

CONVERSATIONS WITH MIKE MILKEN



Tom Wyatt

CEO, KinderCare Education

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Mike Milken: Tom, thank you for joining us today.

Tom Wyatt: My pleasure, Mike.

Tom, you have led a number of successful, particularly retail operations, before you became the CEO of KinderCare. After an extremely successful leadership career. What led you to change your career?

It was a time in my life, Mike, that I was really reflecting on my career, the opportunities that I'd had to lead different companies, and I certainly enjoyed all of that. But as I dug deep into what early childhood education is really rooted in – the impact it is having on young children, I just felt like it was time for me to do something that had more purpose. To prepare these kids for the future is something I take seriously. The better we do that, the better chance we have of a healthy and wonderful country and world to live in.

Give us a little feeling for the geographical scope of your company, the number of employees, just its sheer size.

We have three distinct businesses and I'll start with the largest and that's KinderCare Learning Centers. They're nestled in communities all across the country. It's 1,500 sites.

This interview has been lightly edited for clarity and readability.

At our peak this year, we were at 196,000 children in those centers with over 25,000 educators.

The second business is our KinderCare Education at Work business where we actually partner with employers around the country and we offer them a menu of the services. The biggest one being usually an onsite or a near-site dedicated childcare facility for their employees all around the country.

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The third business is our Champions business, and this is a fantastic business for us. It is a before- and after-school program. It's open two hours in the morning, three in the afternoon. Champions is now enjoying over 600 sites that are literally located at schools throughout the country.

Your centers have provided crucial care I know to the department of defense major research centers and medical centers like the Cleveland clinic that have had to remain open. Other companies such as Cisco. Universities with medical centers particularly like Stanford. What do you define as your company's mission today?

After March the 16th when we started our journey in the pandemic with the coronavirus, it was important for us to manage our centers and be sure that we were doing the right thing by our employees and certainly by servicing the families.

We came to the conclusion, the best thing for us to do was to become an essential provider to workers in healthcare, supply chain, grocery store clerks and what have you. We wanted to be sure that we opened centers that were located strategically around the country for these individuals.

Then we looked at other centers that, quite frankly, over the period of that whole week of the 16th, the occupancy remained very high, which meant that there was a demand in that community for that center to stay open. So we literally took the 1,500 centers we have and we left 450 of them open the week of March 23rd and they're still open today. Since that time, our occupancy has grown. So we not only feel like that we did the right thing strategically and emotionally for that matter, but we have now seen an increased demand as people have found that those centers were open and their needs existed. So we're very, very proud of what we were able to do.

Tom, obviously parents are concerned about whether their children are safe and I know you take children as young as six weeks of age into the centers. How have you reorganized the processes here to make sure the teachers feel they're safe and the students?

There were a number of parameters and protocols that the CDC put in place for childcare and for us to stay open and we are following every bit of that. But on top of that we are also checking temperature of every single person that comes into our center. We are also asking parents to drop their child off at the front door. So we have made a point of being sure that there's a minimum amount of in and out traffic to our specific classrooms.

We also have changed our ratios. In the spirit of being sure we're doing the right things with social distancing and the right things with the way we manage the children in the classroom, we've added a number of more teachers to each classroom and on top of that we've even added a second center director to ensure that each classroom is sanitized multiple times in the morning and in the afternoon and that each classroom's behavior is in the spirit of the protocols that the CDC set out.

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Tom, we do a lot of reading today about the hospital systems in America and how much money they're losing. In preparation for a surge of patients, thankfully those COVID-19 patients have never shown up, and some systems might be losing as much as a billion dollars. I'm assuming that this has been an enormous financial drain. How are you managing the company through this crisis?

Well, at this point, Mike, we're doing what we think is the right thing to do. I will tell you, these 450 centers that are open are not profitable centers for us. Because of the new sizes of the classrooms, we can only get to about 45–50% of our capacity or occupancy, which at that level we cannot be profitable.

We have done all the things that we could do to control expense. We have a number of people working, candidly, for free at this point in our executive team; our vice presidents are working for half of their normal wage. In the spirit of, we're going to get through this; the opportunity for us to be in a position to help the country go back to work is the most important thing that we can prepare for.

Tom, I know with a lot of your centers closed, how are your teachers and staff holding up?

I'll tell you, the ones that have been chosen to be a part of the essential centers feel blessed, feel lucky, love coming to work every day. They're just totally selfless about the risks they're putting themselves, maybe even their families in by coming and exposing themselves to the center. But they write me, they call me, they are so taken aback by the grateful comments they get, the emotional letters and emails they get from the doctors and nurses and others saying that they could not be doing their work without our support. So I'd say to you, the essential workers and teachers in those centers are just really excited about the opportunity to serve their communities and these professionals.

The interesting thing is the ones that are at home share that emotion. They have been incredible the way they've kept up with their children, the way they have supported the essential centers. We've had many of our centers that were closed literally drive by essential centers and in parades of cars just to honk and wish them luck and just give them their support.

How are you going to reopen a thousand centers so that people can go back to work and leave their young children in these centers? How are you going to do that?

That's a very good question, Mike. After week two of this event, we turned our work towards how do we rebound, how do we plan to prepare the center directors to go back into their centers to get them clean, to make them appropriate for receiving the children and families when the opportunity does present itself. When we do open a center, we want to be sure that parents know that it is a safe and nurturing environment for their children. And it is practicing the protocols of the CDC. So, it's going to be an interesting situation.

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Now, one thing that's in our favor is the fact that the country is not going to open all at one time. So we see certain states coming earlier, certain states may be coming later. So the approach that we've taken to this is literally state by state, community by community. And we feel very good about the way we have it set up and we are literally having conversations on this on a daily basis as we pull together the plan and formalize the actual openings of these centers. KinderCare has as many as 150 centers in

a given state, so if one state actually were to become cleared, the opportunity for us to open all those centers is going to be a Herculean task.

When we think about these young children, today you are servicing families as I understand it, middle class, lower middle class often and lower income families. As we come out of this, will they even be able to afford to have the kids go back and how does that affect their employment if they cannot have their young children go back into these centers?

The state-subsidized children, which is one-third of our population – children that are at the lower income levels – are at this point supported well through the CDBG block grant. We're more concerned about lower-middle, middle and upper-middle-class families because they are the ones that are burdened in paying the entire tuition rate of our centers, and many of those people have been let go. Many of them don't have a job today, or at least they were furloughed until the coronavirus was behind us and we were opening up and people were going back to work. But people have been without income for six, seven, eight – maybe longer – weeks. We're concerned about them. We're concerned about their ability to come back.

I'm also concerned because of the nature of how we will be able to open these centers because they will only be able to house about 50% maybe 60% of the children they were able to house before, and many of our centers are very full, much fuller than that.

We may have situations where families are going to want to go back to work, are going to want to bring their children back to to the teacher in the classroom they had a relationship with, and we may not be able to fit them into that center. So there's an opportunity for us to really manage through this and again, to stay close to the CDC, stay close to guidelines, to ensure that as this opens back up that the occupancy in each classroom, the ratios in each classroom, are in fact the way the government wants us to perform. But at the same time, hopefully in a way that can support the families that are coming back.

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When you look at studies done you see that they show the best investment for a country is this age 0 to 6 education, which has the highest rate of return with the child's brain development in these early years. How long is it going to take to bring these children back after they've lost a few months or maybe six months?

Well, it's a combination of a couple of things, Mike – not only the social and academic development that has been compromised and will take months to get that back, but there's also a concern that we all share in this industry that there will also be children who are going to have mental challenges because this has been very, very difficult on them. They've not been able to see their friends. They've not been able to be with their teacher. Their life has been turned upside-down. So the emotional stress on children today is one that we think may be even more critical than the academic loss that they certainly have had. But both are going to take months – could take the better part of this year. But that's the most important work we do. We need to be sure these kids land back on their feet, that they have a solid foundation, that they do become stimulated again with academic development and social development and all the things that we do in our schools. And we're ready and prepared to do that as we have been in the past. So it's going to be interesting. I think the emotional side of this is bigger than we all think, and it's something that I'm concerned about.

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Tom, I want to thank you for making that decision to go to work in early childhood education and we look forward to seeing what you're able to accomplish and opening a thousand centers this year and getting your teachers and children back together. And thank you for joining us today.

It was my pleasure, Mike. Thank you for the opportunity to talk to you about early childhood education.
