

Primrose Schools



Thousands of bright, eager children pass through the doors of Primrose Schools each day. They look forward to a day filled with fun, friends and learning. Their parents get something they value just as much: the confidence that they're giving their children the very best educational childcare available.

Primrose Schools provide private curriculum-based preschool and after-school programs for children between six weeks and five years of age, and after-school programs for children ages five to 12. Founded in Atlanta in 1982, the company improved on what was then the predominant daycare model. The Primrose Schools Balanced Learning® curriculum blends teacher-directed and child-initiated learning, and enables students to thrive and grow through learning, play, self-esteem and character development.

Today there are approximately 175 Primrose Schools operating in 15 states and, in 2006, the company awarded its 200th franchise. Franchisees operate all but one of the schools; the exception is the school at Primrose's suburban Atlanta headquarters, which is used to test innovative learning concepts and new curricula. Typical cost of establishing a new school is \$3.3 million. More than 30% of franchisees own more than one school.

Primrose Schools' founders retired in 1999, selling their company to Security Capital Corp. In 2006, American Capital Strategies Ltd., a publicly traded buyout and mezzanine fund, acquired 85% of Primrose Schools for \$63 million. The Primrose management team owns the remainder of the company, which generated about \$160 million in revenue in 2005.

“CIT Small Business Lending has taken the time to truly understand our business needs and those of our franchise owners. Our market share and brand leadership position in the industry has certainly been strongly influenced by CIT's role with Primrose Schools.”

JO KIRCHNER
PRESIDENT & CEO
PRIMROSE SCHOOLS

Challenge

By 1988, Primrose had grown from a single center to four company-owned schools in greater Atlanta. With more growth on their minds, the owners began to consider franchising their unique educational childcare concept.

At the time, just a handful of franchised childcare companies existed, and most of them were concentrated at the basic daycare end of the business, where volume, cost and location are primary considerations. When it was awarded its first franchise in 1990, Primrose Schools became one of the first premium-price/premium-quality providers to franchise.

The company quickly grew to about 20 schools in Georgia, and by 1993 management was ready to step across state lines. Texas seemed a likely location for the first Primrose Schools outside Georgia.

But first, the company needed to secure reliable sources of franchisee financing. Throughout the company's first decade, franchisees obtained financing through several local Atlanta banks. Now, as the

company prepared for regional expansion, it became clear that the banks lacked the resources, commitment and experience to support an ambitious multi-state growth plan.

Primrose needed a new financial services partner that understood its business model and shared its vision. The new financier needed the knowledge and experience to develop a cutting-edge franchisee financing program to take the company to the next level. But as a relatively small, local company, Primrose struggled to get the attention of well-qualified national and regional lenders.

Solution

In 1993, representatives of a CIT Small Business Lending predecessor company approached Primrose Schools' management team to begin discussions on a possible lending partnership. CIT Small Business lending is the country's No. 1 Small Business Administration lender and the largest provider of SBA loans in the franchise industry.

“Long-term relationships built on mutual respect, trust and productivity are certainly hard to find in today’s business setting. We are thankful to have built that kind of relationship with CIT. We look forward to a bright and rewarding future with CIT.”

JIM STEGER
VICE PRESIDENT OF FRANCHISING &
BRAND CONSISTENCY
PRIMROSE SCHOOLS

From the first series of meetings, CIT representatives focused on understanding Primrose Schools’ unique market position in the childcare industry. The ideal financial partner would need to have the financial resources, industry knowledge, long-term commitment, national presence and service capabilities to meet the needs of Primrose and its franchisees.

Because of its industry knowledge and experience, CIT Small Business Lending was able to recognize the excellent potential of Primrose, which had been overlooked by many other potential partners.

CIT developed innovative, integrated financing programs designed to help Primrose meet or exceed its growth objectives. Unlike many other lenders that finance childcare facilities, CIT offered Primrose Schools’ franchisees a complete and flexible financial solution that covers the full range of their startup needs.

Under the program, CIT Small Business Lending typically develops a long-term custom financing solution that includes franchise fees, real estate and construction costs, building fixtures and furniture, staffing and training costs, working capital and more. In most cases, 90% financing is available with terms of 10 years to 25 years, if real estate is involved.

CIT Small Business Lending brought more than financial capital to the table by providing franchisees with an extensive vendor network, including easy access to childcare industry appraisers, commercial real estate brokers, contractors, interim lender banks and other knowledgeable experts.

Results

Primrose Franchising chose CIT Small Business Lending as a nonexclusive partner for franchise financing. Starting with a first prototype school in Texas in 1995, CIT has provided more than \$300 million in financing for more than 150 Primrose Schools in 15 states. About 75% of Primrose franchisees choose CIT as their financial services partner.

Primrose has exceeded its initial growth projections, expanding from 24 locations and \$44 million in annual revenue to about 170 locations and \$160 million in revenue in less than 10 years. The company plans to grow at a rate of 24 to 28 schools per year for the foreseeable future.

Franchisees find Primrose a profitable business; Primrose centers typically have revenues twice those of other schools with comparable numbers of students. About 60% of Primrose Schools report annual revenue of \$1 million or more.

Primrose applies its high-quality standards to the selection and approval of franchisees who share the company’s values and commitment. This helps explain a remarkable franchise success rate. There were no defaults or charge-offs on 96 SBA loans issued between 2000 and 2006, and there is a waiting list for both new and resale schools.

CIT Small Business Lending’s long and successful relationship with Primrose led to the selection of the CIT Corporate Finance unit as lead agent on the purchase of Primrose by American Capital Strategies in 2006. CIT provided a \$30.8 million senior secured credit facility for American Capital Strategies and a \$7 million line of credit for Primrose Franchising.