national secretary, confirms that the case is pending but will not comment further.

Groves will not meet the LHMU, although it is the biggest union representing workers in the child-care industry. "I want to get to a point where it's so good to work here that there is nothing to talk about with the union," he says. Asked if the sight of their employer in the courts suing a representative union would be a negative for ABC, Groves says: "Well, they got personal, they got antagonistic, what can I say ... things aren't ideal."

Anyone's game

As ABC Learning Centres and Peppercorn fight to retain their levels of profitability, the industry is changing around them. New entrants, often with little or no experience, are streaming into the industry. On September 9 an ASX-listed diamond mining company, Bambuu, bought the Gold Coast's Kids Campus Childcare Group. (The 37-centre deal comprises 21 operating centres and 16 more to be developed.) According to documents lodged with the Australian Stock Exchange (ASX), the executive director of Bambuu is Peter Munachen, a mining industry identity. Munachen was a partner in the Perth accounting firm Nelson Wheeler in the 1980s. In the 1990s Munachen tried to transform a diamond explorer, Ocean Resources, into an internet company called Goalmapper. Munachen could not be contacted by *BRW*.

The chairman of Bambuu (which is soon to change its name to Kids Campus) is Craig Welch, a one-time managing director of the dot-com wonder stock Sausage Software. Bambuu paid about $5500 per head for each of the 16 proposed new centres. A director of Bambuu, Mark Evans, says: "It is something like the ABC Learning Centres model; our target is 100 centres in two or three years."

Another recent entrant to the child-care industry is Alan Davidson, the owner of the Kids Cove centre in Mandurah, WA. In April this year, after a bitter dispute over management standards at the centre, Davidson called the police to remove two sacked staff members. Parents dropping off children at the centre had to cross a staff picket line. Davidson has not commented on the incident.

Louise Judge, an LHMU organiser in Perth, says: "New owners often don't have any experience whatsoever about child care. They can just buy the centre and take it from there. Mandurah should not be seen as an isolated incident; there are things happening all over the country that most people never hear about."

Fitchett, the former teacher who owns his own centre in Melbourne, adds: "It is scary when you see what some of these new people in the industry have been doing in the past. There is no regulation over who controls our centres. The way it is at the moment, Blind Freddie could enter the market and buy a child-care centre without any problems."

The Federal Government is not concerned. Explaining the Government's approach to owner regulation, Claire Kimball, an adviser to the Federal Minister for Children and Youth Affairs, Larry Anthony, says: "There is no regulation of ownership and there is no reason to believe there should be." Paradoxically, new owners are coming into the child-care industry at the worst time for more than five years. According to the IBISWorld report on child-care services, industry growth rates are likely to fall from 6.6% a year in the past five years to an annual rate of 3.9% in the four years to 2007. Against this outlook, it can only be expected that cost-cutting in the industry will become more severe. Moreover, the prospect of improved industrial relations looks slim; indeed, the Groves defamation action marks a low point in union-management relations.

Institutional investors are divided on the future of the industry. David Paradice, the managing director of Paradice Coopers Investors, says the industry has been a very rewarding investment. Paradice, who holds about 5% of ABC Learning Centres, says the main concern is not quality of child care but the risks of building a new industry too quickly.

Paradice also says that while price/earnings multiples might be high in the sector - ABC Learning Centres is on a multiple of 26 times - there are signs that some discount is still priced into child-care stocks. Paradice prices ABC Learning Centres on a discounted cashflow basis, which works out at $4.20; the stock is trading at about $3.50. In contrast, Eric Metanomski, a director of MMC Asset Management, says: "We don't go near that sector, I do not like the aggregation model at all."

Institutional investor resistance to child-care stocks has not stopped Russell Hutchison's plan for a $50 million float of his Hutchison's Childcare Services. Hutchison says: "We are going to the market to get capital to reinvest in our centres."

Some investors clearly feel fundamentally uneasy about the very nature of privatised child care. Michael Walsh, former president of the Ethical Investment Association and publishing editor of Ethical Investor magazine, says: "Traditionally, members have avoided the area but this is changing. There has been debate among members over many aspects of the industry." The debate among ethical fund managers was summed up in the July issue of Ethical Investor: "A moral argument lies at the heart of the child-care debate. Who is the client and what is the service provided to them? For the non-profit centres, the client is the child. For other types of child-care centres, the client is the parent or the employer. The ramifications of this shift are enormous."

Inside the Howard Government, the policy thrust is to continue to deregulate the industry. Last month, the Government hinted that it would soon lift the decade-long cap on the number of places in after-care, which is the undeveloped area of minding children after school. Groves says he will be ready to enter that market. New entrants in this untapped sector of child care will also be welcome under the present regulation regime. Claire Kimball at Larry Anthony's office says: "We want to provide choice, we don't have a problem with people making money out of child care."

- BRW