

PRESCHOOL EDUCATION PROJECT

Business plan

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1. Geopolitical analysis

Country Context

Ukraine has experienced acute political, security, and economic challenges during the past five years. Since the Maidan uprising in February 2014, the country has witnessed several momentous events, including the outbreak of conflict in eastern Ukraine and the annexation of Crimea [3.5].

From 2014 until early 2019, the Government undertook key reforms, including: carrying out significant fiscal consolidation, moving to a flexible exchange rate, reforming energy tariffs and social assistance, enhancing the transparency of public procurement, simplifying business regulations, stabilizing and restructuring the banking sector, moving forward on health and pension reforms, and establishing anti-corruption agencies [3.5].

Political paradigm

People became disillusioned by the lack of meaningful progress in some of the very areas that brought them out into the streets in 2014. Lack of trust in public institutions was the most fundamental. Corruption remained endemic – from the financial sector to health care – and powerful oligarchs still dominated and “captured” the economy [3.5]. In Spring 2019 73% of Ukrainian citizens voted for a new president – a comedian with no political background - Mr. Volodymyr Zelenskyi. His party, Servant of the Nation, has a previously unseen majority in the Parliament. New president introduced a new Minister Cabinet with many new faces who were sometimes professionals in their spheres. The new government worked for a year and was dismissed by Mr. Zelenskiy. Ukrainian political reality changes very rapidly and unfortunately often directly influence business.

Economic development

The growth of the Ukrainian economy in 2019 may become the highest in the last eight years, while inflation – the lowest over the past six years. According to estimates of the State Statistics Service, GDP growth in the third quarter 2019 exceeded 4% in annual terms. This means that economic growth over the whole year is likely to outrun the figure of 2018 at a little over 3%, being the highest over the past eight years [4.15].

Forecasted currency exchange rate:

Key Macroeconomics indicators	Units	Current					
		exchange rate	2020F	2021F	2022F	2023F	2024F
Currency Exchange rate UAH to USD	UAH/USD	28	32	32.50	33.0	33.5	34.0

The average income of Ukrainians is also growing. The average nominal salary of a full-time employee in October increased by 16% in 2019. For example, in Kyiv, the average salary is almost UAH 16,000, or \$700 at the NBU rate. Due to the growth of citizens' incomes, retail trade continues to flourish and warm up the economy – in January-November its turnover grew by more than 10% on year, up to UAH 980 billion [4.15].

These official numbers however do not include the IT sphere, in which Ukraine traditionally is very strong over the last 10 years. Most IT companies do not operate within the framework of the Labor Code of Ukraine. Instead, IT specialists (software developers, management, business analysis, including data specialists, data engineers, and data scientists, HR, recruiters, sales managers, marketing specialists, support managers, and many more) are registered as individual entrepreneurs. In 2018 in Kyiv were registered 45778 individual entrepreneurs having “computer programming” as one of their codes for economic activity [4.32]. Here are some median salaries of some of the most popular specialists as of December 2019 [4.24]:

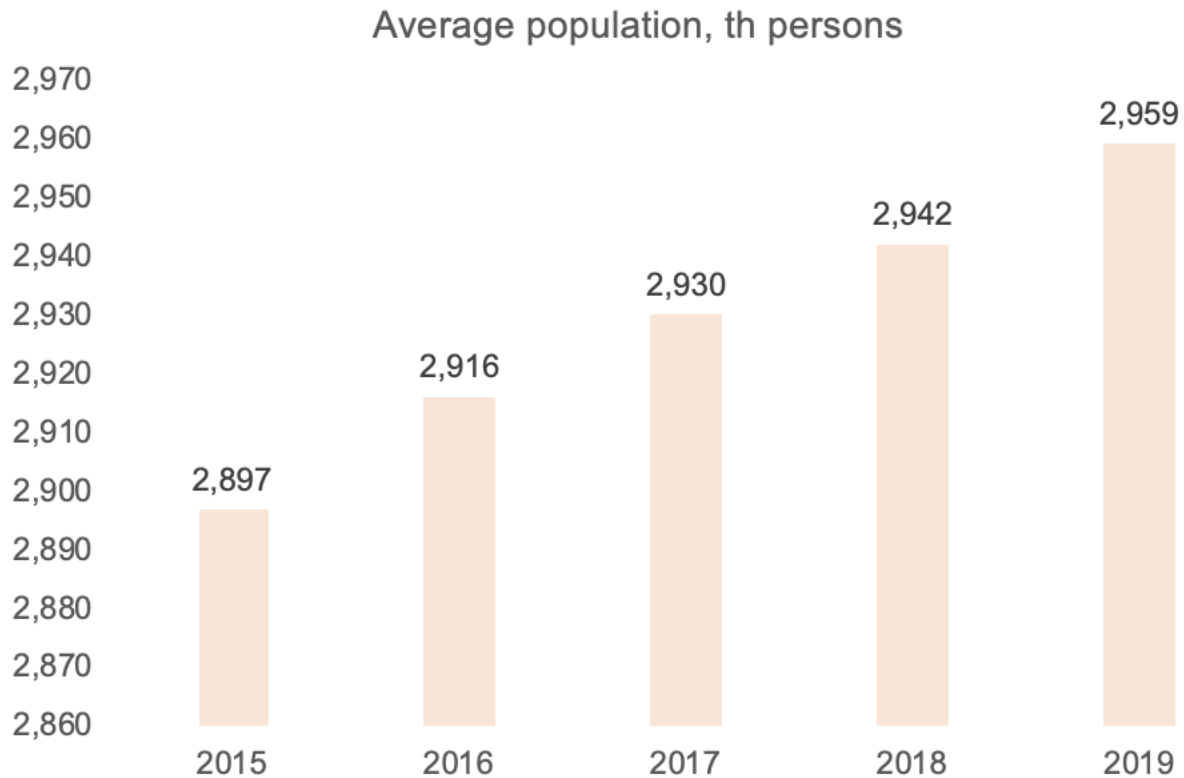
- middle software developer with 2-3 years of experience, C#/.NET – 2000 USD
- senior software developer with 4-6 years of experience, C#/.NET – 3500 USD
- middle software developer with 2-3 years of experience, Java – 2100 USD
- senior software developer with 4-6 years of experience, Java – 3890 USD
- marketing specialist with 4-6 years of experience – 1200 USD
- HR with 4-6 years of experience – 1500 USD

This data differs greatly from the official average nominal salary as stated by State Statistical Service above.

The Economist Intelligence Unit in its annual Worldwide Cost of Living report as of 2019 stated that Kyiv, rose by 22 places in the overall rankings, to 86th, partly owing to record grain harvest in 2019, which boosted export earnings, leading to a strengthening of hryvnya against the US dollar. In addition, prices in Kyiv are being boosted by rising demand following a string of increases to the minimum wage in recent years and stronger real wage growth more generally – albeit from a very low base.

Kyiv demographics

Average population in Kyiv has continuously grown for the last 5 years.



As per Kyiv Statistics Service, in 2019 positive migration balance was 17175 persons.

Senior software developer's average age is 30 years, and average of the first marriage among males is 28 years [4.22]. In addition, as per the tables on age-specific birth rates by State Statistical Service, in 2018, 195 out of 1000 women give birth to their first child between the age of 25 and 34 years old [4.20], being the most active age group for becoming mothers, and fathers.

Millennial couples prefer not to interrupt their work with maternity leaves for a very long time, that is why nannies become an important partner in their children's upbringing. As of 24 March 2020, salary statistics on job website Work.ua states that a median salary for a nanny in Kyiv is 12500 UAH [4.35]. Some parents hire nannies full-time, others hire part-time, mainly for a couple of days per week, and nannies for a couple of hours also have demand on the market. Nonetheless, nannies are more often considered as a complement for kindergartens, and not as a substitution.

1.2 Global and local trends in education

Global social paradigm is constantly changing and new trends step forward. Some global trends come to Ukraine faster, others do not. Ukrainian trends also become more socially driven, even though with some local peculiarities. Let us have a closer look at what is going to shape preschool educational facilities in the nearest years.

Early education

Although this trend is not new, it emerged many years ago, it still remains very popular all over the world. European commission defines early childhood education and care as any regulated arrangement that provides education and care for children from birth to compulsory primary school age, which may vary across the EU. It includes center and family-day care, privately and publicly funded provision, pre-school and pre-primary provision. Thus, quality early childhood education and care can lay the foundations for later success in life in terms of education, well-being, employability, and social integration, and is especially important for children from disadvantaged backgrounds. High-quality early childhood education and care is therefore an efficient and effective investment in education and training.

Inclusive design

Inclusionary design in the school system is no longer exclusive to those with physical disabilities. Businesses and institutions are now focusing on creating spaces for children that accommodate a wide range of mental and physical health-related needs. Whether prioritizing ergonomic classroom desks or ensuring comfortable learning environments for refugee children, this shift toward all-encompassing inclusion in school design indicates that designers and institutions are increasingly recognizing how children's environments can impact their schooling [4.13].

The increased focus on inclusive design by architects and school systems comes in response to discourse identifying the conditions that are most conducive to young people obtaining an exceptional education. These spaces cater to the modern parent's desire for well-rounded and personalized learning experiences for their children, with businesses now meeting some of these needs by prioritizing inclusion that encompasses diversity, disabilities, and other physical or psychological needs [4.13].

Education for Sustainable Development

In 2018 UNESCO Education Sector defined issues and trends in Education for Sustainable Development (ESD), which empowers learners to take informed decisions and responsible actions for environmental integrity, economic viability and a just society, for present and

future generations, while respecting cultural diversity. This type of education addresses learning content and outcomes, innovative pedagogy and “learning by doing”, and uses a whole-school approach to engage communities in achieving sustainable change [4.9].

ESD is commonly understood as education that encourages changes in knowledge, skills, values and attitudes to enable a more sustainable and just society for all. ESD aims to empower and equip current and future generations to meet their needs using a balanced and integrated approach to the economic, social and environmental dimensions of sustainable development [4.9].

With regards to learning content such as curricula, the complex sustainability challenges facing societies cut across boundaries and multiple thematic areas. Education must therefore address key issues such as climate change, poverty and sustainable production. ESD promotes the integration of these critical sustainability issues in local and global contexts into the curriculum to prepare learners to understand and respond to the changing world. ESD aims to produce learning outcomes that include core competencies such as critical and systemic thinking, collaborative decision-making, and taking responsibility for present and future generations [4.9].

Gamification in education

Gamification is a new approach to education that applies video game design in learning contexts in order to motivate and engage students. There are many aspects of games that can be integrated in gamification, such narrative, point based reward systems, collaborative problem solving, trial and error, or opportunities for leveling up. An activity does not necessarily need to have all these features in order to be considered gamification [4.5].

Games are about problem solving, this alone makes them a great tool for teaching, learning and assessing. It has been shown that gamification helps students focus, retain information, and improve their overall performance. This is mostly thanks to the fact that younger generations are so used to video game dynamics that seeing them recreated at school is guaranteed to increase their engagement. Instant feedback, trial-and-error deductive learning, and a fun more active way of studying are among the aspects that make gamification so appealing. Students feel more in control of their choices, just like they feel when playing as the main character in a game [4.5].

Gamification is already part of education, and it has been proven extremely successful. Platforms like Duolingo, that lets students learn a language by translating increasingly complex sentences, or The World Peace Game, a political roleplaying game that lets students explore the relationships between nations [4.5].

But gamification is not just for elementary school and universities are also opening up to it. Coursera, for example, is a company that has already partnered with several universities to provide free online classes. The courses include video lectures and weekly assignments, feedback is immediate and students “level up” or receive badges as a reward system [4.5].

The generation theory

Gen Z is too young to have made an impact in society yet, but the millennials have. And now the Ys are upbringing a whole new generation – Alphas (born between 2010 and 2025). The Alphas are the first generation to be entirely born in the 21st century.

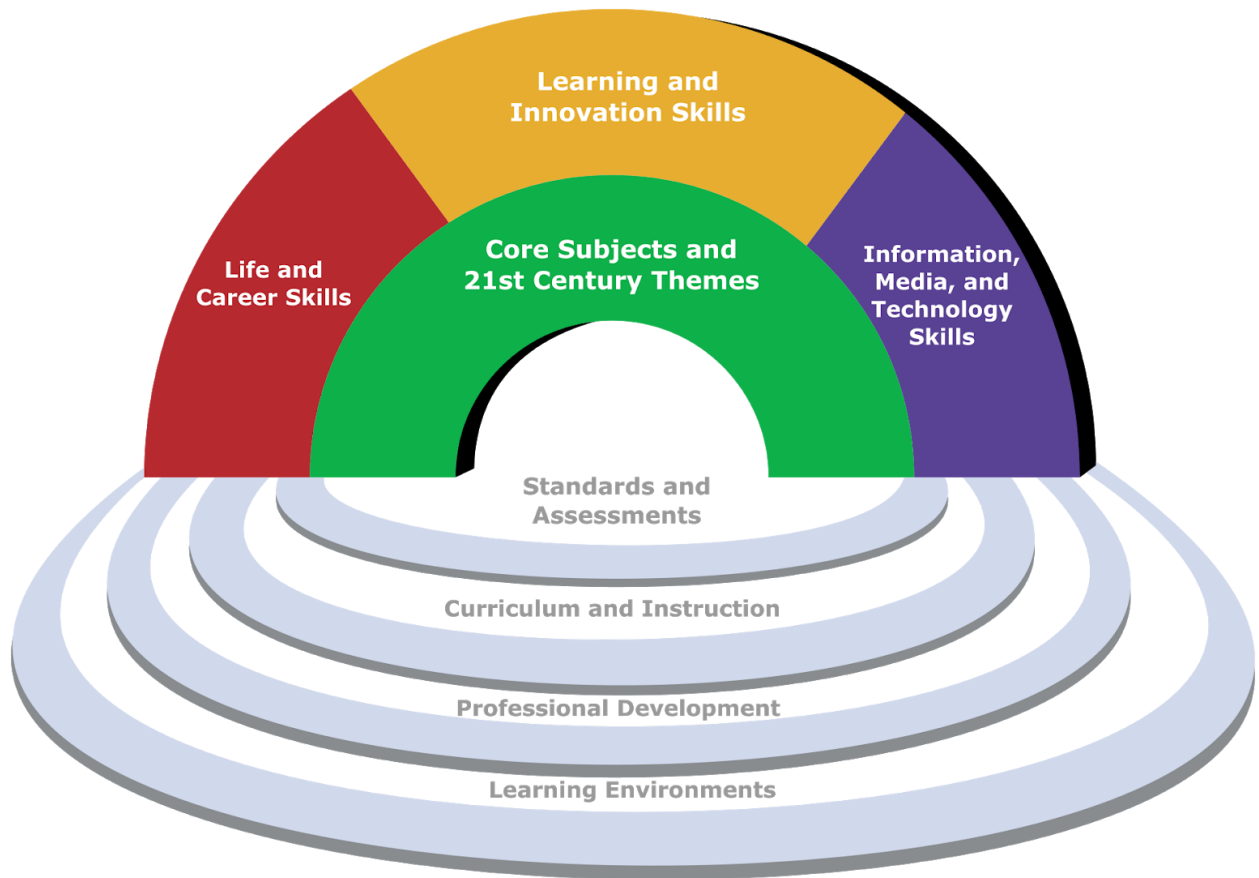
The term was introduced in 2005 by social researcher Mark McCrindle. He believes that this generation of children will be shaped in households that move more frequently, change careers more often and increasingly live in urban, not just suburban, environments [4.11].

In various articles about its members, analysts have stated that they are or will grow up to be the best-educated generation ever, the most technologically immersed, the wealthiest, and the generation more likely than any in the past century to spend some or all of their childhood in living arrangements without both of their biological parents. These are all notable features, but some of them are broad and fairly low-stakes observations, given that the global population has been getting richer, better educated, and more exposed to digital technology for a while now [4.11].

21st century skills

In 2002 a number of corporations, education leaders, and policymakers in the US created a non-profit organization to foster the development of 21st century skills throughout the whole educational system of the US, called Partnership for 21st century skills, or P21. Members of P21 include Apple Inc., Texas Instruments, SAP, Lego and many more [4.1].

P21 developed a framework for 21st century skills, including core subjects, 21st Century Themes, and support systems:



The 4Cs and The 7Cs

Primarily P21 defined the four most important skills for people of the 21st century:

- Collaboration
- Communication
- Critical thinking
- Creativity

Later on some members of P21 updated the list and added 3 new important skills, thus turning the 4Cs into 7Cs:

- Critical thinking and problem solving
- Creativity and innovation
- Cross-cultural understanding
- Communications, information, and media literacy
- Computing and ICT literacy
- Career and learning self-reliance

It becomes notable that today society wants to develop in children thoughts, ideas, questions and solutions sharing, team spirit, mainly importance of working together to reach a common goal, looking at problems in a new way, and linking learning across subjects and disciplines, trying new approaches to get things done, being innovative.

New Ukrainian School

In 2017 Ukrainian government supported the P21 initiative in its own way. The Minister of education and science Lilia Grynevych announced a reform in the primary and secondary education system, called New Ukrainian School.

In her interview to Hromadske.ua Minister Grynevych told that the New Ukrainian School should become the school of life in the 21st century. She mentioned that technologies are changing and the society is developing and no one can tell what challenges will in future face those children who are now studying at school. That is why the Ministry wants to move away from schools that pack children with out-of-date knowledge and switch to schools that teach competences. These are not only knowledge, this is also the ability to use them for own individual and professional tasks. These are also attitude, values, and critical thinking. However, in order to create such a school, Ukraine will need to retrain teachers, implement new educational standards and contents, and prepare a new network of educational facilities. Minister Grynevych managed to launch this 12-years school in 2018-2019, first starting with the primary school and then gradually moving to middle and high school.

Conclusions

The world today becomes more socially oriented as ever: trends in the educational system and children's upbringing is moving towards early soft skills development, eco-friendliness, inclusivity adaptiveness, new technologies: gamification, ML, AI. The “Reggio Emilia” approach tries to embrace most of the modern trends to help parents educate the new generation in tune with the times.

2. Tax legislation and licensing

According to the World Bank, Ukraine is on the 64th place in the Doing business rating among 190 countries, and on the 65th place in the Paying taxes rating [3.1].

The Ukrainian accounting rules are very complex in terms of taxes. Accounting mixes tax system and financial accounting, and this makes it increasingly complicated. During the last few years Ukraine has made a significant effort to incorporate BEPS Action Plan into its domestic legislation to harmonize it with international best practices [3.4].

In Ukraine, all taxes and levies are national or local. Tax collection procedures and tax incentives may be established only by law. According to the Tax Code of Ukraine, there are 23 taxes and levies, 18 of which are national and 5 local.

The main taxes and payments are as follows [1.1]:

Consumption Taxes

- **Podatok Na Dodanu Vartist (PDV) (Value Added Tax)**

Standard tax rate (supply of goods and services with the place of origin within the territory of Ukraine)	20%
Supply of medicines and medical products	7%
Export of goods and services, other certain services	0%

Legal Entities that received the license for rendering services of preschool education **are exempted from paying VAT**. This exemption is used for preschool education services notwithstanding of which tax system is used.

- **Other Consumption Taxes**

Excise duties are levied on alcohol, alcoholic beverages, beer, tobacco and tobacco products, cars, car bodies, motorbikes, electricity, liquefied gas, petrol, diesel fuel, other fuel material, and electric power.

A vehicle tax of UAH 25,000 applies to cars worth UAH 1.565 or more and less than five years old.

These taxes are not applicable for a kindergarten project.

Corporate Taxes

- **Corporate Income Tax**

General tax rate	18%
Insurance companies	0%, 3%
Non-residents income:	
Insurance payments	0%,4%, 12%
Freight	6%
Interest, dividends, royalty, engineering income, rent, sale of property, etc	15%
Production and/or distribution advertising	20%
Book publishing	10%, 18%
Lottery	30%

Kindergartens shall be registered as legal entities and are taxed on all their revenues from educational and other services at the general tax rate at the level of 18%, in case the legal entity uses a general system of taxation.

- **Capital Gains Taxation**

Capital gains are treated as ordinary income and are taxed at the standard corporate tax rate.

- **Main Allowable Deductions and Tax Credits**

Most expenses incurred relative to the activities of the company are deductible for tax purposes. Assets with value greater than UAH 6,000 and a useful life of more than one year are subject to depreciation. Depreciation is determined monthly based on different depreciation calculation methods (linear, decreasing, variable, exceptional). Goodwill cannot be amortised for tax purposes.

Organizational and start-up expenses are fully deductible and are not subject to capital expenses. Interest is also deductible (restrictions apply to interest paid to non-residents) as are fines and penalties (except for those paid to companies that do not pay corporation tax or are subject to a 0% tax rate). Taxes, with the exception of corporation tax, withholding taxes and non-recoverable VAT, are deductible. The obligatory Ukrainian social security insurance contributions paid by the employers, as well as R&D expenses are also deductible.

Donations to charities are only deductible up to 70% and are capped at 4% of the previous year's taxable income. This rate is raised to 8% for donations to NGOs involved in sport and physical education.

Tax losses can be carried forward without any restrictions. The carryback of losses is not permitted.

- **Other Corporate Taxes**

A property tax is levied at rates varying between 1% and 5%.

Purchases and transfers of real estate are taxed at a rate of 2% of the purchase value, i.e. 1% for the pension fund and 1% for the state tax.

According to the proposed business model kindergarten uses rented premises and is not the subject of any property tax.

Social security contributions are paid by the employer and amount to 22% of the salary.

The kindergarten shall pay social security contributions for every employee. However, the kindergarten hires teachers with narrow specialization for 1-2 hours per week, such teachers shall be registered as private entrepreneurs and the kindergarten shall sign agreements with them as with contractors.

- **Simplified tax regime**

1st group	10% of the minimum amount of cost of living	Max revenue UAH 0,3 mln
2nd group	20% of minimal salary	Max revenue UAH 1,5 mln
	3% of revenue (for VAT payers)	
3d group	5% of revenue (for VAT non-payers)	Max revenue UAH 5 mln

4th group	% of the evaluation of the agricultural land	For farmers, no revenue limitations
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Simplified tax regime can be applied for the kindergarten:

- 3d group for LLC (Limited liability company);
- 2nd or 3d group for PE (private entrepreneur).

Individual Taxes

- **Tax rates**

Personal income tax	Flat rate of 18%
Additional tax on individuals as military contribution	1.5% of taxable income
Dividends paid by residents	5%
Dividends paid by non-residents, mutual investment funds, and non-payers of CIT in Ukraine	9%

- **Allowable Deductions and Tax Credits**

There are deductions for Ukrainian mortgage expenses, donations to qualified charities (up to 4% of the taxpayer's taxable income), tuition fees paid to Ukrainian universities and contributions to voluntary life/pension insurance (only for tax residents receiving employment remuneration in Ukraine, limited to UAH 2,470 per month per taxpayer).

Legal entity, in our case – the kindergarten – acts as payment agent for deduction and payment of individual taxes and contributions from the salary of employees.

Country comparison for corporate taxation

	Ukraine	Eastern Europe & Central Asia	United States	Germany
Number of Payments of Taxes per Year	5.0	17.6	10.6	9.0
Time Taken For Administrative Formalities (Hours)	327.5	238.0	175.0	218.0
Total Share of Taxes (% of Profit)	41.7	33.8	43.8	49.0

Source: *Doing Business, 2019* [3.4]

Licensing

Preschool education activity is subject to licensing in Ukraine. The requirements to kindergartens and the licensing procedure is described in the following laws and regulations:

- Resolution of the Cabinet of Ministers of Ukraine №1187 dated 30.12.2015 “On approval of the Licensing conditions for conducting educational activities of educational institutions”
- Regulation on Preschool Educational Institution, approved by the Cabinet of Ministers of Ukraine Decree No. 305 of March 12, 2003
- The Law of Ukraine "On Preschool Education"
- Law of Ukraine "On Education"
- Law of Ukraine "On Licensing of Economic Activities"
- State Building Regulations for Kindergartens

The procedure of kindergarten licensing was greatly simplified in May 2018: it became the directors' responsibility to ensure complying with the requirements of The Sanitary and Epidemiological Service, The Fire Service and Education authority and other legislative requirements.

To receive a license a legal entity shall apply with the charter documents, documents that testify qualifications and medical clearance of its director and teachers.

Governmental authorities reserve the right to check whether educational institutions comply with the requirements and/or regulations. The main requirements are the following [1.2 – 1.7]:

- Compliance with the minimum requirements of an educational program;

- Hard copy of an educational program;
- Lease agreement for 3 years;
- Facilities area not less than 5 sq.m per one child (in construction regulations square is defined for every functional zone);
- Certificates for all construction materials and equipment;
- Agreement for fire alert service;
- Availability of fire and smoke alarm system;
- Ventilation system;
- Compliance with sanitary procedures while serving food;
- Sanitary certificates of catering organization;
- Quantity of children and agreements with parents;
- Other requirements defined in above-mentioned regulation documents.

Summary

Ukrainian business practice shows that the majority of private kindergartens uses a simplified tax system and is organized as private entrepreneurs.

However, we expect to exceed revenue limitations for the 3d group of the simplified system in the second year after the project starts. That is why we choose the general system of taxation, which excludes VAT payments, but includes the following payments:

- corporate income tax amounting to 18%
- social security contributions amounting to 22%
- payments of personal taxes as an agent from employees' salary, mainly personal income tax amounting to 18% and military contributions amounting to 1,5%
- personal income tax from dividends 5%.

We are going to register LLC (TOV) Limited Liability Company under Ukrainian Law.

3. Market and industry analysis

3.1 Preschool education industry analysis

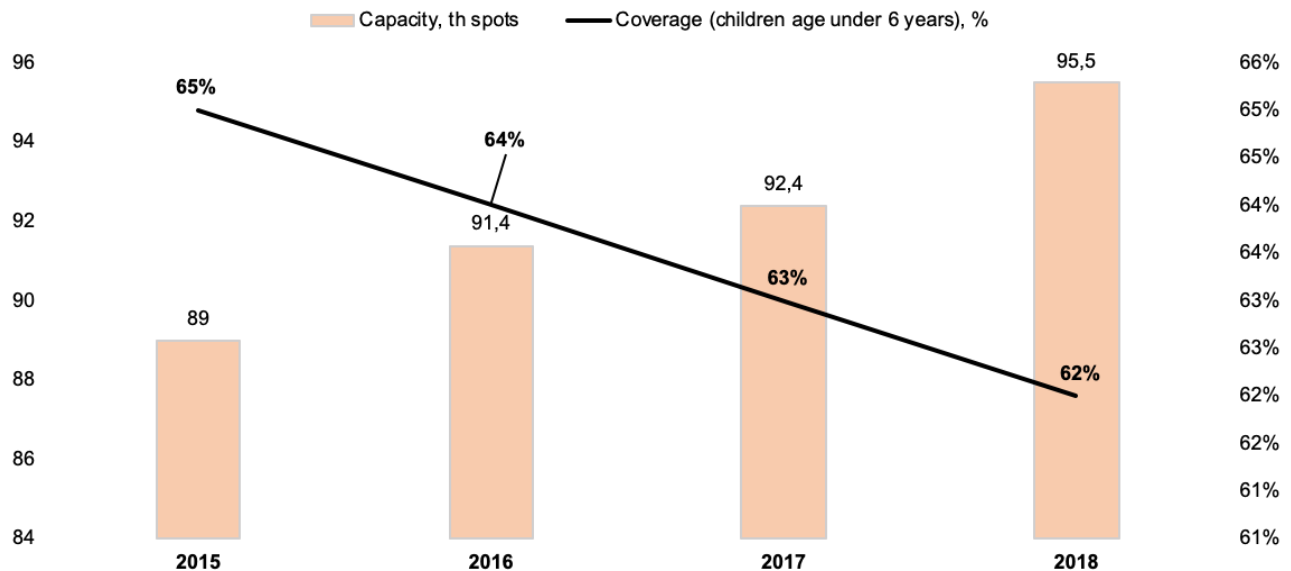
The preschool education industry in Ukraine consists of educational establishments or learning opportunities offering early childhood education to children before they begin compulsory education at primary school.

Parents are granted full responsibility for choosing a way of preschool education for their children. The most common are:

- Dedicated preschool education facility
- Inside education departments of private or public business entities, including education facilities
- Homeschooling
- Private education services provided by self-employed professionals

Overall children coverage by dedicated preschool education facilities in Kyiv in 2018, based on the data of the official population registered [2.12]	62%
Coverage rates based on the actual population of Kyiv including nearby agglomeration, unregistered population, and internal incoming migration rates [2.1, 2.2, 2.9, 2.12]	54%

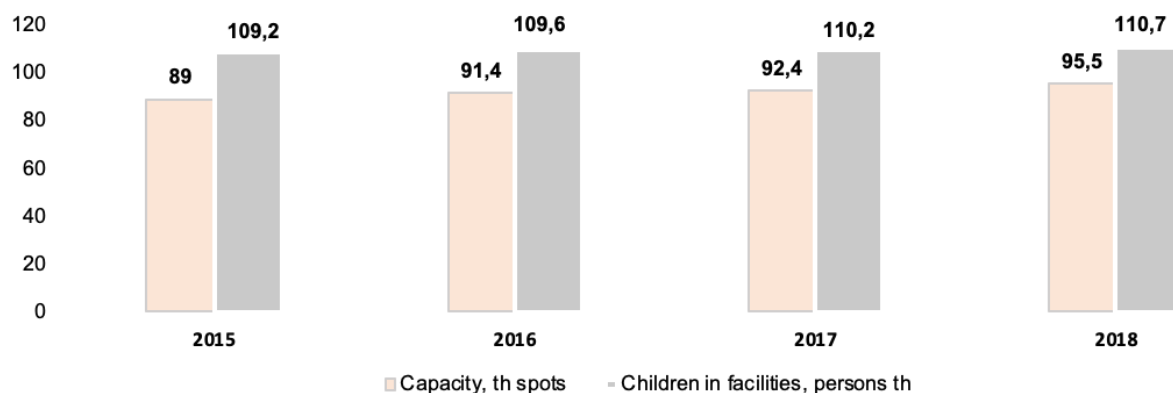
Pre-school education facilities capacity in Kyiv compared to children under 6 years old coverage, 2015-2018



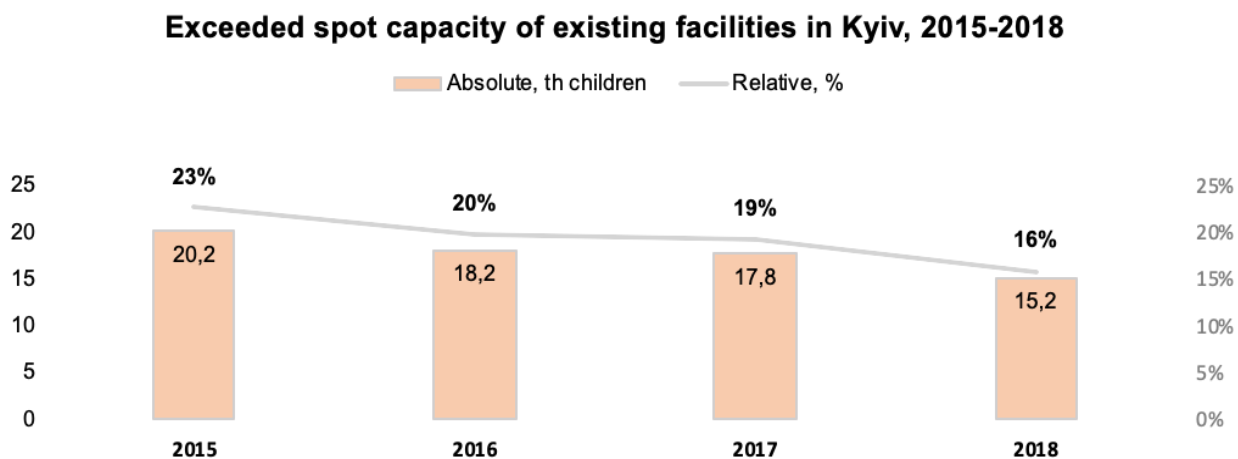
Over the 2015-2018 years the operating capacity of dedicated institutions increased by 6,5 thousand spots, while overall children coverage decreased from 65% to 62%. This means facilities' capacity is expanding much slower than the number of children of preschool age in Kyiv. It also means that almost 50% of actual preschool age Kyiv population is either not able to enroll in dedicated facilities, or chooses an alternative way of preschool education [2.6].

Operating capacity of currently existing preschool education facilities is critically exceeded [2.12]:

Exceeded capacity of existing facilities in Kyiv, 2015-2018 [th spots/th children]

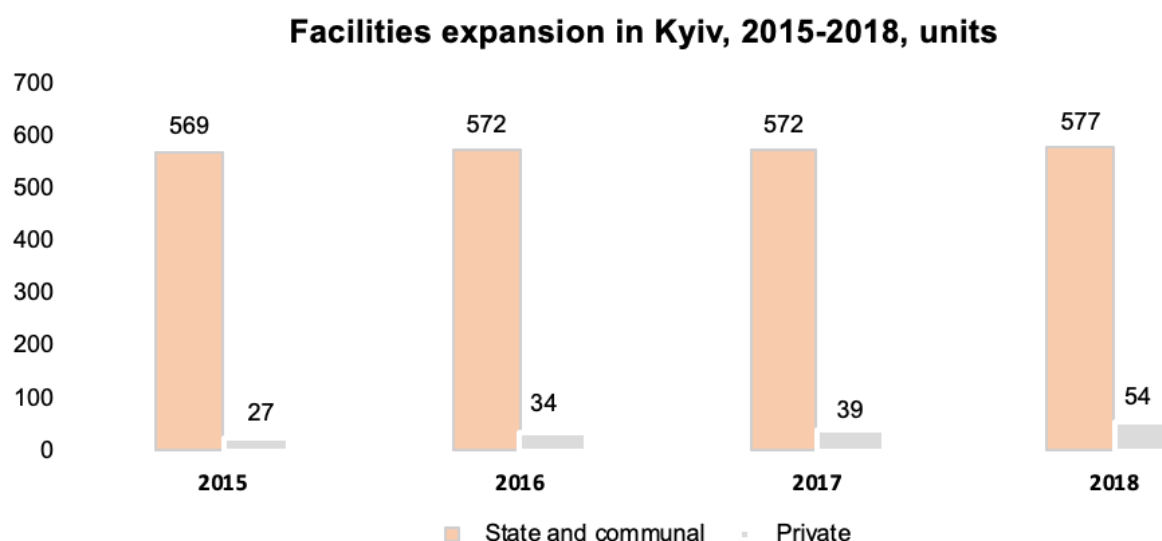


Number of children educated in existing facilities and operating spots have both increased over the 2015-2018 years, however, existing operating capacity still does not cover the demand.



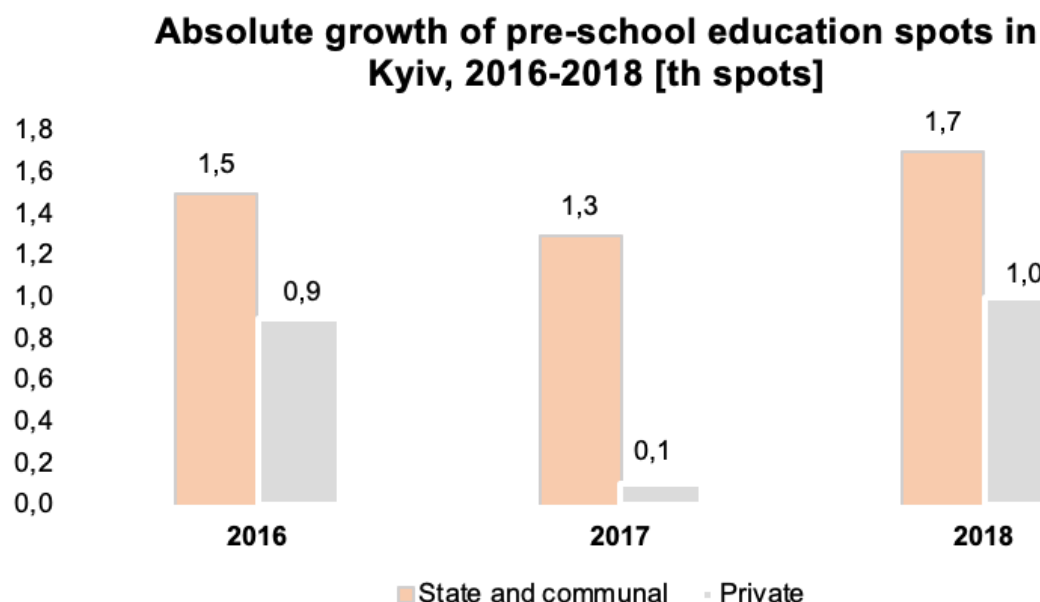
The level of exceeding has decreased since 2015 from 23% to 16%, however, facilities still service 15,2 thousand more children than their operating capacity allows. That is 113 children per 100 spots [4.2].

The positive tendency of load decrease can be directly connected to the increased number of newly opened facilities [2.1, 2.2, 2.9, 2.12]:



Over the 2015-2018 years the number of private facilities doubled from 27 to 54 units with CAGR of 19%⁶ while the number of state facilities increased by 8 facilities with 0 growth in 2017, and an average growth rate of 0,35%. Private sector is growing much more intensively.

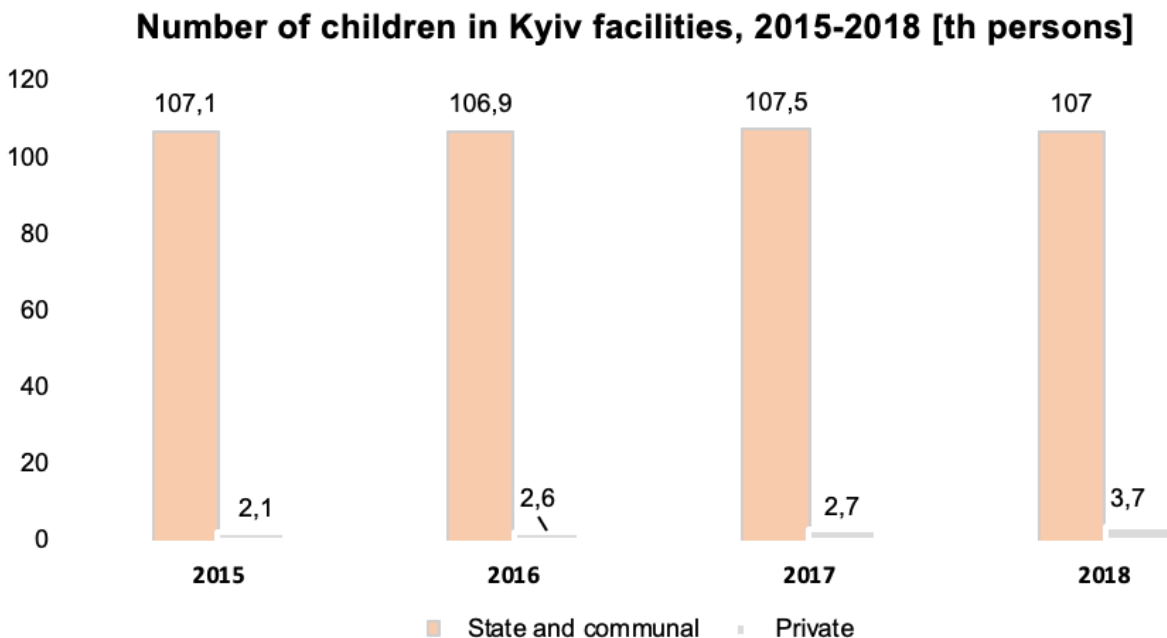
Operating spots expansion was the following:



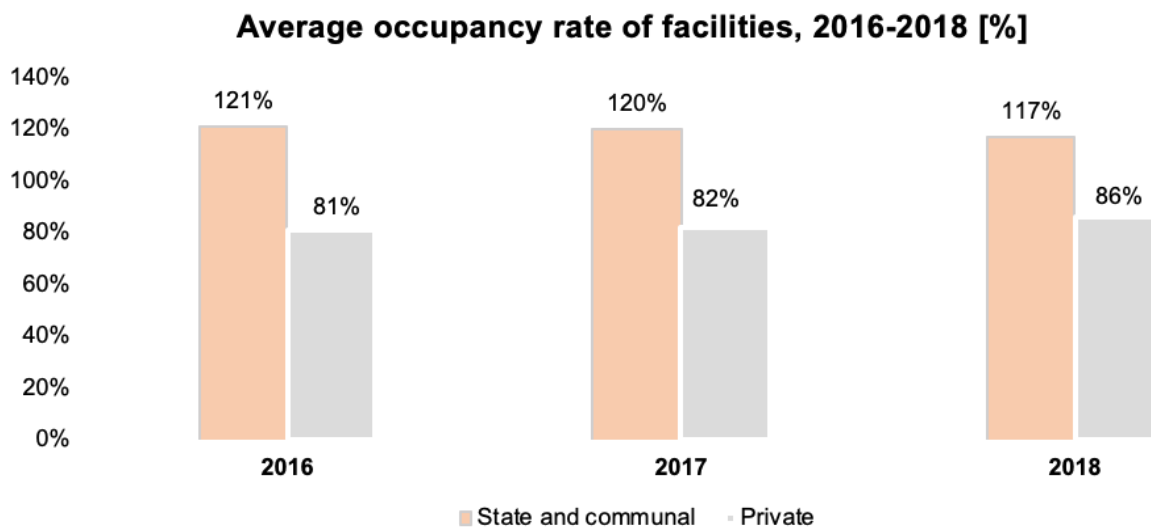
6,5 thousand spots were created in preschool education facilities of Kyiv from 2016 till 2018 [2.1, 2.2, 2.9, 2.12].

4,5 thousand spots opened in state facilities and 2 thousand spots in private ones, that is almost 30% of the contribution. Compared to the number of newly opened facilities, the conclusion can be made that state facilities mostly rely on renovating and expanding existing units, while private institutions are literally newly opened facilities [4.37].

3.2 Demand and enrollment process



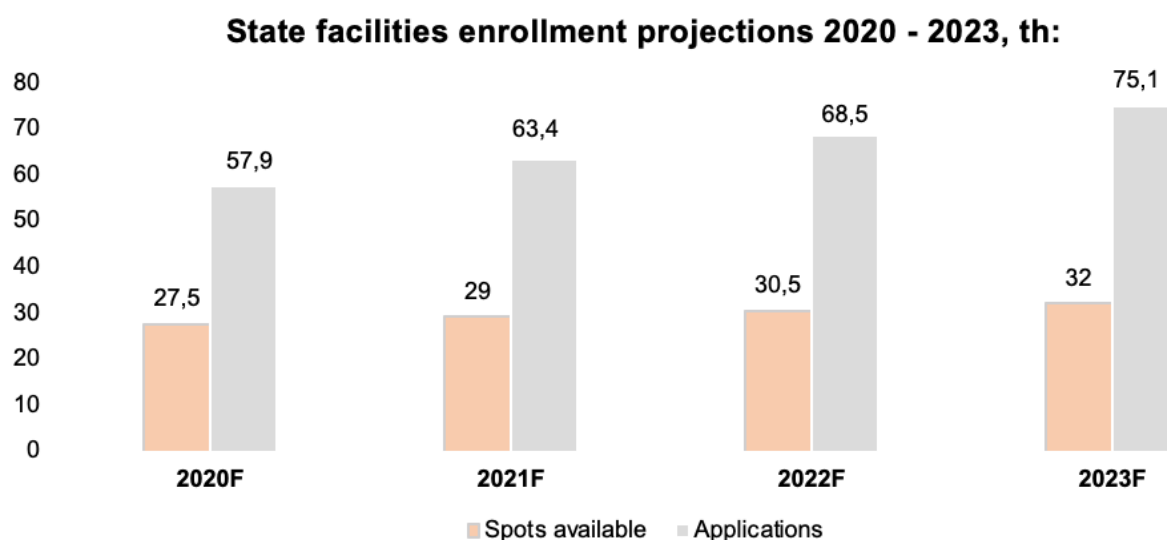
The number of children in state facilities fluctuates around 107 thousand persons with no radical relative change, however, the number of children visiting private facilities increased from 2.1 to 3.7 thousand persons over 2015-2018 years, with an average growth rate of 15%. In 2018 the number of children in private institutions increased by 37%, while the same measurement decreased for state facilities [2.12, 4.10].



The occupancy load of state facilities has decreased since 2016 with an average rate of 1%, while private facilities show over 81% occupancy and an average increase of 2% over 2016-2018 years [2.12, 4.10].

The enrollment procedure has been simplified and digitized since 2015. To improve the comfort of parents' interaction with preschool establishments, this electronic enrolment system – <https://osvita.kyivcity.gov.ua> – has been updated in 2018. Due to the mentioned measures, the enrolment queue to communal preschool establishments has been reduced by 26.2% compared to the previous year [4.23].

However, the gap between supply and demand on the market of preschool education is still dramatic [2.10]:



The current gap between spots becoming available for 2020/2021 education year and applications in state facilities is 52%. More than half of applicants will not get enrolled in the state facilities.

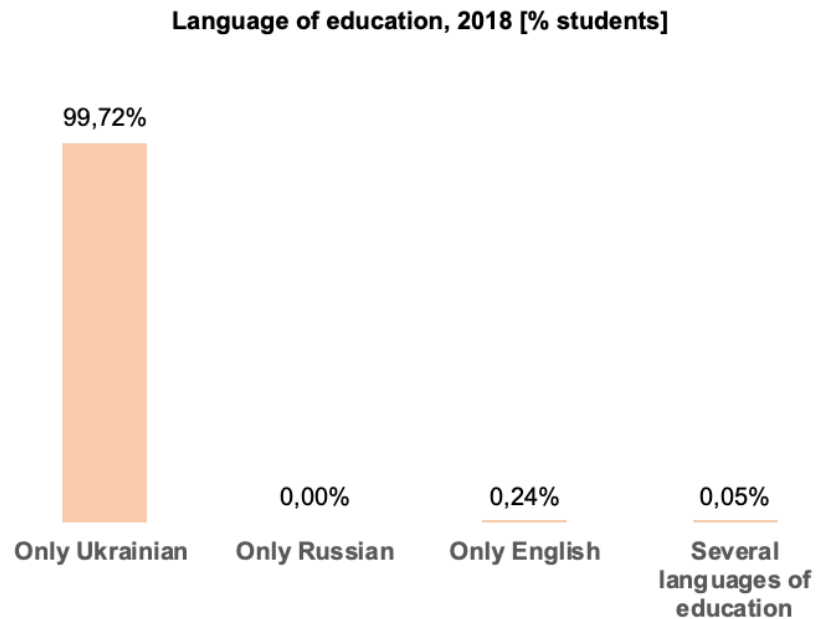
The gap is projected to increase by 2023 due to several trends:

- internal migration (almost 1 million people living in Kyiv without registration);
- boosting of the capital building in Kyiv;
- slow state facilities expansion dynamics (only 4 thousand new spots opened in 4 years);
- newly existing city registration issue: children without registration in Kyiv are being moved to the bottom of the application queue.

The gap is projected to increase to 57% in 2023.

3.3 Curriculum

0,3% of students are being educated on the language other than Ukrainian. That is around 300 students in Kyiv [2.12]



All the rest of the students are being educated in Ukrainian language only.

3.4 Five forces shaping the preschool education industry in Kyiv

Michael Porter's five-forces of competition model is as follows:

The threat of new entry:

- low barriers for entry
- low level of retaliation from existing players
- relatively low time and cost for entry
- experience needed but training easily available
- no technology protection
- some economies of scale possible for business chains

The threat assessed as **high**.

The bargaining power of buyers:

- low buyer concentration
- high competition among buyers
- medium price sensitivity
- low switching costs
- limited switching possibilities due to location sensitivity
- medium switching ability (psychological)

The power of buyers is assessed as **medium**.

The bargaining power of suppliers:

- a moderate number of suppliers, low concentration
- high homogeneity of suppliers
- legally simplified supplier criteria
- high location supplier switching costs
- low other supplier switching costs

The power of suppliers is assessed as **medium**.

The threat of substitutes:

- low possibility of exact substitutes due to the "socialization" factor
- "nanny" or "homeschooling" are mostly considered as complements

The threat of substitutes is assessed as **low**.

Overall **competitive rivalry** in the industry:

- low concentration of competitors
- low product diversification
- high level of unsatisfied demand
- low exit barriers
- stable market growth
- high buyers' loyalty

The competitive rivalry is assessed as **medium**.

3.5 Overall market trends and conclusions

Overall **Kyiv market size** volume is estimated around 250,000 children and is projected to grow on average by 3-4% yearly.

Over **46%** of Kyiv population of preschool age either **lacks access** to dedicated preschool education facilities or chooses **alternatives**.

The market of dedicated preschool education is characterized by the **high disbalance between the low supply of educational spots in dedicated facilities and rather high demand**. The gap is currently estimated at 52% and is projected to increase.

Existing facilities in Kyiv are **overcrowded** and service on average 16% more children than their operating capacity allows.

The capacity overload decreased by 1% in the last 4 years due to facilities expansion. The **share of private facilities** spots in the overall expansion is around **30%**.

Compared to the number of newly opened facilities in Kyiv, state facilities mostly rely on renovating and expanding existing units, while private institutions are literally newly opened facilities.

The number of children **enrolling in Kyiv private institutions increased on average by 15%** over 2015-2018, **by 37% in 2018**, while in state facilities it remained stable (on average 107 thousand persons), and even decreased in 2018.

Almost **86% of the average occupancy** of Kyiv private institutions in 2018 leads to the conclusion that private facilities become more attractive compared to overcrowded unrenovated state facilities, and this trend is estimated to continue.

4. Competitors' analysis

There were 631 Kindergartens in Kyiv city, including 577 state-owned and 54 privately owned in 2019. Private kindergartens can be divided into two groups by the level of income of the target audience and correspondingly prices: middle segment and high segment [4.10].

State kindergartens

1. Teaching program

State kindergartens can use only those teaching programs, that were developed and approved by the Ministry of Education. The most popular are two of them: “Dytyna” and “la u Sviti”. State programs are not flexible and change very rarely. Moreover, a lot of state kindergartens follow the outdated teaching methods due to the age and experience of teachers.

2. Lead generation channels

- Parents apply through special online service <https://osvita.kyivcity.gov.ua>. However, due to the lack of free spots application through the service does not guarantee that one can receive a spot when and where they need it.
- Word of mouth. There is no need in any other channels as demand is significantly higher than supply.

3. Group sizes

According to the requirements of the regulations, quantity of kids in a group shall be 15 persons for children between 1 to 3 years, and 20 persons for children from 3 to 7 years. However, due to the lack of free spots, the average quantity of children in the group is 25-30 persons in state kindergartens.

4. Operating hours

Mostly 7:00 - 18:00.

There are no evening hours, thus, if parents are late, teachers have to stay after work and wait for them.

5. Additional education possibilities

There are very few possibilities for additional educational activities, most of them are concentrated on preparation for school and training hard skills.

6. Nutrition

All state kindergartens have their own kitchen. The menu is developed according to state standards, which did not change for many years.

7. Premises

Separate buildings with the big outside area were built explicitly for kindergartens. In most cases, kindergartners require renovation, have a very old outfit, furniture, and equipment.

8. Price

According to Ukrainian legislation, preschool education is free of charge for citizens registered in the city of kindergarten. Other people shall pay state-owned kindergartens approximately UAH 3000. 50% of the costs of the meals is paid by parents.

9. Key players in the segment

This segment is the biggest one and the most homogeneous. It is very hard to highlight any key players in the segment.

Middle segment private kindergartens

1. Teaching program

This segment very often uses state education programs “Dytyna” and “Ia u Sviti” since they attract teachers from state kindergartens.

2. Lead generation channels

- Word of mouth
- Aggregation websites
- Social media
- Own websites

Private Kindergartens will be included in state online service in 2020.

3. Group sizes

Up to 20 persons.

4. Operating hours

Mostly 8:00 - 18:00.

In some kindergartens there is a possibility to pick up a child later for an additional payment.

5. Additional education possibilities

There is a wide variety of possibilities for additional educational activities. Sports, Art, languages.

6. Nutrition

Catering with simple menu.

7. Premises

- Reequipped flats without a separate entrance
- Rent groups in private kindergartens

8. Price with meals

From UAH 6,000 to UAH 13,000 depending on the district and cost of the rent.

9. Key players in the segment

Teremok-Union, Mandarinka, Totosha, Dzherelo kids, Leleka, Kraina Dytynstva, Tilly Villy, M'Andryk, etc.

High segment kindergartens

1. Teaching program

This segment very often uses the Montessori teaching program and its own teaching programs based on combining progressive methodologies with a strong focus on foreign languages. Some education facilities use own programs with elements based on the Waldorf methodology and focused on hard skills.

2. Lead generation channels

- Word of mouth
- Site aggregators
- Social media
- Outdoor advertising

- Own web-site

Private Kindergartens will be included in state online service in 2020.

3. Group sizes

Up to 20 persons.

4. Working hours

Mostly 8:00 - 18:00.

There is the possibility to pick up a child later for additional payment.

5. Additional education possibilities

There is a wide variety of possibilities for additional educational activities, among the most popular are sports, art, languages.

6. Nutrition

Catering with the possibility to choose the menu.

7. Premises.

- Commercial premises in prestigious residential complexes and central districts
- Separate buildings in prestigious residential complexes

8. Price with meals

From UAH 19000 to UAH 33000.

9. Key players in the segment

Leapkids Happiness Activity, Urban Kids Montessori Childrens' House, Kudryavskyi Children Education Facility, Clever Kids, Montessori Happy Kids, Petit CREFF.

Competitor	District	Price with meals, monthly	Teaching methods	Languages
Leapkids Happiness Academy	Pecherskyi	1,200 USD	Various, international	Ukrainian, English
Urban Kids Montessori Children's House	Pecherskyi	25,200 UAH	Montessori	Ukrainian, English
Kudriavskyi Children Education Facility	Shevchenkivskyi	20,000 UAH	Various, Ukrainian	Ukrainian, English
Clever Kids	Obolonskyi	1,200 USD	Various, Ukrainian	Ukrainian
Montessori Happy Kids	Pecherskyi	19,000 UAH	Montessori	Ukrainian, English
Petit CREF	Pecherskyi	28,000 UAH	Trilingual concept	Ukrainian, English, French

5. Project Description

5.1 Problem and Product Description

The key problem the project is targeting.

Overall lack of both progressive and convenient full-cycle preschool educational opportunities that correspond to contemporary education trends on Kyiv market.

General idea: to create a chain of private preschool education facilities (kindergartens), situated in different Kyiv locations.

Strategic business objectives identified for 2020-2024:

1. Create the highest standard of 21st-century-relevant early education opportunities and achieve an average occupancy of 90% of the core service “kindergarten membership”
2. Generated revenue of USD 2.47 mn within the first 5 years of operations
3. Expand the network of operating business units from 1 to 5 with an overall average capacity growth rate of 74% per year

Expansion Timeline, Business Units launched:

2020	2021	2022	2023	2024
1	1	1	1	1

Beginning of the operations: **September 2020**

Beginning month of the operations of every expanded business unit: **September**

Operating timeline of each Business Unit considering expansion plan, months:

	2020	2021	2022	2023	2024
BU 1	4	12	12	12	12
BU 2	-	4	12	12	12
BU 3	-	-	4	12	12
BU 4	-	-	-	4	12
BU 5	-	-	-	-	4

5.2 Business strategy

Based on current educational trends, overall market attractiveness, high level of unsatisfied demand, deep analysis of current competition rivalry and value proposition on the market, and due to a very high level of the threat of new market entries we chose the **differentiation strategy**.

Reasons for going with differentiation rather than cost leadership:

1. Overcoming potential competitive rivalry: due to high threat of potential new entries and little differentiation of existing products the competition is possible through non-price related aspects
2. Profitability: possibility of setting higher selling prices resulting in higher profit margins and sustaining long-term growth
3. Leveraging consumer social behavioral trend: parents tend to provide the best product options for their children who are end-users. In this case, differentiated products will act as a foundation of overall product quality perception thus leading to increase of product attractiveness among buyers

Ground for differentiation

Creating unique experience by combining several completely new and non-represented features on the market:

- **Innovative education methodology studies:** world-famous Italian “Reggio Emilia” approach, one of the three main alternative approaches to education together with Montessori and Waldorf pedagogy, but the only one not widely represented in

Ukraine. It is based on the idea of nurturing freedom of experience among children. The education process is not restricted to a fixed flow, children are considered as independent self-sufficient personalities who are choosing their own course of development, they are not put into any behavioral patterns or reserved with the circle of enforced activities.

- **Flexibility of educational program** according to young clients' actual interests: they are free with the choice of place, space, materials, timeline of activities, granted freedom of repeating favored activity and make mistakes. The results of their work are not assessed or criticized. Minimum boundaries and maximum self-expression.
- **21st-century skills development** as the essence of the program: while all the rest of preschool education facilities focus on the regular approach where reading, counting skills, and school preparation curriculum are the core, our company will focus on creativity, out-of-the-box thinking, communication, collaboration with others, critical thinking, etc. It is a completely different approach which requires a different set of tailored processes and features in place. And most of all, it will require making trade-offs, so it does source our company with a competitive advantage of making this model unique and hard to copy. Several trade-off examples:
 - A completely **different approach from educational personnel** required: teachers are not acting as information transmitters or academic instructors but as inspirators, friends and the most important: provocateurs, creating conditions for unconventional out-of-the-box thinking development. This will require a different personal training approach, different set of performance indicators and is hardly combinable with traditional inflexible education methodologies.
 - completely different and **unique types of creative activities** in place: unconventional art classes using different ways of self-expression, non-traditional usage of art and craft materials etc.
 - a **different set of inventories** based on "nature" materials, materials with "no final purpose", rather than mass-produced toys and games or cost-baring certified merchandise from exclusively sourced and enforced by other education methodologies.
- **Nature-friendly experience:** children are nurtured in an environment constantly connected with nature: usage of natural materials for creative works, eco-friendly activities, nature discovery trips.

Such a new approach will at first require specific sets of powerful market education activities and unconventional selling techniques, secondly will demand a different choice of operating processes, but eventually, will become a strong differentiating point to win the competitive rivalry.

The raise of undervalued factors

In the next dimension of the competition, the significance of certain features of our value proposition will be amplified above the market level. Those are the features already existing on the market, however, their value for the customers is diminished or neglected by competition. We will act based on this fact to create even stronger competitive positioning. The raised features are the following:

- **Uniqueness of creativity space:** a separate studio space for creative classes with outstanding layout, sophisticated design and decorations, which contains non-traditional devices and settings for limitless creativity. Space is considered as one of the “teachers” and will encourage discoveries.
- **Creative classes diversity:** non-traditional space will open the frontiers for a huge variety of unique educating activities and classes, giving us the source of never-ending competitive advantage.
- **Language of education:** 90% of education will be conducted in English, while 95% of competition mostly focuses on traditional English classes only. This fact will enable the company to benefit in several directions:
 - Marketing: attracting new target audience – English speaking population or expat population of Kyiv, thus audience valuing learning of spoken English rather than traditional academic language education.
 - Personnel hiring: since creative development is the main focus of the educational program, finding a creative mentor speaking English is considered less complicated on the current market, rather than hiring academic English teaching professionals with needed out-of-the-box creative skills.
- **Parents connection:** families will play a high role in their children development with 24/7 feedback connection through digital platform and two-way reporting on children development.
- **Catering quality:** meals will serve as a method of creativity development. The company will pay extra attention to the quality of meal plans opting for unconventional creative meal choices, thus adding value to the overall product, including serving clients with specific meal preferences and medical needs.

Reduction of overemphasized factors and elimination of unvalued features

This raise of certain undervalued points will be combined with a simultaneous reduction of certain competition factors below the average market level together with elimination of certain unvalued factors of competition in order to:

- optimize company's resources, reduce servicing cost of irrelevant assets

- simplify operating processes to focus the majority of efforts on tailored client servicing and product differentiation points
- simplify supply chains to achieve faster and right-on-time product delivery
- reduce cost-baring factors that do not contribute to the product differentiation strategy to optimize operating expenses

Reduced factors will be as follows:

- **Traditional academic knowledge delivery:** reading and counting skills are a usual focus of preschool education, while Ukrainian education system is reforming towards the “New school” direction, reducing preparation requirement for school entry and raising the importance of elementary school role in academic development.
- **Classic inventory, toys, games with fixed purposes:** traditional costly inventory is considered as creativity restraining, as most of such toys and games have a single direct and even restrictive purposes strictly regulating possible interactions and pushing the user to the one correct behavior.

These factors that will be eliminated are as follows:

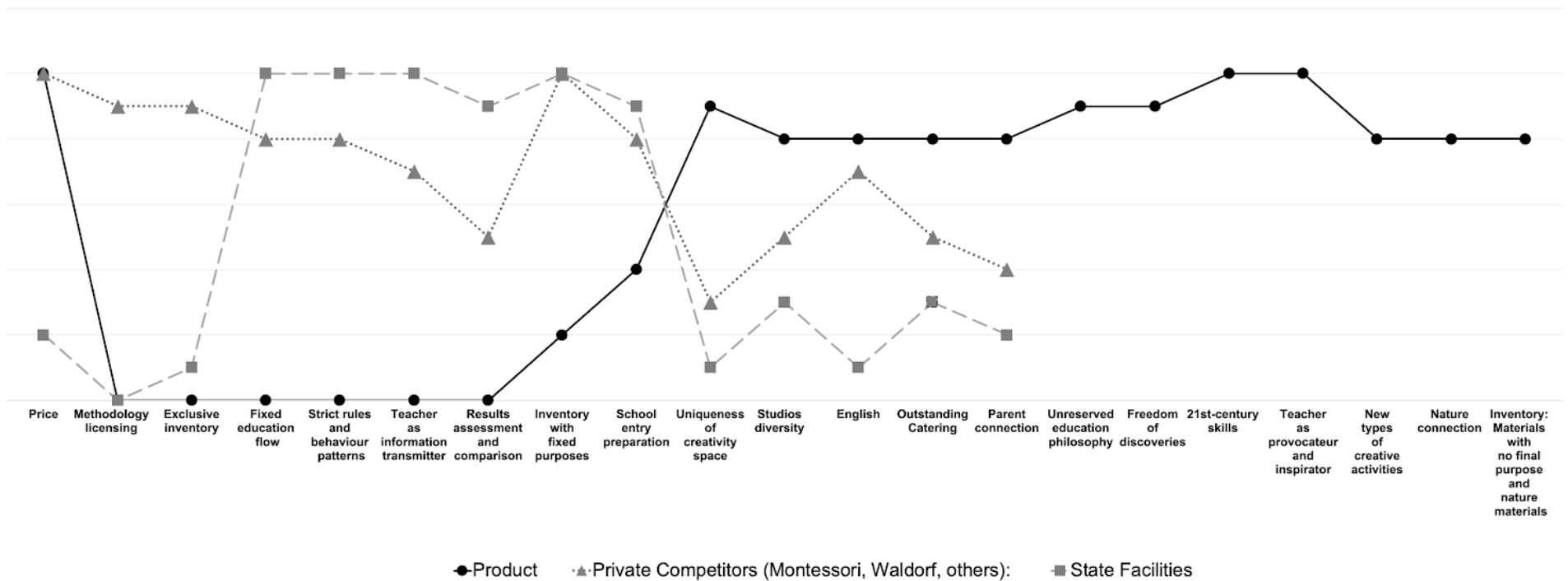
- **Exclusive licensing:** several preschool education methodologies require specific certification to be able to implement their education methods. The methodology we will use as the essence, the “Reggio Emilia”, does not require any licensing, and is based on an open usage principle. This enables the company to simplify the overall project preparation processes and avoid high additional licensing expenses. Since the methodology is not protected with any patent rights, the product differentiation will not be based solely on methodology. Additional differentiation features mentioned above will enable the company to achieve competitive advantage and win the competitive rivalry.
- **Exclusive and branded inventory** is a factor is derived from licensing requirements. Other methodologies enforce usage of their branded inventory as one of certification requirements. Such inventory is produced solely by adding extra costs to overall capital expenses, and complexity to overall supply chain management, moreover, requiring yearly repurchases according to strict schedule bearing constant operating expenses.
- **Fixed education flow** is replaced with an open and flexible approach based on the client's actual interests. Even private known education methodologies do limit children's development potential with certain regulated activities based on a strict group of tools to be used: specific and mutually exclusive devices, toys and games. Along with bringing the cost-efficiency, elimination of this factor will contribute to such differentiation targets as creativity development opening the space for out-of-the-box activities.

- **Fixed behavioral patterns** and overall **role of the teacher as an instructor and assessor** of certain behavior: unique education objectives will require unique education approaches and staff actions. Encouraging open and non-framed behaviors from our clients and implementing different performance indicators for the mentors (acting as a friend and inspirator, rather than information transmitter) will ensure fulfillment of the purpose and thus strengthen the competitive advantage.
- **Results assessment and comparison** will be eliminated as the process and replaced with provocative sessions with no “right or wrong result” expected and no mistakes-encouraging activities to create an open communication environment and atmosphere for discoveries.

5.3 Product value curve

Final value curve of the product compared to the competition:

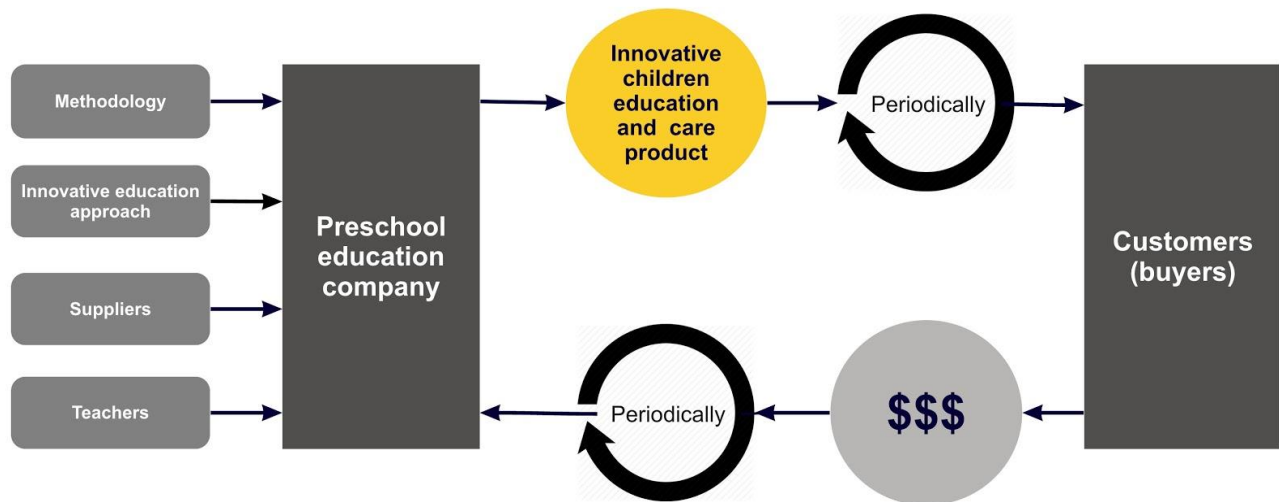
Product Value Curve



5.4 Business model design

The company's business model will be built on the nature of the general product delivered – educational services, and on peculiarities of the preschool education market in Kyiv. These factors led us to choose a subscription-based business model pattern – the company shall receive periodic payments in order to deliver services and shall aim at selling the product over a period of time.

Subscription-based business model



The rationale of settling on a subscription-based business model are the following:

- Attracting customers: reasonable monthly fee seems more attractive and affordable than a high one-time payment
- Cash-flow reliability: revenues and expenses become more predictable
- Securing customers: as the service is provided on a recurrent basis, there is a higher probability that customers will stay with the company because of loyalty
- High psychological switching “costs”: children get attached to a certain environment making it very hard for parents to switch the education facility due to emotional factors

The project will provide four main products:

1. Kindergarten Monthly Membership
2. 2-week Summer Camp Membership in August
3. Monthly Creative Studios Membership
4. Overnight Care (for kindergarten members)

5.5 Value proposition and business model description

Business Model Canvas

Key Partners: <ul style="list-style-type: none"> • Education philosophy partner • Construction partner • Education partners • Suppliers • Service partners • Web-listing resources • Business communities, expat communities, embassies • Technology partners • Metasearch engines 	Key Activities: <ul style="list-style-type: none"> • Property(s) construction • Educational program development • Personnel training • Property(s) maintenance • Inventory management • Customer data analysis • Customer experience management • Expanding the network of education partners • Expanding the network of locations • Digital channels management Key Resources: <ul style="list-style-type: none"> • Brand • Unique educational program based on the “Reggio Emilia” approach • Location • Skilled human resources • Property design • Property filling (technical, inventory) • The network of properties • Digital app architecture • Customer experience management system • # of “education experience” partners 	Value Proposition: <ul style="list-style-type: none"> • Unique 24h preschool education experience based on innovative unreserved education philosophy • 21st-century-skills development with a focus on creativity and out-of-the-box thinking • Unique types of diversified creative activities • Nature-friendliness as the education core • Tailor-made flexible education flow based on client actual interest • Restriction-free and creativity-opened education environment • Education in English • High quality of service standard • Reduction of compliance and safety risk • Useful digital app 	Customer Relationships: <ul style="list-style-type: none"> • The market benchmark in innovative preschool education service • Customer experience management – tailored approach Channels: <ul style="list-style-type: none"> • Physical channel • Governmental application platform • Web channels • PR events channel • Partner channels • Web listing resources channels • Ad channels 	Customer Segment: niche market Families with children between 3 and 8 years: <ul style="list-style-type: none"> • Financial scale: upscale, midscale income • Geographic: living in Kyiv • Geographic: global origin (expats) • Demographic (families with children between 3 and 8 years old) • Behavioral (interests, values)
Cost Structure: <ul style="list-style-type: none"> • Development & expansion (capital expenses) Operational: <ul style="list-style-type: none"> • Renting costs • Personnel costs • Personnel training costs • Marketing costs • Customer service and experience tailoring cost 		Revenue Streams: <ul style="list-style-type: none"> • Kindergarten entry fee • Kindergarten monthly fee • Additional “experiential” services: <ul style="list-style-type: none"> - creative studios fee - summer camp participation fee - overnight staying fee 		

5.6 Detailed product descriptions. Operations and production volumes

Product №1: Kindergarten Monthly Membership

The membership package includes:

- “Reggio Emilia” innovative education experience (8:00 – 18:00 weekdays)
- tailored personal approach to every member according to actual interest
- 2 creative classes per day
- English speaking mentors
- high quality catering meal 5 times per day
- 2 outdoor walks per day
- all learning materials
- all classes inventory, natural materials, games, etc.
- 24/7 access to a parent digital app
- daily personal reports about young members discovery experiences
- profound monthly personal reports and recommendations on education flow and progress

Quantity of business units launched and delivering the product in September 2020: **1**

Quantity of business units delivering the product at the end of 2024: **5**

Regular operating timeline for the product: **11 months, Sep-July**

Operating cycle duration: **1 month**

Operating cycle production capacity / 1 Business Unit: **20 memberships**

“Kindergarten monthly membership” Product Pricing in 2020-2024, UAH

2020	2021	2022	2023	2024
20,000	21,600	23,300	25,600	27,600

Additional Entry Fee per member to be paid yearly in 2020-2024, UAH

2020	2021	2022	2023	2024
15,000	16,200	17,500	18,900	20,400

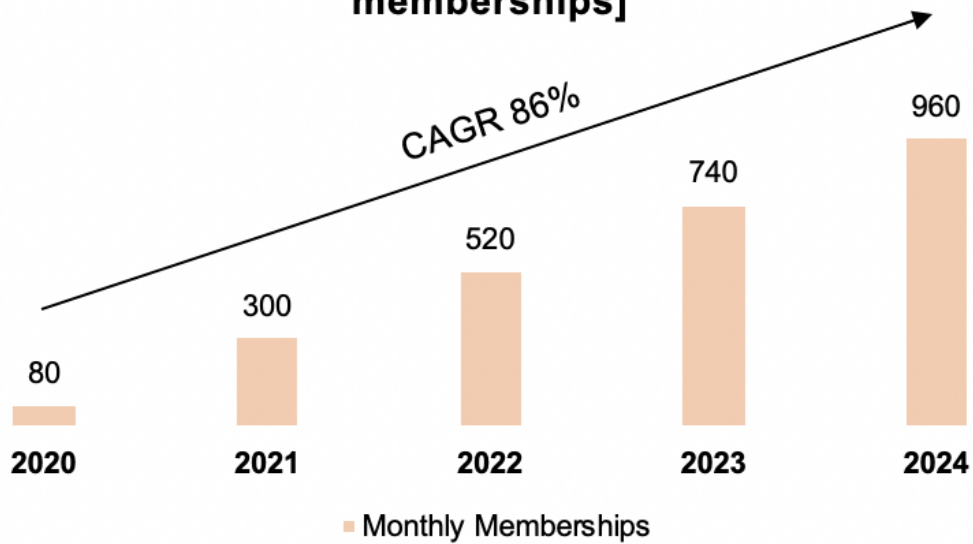
“Kindergarten membership” operating timeline of each Business Unit considering expansion plan, operating cycles (months):

	2020	2021	2022	2023	2024
BU 1	4	12	12	12	12
BU 2	-	4	12	12	12
BU 3	-	-	4	12	12
BU 4	-	-	-	4	12
BU 5	-	-	-	-	4

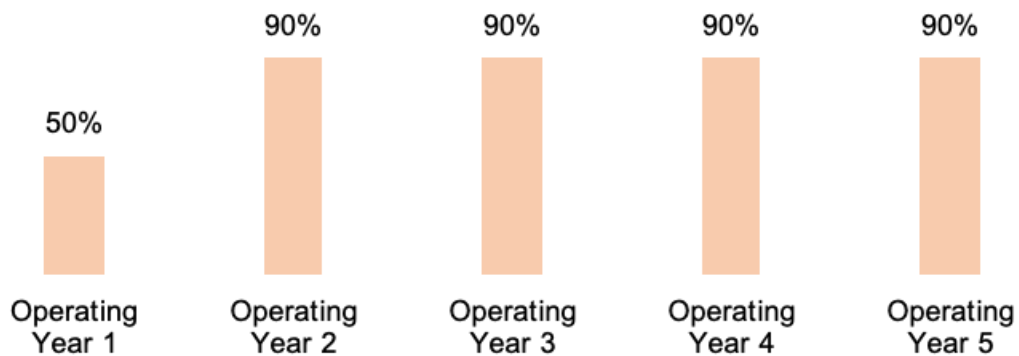
“Kindergarten membership” production capacity of each Business Unit considering the operating timeline and membership capacity, monthly memberships:

	2020	2021	2022	2023	2024	Total, monthly memberships
BU 1	4	12	12	12	12	960
BU 2	-	4	12	12	12	740
BU 3	-	-	4	12	12	520
BU 4	-	-	-	4	12	300
BU 5	-	-	-	-	4	80
Monthly Memberships	80	300	520	740	960	2640

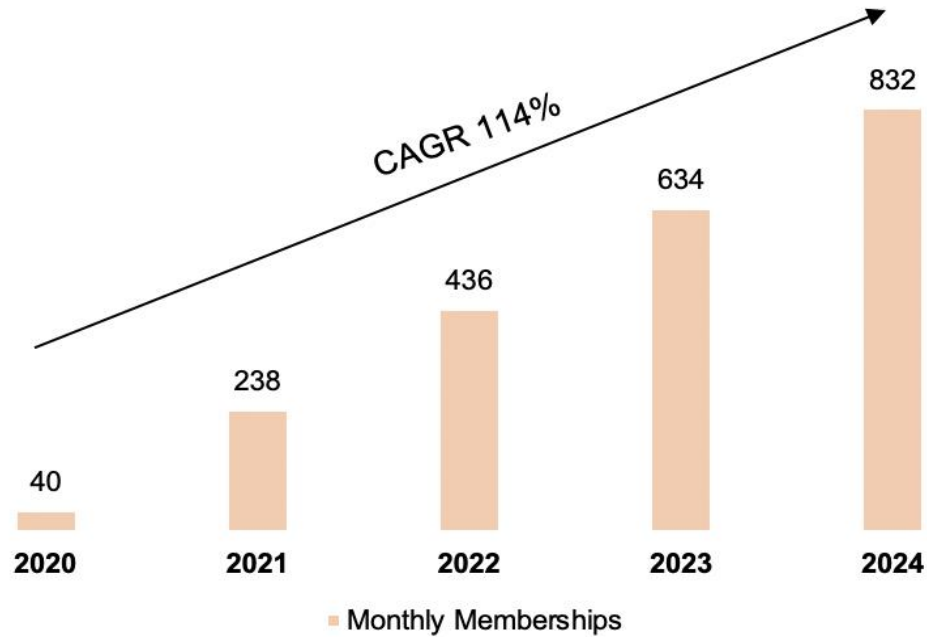
"Kindergarten Membership" maximum product delivery capacity in 2020 - 2024 [monthly memberships]



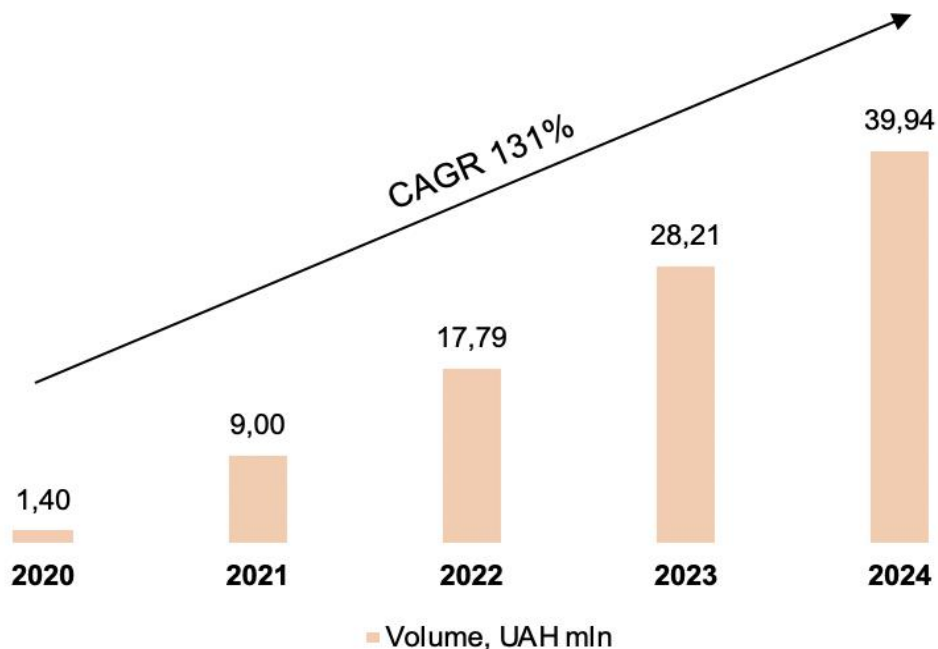
"Kindergarten Membership" average monthly occupancy rates projected for all BUs by operating year, [%]



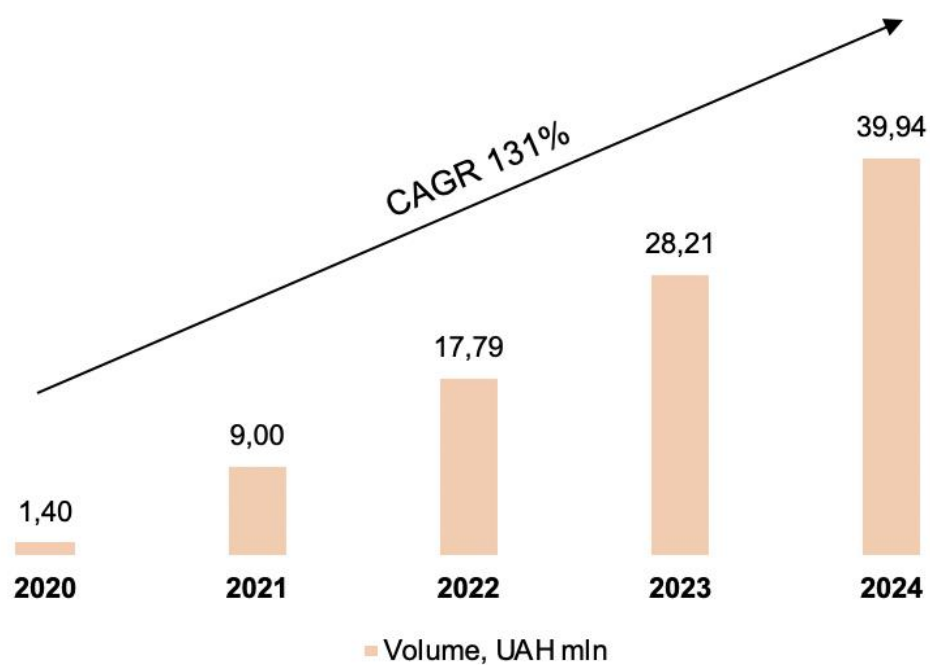
"Kindergarten Membership" projected product delivery volume considering projected occupancy in 2020 - 2024 [monthly memberships]



"Kindergarten Membership" projected product delivery volume (sales) considering projected occupancy in 2020 - 2024 [UAH mln]



"Kindergarten Membership" projected product delivery volume (sales) considering projected occupancy in 2020 - 2024 [UAH mln]



Product №2: 2-week Summer Camp Membership

The product will generate sales during low season, and will create an opportunity for non-members to access the innovative preschool education opportunities.

The membership package includes:

- “Reggio Emilia” innovative education experience (8:00 - 18:00 weekdays for 2 weeks)
- tailored personal approach to every member according to actual interest
- 2 creative classes per day
- English speaking mentors
- high quality catering meal 5 times per day
- 2 outdoor walks per day
- all learning materials
- all classes inventory, natural materials, games, etc.
- 24/7 access to a parent digital app
- daily personal reports about young members discovery experiences
- profound personal reports and recommendations on education flow and progress at the end of the camp shift

Product Operating Timeline: **August each year starting from 2021**

Operating cycle: **2 weeks**

Membership capacity per cycle: **20**

Other conditions: **pre-paid**

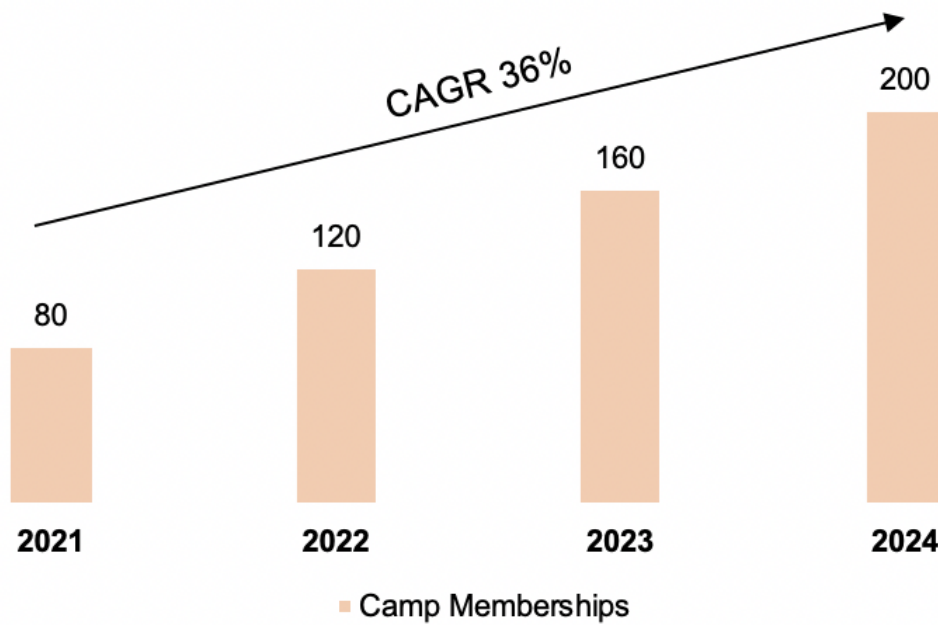
“Summer Camp” operating capacity of each Business Unit considering expansion plan, operating cycles (shifts):

	Aug 2021	Aug 2022	Aug 2023	Aug 2024	Total operating shifts
BU 1	2	2	2	2	8
BU 2	2	2	2	2	8
BU 3	-	2	2	2	6
BU 4	-	-	2	2	4
BU 5	-	-	-	2	2
Total	4	6	8	10	28

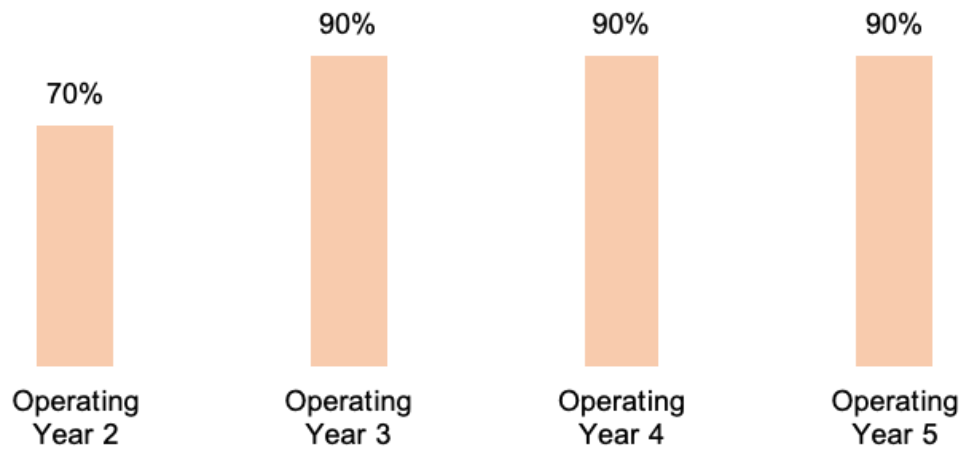
“Summer Camp” Product Pricing per camp shift in 2021-2024, UAH

2021	2022	2023	2024
21,600	23,300	25,600	27,600

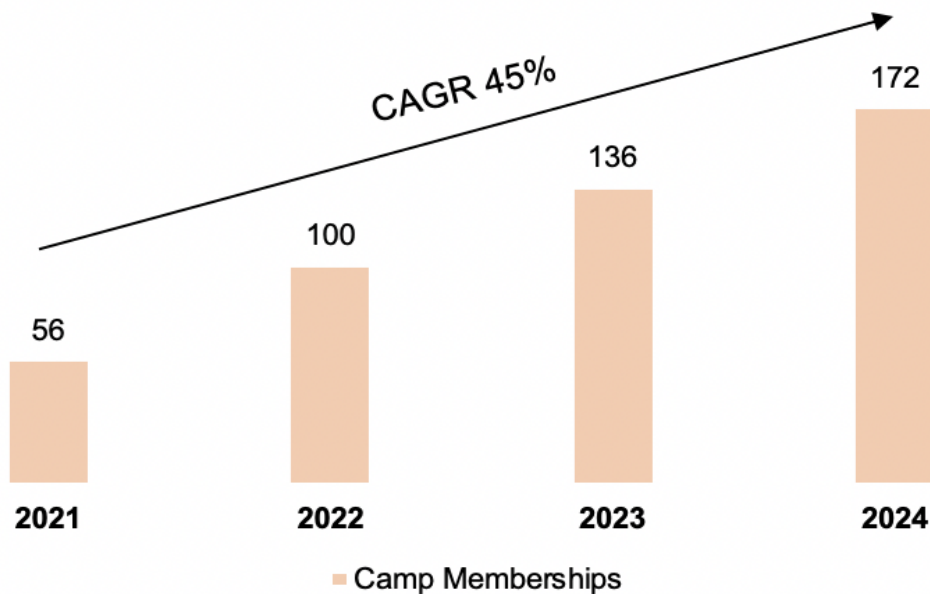
"Summer Camp" projected maximum product delivery capacity in 2020 - 2024 [camp memberships]



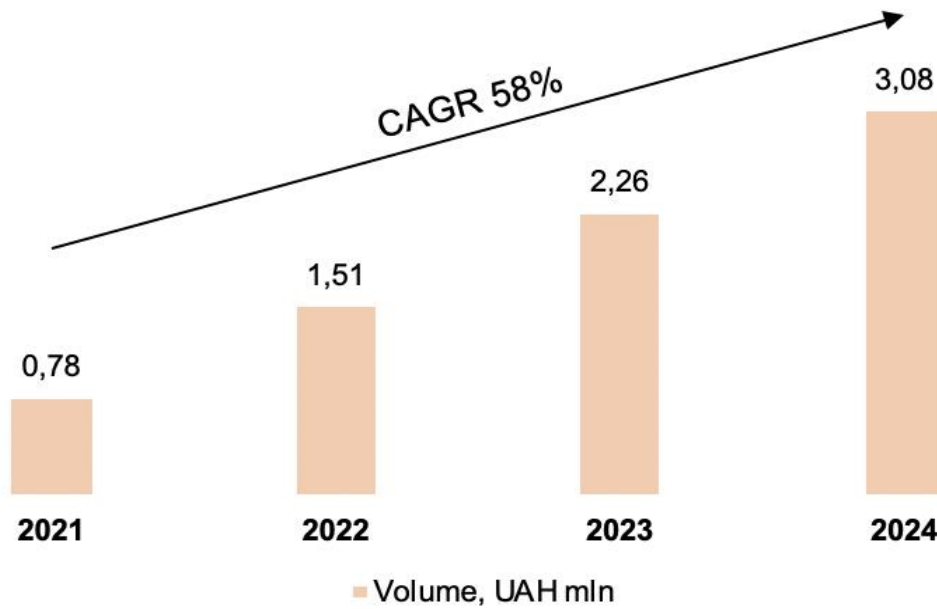
**"Summer Camp" shift average occupancy rates
projected for all BUs by operating year, [%]**



**"Summer Camp" projected product delivery
volume considering projected occupancy in
2020 - 2024 [camp memberships]**



**"Summer Camp" projected product delivery
volume (sales) considering projected
occupancy in 2020 - 2024 [UAH mln]**



Product №3: “Creative Studios” Monthly Membership

The product will generate additional sales attracting non-members from 1 to 7 years old to access the innovative pre-school education opportunities. Members will access specific classes dedicated to 21st-century skills development: creativity, communication, collaboration with others, critical thinking, so does art classes, sports classes, etc.

The membership package includes:

- one “Reggio Emilia” innovative education studio monthly membership, 4 weeks, 2 classes per week
- day, evening or weekend studios
- consultancy with professional Methodist to build optimal development program
- tailored personal approach to every member according to actual interest
- all learning materials and classes inventory, natural materials, games, etc.
- profound personal reports and recommendations on education flow and progress at the end of the studio education month

Product operating timeline: **September-June (10month/regular operating year)**

Operating cycle: **4 weeks (month)**

Quantity of particular “studio” classes per operating cycle: **8**

Studio class duration: **60 min**

Membership capacity per “studio” class: **8 members**

Other conditions: **pre-paid**

“Creative Studio” delivering capacity of one Business Unit per cycle: **10 different studios**

“Creative Studios” product operating capacity of each Business Unit considering expansion plan and operating timeline, monthly studios:

	2020	2021	2022	2023	2024	Total “Studios” delivered
BU 1	40	100	100	100	100	440
BU 2	-	40	100	100	100	340
BU 3	-	-	40	100	100	240
BU 4	-	-	-	40	100	140
BU 5	-	-	-	-	40	40
Total	40	140	240	340	440	1200

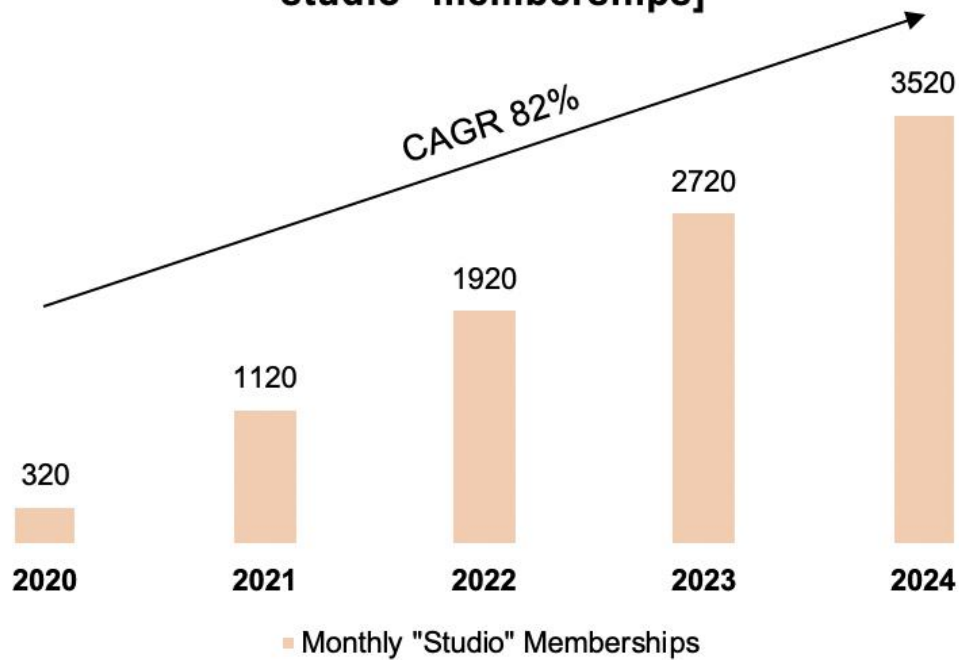
“Creative Studios” product operating capacity of each Business Unit considering expansion plan and membership capacity, “Studio” memberships:

	2020	2021	2022	2023	2024	Total Memberships
BU 1	320	800	800	800	800	3520
BU 2	-	320	800	800	800	2720
BU 3	-	-	320	800	800	1920
BU 4	-	-	-	320	800	1120
BU 5	-	-	-	-	320	320
Total	320	1120	1920	2720	3520	9600

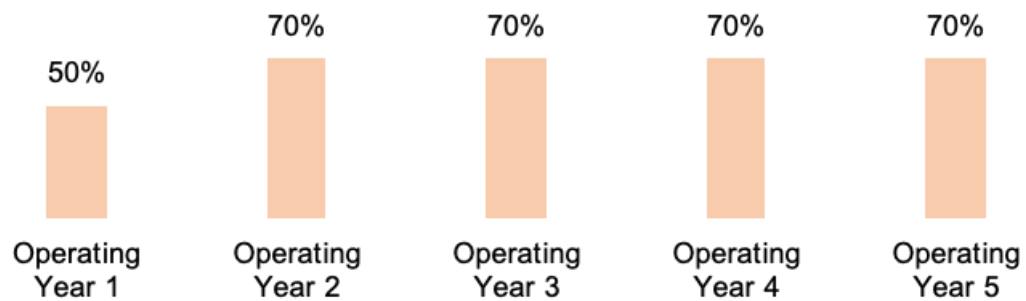
“Creative Studio Monthly Membership” Product Pricing in 2020-2024, UAH

2020	2021	2022	2023	2024
2,000	2,200	2,400	2,600	2,800

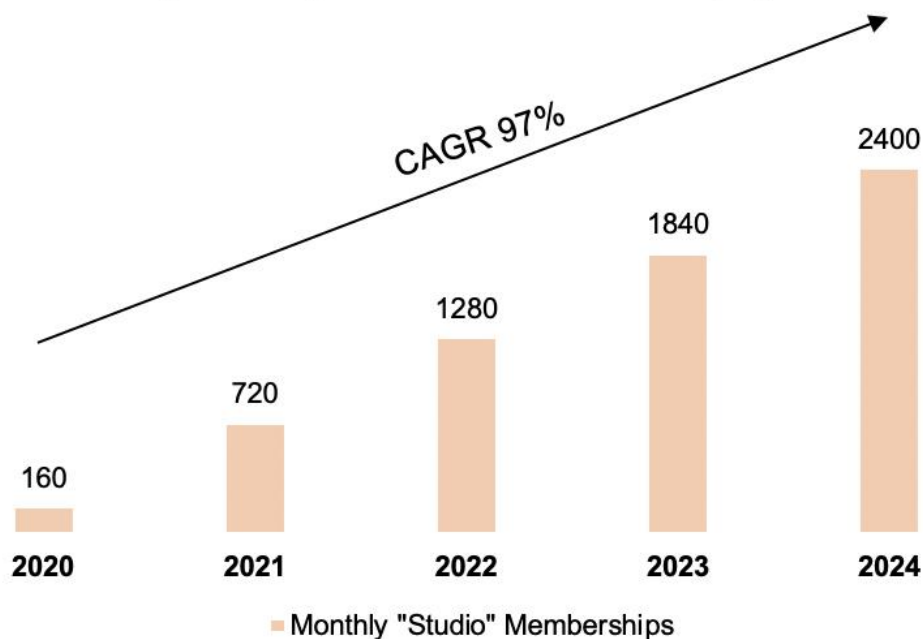
"Creative Studios" projected maximum delivery capacity in 2020 - 2024 [monthly "studio" memberships]



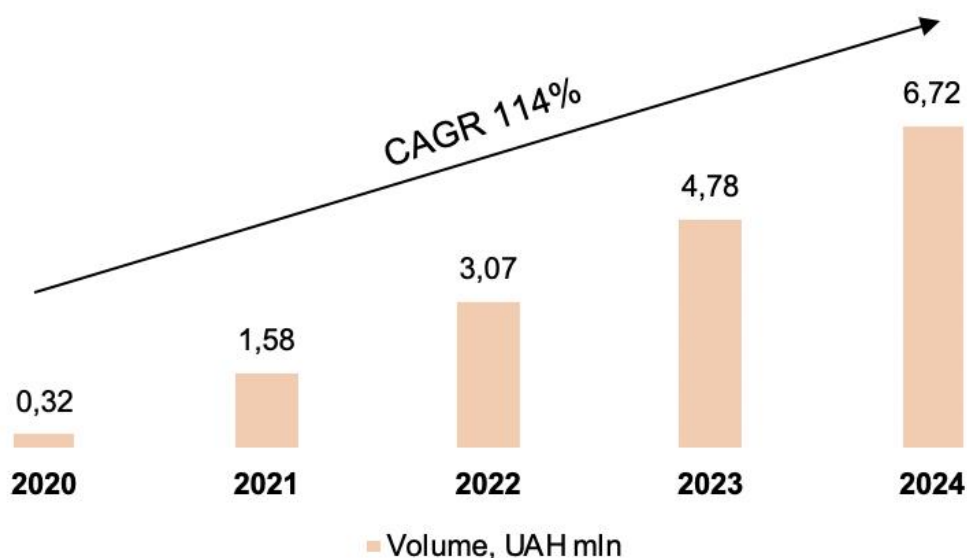
"Creative Studios" average monthly occupancy rates projected for all BUs by operating year, [%]



**"Creative Studios" projected delivery volume
considering projected occupancy in 2020 - 2024
[monthly "studio" memberships]**



**"Creative Studios" projected delivery volume
(sales) considering projected occupancy in
2020 - 2024 [UAH mln]**



Product №4: “Overnight Care”

Opportunity for parents of children with monthly kindergarten membership to prolong an operating day of the kindergarten and get a high-standard overnight care service. The product will act as a “nanny” substitute.

Service includes:

- 18:00-08:00 care by a kindergarten mentor on the facility premises
- evening developing and entertaining activities
- all learning materials, inventory, natural materials, games, etc.
- weekend overnight care opportunities

Product operating timeline: **September-August (365 days/regular operating year)**

Operating cycle: **1 night (18:00-8:00)**

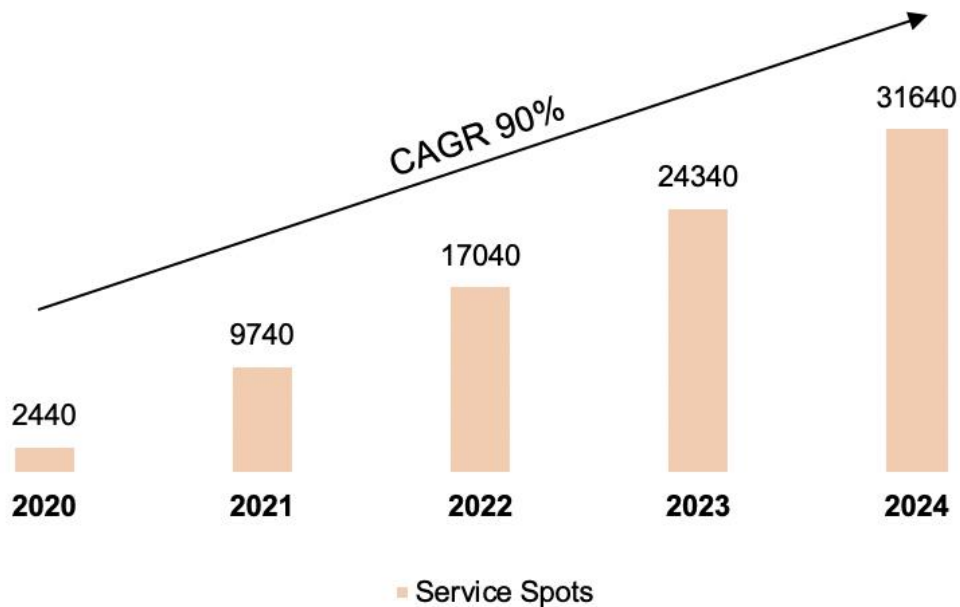
Membership capacity per cycle: **up to 20 members**

Other conditions: **pre-paid and booking in advance**

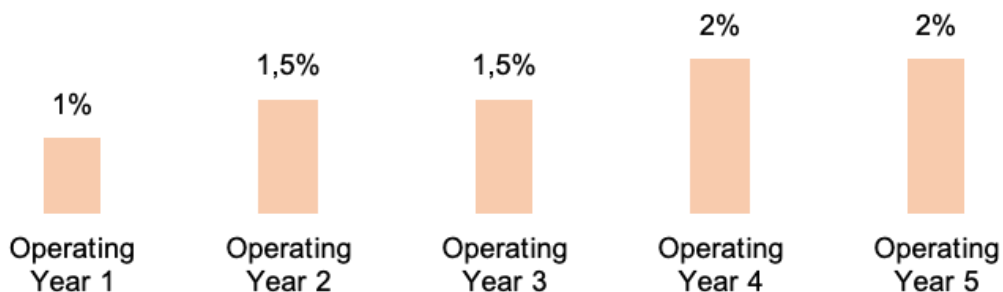
“Overnight Care” Product Pricing per night in 2020-2024, UAH

2020	2021	2022	2023	2024
1,400	1,500	1,600	1,800	1,900

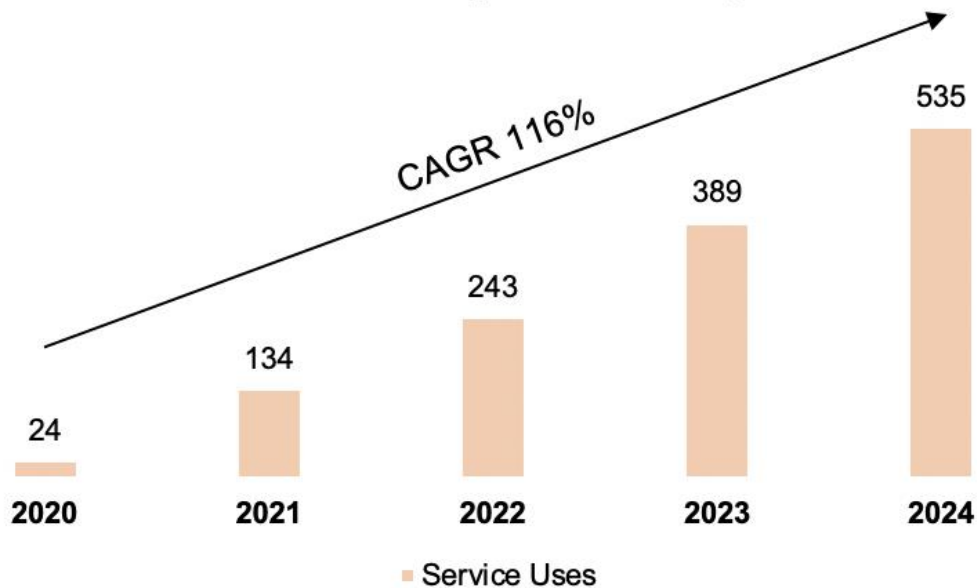
"Overnight Care" projected maximum service capacity considering quantity of operating days/year and membership capacity in 2020 - 2024 [services spots]



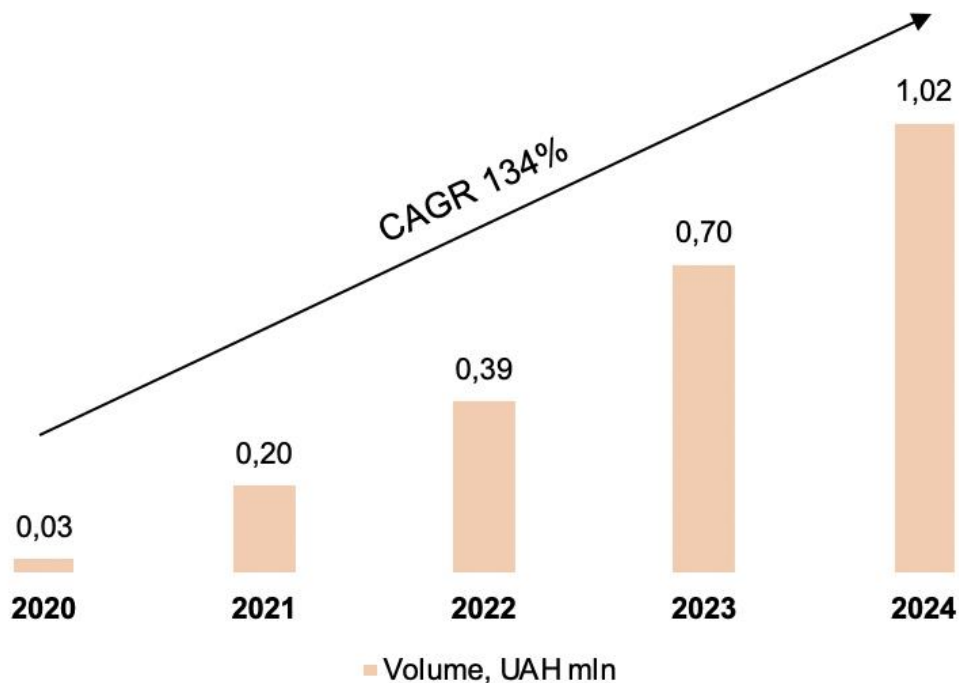
"Overnight Care" service yearly occupancy rates projected for all BUs by operating year, [%]



"Overnight Care" projected services delivery volume considering projected occupancy in 2020 - 2024 [service uses]



"Overnight Care" projected service delivery volume (sales) considering projected occupancy in 2020 - 2024 [UAH mln]



5.7 Suppliers

Suppliers' management strategy will support the overall business objective of achieving high standards of services. It will be based on several principles:

- segmentation of suppliers into groups according to the strategic level of product and relationship objectives
- tailoring a specific set of supply management activities regarding every supplier's group
- constant retaining the high quality of the products supplied

Project key suppliers' groups

1. Education philosophy supplier: Loris Malaguzzi International Centre
2. Location supplier
3. Construction design supplier
4. Construction service supplier
5. Catering supplier
6. External education suppliers
7. Furniture suppliers
8. Technical suppliers
9. Suppliers of additional inventory, materials, toys, books, etc.

Supply management strategies

Segment:	Education philosophy supplier
Strategy:	Mentorship
Objective:	Create mentorship relationship to obtain needed knowledge
Supplier groups:	<ul style="list-style-type: none">• Loris Malaguzzi International Center
Activities:	<ul style="list-style-type: none">• Relationship establishment and retention• Arranging educational visits• Personnel training arrangements• Obtaining methodological support
Segment:	Strategic product suppliers
Strategy:	Partnership
Objective:	Create mutual commitment in a long-term relationship
Supplier groups:	<ul style="list-style-type: none">• Location Supplier

- Activities:**
- Accurate forecast of the current and future supply requirements
 - Supply risk analysis and risk management activities
 - Careful supplier selection
 - Legal screening
 - Long-term contract

Segment: Homogenic product suppliers

Strategy: Competitive bidding

Objective: Obtain “best price” for short-term period

- Supplier groups:**
- Construction design supplier
 - Construction service supplier
 - Furniture Supplier
 - Technical Supplier

- Activities:**
- Market research on the product supply
 - Improve product knowledge: technical, legal, etc.
 - Search for alternative products/suppliers
 - Optimize order quantities
 - “Target” pricing

Segment: Bottleneck products suppliers

Strategy: Secure supply

- Objective:**
- Secure short- and long-term supply
 - Reduce supply risk

- Supplier groups:** Bottleneck products suppliers:
- Catering suppliers
 - External education suppliers

- Activities:**
- Accurate forecast of future requirements
 - Supplier risk analysis
 - Determine ranking in supplier’s client list
 - Become a “favorite” client: economy of scale, conditions, service, etc.
 - Develop preventive measures:
 - alternative supplier list
 - stock buffer (buffer of substitute training by insider mentors)
 - Constant market scanning for alternative suppliers

Segment: Routine products suppliers

Strategy: Category management

Objective:

- Reduce logistics complexity
- Reduce operational efficiency
- Reduce the number of suppliers

Supplier groups: Suppliers of additional inventory, materials, toys, books, etc.

Activities:

- Subcontract per product group
- Standardize product assortment
- Design effective internal order delivery and invoicing procedure
- Delegate order handling to internal user

5.8 Marketing and Sales

Marketing strategy will expand on the centerpiece of the role of early education in skills and mindsets development that our children need for success in this rapidly changing environment. Now more than ever, the educational experience must not only provide for the acquisition of academic content, but it must also be more intentional about early fostering of critical thinking, communication, collaboration, creativity, and other 21st century skills our young people need to thrive in this complex and volatile world.

Our marketing strategy contributes to the company's overall business objectives to create the highest standard of 21st-century-relevant early education opportunities, that enables access to truly innovative and contemporary early development philosophy, addresses the importance of an individual approach to a child's personality growth, freedom of interest discovery, open communication, love of nature and recognition of young clients as equal to adults.

The rationale of settling on innovative education as a foundation of marketing strategy:

- Overcoming potential competitive rivalry: due to the high threat of potential new entries and little differentiation of existing products the competition is possible through non-price related aspects such as innovation and modernized approach.
- Profitability: possibility of setting higher selling prices resulting in higher profit margins and sustaining long-term growth.
- Leveraging consumer psychology: parents tend to provide the best product options for their children who are end-users. In this case, innovation will act as a foundation of overall product quality leading to an increase of product attractiveness among buyers.

Competitive advantage will be achieved through innovative educational philosophy at the core of a unique approach to the preschool education process, and as a result - differentiation will be reached.

Marketing strategy will be based on several principles:

- strong methodological data support
- strong backup with international methodology implementation results
- detailed product information and description with a focus on benefits
- focus on long-term family-alike relationships with our buyers
- extreme personalization to sustain buyers' and as the result end-users' retention

Marketing objectives and growth strategy:

Key marketing objectives are:

1. Generate revenue of USD 0.248 mn within the first 16 months of operations.
2. Achieve average occupancy levels of 50% (Kindergarten Membership), 70% (Summer Camps Membership), 50% (Creative Studios Membership) and 1% (Overnight Care Program) within the first 4 months of each business unit operations.
3. Position the company as the number one innovative and contemporary preschool education service supplier in Ukraine within 5 years of operations 2020-2024.

Growth strategy is market penetration strategy.

Reasons for going with market penetration strategy:

- Risk reduction for the company while selling products on the existing well-researched market
- The strong growing demand on the existing market and large gap between low current supply
- Diversification on the consumer market using different basis than price

Segmentation, targeting, and positioning

The consumer market will be divided using different ways of segmentation:

- Geographical (residence location)
- Demographic (age, family life cycle, family size, education, occupation, social class or income, origin)
- Behavioral (primary need and benefits of use, price sensitivity, end-user, quality sensitivity, attitude towards innovative products)
- Psychographic (lifestyle, activities, interests)

The first move in market segmentation will be identifying breaking up geographical locations of Kyiv and nearby agglomeration by population density, the amount of residential and business buildings construction, and the highest disbalance between preschool education opportunities supply and demand. Keeping regionality in mind and using the basis of segmentation above starting from behavioral primary need and demographic social class factors we will identify segments:

- **Top-notch early education opportunities seekers:** families who put contemporary and thorough early education of their children as the top priority and are ready to invest in relevant opportunities. This segment is considered highly attractive.
- **Specific language education opportunities seekers:** expatriate families seeking early education opportunities in the English language with no specific methodology focus, and are ready to invest in relevant opportunities. This segment is considered highly attractive.
- **Affordable early education seekers:** families who have a primary need for progressive early education, however, price-sensitivity is limiting their options to a medium and lower medium class of institutions. This segment attractiveness is average.
- **Any day-care seekers:** a highly price-sensitivity segment of families with a primary need for day-care, while personal development is only a second priority. This segment is considered unattractive.

Taking into consideration potential company strength in serving identified segments, we will target the first two segments as our primary audience and the third one as a secondary target.

The target customer profile: top-notch or specific language early education opportunities seekers

- Families with one child or more
- Age: 35+
- Income: higher medium to high
- Origin: Ukrainians and expatriate speaking English language

Education is considered a cornerstone of children's success in this rapidly changing environment. They value unique interesting features of products and are more into experiments rather than standard product seeking.

Additional chosen characteristics:

- Lifestyle: Early adopters, keen or trying something new, who spend heavily on food and clothes, however, actively invest in personal growth, personal experiences, and networking.

- Interests: apart from children, they like fashion, nature and outdoors, prefer active outdoor sports e.g. hiking, running, adventurous traveling to different new destinations (not simple all-inclusive trips), try living a healthy lifestyle, potential vegetarians or eco fans.

Since relevant early education is important, we choose as **secondary target** customers who have a similar profile, however, due to higher price sensitivity are restricted in early education options.

Positioning: to all seeking best developing experiences for their children, we are a brand of early preschool education opportunities, that gives your children a way to succeed in future life aspirations, through innovative education methodology, individual approach to personality growth, freedom of interest discovery and recognition of young clients as equal to adults.

Marketing Mix

The marketing mix is aligned to company marketing objectives and marketing strategy.

Product

Since our products are actually the services of early education, the product benefits are mostly intangible: innovative approach, personality traits and skills developed and messages transmitted, the atmosphere of freedom, uniqueness of every child with endless possibilities of unique self-expression, high standard of services, additional benefits.

Price

High-premium price segment

Place

Primary distribution channel: physical. Operating locations are the main points of sale considering the importance of establishing a trustful connection with buyers and end-users, explaining the benefits of innovative education methodology and education process details.

Other important aspects of personal selling:

- Personal brand development of the Methodist
- Brand positioning of the Reggio methodology in Ukraine

Secondary distribution channels:

- Online web channels (optimized web-page, detailed product explanation)
- Web-listing resources, parents and education communities
- Partnership channels: establishing partnerships with business and expat communities, corporate partnerships, embassy partnerships
- Government kindergarten application platform: leveraging on the overall gap between the number of education spots and application demand. Seeing overcrowded institutions in the area, parents will start considering opting for a convenient private facility in nearby locations
- Events channels (different entertaining events to attract the target audience)

Promotion

Marketing communication methods will be based on certain principles:

- Overall method corresponding to the brand positioning and target audience
- The average price of user conversion shall be efficient compared to profit margins

Principal methods of marketing communication:

- Personal selling: personal presentations and demonstrations of the product during personal visits to the premises. Personal meetings can ensure quality communication of unique product value and establishing a trust-worthy relationship
- Advertising: press (digital magazines and recourses focusing on parenting/lifestyle/traveling; radio (stations targeting similar TA: independent, adventurous people); web (google adds, SEO), social media (brand Instagram channel and Instagram Ads, Facebook channel and Facebook Ads), outdoors (billboards targeting specific location)
- Direct marketing (email marketing)

Physical evidence:

Physical evidence will contribute to our marketing strategy and will be developed and used according to such principles:

- contribution to the company marketing positioning as the highest standard of truly innovative 21st-century-relevant early education provider
- giving tangible attributes to intangible services the company delivers

Physical evidence engagement will cover several dimensions:

- Branding: active usage of metaphors and symbols in branding, communication, selling and POS materials design
- Interior design: visible alignment with our innovative foundation, outstanding space planning, decorations, natural colors etc.
- Material proofs of service delivery: entry packages, personal areas on the kindergarten premises, development diaries as proof of education progress, individual development reports, photo and video reports, diplomas

People

Considering the nature of the services provided and the extreme sensitivity of our young target audience, people who service the clients are considered the most valuable asset for the company's operations.

Reaching the highest servicing standards and giving consistency to our market positioning will be achieved through efficient people management system and cover several areas:

- Professional recruitment of required professionals
- Investing in people training and education
- Efficient staff motivation and staff empowerment system

Processes

Customer-centricity will be the central component of the company's operations. It will contribute to the company's marketing strategy and marketing positioning as the high standard service provider based on three fundamentals:

- Constant customer experience management and enhancement: winning all the experiences or interactions a customer will have with the company, both virtual and physical, starting from the need emergence to post-selling services to improve customer retention and repurchasing rate through prioritizing certain processes:
 - building customer empathy into processes and procedure
 - valuing proactive actions to anticipate customer needs
 - continuously listen to the customer and collect feedback
 - customer data collection and analysis
 - consistently follow up with the customers on their feedback
 - motivating employees to stay engaged
 - adapting to customer demands in real-time
 - offering customized solutions based on customer needs
- Customer value: prioritizing the total value of a customer, both actual and potential value, both directly and indirectly:
 - leveraging the referral value like promoting the company
 - acting on potential influence value on social media etc.
- Customer life cycle: acting on the natural evolution a customer goes through defined by his or her needs:
 - personal development planning and goal-setting individually with the customer
 - ensuring the adaptability of education schedule
 - establishing gradual evolvement of education program

6. Asset structure

Our business model suggests having both current and non-current assets:

Current assets	Non-current assets
Cash and cash equivalents	Renovation
Inventory	Furniture
Accounts receivable	Equipment

We expect to receive the main volume of cash as full prepayment for a school year membership. We also plan additional sources of revenue: monthly payments for Creative Studios Membership, overnight and weekend care (for kindergarten members) and 2-week Summer camp membership in August in the rural area.

Inventory of a kindergarten consists of the following:

- Furniture: desks, benches, shelves, chairs, toys, etc.
- Technical equipment: microwave oven, kettle, refrigerator, dishwasher, washer + dryer, etc.
- Computer equipment: laptops, mobile phones, MFUs
- Other equipment: toilet bowls, shower trays, sinks, taps

Resources structure of a kindergarten

Brand and unique education program based on the “Reggio Emilia”

The "Reggio Emilia" philosophy is still not widely spread in Ukraine. This, however, grants our project an advantage of popularizing a new approach in child-centric early education. The new type of kindergartens embraces most of global educational trends: soft skills development, eco-friendliness, creativity development. The key characteristics of the "Reggio Emilia" approach include experiential learning and a relationship-driven environment. Children are taught on the principles of respect, responsibility and community: together with teachers and parents a kindergarten becomes one big family, where everyone participates in cultivation of support.

Location

Comfortable location plays a decisive role for parents in choosing a kindergarten for their children. By opening kindergartens in residential complexes or office centers we plan to be

closer to the places of working and living and thus help parents reduce travel time during the day.

Skilled human resources

The most valuable resource of any educational institution is people. Our kindergarten has three types of staff members:

- Permanent teachers who stay with children all day
- Part-time teachers who stay with children overnight care or during the weekends
- Part-time teachers for creative studios

In addition, our education approach provides children with innovative education experience completely in English.

For every parent a choice of a kindergarten is an important issue, because they want their children to be in a safe environment with the best teachers. We plan to hire professional teachers and give them an opportunity for professional development. Satisfied staff is a key component of a quality educational process.

According to the Reggio approach teachers are not considered as instructors who observe children from a distance, they are co-learners and collaborators actively participating in the process, asking questions, planning the educational program based on children's interests.

Property filling (technical, inventory)

Pedagogue Loris Malaguzzi, the inventor of the "Reggio Emilia" philosophy, understood that during the first years of their life children receive most of their knowledge from the physical environment surrounding them. He identified it as a "third teacher", with teachers and other children being the first two [4.8].

The Reggio approach implies providing children with a wide variety of instruments for creative brain development:

- Natural light and inventory
- Indoor plants
- Big windows
- Access to the outside
- Open kitchens with cooking inventory to teach children simple cooking skills
- Modern instrument for creativity development: vertical painting equipment, clothing atelier, photography, etc.
- Constant display of children's work: paintings, photographs, clothes, mirrors

Digital app architecture

Along with being close to nature and eco-friendly, our project does not reject the technical progress. Parents will have access to the kindergarten's app where they will be able to track their children's schedule, and activity, as well as check teachers' notes about their children's progress.

Project Timetable

The academic year in Ukraine traditionally begins in September. To start operations of the first kindergarten in September 2020 (Y1) we need to make the following preparations in mid-May-August 2020 (Y0):

May 2020: CEO & location

During May 2020 we plan to hire a CEO and find and rent the first location for our kindergarten network.

At the same time, we have to hire a marketing specialist to start with digital marketing strategy development: creating pages on social networks, building brand awareness and symbolics, and plan PR-activities: create a roadmap of events to visit and speak at.

Mid May 2020 – Mid August 2020: Location design and renovation

During these three months we plan to hire a designer to help us create a design-project of our kindergarten and a contractor to renovate the location. This stage also includes purchasing and installing all technical equipment in the kitchen and bathrooms, furniture, creativity development equipment.

Mid May 2020 – August 2020: PR activities & Sales

Alongside with location preparation the CEO is supposed to participate in various PR activities and establishing partnerships with business and expat communities, corporate partnerships, embassy partnerships:

- Educational conferences
- Family days and festivals
- Give interviews to dedicated media
- Organize open kindergarten day
- Record webinars
- etc.

At the same time the marketing specialist should fill the account of the kindergarten with content and run digital promotion campaigns, list kindergarten on web-resources, parents and education communities, government kindergarten application platform.

These activities are directed on lead generation and signing contracts with new clients.

Mid July 2020 – Mid August 2020

The renovation of the location should be coming to an end at this time. This is the moment when we have to find contractors for catering, laundry, HR, and lawyer. We plan to have at least two contractors for catering and laundry to mitigate the risks of one of them going out of operations for any reason.

At the same time, we would need to start hiring the kindergarten staff and hire a part-time HR to help with this: Methodist, full-time teachers and part-time teachers.

Also, during this period the lawyer should help us register a limited liability company, and prepare a text of contracts with parents. In addition, in this period we should file an application for kindergarten licensing to local authorities.

Mid July 2020 – Mid August 2020

The CEO together with the Methodist and full-time teachers should prepare the educational program and its timetable, as well as creative studios concept and their timetable.

7. Corporate governance

7.1 Corporate governance

With the purpose to protect investors' right, we are going to build corporate governance on the following principles:

- Accountability
- Fairness
- Transparency
- independence

In terms of corporate governance, there are 4 main roles in the chain of pre-school education facilities:

- Shareholders
- Board of directors
- CEO
- The chief mentor who takes the role of Head of the Business Unit
- Employees



Proposed corporate governance system ensures the following **shareholders' rights**:

Right for Information

Shareholders receive financial reports and reports on budget execution on quarterly basis till the end of the month next to the reporting.

Shareholders can request any information regarding the financial statement of the Company, minutes of directors' meetings and any other information that can help to understand management decisions. Board of Directors and Management shall prepare such information during 15 working days.

Shareholders can hire auditors for audit in any time for own expense.

Right to Vote

Number of votes of the shareholder is in proportion to a number of shares.

Election of Directors

At the annual meeting, shareholders have the right to vote for the board of directors. The shareholder can propose one director for every 20% of shares. Directors are appointed after voting of 50% of shares.

Fundamental Changes in the Company

Shareholders must approve any fundamental changes in the company. Any of the following actions can be considered as fundamental change:

- Mergers and acquisitions
- Acquisition and sales of assets with estimated value more than USD 10,000
- Opening or closing Business Units
- Bankruptcy of the company
- Borrowings that requires more than 20% of assets mortgage
- Approval of long-term strategy of the company
- Changes in governing documents: Shareholders' agreement, Bylaws, etc.

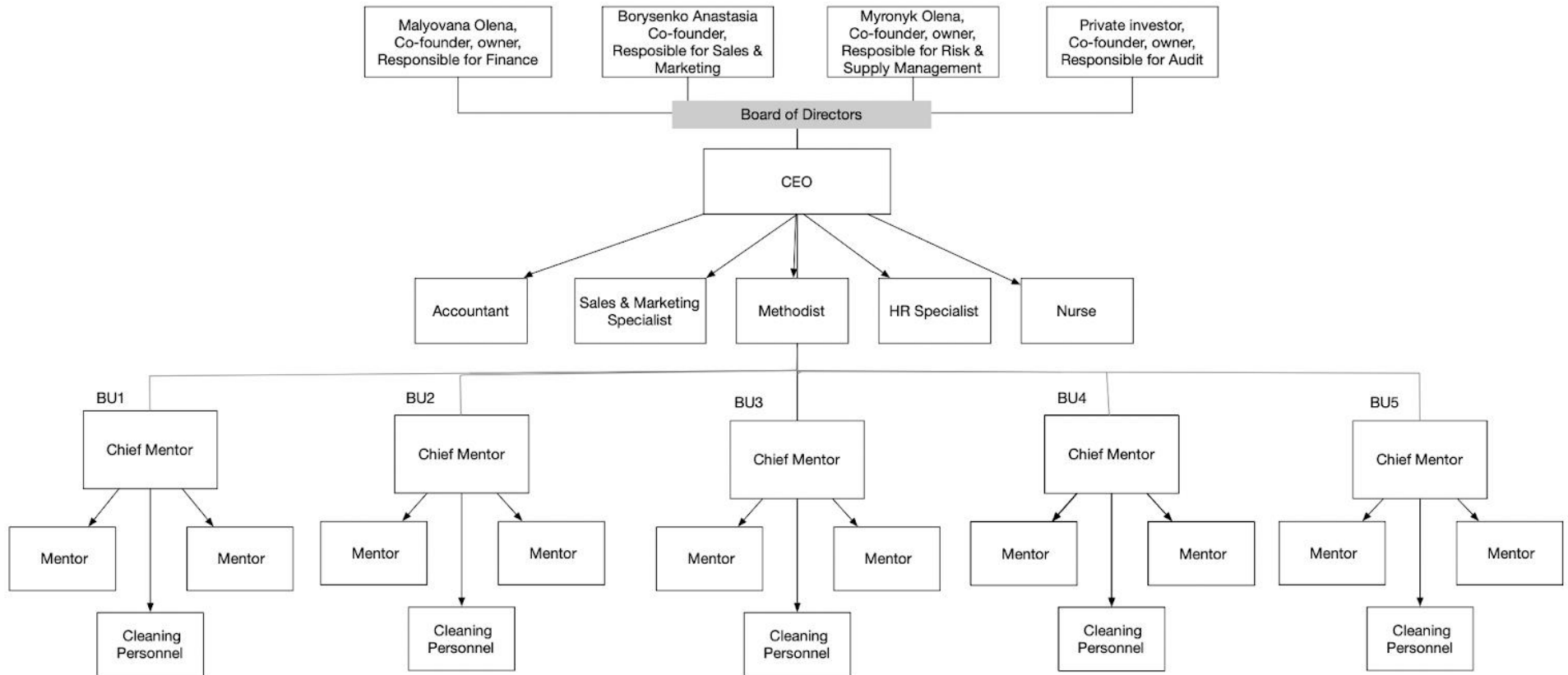
Meeting Rights

The obligatory annual shareholders' meeting shall be conducted in During the March each year. Any shareholder, Board of directors or CEO can require the shareholder meeting with 30 days prior notice.

Board of directors is elected to one-year term and have the following **duties and rights**:

- Consult with management regarding strategic and operating directions of the company
- Monitor CEO performance, dismiss and hire CEO
- Identify risk areas, develop risk management policies and oversee risk management performance
- Approve company's budget for the year and quarter
- Approve non-budget payments that exceeds USD 1,000
- Board's meeting shall be conducted on a monthly basis. Board shall provide access to the minutes of Board's meeting to shareholders
- Monitor financial reporting and choice of accounting policies
- Set compensation to the CEO

7.2 Organizational chart



CEO reports to the Board of Directors and manages administration team and Chief Mentor of 1st Kindergarten in the 1st year up to 5 Chief Teachers in the 5th year of operation.

Administration team consist of Methodist, Sales and Marketing Specialist, Accountant and Nurse.

The team is responsible for designing and implementing processes in the particular area of responsibility. It will take a lot of time at the start. However, effective business processes and subscription model of the business allow not to attract additional personnel with gradually launched new kindergartens.

The Methodist is responsible for development of educational plans, mythological materials for teachers, teachers' education, overseeing of educational trends, integration of new approaches into educational program, monitoring of execution of educational plan by mentors in all business units.

Sales and Marketing Person is responsible for SMM, PR, events, web-site, advertising, lead generation, e-mail marketing and sales. For meetings with parents Marketing and Sales Person should attract Chief Mentors and Methodist. The main goal of S&M Person is to attract 20 clients before a new business unit is opened. Also, this person is responsible for sales of additional products and keeping clients' database.

HR specialist is responsible for recruiting and retention of full-time and part-time employees and running documents workflow of employees according to the legislation requirements. Chief Mentor reports to the CEO and manages two mentors of the kindergarten and cleaning personnel. Chief Mentor is responsible for BU performance, building relationships with clients, up-sales, ensuring educational standards of the chain.

7.3 Project leadership

Project is led by 3 co-founders who become the Board of Directors in the 1st year of operation and CEO with wide experience of running educational facilities, pedagogical background.

Co-founders will become board of the directors during first two years of operation and divide between each other major areas for establishing standards and procedure.

Anastasia Borysenko is responsible for development and implementation Sales & Marketing Strategy. Olena Malyovana is responsible for Finance management and Outfitting premises. Olena Myronyk is responsible for providing standards of Risk and Supply management.

We believe that business education and extensive managerial background of the founding team can ensure the profitability of the project.

8. Risks analysis

Our project can be divided into three main process blocks: planning, preparation and operation. While considering all the possible risks we observed the processes of each block separately.

We identified the probability and impact of each risk and marked them all on a scale from low to high.

Planning process

The planning period embraces the several months of research and planning concentrated in this capstone project.

We identified 3 main risks, belonging solely and completely to stakeholders: market analysis risk, location risk, and budgeting risk.

Market analysis risk

Probability: Low

Impact: High

This risk supposes that we can potentially conduct wrong demand research. We plan to mitigate this risk in two ways:

- By consulting with at least 10 business experts and education authorities regarding the business plan in general
- By creating an exit strategy - transforming kindergartens into coworking spaces

Risk control should be performed by stakeholders during the whole planning period, as well as every reporting period during the whole life cycle of the project.

Location risk

Probability: Low

Impact: Medium

This risk supposes that we can potentially fail the governmental standards compliance, and other location risks (close neighboring to potentially risky territory). We plan to mitigate this risk in the following ways:

- By buying out a neighboring kindergarten

- By checking the Kyiv development plan
- By conducting careful property due diligence
- By checking governmental standards

Risk control should be performed by stakeholders during the whole planning period, during the period of receiving compliance approval, and during the period of kindergarten operation in general, since there may be a risk of any future constructions in the neighborhood.

Budget shortage risk

Probability: Medium

Impact: Medium

This risk includes any unforeseeable costs resulting in a budget shortage, including the preparations processes. This risk may be mitigated by the following steps:

- Budget double check
- In-depth interviews with financial experts (at least 10) and education authorities
- Backup financing/investing opportunities

Thorough risk control should be performed by stakeholders during all the planning and preparation processes.

Preparation process

This is an active period of design, construction, hiring personnel, education plans preparation. The process lasts for the three months precisely before the start of operations. Thus, these risks shall be the same for each new business unit. Still we plan that with each new business unit we will improve our preparation process and mitigate most of the risks with practice.

Design and constructions risks

Probability: Medium

Impact: Medium

This section includes any risks that lead to delay in construction. The delays may be short or long, resulting in the delay of operations starting. Part of the risks will be transferred to contractors and stated in the contracts. The other part, however, may have to be mitigated in the following ways:

- Architectural/design project double check with 3rd-party-specialist

- Certification standards compliance check (fire/safety)
- Construction contract with payment-by-milestones and fines for delay

Education plan compliance risk

Probability: Low

Impact: High

Regardless of the fact which approach our kindergarten may use in its education plan, we still would need to receive a kindergarten license from local authorities. This means that we would need to file our educational plan, adjusted to governmental standards before start of operations. Thus, we may face the risk that our education plan will fail to meet governmental requirements, which in its turn can cause an up to 3 months delay in operations starting.

To mitigate this risk we prepared the following scenarios:

- Hiring an administrator with methodological experience
- Making sure education plan preparation is started far enough in advance
- Consulting with third-party experts if necessary

Operation process

This is without a doubt the longest and the most complicated stage of the project. We have to consider that during this period anything can happen: risks connected with food consumption, allergies, accidents, sales shortage, etc.

Sales plan unfulfillment risks

Probability: Medium

Impact: High

The sales plan may be missed for a great number of reasons, out of which identified three most dangerous for our project:

- Risk of wrong marketing tactics/tools usage leading to decrease of sales
- Risks of low demand
- Seasonality risks (low summer demand)

We developed mitigation strategies for all of them:

- Diversify marketing/promo channels (use at least 4)
- Diversify distribution channels (at least one digital and one physical)

- Focus on broader target audience based on educational model (children of different ages)
- Diversified products: creative studios, overnight service for children
- Summer projects for externals

The CEO should constantly control the sales volume.

Food consumption risks

Probability: Low

Impact: Medium

Food poisoning and allergies may happen for whatever reason, not necessarily as a result of kindergartens or its contractors' negligence. Idiosyncrasy to any products may come and go throughout the whole period of one's life. This, however, does not mean that we should accept these risks as is, without any actions from our side. A part of food consumption risks may be transferred, for example:

- To specialized outsource catering services with certification for preschools and ability to make food for children with special needs
- Direct contracts between parents and catering

The other part of these risks shall be mitigated:

- Separate canteen area for self-maintained children, for whom parents bring food from home
- Liability of parents to notify about all possible allergies regulated by the contract

Contagious diseases risk

Probability: Medium

Impact: Medium

Although it is our primary responsibility to put all the effort into providing total safety for children in our kindergarten, contagious diseases happen every now and then practically in all kindergartens. This risk may lead to financial losses and reputational risks due to disease transferred either from child to child, or from an employee to child.

All these risks may be mitigated in the following ways:

- Regular hygiene and health check-up for children by nurse

- Regular hygiene and health check-up for employees and children by medical authorities.
- Check of antiseptic lamp usage during children's' walk
- Check of using cleaning procedures
- Onboard children only with obligatory vaccinations
- First aid kit and instructions for disease localization
- Employees trainings from sanitary control authorities

All these check-ups must be done on a regular basis and controlled by the CEO.

Accidents with children

Probability: Medium

Impact: Medium

This risk may result not only in financial liabilities and reputational damage, but also is dangerous for children themselves. The accidents may happen between children, indoor and outdoor.

The main mitigation strategies for this type of risks are the following:

- Regular trainings with employees on safety procedures
- Outside safety standards and protocols check (e.g., soft playground covering)

Clients retention risk

Probability: Low

Impact: High

We have to consider the possibility of clients changing the kindergarten and thus lowering our retention rate below 80%. This risk should be mitigated and controlled in a number of ways:

- Regular parents' surveys with follow-up activities
- Obligatory daily parents communications rituals with teacher
- Using of kindergarten mobile application by teacher, everyday note regarding each child
- Posting photos 2 photos in App of each child by teacher
- Adaptability and onboarding procedures

Aggressive children

Probability: Low

Impact: High

Some children in the group may be aggressive to the other ones, and we understand that not all the children can protect themselves against each other. This risk however can have serious consequences for a kindergarten and both teachers and CEO have to know exactly what to do in this situation. We identified four mitigation strategies for this risk:

- Regular tracking procedure. Teachers have to exactly how their children behave
- Termination of contract with aggressive children
- Regular therapy sessions with teachers to help them better identify and deal with such children
- And therapy sessions with children and parents themselves to work through the aggressive behavior

Employee retention

Probability: Low

Impact: High

This risk may arise in case of employees' deep dissatisfaction with their working conditions, and may lead to stopping the operations. To mitigate these risks the CEO together with the HR would have to create a replacement/substitution system, as well as implementing options for professional development for employees, descent compensation program, as well as motivation program, loyalty programs and regular job satisfaction interviews with CEO. We understand that satisfied employees mean happy children.

Kidnapping risk

Probability: Low

Impact: High

All the employees of kindergartens should be well aware of who exactly is allowed to pick up children after classes. In order to do so we plan to implement the following:

- White lists of persons allowed to pick-up children after classes
- In-house intercom
- Personal meetings with all persons from white lists
- Parents picture database

9. SWOT Analysis

Strengths:

- Strong product differentiation
- Uniqueness on the market
- Diversified product portfolio: broader market coverage
- Business model leverage: predictable cash-flow, minimized Accounts Receivable and Accounts Payable
- Minimal to none of the non-current assets on the balance and high liquidity
- Stable customer base: decreasing user attraction costs with every new operating cycle
- Economies of scale combined with a high share of fixed costs in the cost structure
- 67% of expansion investment is financed with Retained Earnings
- Dividend payout after 3 years of operations

Weaknesses:

- Lack of reputation: new product on the established market
- The high share of fixed costs in the cost structure
- The high share of renting costs in the operating expenses
- High customer servicing requirements and pressure

Opportunities:

- Stable growing demand for preschool education services on Kyiv market
- Incoming migration trends resulting in Kyiv population increase
- An increasing share of Kyiv population without official registration
- Simplified licensing and other legal requirements for pre-school education facilities
- No VAT tax for pre-school education facilities
- The national educational policy shift towards new innovative approaches
- Changing requirements for elementary school entry
- High buyers switching costs (location sensitivity, psychological attachment)

Threats:

- Ukraine economy stagnation
- Income level decrease among the population of Ukraine
- Birth rate decrease in Ukraine
- Ukrainian legislation instability
- High threat of new entries on the market
- Potential lack of education professionals to hire

10. Financial Summary and Investment indicators

10.1 Assumptions

Operations start in September Year 1. Year 1 operations duration is 4 months.

1 additional kindergarten Business Unit (BU) is opened every year. During 5 years 5 Kindergartens will be opened.

Facilities launching Plan:	Units	Year 1	Year 2	Year 3	Year 4	Year 5
Q-ty of BUs operating in the year	pcs	1	2	3	4	5

BU Facilities are assumed to be opened in relatively equal economic areas.

We use the following currency rate projections:

	Units	Current	2020F	2021F	2022F	2023F	2024F
Currency Exchange rate UAH to USD	UAH/USD	28	32	32.50	33	33.5	34

Average Number of working days per month is equal to 21.5. Operating year equals to a calendar year from January to December.

Each kindergarten works 4 months in the 1st year of operating, every next year it operates 11 months per year except August with the maximum capacity of 20 children.

Each kindergarten runs 10 creative studios for 4 months in the 1st year of operation and 10 months in each next year with the maximum capacity of 8 children per 1 studio.

Any child can stay overnight at any day of the week as additional paid services.

Summer camp operates 1 month per year in August starting from the 2nd year with the maximum capacity.

We expect the following occupancy rates:

Realistic scenario

Products	Year 1	Year 2	Year 3	Year 4	Year 5
Sep-July: Kindergarten	50.00%	90.00%	90.00%	90.00%	90.00%
Sep-June: Creative Studios (10 studios/month *10 month)	50.00%	70.00%	70.00%	70.00%	70.00%
Sep-Aug: Overnight Care Program	1.00%	1.50%	1.50%	2.00%	2.00%
August: 2-weeks-shift Summer Camps (2 shifts x 1month)	0.00%	70.00%	90.00%	90.00%	90.00%

Pessimistic scenario

Products	Year 1	Year 2	Year 3	Year 4	Year 5
Sep - July: Kindergarten	40.00%	60.00%	70.00%	80.00%	90.00%
Sep - June: Creative Studios (10 studios/month *10 month)	30.00%	50.00%	60.00%	70.00%	80.00%
Sep - Aug: Overnight Care Program	1.00%	1.50%	1.50%	2.00%	2.00%
August: 2-weeks-shift Summer Camps (2 shifts x 1month)	0.00%	50.00%	60.00%	70.00%	80.00%

The yearly fee is paid by every member once per year.

Rented Real Estate. Square Area per BU is 170 sq.m. Construction design is included in the cost of construction, which equals to UAH 5600 per sq.m. Rent is paid monthly under prepaying conditions with an additional prepaid month at the beginning. 3 first months are free of rent payments for the construction period. All construction and decorations should be finished in 3 months before the beginning of operations.

Prices of all goods and services are corrected by the level of inflation.

There will be a space in one of the properties to provide Administrative personnel office.

In Year 0 during the construction, all utilities for 3 months are assumed to be used equally as in 1 month in the operating period.

Admin telephones, Internet and stationary are assumed to be used in Year 0 for 3 months

due to requirements of pre-sailing process.

Own electric hitting system and boiler will be used in each BU. In Year 1 BU uses hitting during 2.5 months from middle of October till December. In regular year BU uses hitting during 6 months.

Usage of electricity:

Electricity usage per month (hitting season)	Kw/h	3,500
Electricity usage per month (non-hitting season)	Kw/h	1,500
Total electricity usage per year except Year 1	Kw/h	3,000

Assumed monthly usage of water is 20 cb.m.

Assumed 1 telephone connection is needed Per BU and 3 telephone connections for Admin personnel.

Assumed 1 class per day involving an external teacher.

The quantity of bed linen per child is 2.5 pcs. The quantity of blankets per child is 1.2 pcs. External laundry is done 2 times per month. Laundry volume is 0.2 kg per one kindergarten child.

Salaries are increasing at 1.5 times faster than inflation growth yearly.

Salaries of "Operations" personnel	Units	Amount	Year 1	Year 2	Year 3	Year 4	Year 5
Chief mentor	UAH	22,000	22,000	23,800	25,700	27,700	29,800
Mentor	UAH	18,000	18,000	19,500	21,000	22,600	24,300
Indoor Cleaning Personnel	UAH	10,000	10,000	10,800	11,600	12,500	13,400

Membership in Kindergarten is provided under prepaid conditions. Payment should be done until the last day of the month proceeding to visit the Kindergarten program. However, we expected that 20% of clients will not meet the required payment terms and only 80% of the monthly payment will be on the account as Deferred Revenues.

Creative studios shall be paid till 20th of the month when services are rendering. However, we expect that 10% of the clients will not meet the requirements and paid next month. Such violation of payment terms will become the main source of Accounts Receivable.

Other "Kindergarten" products are paid on the 1st day of the current month or on the prepayment basis.

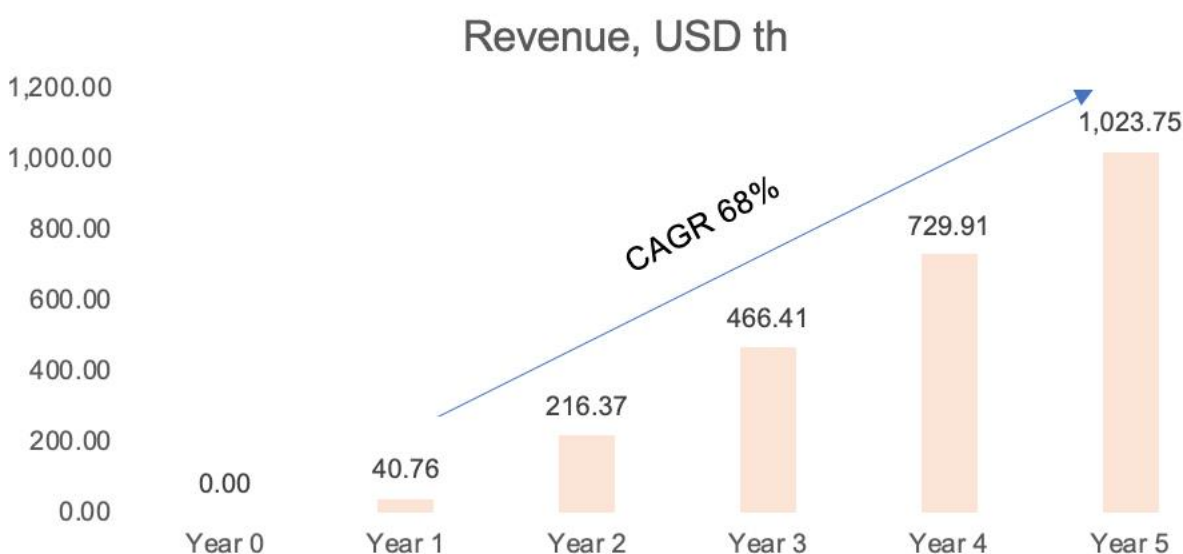
Membership in Kindergarten is provided under prepaid conditions.

Monthly payments for water, maintenance services shall be paid next month after rendering services. This is the main item of Accounts Payable.

All other services and CoGS are paid at the time when rendered.

10.2 Profitability

We expect a high level of Revenue growth due to the speed of business expansion, namely, opening one new business unit each year, with CAGR 68%. Total Revenue will amount to USD 1023.8 th in the 5th year of operation.

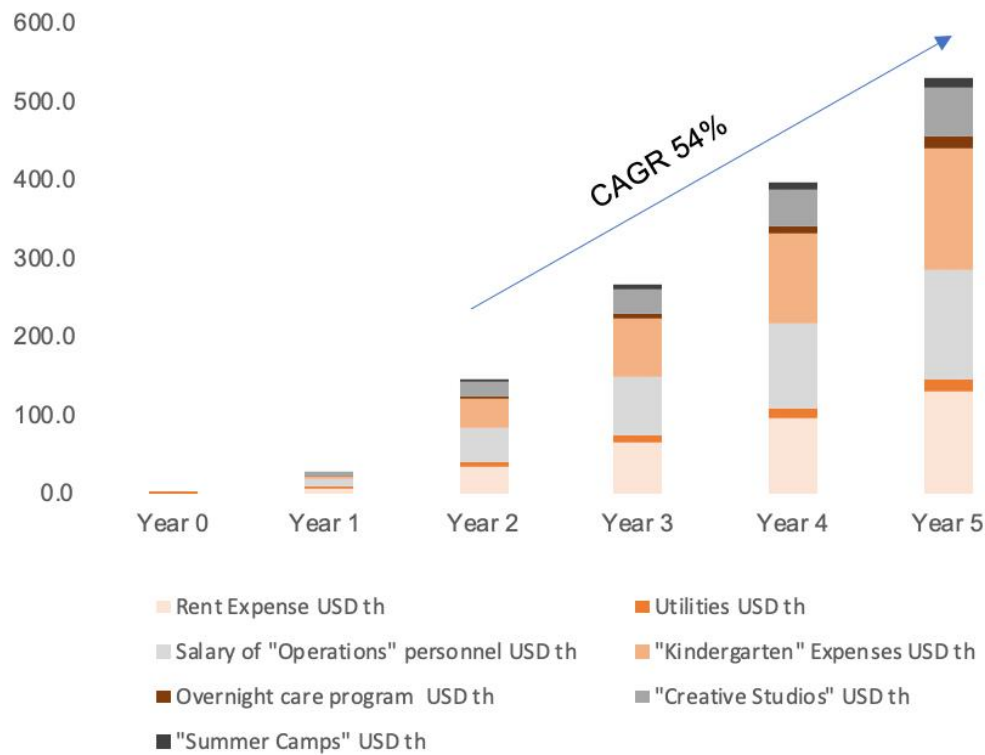


CoGS is growing smoothly together with Sales, however, speed of growth is slower due to considerable share of not-variable costs in COGS structure, namely, rent, utilities and salary of operations personnel don't depend of sales volume and take 56% share in COGS structure.

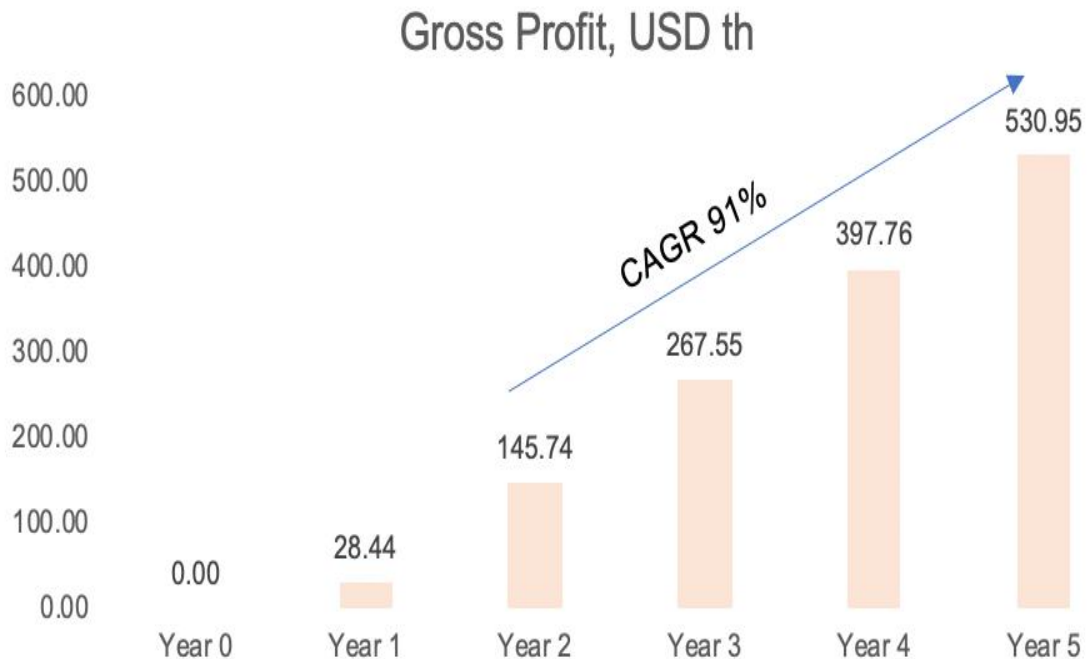
**CoGS Expenses,
USD th**

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Total	
Rent Expense	0.0	8.3	36.5	66.1	97.8	131.5	340.2	25%
Utilities	0.3	1.2	4.9	8.6	12.4	16.5	43.9	3%
Salary of "Operations" personnel	0.0	11.3	44.4	76.6	107.8	138.1	378.2	28%
"Kindergarten" Expenses	0.0	2.9	37.3	74.0	113.3	155.1	382.6	28%
Overnight care program	0.0	0.5	3.2	6.1	11.9	16.2	38.0	3%
"Creative Studios"	0.0	4.3	16.9	30.2	44.4	59.5	155.3	11%
"Summer Camps"	0.0	0.0	2.5	6.0	10.2	14.0	32.6	2%
Total	0.3	28.4	145.7	267.6	397.8	530.9	1,370.7	100%

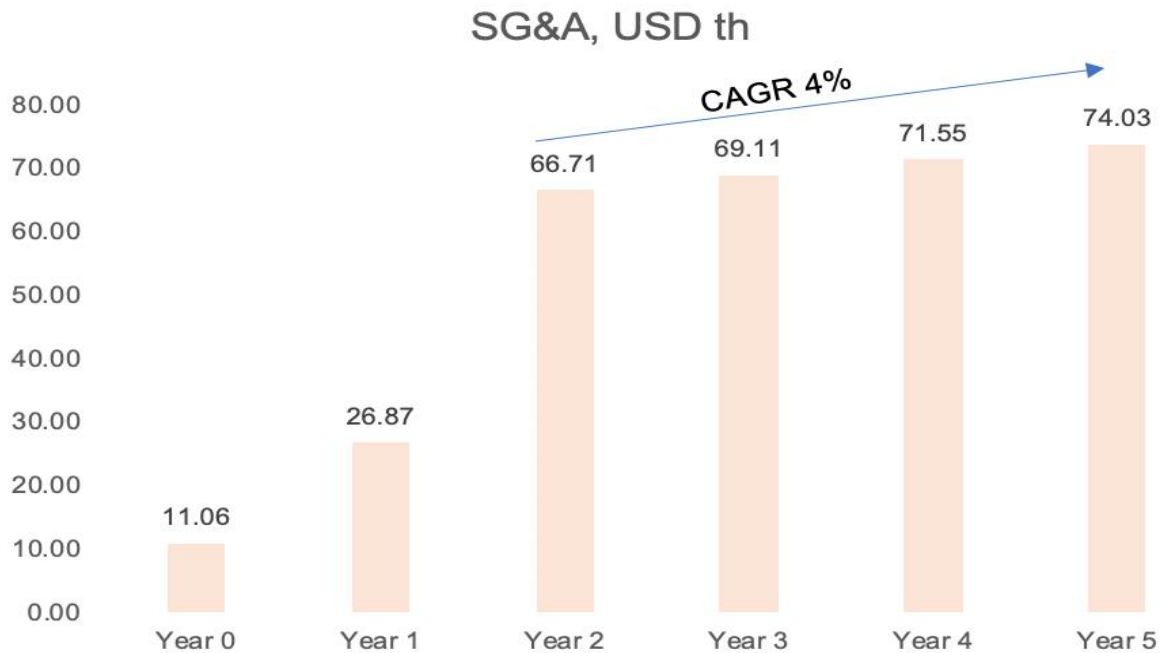
COGS, USD th



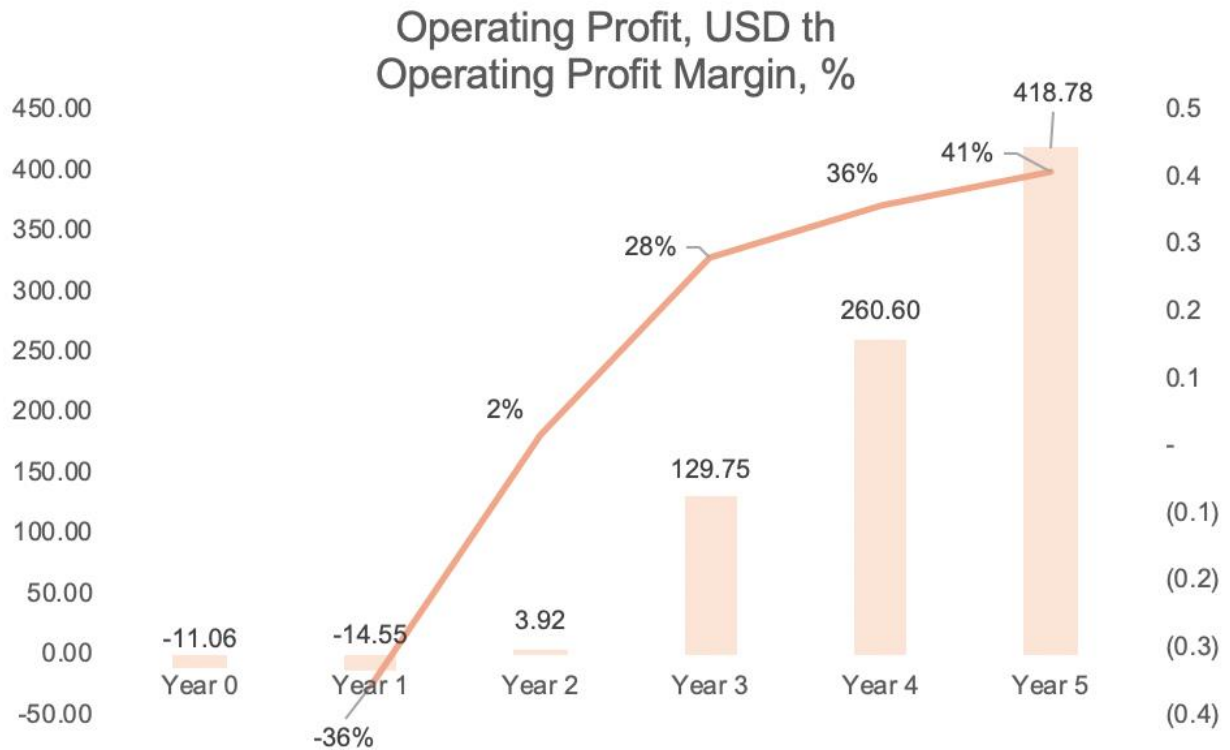
Due to the faster Sales growth then COGS, Gross Profit increases from USD 145,000 in Year 2 to USD 530,000 in Year 5 with CAGR of 91%. In Year 5 Gross Profit Margin will reach 48%.



General expenses are stable increasing just on inflation level. In the 5th year of operation SG&A expenses amount to USD 74 ,000 and consist 7.2% from Sales. The most considerable item in SG&A structure is salaries of administrative staff.



The chain of kindergartens will start to receive the operating profit in the 2nd year of operation. With the opening of every new business unit, the operating profit is expected to increase and reach USD 418.8 th and Net Profit Margin - 41% in the Year 5 of operation.



The company will gain losses during the first year of operation and receive Net Income at the amount of USD 390,000 th in the Year 2, which will increase by the Year 5 to USD 311,000.

It is very important to understand that every single business unit has breakeven on the 5th month of operations. That is why the profitability will increase on the 6th year of operation.



10.3 Capital expenditures

The main and single purpose of the capital expenditures is to outfit and equip premises to launch kindergarten. There are two main groups of capital expenditures: renovation and furniture, the share of these two items is 90% of total CapEx.

For calculation of renovation cost, we use the index frequently used in real estate - the cost of 1 sqm renovation. We assume that the renovation of 1 sqm for Kyiv city will cost USD 200. Cost of renovation and prices of all other CapEx we index by the inflation index.

There are also CapEx for organizing working places for administration staff. That is why the cost of the 1st Kindergarten launch is higher than the cost of the launch of the 2nd one.

CapEx Group,

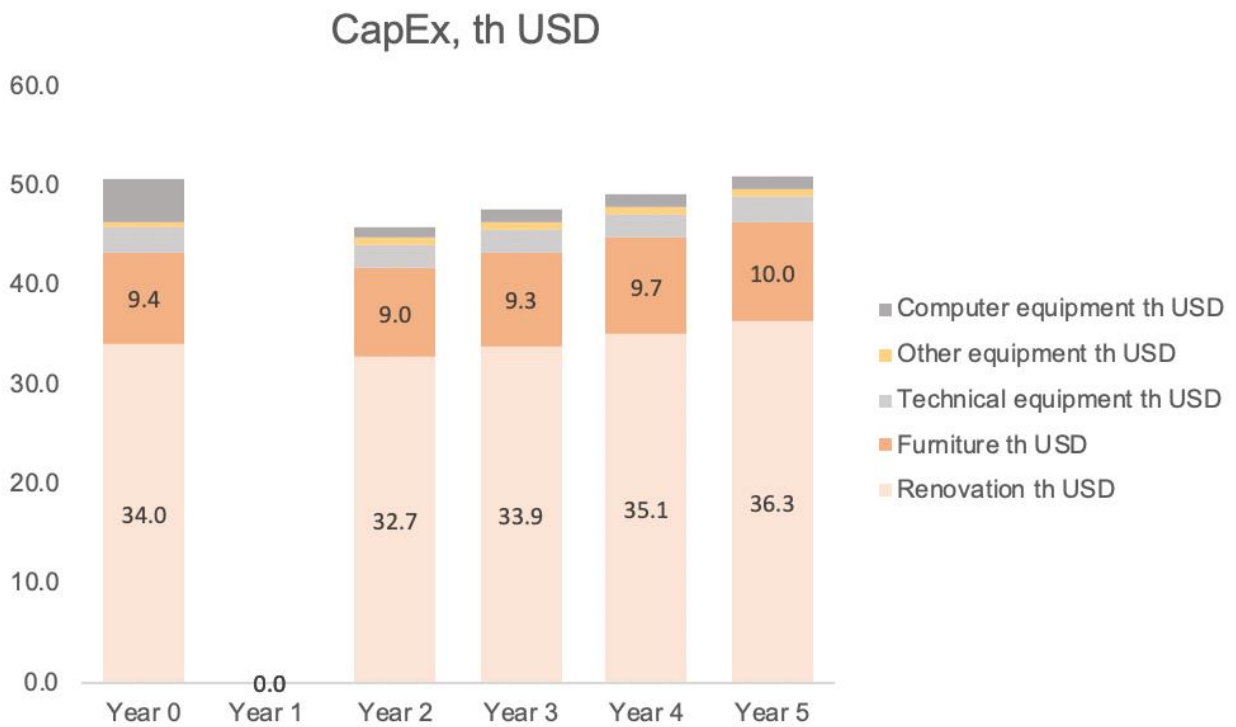
USD, th	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Total	Structure
Renovation	34.0	0.0	32.7	33.9	35.1	36.3	172	71%
Furniture	9.4	0.0	9.0	9.3	9.7	10.0	47	19%
Technical equipment	2.4	0.0	2.3	2.4	2.5	2.6	12	5%
Other equipment	0.7	0.0	0.7	0.7	0.7	0.7	4	1%
Computer equipment	4.2	0.0	1.1	1.2	1.2	1.3	9	4%
Total Capital Expenses	50.6	0.0	45.8	47.5	49.2	50.9	244	100%

According to 5-year financial projections, total CapEx for 5 Kindergartens opening will amount to USD 244,000.

However, due to the chosen strategy of the incremental opening of the Kindergartens, major part of capital expenditures will be financed by reinvested profits (See in the table below). Only 31% of all Capital Expenses will be financed by external investments. External investors will finance CapEx for the 1st kindergarten opening and 54% of the CapEx for the 2nd Kindergarten, all the next opening will be financed from Retained Earnings.

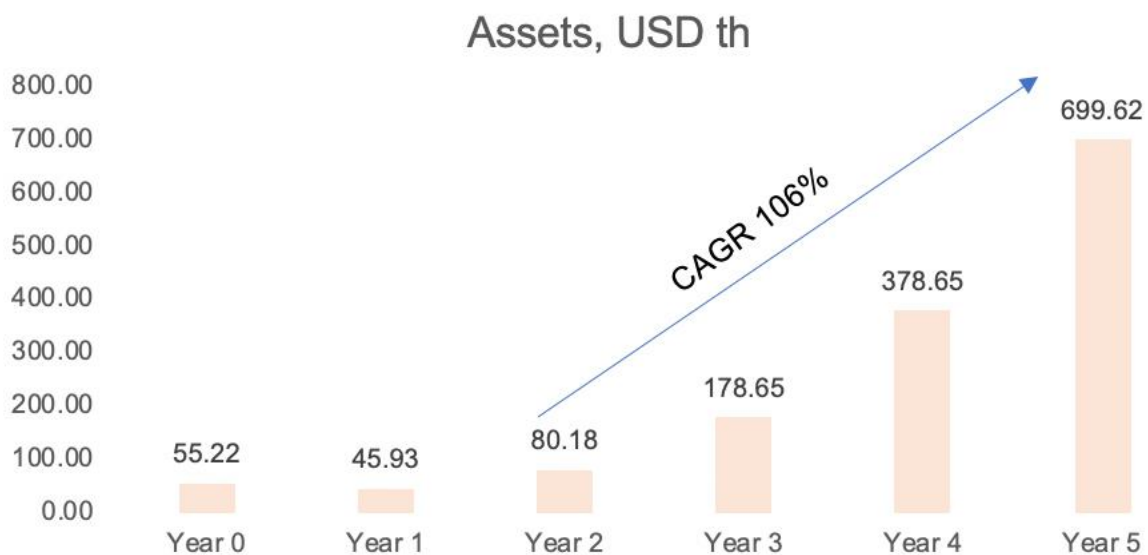
Sources of CapEx

financing, %	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Total	Structure
Financed by external investments	50.6	0.0	27.7	0.0	0.0	0.0	78.3	31%
Financed by the retained earnings	0.0	0.0	18.1	47.5	49.2	50.9	165.7	69%
Total Capital Expenses	50.6	0.0	45.8	47.5	49.2	50.9	244.0	100%



10.4 Assets and Key financial indexes

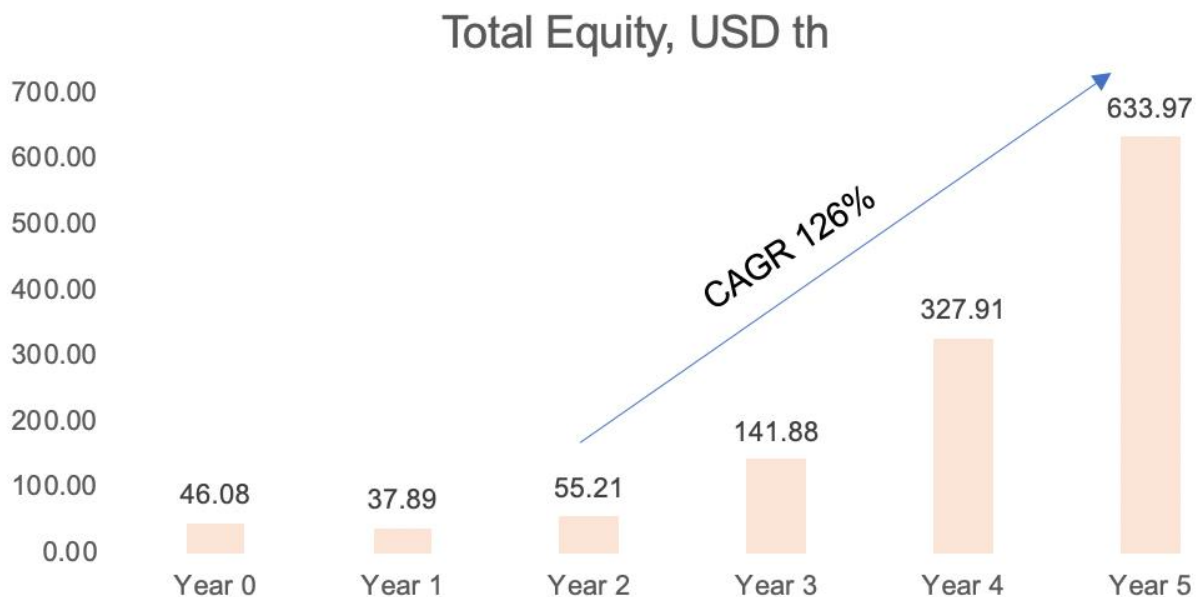
Assets of the Company are constantly growing with CAGR from 2nd to 5th years of operation of 107% and amount to USD 700,000 in Year 5, since the operating activity is expanding and all types of assets are growing without changing structure dramatically.



Cash and cash Equivalents are the most significant assets item, which amounted to USD 564,000 in Year 5 increasing by USD 562,000 from Year 0. Its share in Total Assets is 80% in the 5th year of operation. Such huge amounts of cash ensure Company ability to pay its debts.

Another considerable item of assets is PPE, which is constantly growing due to new kindergartens opening each year and amounts to USD 122,000 in Year 5.

According to business practice in the industry all payments, including sales and expenses, are made in advance. Due to this fact, there is very low level of accounts payable and receivable is planned. However, there are Deferred Revenues (prepayment for Kindergarten), which are growing constantly due to increasing quantity of business units and clients. In Year 5 Deferred Revenues amount to USD 65.3 th and have 9% share in Liabilities and Own Capital.



Equity has an increasing share in Equity & Liabilities structure, by the end of Year 5 it consists 90.6% of equity and liabilities. Increase in equity during the preparation period and first two years of operation is caused by the investments, and in 3 – 5 years – by the earnings reinvestments. Due to enough cash, policy of dividends payment can be implemented starting from Year 3.

		Operational years				
	Units	1	2	3	4	5
Liquidity						
Current ratio	times	0.6	0.3	2.3	5.3	8.8
Quick ratio	times	0.6	0.3	2.3	5.3	8.8
Cash ratio	times	0.3	0.1	2.0	5.0	8.6
Net Working Capital	USD th	-5	-3	-17	46	216
Long-term solvency (financial leverage)						
Equity multiplier	times	1.2	1.5	1.3	1.2	1.1
Turnover ratios						
Receivables turnover	times	163.0	285.4	381.7	419.9	444.0
Days' sales in receivables	days	2.2	1.3	1.0	0.9	0.8
Payables Turnover	times	514.9	1199.3	1416.7	1525.7	1574.9
Days sales in payables	days	0.7	0.3	0.3	0.2	0.2
NWC turnover	times	-10.3	-75.7	-27.7	16.0	4.8
Total asset turnover	times	0.9	2.7	2.6	1.9	1.5
Profitability ratios						
Net Profit Margin	%	-44%	-5%	19%	26%	30%
Return on assets (ROA) %		-39%	-12%	49%	50%	44%
Return on equity (ROE) %		-48%	-18%	62%	57%	49%

After overcoming the breakeven point, current ratio becomes sufficient at the level of 2.2 in Year 3 and is constantly growing and amounts to 8.8 by the end of Year 5. The kindergartens' chain has excellent ability to generate cash, which consists 80% of all Company's assets.

Net working capital is negative during the first 3 years of operation and increases in year 4 and year 5 of operation and amounts to USD 216,000 by the end of Year 5.

Owing to the very low level of accounts payable and receivable the company has a very high level of their turnover.

Assets turnover is fluctuating on a sufficient level starting from 0.9 on Year 0, reaching 2.6 in year 3 and stabilizing at the level 1.5 by the end of Year 5.

ROA and ROE have outstanding levels of 44% and 49% accordingly by the end of Year 5.

10.5 Free Cash Flow and NPV

To evaluate the ability of the project to generate cash, it is very important to analyze Free Cash Flow. Free cash flow is a measure of profitability that excludes the non-cash expenses of the income statements and includes spending on equipment and assets as well as changes in working capital from the balance sheet. We calculate free cash flow both by direct and indirect methods.

Direct method

	Y0	Y1	Y 2	Y3	Y4	Y5
Cashflow from operating activities	-4.3	-14.8	18.2	119.9	230.8	363.1
Interest Expense						
Tax Shield on Interest Expenses						
Capital expenditures	-50.6	0.0	-45.8	-47.5	-49.2	-50.9
Free Cash Flow	-54.91	-14.77	-27.65	72.39	181.68	312.21
Free Cash Flow Total	468.95					

Indirect method

	Y0	Y1	Y 2	Y3	Y4	Y5
EBIT*(1-Tax Rate)	-11.06	-18.05	-9.79	87.51	188.15	310.88
Depreciation	0.00	3.50	13.71	23.03	31.15	39.66
Changes in Payables and Receivables	6.78	-0.21	14.27	9.33	11.54	12.54
CapEx	-50.62	0.00	-45.84	-47.49	-49.17	-50.87
Free Cash Flow	-54.91	-14.77	-27.65	72.39	181.68	312.21
Free Cash Flow Total	468.95					

However, to analyze profitability of the project we should consider the value of money in time and calculate NPV of discounted free cash flows. For such calculations we use a discount rate 15.9%, which takes into consideration NBU key policy rate 10% and inflation rate 5.9%.

NPV of the project discounted by the 15.9 rate is positive and amounted to USD 91.8 th.

Discount rate	15.9%					
	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Discounted FCF	-54.9	-12.7	0.00	46.49	100.68	149.29
NPV	91.15					

Also, we decide to use a highly conservative discount rate at the level of 50 %i in case of extremely pessimistic scenario when all possible country and industry risks. Even using such conservative rate we receive positive NPV that testify the sufficient profitability level.

Discount rate – conservative scenario	50%					
	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Discounted FCF	-54.9	-9.8	-12.29	21.45	35.89	41.11
NPV	21.40					

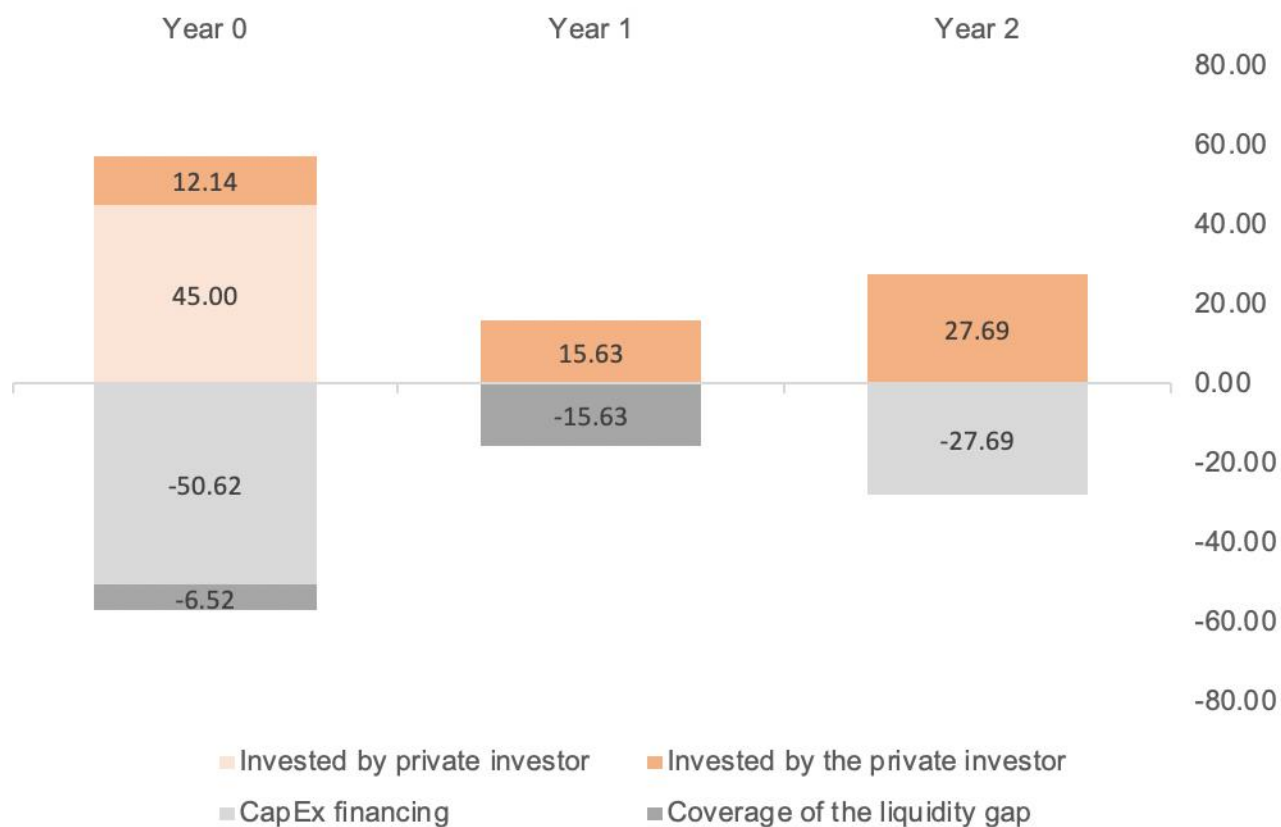
10.6 External financing requirements

Total required investments are amounted to USD 100.5 th. These investments are required during the first two years. Team is going to invest USD 45,000 of the own money. We plan to attract USD 55.5 from a private investor. All investments from the team will be spent for 1st Kindergarten launch before the start of the operation. Investors' funds will be used gradually: USD 12.1 th in the preparation period, USD 15.6 th and USD 27.7 th in the first and second year of operation accordingly.

78% of the total investments will be used for CapEx financing and 22% - for covering liquidity gap in the 1st year of operation. ROI of the project is 5.5 times and 550% for 5 years.

	Total	Y 0	Y1	Y2	Y3	Y4	Y 5
Total investments, USD th	100.46	57.14	15.63	27.69			
Invested by the team, USD th	45.00	45.00					
Invested by external private investor, USD th	55.46	12.14	15.63	27.69			
Investments will be spent on:							
CapEx:	-78.31	-50.62		-27.69			
Liquidity gap financing	-22.15	-6.52	-15.63				
5 years Project ROI, times	5.31						
5 years Project ROI, %	531%						

Sources and purposes of financing, USD th



For private investors we offer to buy 40% shares for USD 55.46 th. This investment will reach ROI of 3.6 times and 360% for 5 years.

Investment proposal

Share in equity of external investor, %	40%
Investment of the external investor, USD th	55.46
5 years Investor's ROI, times	3.6
5 years Investor's ROI, %	357%

10.7 Internal Rate of Return

Internal rate of return for the 5 year project is **60.1%**, which was calculated basing on financial projections made by the team.

10.8 Payback period

The total amount of investment is equal USD 100.5 th, which shall be invested during the preparation period (June-August 2020), 1st year of operation (September-December 2020) and 2nd year of operation (January-December 2021). According to the cash flow projections the amount, which can be paid back by the end of 2022, equals to USD 71.6 th (the amount of cash by the end of 2021). So, the payback period will be in the 4th year of operation.

To calculate the payback period more precisely we should make several assumptions. We assume that operating cash flows are evenly distributed during the year and we start to invest in opening the 4th kindergarten from the beginning of June 2023. So, the monthly amount of operating cash flow equals to USD 19.3 th. It is needed only 2 month in 2023 to cover the residual amount of investments. Considering that we start the project in June 2020 and expect payback of investments in February 2020, the payback period is **33 months**.

Total investments	100.46
Amount of investments can be paid back as of 31.12.2022	75.15
Amount of investments not paid back as of 31.12.2022	25.31
Monthly amount of operating cash flow	19.2
Project Start	01.06.2020
Payback period, date	01.03.2023
Payback period length, months	33

11. Exit Strategy

In case of unexpected changes on the preschool education market, we have an exit strategy, which is to launch co-working in rented premises.

We assume that maximum capacity of the co-working is 50 seats (3.4 sqm per person), average occupancy is 50%, average profitability is 23% according to URE club data. We calculate exit scenario for 1 kindergarten reequipped in co-working, that is why we take only USD 75,000 of initial financing in the 1st facility excluding investments in the CapEx of the second one. With the above-mentioned assumptions, we expect a payback period in 4.1 years for the exit strategy scenario.

	UAH	USD
Price	350	13
Revenue monthly	183,750	6,563
Primary investments	2,100,000	75,000
Additional investments	156,000	5,571
Total investments	2,256,000	80,571
Average industry margin	23%	23%
Annual net income	551,250	19,688
Payback period, years	4.1	4.1

12. List of Sources

1. Laws and Regulations

- 1.1. Tax Code of Ukraine
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- 1.2. Resolution of the Cabinet of Ministers of Ukraine №1187 dated 30.12.2015 “On approval of the Licensing conditions for conducting educational activities of educational institutions”.
<https://zakon.rada.gov.ua/laws/show/1187-2015-%D0%BF>
- 1.3. Regulation on Preschool Educational Institution, approved by the Cabinet of Ministers of Ukraine Decree No. 305 of March 12, 2003.
<https://zakon.rada.gov.ua/laws/show/305-2003-%D0%BF>
- 1.4. The Law of Ukraine "On Education"
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- 1.5. The Law of Ukraine "On Licensing of Economic Activities".
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- 1.6. The Law of Ukraine "On Preschool Education"
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- 1.7. State Building Regulations for Preschool Facilities
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- 2.6. Міграційний приріст населення Києва
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- 2.7. Міський науковий інформаційно-аналітичний центр медичної статистики
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- 2.9. Показники розвитку міста Києва за січень-червень 2019 року
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- 2.10. Портал дошкільної освіти Києва
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- 2.11. Соціально-економічний розвиток регіонів

- <https://me.gov.ua/Documents/List?lang=uk-UA&tag=Sotsialno-ekonomichniiRozvitokRegioniv&pageNumber=1>
- 2.12. Статистичний бюлетень «Дошкільна освіта України» [2015](#) [2016](#) [2017](#) [2018](#)
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