

Financial Performance of 7 Childcare Providers

The following looks at key financial measurements for a selection of seven childcare providers. Combined, these providers employed over 1,100 in 2020 or 2021. Employment is likely to rise following the end of the lockdowns.

1. Profits

Profits of Select 7 Companies: 2019 – 2021 (€ 000)			
	2019	2020	2021
Giraffe	2,163	3,490	3,000 *
Links	791	818	4,039
Cocoon	-122	823	1,407
Grovelands	111	95	834
Little Rainbows	201	281	454
Safari **	304	313	443
Tiger	(-224)	(-707)	(-306)
TOTAL	3,223	5,113	9,872
* Giraffe is the only provider that has not returned financial accounts for 2021. Therefore, the 2021 is a conservative estimate based on the performance of the other companies.			
** Safari 2021 accounts end at the end-of-March 2022			

Key Takeaways:

- As a whole, the select seven companies saw their combined profits trebled between 2019 and 2021. In the two lockdown years they earned nearly €15 million in profits.
- It should be noted that Giraffe (estimate) and Links comprised 71 percent of the total profits in 2021. However, even when we exclude these companies, the other 5 companies saw their profit levels rise from €269,000 to €2.8 million.

The only provider to register a loss was Tiger. However, the directors reported in 2022:

“The Groups main subsidiary, Tiger Time Limited, is profitable and cash generative. At the balance sheet date and at the date of approval of the financial statements, the Group is in a strong liquidity position. The impact of the COVID-19 pandemic has subsided . . . the Group has been profitable and cash generative throughout 2022 to date. The Group obtained new funding in November 2021, providing stable long-term finance facilities . . . cash flows are projected to be positive for the subsequent financial year . . . ”

This is likely to refer to an unstated EBITDA (earnings before interest, taxation, depreciation and amortisation) or net current assets. The profit-line entry is not the only descriptor of a ‘profitable and cash generative’ company.

2. Dividends

Companies may not report dividends in their accounts as they are abridged. For many companies, dividends are unnecessary to extract value as directors' remuneration, senior management compensation (where they are shareholders), directors' loans, etc. can achieve the same thing. Larger enterprises may pay dividends to their ultimate controlling parent-company.

Only two companies in this selection reported dividends.

Dividends 2019 – 2021 (€ 000)			
	2019	2020	2021
Giraffe	6,500	1,663	n/a
Safari	0	37	346

Both Giraffe and Safari paid dividends during the lockdown years – periods when both companies were in receipt of state wage subsidies.

Extracting Value Through Loans

From the 2021 Financial Statement for Links:

'The company advanced a loan during the financial year amounting to €267,171 to director Pdraig Kelly. This loan was advanced on a short-term basis and no interest was applied by the company.'

Advancing loans to directors or shareholders at low or no interest, without need for collateral (which a bank may require) is one way to extract value from a company and, in some cases, may be even more beneficial than a dividend.

Related Party Transactions

According to the Financial Statement of Grovelands for July 2022:

"The company purchased an additional creche facility located in . . . Mullingar, Co. Westmeath on 23rd February 2021 from Ronan Bushell who is a Director and Shareholder in the company" (i.e. Grovelands).

Directors and shareholders can benefit through selling their own property to the company without necessarily going through a market-sale process. The company is able to avoid reporting on the price of this purchase due to small company exemptions.

3. Covid Grants

All seven companies received TWSS subsidies according to the Revenue Commissioners' data. However, only five declared the specific amounts in their accounts.

Covid Subsidies (TWSS and EWSS): 2020 and 2021 (€ 000) *		
	2020	2021
Giraffe	6,668	n/a
Tiger	1,978	2,970
Cocoon	727	1,568
Safari	104	39
Little Rainbows	112	517
TOTAL	9,590	5,094
* Grovelands and Links not reporting		

Key Takeaways

- Five companies provided details on the amount of wage subsidies they received.
- In total they received over €14 million in wage subsidies over the two years. However, this is likely to be an under-estimate.
- Given that Giraffe has not produced financial accounts for 2021 which is likely to see another considerable tranche of subsidies. The two companies not reporting the specific amount – Grovelands and Links - nonetheless received subsidies. We can reasonably assume that over the two lockdown years, the seven companies received up to €20 million in wage subsidies.
- These subsidies assisted in keeping employees in the workforce; but they also assisted in boosting providers' finances.

Public Subsidies Going Towards Dividends

Covid-related grants partially subsidised dividends in at least two companies.

Government Public Health Subsidies and Dividend Payments: 2020 and 2021 (€ 000)				
	2020		2021	
	Covid-related Grants (TWSS)	Dividend	Covid-related Grants (TWSS)	Dividend
Giraffe	6,668	1,663	n/a	n/a
Safari	104	37	39	346

In 2020, Giraffe received €6.7 million Covid-related grants. In that same year they paid out €1.7 million in dividends. They have yet to report for 2021. Over the two years, Safari received nearly

€150,000 in covid-subsidies and paid out over €380,000

4. Cash Balances

During the lockdown years, childcare companies amassed significant cash holdings.

Cash Holdings of Select 7 Companies: 2019 – 2021 (€ 000)			
	2019	2020	2021
Giraffe	2,438	5,248	n/a
Grovelands	375	149	259
Links	418	1,616	2,819
Tiger	1,195	971	2,901
Cocoon	41	860	1,888
Safari	520	357	292
Little Rainbows	284	588	976
TOTAL	5,270	9,788	9,135

Cash holdings increased due to receipt of public subsidies combined with reduced outgoings. While holding cash is prudent, the exceptional increase during the lockdown years shows the impact of significant state subsidies and increased profitability.

Key Takeaways:

- In 2020, cash holdings nearly doubled – from €5.3 million to €9.8 million. Giraffe has not reported for 2021 yet.
- When we exclude Giraffe from the totals, all the other companies significantly increased their cash holdings. Companies held €2.8 million in 2019. This increased to €4.5 million in 2020 and doubled to €9.1 million in 2021.

The Use of Publicly-Subsidised Cash Balances

In some cases, cash has been used to facilitate company expansion in the childcare and other sectors. During this period, **Tiger purchased Candyland creche for €1 million. This was paid out of ('discharged by') cash balances.** Cash balance, or cash on hand, at Tiger Childcare increased from €1.2 million in 2019 to €2.9 million in 2021.

5. Directors' Remuneration

As stated above, directors and shareholders can take value from the company through a number of mechanisms – of which directors' remuneration. In many instances the remuneration could be the compensation to the working director. In others, it could be payments for non-working directors.

Directors Remuneration of Select 7 Companies: 2019 – 2021 (€ 000)			
	2019	2020	2021
Giraffe	248	270	270 *
Grovelands	245	244	679
Links	175	127	175
Tiger	192 **	415	449
Cocoon	321	301	765
Safari	190	215	65
Little Rainbows	62	69	231
TOTAL	1,433	1,642	2,633
* Estimated based on 2020 result			
** Extrapolated from 5 Weeks reported in accounts			

Key Takeaways

- In 2020, directors' remuneration increased by 15 percent.
- We estimate an increase of 60 percent in 2021.

Directors' remuneration can present itself as 'lumpy' from year to year as it can include one-off pension contributions for directors. This shows that profit and cash are being used to boost compensation – either emoluments or pension contributions – for directors.

Diverting Resources to non-Childcare Activity

The following is one instance of a childcare provider, having generated income through creche fees and state subsidy, diverting that income to exotic investments. From Links childcare provider.

*"The company advanced an initial loan of €1,500,000 to connected undertaking **P. Kelly Villas Limited** in a previous financial year and has advanced further loan funding in the current financial year. The loan balance receivable by the company at the financial year end amounts to €3,064,667 (31 October 2020 - €1,500,000) . . . P. Kelly Villas Limited is a company which is registered in Republic of Ireland and is a connected party by virtue of common shareholders and directors."*

P. Kelly Villas¹ specialises in luxury property rentals in places such as Florida, Lanzarote, Marbella, etc.

End.

¹ <https://kellyvillas.com/>