PRIVATE EQUITY OVERVIEW

Decades of loosening the rules that govern Wall Street and finance have allowed financial firms, including private equity firms, to take over growing swaths of the US economy, ranging from retail and manufacturing to housing and care. Private equity firms raise money from institutional investors—like pension funds—to buy, own, and sell businesses for profit.

Although private equity firms claim they create value in the businesses they take over, the private equity model has several characteristics that can lead to exaggerated risk-taking and harm for businesses, workers, and communities:

- **Private equity takeovers of companies or non-profits in these sectors are usually financed by a high degree of debt** — between 60 and 80 percent of the purchase price — which becomes the responsibility of the purchased entity (e.g. a childcare program, hospital, or retail chain), not the private equity firm, to pay back through high monthly interest payments. This can lead to high rates of bankruptcy.
- **The private equity firm usually puts a vanishingly small amount of its own capital** — as little as one to two percent — into the fund used to complete the purchase; the balance comes from very wealthy individuals and institutional investors like endowments and pensions. This means the private equity firm has little to no "skin in the game" regarding the success of the businesses it is taking over.
- Private equity firms typically charge two percent in management fees each year to these investors, and take 20 percent of the profits from managing and re-selling the companies they take over. This means that **private equity firms make money from fees upfront even if the businesses it takes over ultimately fails.**
- **Private equity firms typically only hold businesses for three to seven years before selling**, meaning the long-term health of the business is not a priority.

As financial firms including private equity expand their reach into the child care sector, we've seen the potential fallout from their practices across many sectors:

RETAIL

In retail, private equity-owned chains were a driving force in bankruptcies between 2015 and 2020, closing 18,000 stores and slashing over a half-million jobs before February 2020. Women of color, as the primary workforce in the retail sector, bore the brunt of this destruction.

HEALTHCARE

In healthcare, private equity's debt-driven acquisition model and use of extractive tactics like dividend recapitalizations, fees, sale lease-backs, and rapacious cost cutting has led to high-profile collapses of systems like Steward Health Care and Prospect Medical Holdings, leading to job losses and disruptions in care. Private equity firms own an estimated eight percent of all private hospitals. Studies from Harvard Medical School have found that private equity hospital takeovers result in higher charges, prices, and public spending, as well as worsening safety and quality measures, like falls and infections. The same trends held in nursing homes—after private equity takeovers, short-term mortality jumped by 10 percent (an additional 20,000 deaths in the study period.) Private equity has bought up hundreds of small home health and home care agencies and consolidated them into three dozen flagship brands, of which five chains are the largest in the country.

HOUSING

In housing, private equity firms have bought up several hundred of thousands of distressed mortgages, and control millions of units through single family homes, manufactured housing, multifamily buildings, affordable housing developments, student housing, and assisted living communities. Private equity owners have been found to increase evictions, raise rents and pile on rental junk fees, and crowd out other buyers.

By extracting funding meant for operations and service delivery out through complex financial maneuvers, the private equity model leaves less money for on the ground needs and workers' livelihoods, and causes instability, often leading to bankruptcy and closures. This has harmful consequences for customers and clients, for workers, and for the target sector at large. As private equity owned chains grow larger, they exercise greater control over the system, exerting monopoly power over customers and workers and translating it into political power to win fewer regulations and more revenue — which is diverted into the pockets of private equity executives.

AFR EF Americans for Financial Reform Education Fund
COMMUNITY CHANGE
NATIONAL WOMEN'S LAW CENTER Justice for Her. Justice for All.
OPEN MARKETS

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