

PUBLIC MONEY FOR PRIVATE EQUITY

PANDEMIC RELIEF WENT TO
COMPANIES BACKED
BY PRIVATE EQUITY TITANS

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Public Money for Private Equity: Pandemic Relief Went to Companies Backed by Private Equity Titans

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1. Executive Summary

This study estimates that at least \$5.3 billion in CARES Act money went to 611 portfolio companies owned or backed by private equity firms that held \$908 billion in cash reserves.

Hundreds of companies owned or backed by some of the largest, best financed private equity firms secured an estimated \$5.3 billion in public funding under the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Federal pandemic relief efforts provided trillions of dollars in response to the twin public health and economic crisis. Yet the legislation imposed few conditions on recipients — such as requirements to support workers and maintain business operations — and failed to prohibit recipients from using public money to enrich investors.

This lack of binding statutory requirements has enabled the private equity industry to continue its typical extractive and predatory practices. Private equity firms take over companies as investment vehicles, and then use aggressive tactics and financial engineering that often undermine the portfolio companies' financial viability. They frequently extract substantial value from their takeover targets through debt-financed leveraged buyouts, excessive fees, dividends, and stripping out valuable assets such as real estate. Workers, consumers, and patients pay the price for the aggressive cost-cutting strategies that private equity firms use to siphon revenues from the companies they own.

Public money for private equity-backed companies not only went to companies that already had deep-pocketed backers, but also effectively allowed private equity owners to continue and even expand their predatory tactics during an economic and public health emergency. With improved balance sheets shored up by government money, private equity firms were able to finance a buyout spree during the pandemic-driven economic downturn as well as to extract dividends and fees from their portfolio companies.

The private equity industry captured funds that should have supported small, independent businesses, especially those owned by women and people of color. Private equity firms could have tapped their own cash reserves (known as dry powder) to help their portfolio companies, which would have left more public resources available to help other struggling companies, especially smaller businesses owned by women and people of color.

This study estimates that 611 portfolio companies received nearly 16,000 CARES Act loans or grants worth at least \$5.3 billion. These portfolio companies were owned or backed by 113 private equity firms that collectively held \$908 billion in cash reserves. It is a conservative estimate, because this analysis looked only at private equity firms with more than \$5 billion in assets under management and because the opacity of the private equity industry makes it impossible to make a comprehensive list of private equity-backed companies that may have received pandemic relief. Private equity firms buy and sell assets — including entire companies or single facilities — constantly and it is not possible to have a perfect list of portfolio firms based on publicly available information at any one point in time.

Our calculations rely on information on specific recipients of CARES Act funding through December 2020 from the Project on Government Oversight (POGO), which graciously shared the data collected through its COVID-19 Relief Spending Tracker. (The data sources and analytical approach are fully described in the Methodology appendix on page 41.)

Nearly all of the funding for private equity-backed companies came through the CARES Act programs operated by the Department of Health and Human Services (\$3.7 billion or 69 percent), the Small Business Administration (\$1.2 billion or 23 percent), or the airline payroll protection program (\$341 million or 6 percent).

Even within the private equity industry, a small number of large investors dominated access to CARES Act funds. Over \$4 billion (76 percent of the total pandemic relief to the industry) went to portfolio companies owned by just 10 private equity firms. Leading the way, companies backed by the private equity firm Apollo Global Management (Apollo) received \$1.4 billion. The portfolios of Cerberus Capital Management (Cerberus) received \$883 million and Welsh, Carson, Anderson & Stowe received \$436 million. In total, these top ten private equity firms reported \$245 billion in dry powder cash reserves during 2020 that could have shored up their own portfolio companies, meaning they did not need to take public funding.

This report identifies some of the more troubling and problematic practices which were essentially tolerated or facilitated with public support. Key findings include:

More than \$5 billion in pandemic relief went to the largest private equity firms:

At least \$5.3 billion in CARES Act loans or grants went to 611 portfolio companies owned or backed by 113 private equity firms that each had more than \$5 billion in assets.

Private equity-backed healthcare companies received \$3.9 billion but continued many practices that undermine patient health and finances:

143 private equity-backed hospitals, physician groups, and other health companies, received over \$3.9 billion in pandemic support, including some troubled hospital chains and companies responsible for surprise medical billing, charging patients out-of-network fees for services like ambulance rides, emergency room visits, or x-rays at in-network hospitals or clinics. At the height of the pandemic, Cerberus' Steward Health Care threatened to close its hospital in Easton, Pennsylvania, if it did not receive a \$40 million public bailout. The state wound up having to pay the hospital \$8 million to keep it open for four weeks and provide essential healthcare services.

Private equity-backed companies secured \$1.2 billion in pandemic relief that was intended for small businesses:

The small business programs included exemptions that allowed private equity-backed companies to access public funding that should have gone to genuinely small and independent businesses. A large amount of this funding (\$224 million) went to private equity-backed fast-food and other restaurant chains that prospered during the pandemic while thousands of independent restaurants closed forever. Some small business money went to private equity-backed chains that were already financially compromised, including Art Van Furniture and Chuck E. Cheese — both of which collapsed under private equity-imposed debt. In fact, Art Van received public support although it was already in bankruptcy.

Largest private equity firms held \$908 billion and were well positioned to thrive without public support:

The private equity firms included in this study had \$908 billion in cash reserves known as dry powder during 2020, meaning that they could have helped their portfolio companies to weather the pandemic without relying on public funding.

Largest private equity firms and trade association spent \$32 million in lobbying around the CARES Act:

Eighteen private equity firms and the industry's primary trade association spent almost \$32 million on lobbying during 2020, including on pandemic related issues, based on lobbying disclosures data.

Some private equity-backed companies that received support shed workers during the pandemic:

Apollo-owned LifePoint Health received over \$1.4 billion in public support yet furloughed workers at its hospitals around the country. Blackstone Group's TeamHealth reduced hours for emergency room workers at a number of its facilities, and even went as far as firing one ER doctor in Seattle after he warned about the lack of personal protective equipment and unsafe working conditions. TeamHealth received more than \$2.8 million in pandemic relief. The CARES Act aviation payroll protection program was the only program that did have strong provisions to make sure that workers kept their jobs and benefits during the pandemic. Private equity-backed air transport companies received \$341 million in pandemic relief, but three of the firms that the House Select Committee on the Coronavirus Crisis identified as firing workers after agreeing to accept payroll support funding were backed by private equity firms. Two were owned by the Carlyle Group and one was owned by JLL Partners, see airline workers box on page 29.

Private equity firms whose portfolio companies received public support pursued new leveraged buyouts:

The private equity industry made a wave of highly profitable leveraged buyouts in the wake of the 2008 financial crisis. During the pandemic, the industry similarly capitalized on the economic downturn by aggressively buying up companies. The 10 private equity firms whose portfolio companies received the most public money executed 230 leveraged buyouts from March to December 2020, with a disclosed value of more than \$45.1 billion. For example, Roark Capital Group bought Dunkin' in an \$11.3 billion buyout in October 2020 after the chain received \$27 million in public support.

Private equity firms extracted dividends and fees from portfolio companies that received pandemic relief:

There were no provisions in the CARES Act that prevented private equity firms from extracting fees or debt-funded cash dividends from their portfolio companies. At least five private equity firms extracted dividends from companies that received pandemic relief. One such company, DuPage Medical Group, received \$79 million in CARES Act funding and paid a \$209 million dividend to its owners, including Ares Management Corporation's private equity arm (Ares). Private equity firms also continued to charge exorbitant management fees to their portfolio companies during the pandemic, including those that received millions in public support after claiming financial distress. Publicly traded Apollo, Blackstone, Carlyle Group, and Kohlberg, Kravis and Roberts (KKR) disclosed a combined \$5.4 billion in management fees in 2020 even as their portfolio companies received \$1.8 billion in public aid.

Several private equity firms got more in pandemic aid to their portfolio companies than they pay in taxes:

Private equity firms receive beneficial tax treatment that significantly lower their effective tax payments. The portfolio companies of Apollo, Ares, Carlyle, and KKR received more public support than the private equity firms paid in taxes. The Apollo portfolio companies received nearly 50 times more in pandemic relief (\$1.4 billion) than the firm's average tax payments of \$30 million between 2018 and 2020.

This report first describes the main findings on the volume of pandemic relief money going to private equity backed portfolio companies, with detailed explanations of assistance given to healthcare companies and small businesses. A short history of the private equity industry on the eve of the pandemic then lays out the strong financial position that many private equity firms were in prior to receiving public money. The report then outlines five predatory practices that the private equity industry uses to enrich investors, all of which continued after CARES Act money was distributed to their portfolio companies. The report concludes with a list of recommendations to strengthen the guardrails on accessing public money from future relief efforts.

2. Private Equity-Backed Companies Received \$5.3 Billion in Pandemic Relief

This study estimates that \$5.3 billion in CARES Act loans or grants went to 611 portfolio companies owned or backed by 113 private equity firms (those with more than \$5 billion in assets under management) that collectively held \$908 billion in cash reserves. The largely opaque private equity industry makes it impossible to make a precise determination of the number of private equity-owned or -backed companies that may have received funding under the CARES Act, but these numbers reflect a conservative estimate of the public support that flowed to the companies owned or backed by the largest private equity firms during the pandemic.

Almost all of this funding came through the programs operated by the Department of Health and Human Services (HHS) (\$3.7 billion or 69 percent), the Small Business Administration (SBA) (\$1.2 billion or 23 percent), and the Treasury Department’s airline workers relief program (\$341 million or 6 percent — see Figure 1). Unsurprisingly, healthcare companies received more than two-thirds of the pandemic relief funding (73 percent), followed by air transportation companies (6 percent), restaurants (4 percent) and energy companies (2 percent, see Energy Box on page 14).

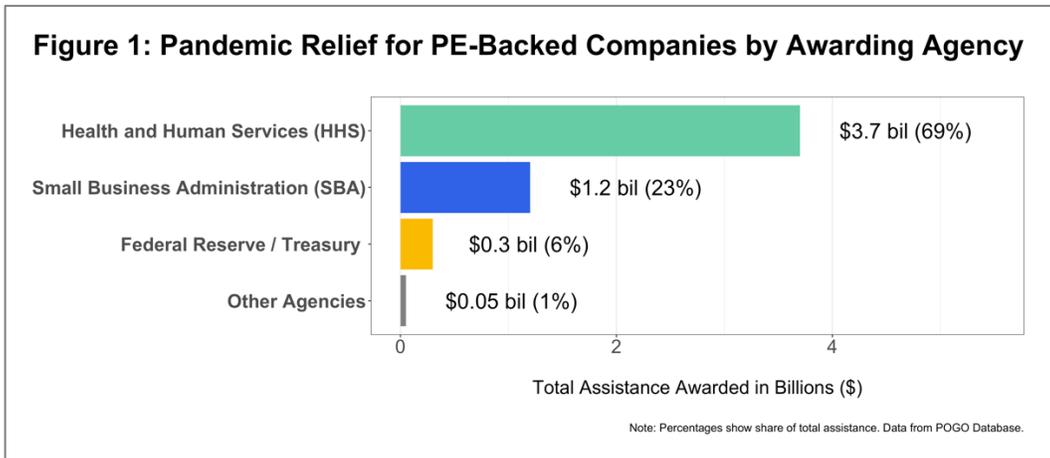


TABLE 1: TOP 10 PRIVATE EQUITY FIRMS WHOSE PORTFOLIO COMPANIES RECEIVED THE MOST PANDEMIC RELIEF		
Private Equity Firm	No. Awards	Pandemic Relief (\$M)
Apollo	362	\$1,489.3
Cerberus	71	\$883.3
Welsh, Carson, Anderson & Stowe	309	\$436.3
TPG Capital	746	\$428.6
Leonard Green & Partners	253	\$419.3
Kohlberg Kravis Roberts	447	\$198.4
Roark Capital Group	7530	\$183.4
Ares Capital	172	\$164.8
Bain Capital	146	\$142.1
Carlyle Group	16	\$131.0

Source: POGO Database

Most of the funds (60.1 percent) were loans or loan guarantees with the rest coming as direct payments or grants (39.9 percent). Because of the way the lending programs were structured, many loans were forgivable, and therefore effectively functioned as grants or direct payments.¹ For, example, early figures show that 99 percent of the value of SBA’s Paycheck Protection Program loans have been forgiven.² Additionally, although the Medicare Accelerated or Advanced Payment program technically distributed loans against future reimbursable healthcare services, the \$2 billion spent under this program would not have to be repaid unless the funding exceeded the amount of services that were ultimately provided.³

These findings include all identifiable pandemic relief grants and loans that flowed to portfolio companies backed by the biggest American private equity firms. The included firms all had more than \$5 billion in assets under management (AUM) as of August

2020, according to Pitchbook. By restricting the sample to this minimum AUM threshold, this analysis focuses squarely on those private equity firms that had the internal resources to assist their portfolio companies in managing the fallout from the pandemic. This analysis uses multiple data sets and independently verified research to make as careful a list of portfolio firms and assets during 2020 as is possible given the opacity of the private equity industry.

The portfolio companies were identified using private equity firm websites and databases that track private equity ownership (Pitchbook, Preqin, and Orbis). The pandemic relief data came from the Project on Government Oversight's COVID Relief Spending Tracker. The companies that received CARES Act funding were not required to identify their parent companies or investors in many cases used corporate names based on historical state incorporation. This analysis made every effort to accurately connect these recipients to their parent private equity-backed portfolio companies based on their names and locations and connection to private equity-backed companies, but in some cases the similarity of names may incidentally include firms that are not backed by private equity. Based on quality control checks, we estimate this potential error is quite small, affecting less than 1% of the recipients identified in the dataset. (See Methodology at page 41 for a more detailed explanation of this matching process.)

Per Table 1, over \$4 billion (76 percent of the total pandemic relief to the industry) went to portfolio companies owned by just 10 private equity firms. Leading the way, companies backed by the private equity firm Apollo Global Management (Apollo) received \$1.4 billion. The portfolios of Cerberus Capital Management (Cerberus) received \$883 million and Welsh, Carson, Anderson & Stowe received \$436 million.

A. Private Equity-Backed Healthcare Companies Received \$3.9 Billion.

Private equity has surged into the healthcare sector over the past two decades with the number of healthcare leveraged buyouts in North America doubling from 80 deals in 2014 to a record of 159 deals in 2019.⁴ Private equity firms now own healthcare companies of every kind, including hospitals, clinics, ambulances, nursing homes, physician groups, and dentists' offices, among others. The predatory strategies they

use — such as debt-financed leveraged buyouts, stripping real estate assets out of acquired companies, and severe cost cutting strategies — imperil the viability of healthcare companies and threaten patient health.

In the wake of the pandemic, 143 healthcare providers backed by the largest private equity firms secured at least \$3.9 billion in public relief funds. Most of the money came through accelerated Medicare payments to fund future services (\$2.0 billion), provider relief grants (\$1.6 billion), and small business loan programs (\$221 million). As described above, several of these programs had provisions for loan forgiveness, and a significant portion of this aid does not need to be repaid and effectively functions as grants or direct payments.

Unsurprisingly, most of this money went to chains that operate hospitals (\$2.69 billion or 74 percent of the healthcare support in this study). But funding also flowed to home health companies (\$231 million or 6 percent), physician groups (\$194 million or 5 percent), and ambulance and air ambulance companies (\$96 million or 2 percent). More than 98 percent of the public support went to portfolio companies held by just 10 private equity firms (see Table 2). Apollo, alone, captured 35 percent of healthcare pandemic relief uncovered in this analysis, primarily because of the \$1.4 billion received by its LifePoint hospital chain. Cerberus' only healthcare portfolio company that received support, the Steward Health Care hospital chain, received 20 percent of all healthcare money while Leonard Green's healthcare portfolio companies received \$389 million, most of which went to its hospital chain Prospect Medical Group (\$336 million) and Aspen Dental (\$21 million).

Despite the public health emergency, many of private equity's practices that threaten communities and patients continued unabated even as their portfolio companies received billions of dollars in public money. Private equity's playbook of raising prices and cutting costs is often antithetical to providing quality and accessible healthcare. Before the pandemic, private equity hospital chain acquisitions led to record high prices and declining staffing.⁵

Despite the public health emergency, many of private equity's practices that threaten communities and patients continued unabated even as their portfolio companies received billions of dollars in public money. Private equity's playbook of raising prices and cutting costs is often antithetical to providing quality and accessible healthcare. Before the pandemic, private equity hospital chain acquisitions led to record high prices and declining staffing.⁶

TABLE 2: PANDEMIC RELIEF TO HEALTHCARE COMPANIES OF TOP 10 PRIVATE EQUITY FIRMS

Private Equity Firm	No. Awards	Pandemic Relief (\$M)
Apollo	292	\$1,405.0
Cerberus	70	\$776.1
Welsh, Carson, Anderson & Stowe	309	\$436.3
TPG Capital	268	\$401.3
Leonard Green & Partners	169	\$389.5
Kohlberg Kravis Roberts	407	\$178.9
Ares Capital	161	\$151.2
Bain Capital	142	\$141.6
American Securities	111	\$109.5
Levine Leichtman Capital Partners	133	\$57.2

Source: POGO Database

During the pandemic, one private equity-owned chain proposed consolidating hospitals as a cost-cutting measure — and another threatened to close a hospital unless it received public support. Leonard Green’s Prospect Medical proposed merging two facilities in Connecticut in late 2020, which would have essentially eliminated a full-service rural community hospital and turned it into a remote emergency room.⁷

Cerberus’ Steward Health Care effectively held the community of Easton, Pennsylvania, hostage during the early days of the pandemic by threatening to close its Easton Hospital if it did not receive pandemic relief. Steward acquired Easton as part of an eight-hospital leveraged buyout, loading the operations with debt and higher costs to pay rent on hospitals they used to own.⁸ In late March 2020, at the height of the pandemic, Steward sent a letter to the Pennsylvania governor threatening to close the hospital within days if it did not receive a \$40 million public

bailout.⁹ Pennsylvania paid \$8 million to keep the hospital open for four weeks.¹⁰ Steward received \$3.1 million for Easton among the \$776 million in federal pandemic relief that flowed to the chain. In July 2020, the non-profit St. Luke’s University Health Network signed a \$15 million promissory note to absorb Easton into its network.¹¹

Public support flowed to private equity backed companies behind epidemic of surprise medical billing

The private equity-owned companies that profit from the practice of surprise medical billing received generous public support even as they continued to gouge patients during the pandemic. Surprise medical billing — charging patients out-of-network fees for services like ambulance rides, emergency room visits, or x-rays at in-network hospitals or clinics — enables private equity-owned healthcare companies to increase prices, extract more money from patients, and increase their own revenues. In cases of surprise billing, unknowing patients are treated by doctors who are not network hospital employees but, rather, employees of third-party staffing services that contract with the hospital. These staffing services charge outrageously for the care doctors provide, leaving patients to cover the out of network bill.

Several of the most infamous culprits behind these practices received significant amounts of public pandemic relief money.¹² The two largest physician staffing firms received nearly \$65 million in pandemic relief: KKR-owned Envision Healthcare received \$61.8 million and Blackstone-owned TeamHealth received \$2.8 million. The rates these staffing services charge can be far higher than ordinary prices, and because they are out-of-network, patients bear the brunt of these sky-high bills. Private equity-owned ambulances and air ambulance companies have also sent prices skyrocketing, often through the use of surprise bills. Patients have no choice about which ambulance transports them to the hospital, so they are especially vulnerable to surprise ambulance bills. Before 2000, ambulance services were primarily furnished by public emergency services and non-profit hospitals (especially for air ambulances). But the private equity industry rolled up the ambulance industry in a series of leveraged buyouts. By 2017, nearly three-fourths of air ambulances were provided by three for-profit companies and two were owned by private equity: American Securities’ Air Methods and KKR’s Global Medical Response.¹³ Costs of air ambulance rides have skyrocketed. The Government Accountability Office found that from 2010 to 2014, the median price of an air ambulance ride increased 76 percent, about nine times faster than inflation.¹⁴ In 2020, the *New York Times* reported that prices continued to rise about 15 percent a year after 2015.¹⁵

Air Methods received \$59 million in pandemic relief funding while Global Medical Response received \$36 million. During the pandemic, an intubated 60-year old woman suffering life threatening coronavirus symptoms in Pennsylvania was airlifted by Air Methods from one hospital to another with better emergency resources.¹⁶ The patient was charged over \$52,000 for the air transport and initially her insurance offered to pay little or nothing. After the state insurance commission contacted the insurer, her bill was resolved.¹⁷

Box A: Private equity-backed energy companies with histories of violations received millions

Private equity-backed energy companies collected more than \$154 million from pandemic lending programs, drawing largely from the PPP and the Main Street Lending Program. Notably, companies with histories of environmental and safety violations were not prohibited from receiving support. Private-equity backed companies with long lists of violations received millions, despite public accusations of cutting corners at the expense of workers and the public. Ramaco Resources, a mining company owned by Energy Capital partners, has also racked up a long list of worker safety violations, including \$43,000 worth of fines since 2020.¹⁸ Despite receiving multiple citations by federal mine safety regulators, the company received an \$8.4 million PPP loan, placing the company in the top 0.1 percent of PPP recipients in 2020.¹⁹

More than 80 percent of ground ambulance trips also result in surprise medical bills that can run from \$2,000 to \$4,000.²⁰ While the bills are lower than for helicopter trips, ground ambulance trips are far more common and, nationally, patients pay \$129 million annually in surprise ground ambulance bills, according to a 2020 *Health Affairs* study.²¹ These bills continued during the pandemic. A *Consumer Reports* writer was charged an \$1,800 out-of-network surprise bill for an ambulance ride when sedated for his coronavirus treatment.²²

Millions of people receive surprise medical bills annually and these private-equity imposed bills have worsened the widespread and significant burden of medical debt, which contributes to two-thirds of household bankruptcies.²³ Some private equity firms aggressively pursue this medical debt in court. One TeamHealth subsidiary filed

more than 4,800 bill collection lawsuits against patients in a single Tennessee county between 2017 and 2019.²⁴

For years, the private equity industry staved off any congressional efforts to address surprise medical billing. In 2019, amid rising public outrage over surprise billing, Congress began contemplating legislation that would rein in abusive bills for out-of-network care. In response, an anonymous group called Doctor Patient Unity launched fear-mongering advertisements nationwide warning of horrors if hospital bills were subject to “government rate setting.” In one commercial, a patient arrived via ambulance to a hospital only to find the lights turned off and the hospital empty.²⁵ TeamHealth and Envision Healthcare were the largest funders of Doctor Patient Unity, which spent over \$50 million in lobbying and advertising to derail surprise billing legislation in 2019.²⁶

In 2020, Doctor Patient Unity invoked the coronavirus to bolster its case against surprise billing legislation. The private equity-backed front group ran ads implying that efforts to curb surprise medical billing would compromise coronavirus treatment, with one stating “During this crisis, Congress needs to ensure they have the resources they need to continue saving lives.”²⁷ The ads omitted the fact that staffing firms including TeamHealth and Envision quickly cut emergency room doctors’ hours and pay soon after the pandemic struck.²⁸

When some CARES Act provisions were extended in December 2020, Congress passed a measure to address surprise billing. But the legislative fix left gaps and loopholes that may allow private equity-backed companies to charge higher bills. The provisions did not ban higher out-of-network charges; instead, billing disputes will go to arbitration, in what *Bloomberg* called a “win for the [private equity] healthcare companies.”²⁹ The legislative changes should provide patients with some insulation from these charges, but do not seem to fully solve the problem. It did cover air ambulances, but ground ambulances were totally excluded from the legislative fix and can still charge surprise bills.³⁰ In addition, none of the protections are expected to take effect before 2022,³¹ allowing private equity-backed surprise billing to continue for at least another year.³²

B. Private Equity Captured \$1.2 billion in Funds Earmarked for Small Businesses

More than 14,000 private equity-backed entities — restaurant chains, service franchises, medical offices, and others — received more than \$1.2 billion under the Small Business Administration (SBA) programs that ostensibly were created to keep independent and small businesses afloat during the pandemic. Generally, SBA loan programs exclude companies owned by private equity firms with a controlling, majority stake. But special statutory carve-outs and lax enforcement allowed private equity-backed companies to freely access the CARES Act's new Paycheck Protection Program (PPP) and CARES Act funding through the SBA's existing Economic Injury Disaster Loan (EIDL) programs intended to shore up independent small businesses. Even though the private equity firms in this analysis collectively had \$908 billion in dry powder, their portfolio companies still qualified for assistance under SBA loan programs.

These SBA loans provided immense financial benefit to private equity-backed companies. The PPP loans were forgivable if the recipients used the funds to keep workers employed or pay essential expenses like rent or utilities, and verification of these conditions has been slight.³³ Yet even if recipients did not qualify for loan forgiveness, the loans were extremely attractive for larger firms that typically borrow in the private markets; PPP interest rates were only 1 percent, which is less than one-fifth the interest rate that borrowers were paying before the pandemic.³⁴ Even under the conservative assumption that none of the loans in this analysis were forgiven, the cheaper loan rates would represent a \$128 million savings in interest payments.³⁵

Small Business Administration programs are intended to provide support for small and independent businesses that are typically governed by rules that limit the size of recipients, and specify that they should not be owned or controlled by large companies or private equity investors through the affiliation rules.³⁶ The affiliation rules apply to the existing EIDL program and the PPP. These rules were designed to limit aid to companies that lacked access to private market credit and capital; private equity firms that were flush with cash should be able to provide financial support to their portfolio companies without outside help.³⁷ Private equity investments that were not a controlling, majority stake in companies did not, however, run afoul of the affiliation rules. Businesses also had to “certify in good faith that their PPP loan was

necessary” and whether they could “access other sources of liquidity sufficient to support their ongoing operations,” which was intended to preclude affiliates of large companies from receiving support, according to the Treasury Department.³⁸

The business 500-worker size limits apply to the affiliation rules, so that total combined employees of the private equity firm and the portfolio company applying for an SBA loan were required to be below the 500-employee size limit.³⁹ Most private equity firms do not advertise the number of employees, but publicly traded private equity firms like Apollo, Blackstone, Carlyle and KKR all have more than 500 employees, meaning that all their portfolio companies should have been ineligible for any SBA loans under this criteria.⁴⁰

But exceptions to the CARES Act allowed private equity-backed companies to avoid the SBA size and affiliation requirements. The affiliation rules were waived for restaurants, hotels, and other franchises.⁴¹ This allowed a host of private equity-backed companies to access the program. For example, Roark Capital-owned franchises Massage Envy and Anytime Fitness each received SBA loans worth \$8.1 million; Blackstone-owned Motel 6 received \$6.3 million; and 3G Capital-backed Burger King received more than \$9.3 million.

Other private equity-backed companies that received money may in fact have been ineligible for the PPP because they were wholly owned by large private equity firms and did not meet any of the statutory hospitality or franchise exemptions. It appears that neither the SBA nor the banks adequately ensured that applicants did not run afoul of the affiliation and size rules of the program.

Some portfolio companies lobbied for access to the program and may have urged their individual stores or locations to apply for loans. Aspen Dental (owned by Leonard Green, American Securities, and Ares) helped its locations successfully apply for PPP loans.⁴² The Roark Capital-owned Inspire Brands which holds many of Roark’s restaurant franchises, stated that the SBA programs were “designed to help independently owned and operated restaurants, whether or not they are affiliated with a broader franchise system.”⁴³

TABLE 3: 10 LARGEST PRIVATE EQUITY FIRM BENEFICIARIES OF SMALL BUSINESS LOANS TO PORTFOLIO COMPANIES		
Private Equity Firm	No. SBA Loans	SBA Funding (\$M)
Roark Capital Group	7,523	\$180.4
Riverside Company	188	\$51.6
Leonard Green & Partners	171	\$49.2
H.I.G. Capital	56	\$47.9
Levine Leichtman Capital Partners	600	\$46.0
Ares Capital	93	\$44.3
Invus Group	9	\$36.5
L Catterton	17	\$32.4
Blackstone Group	910	\$31.5
Harvest Partners	1,160	\$31.0
Top 10 Total	10,727	\$550.8
Source: POGO Database		

The ten private equity firms with portfolio companies receiving the most SBA support in this analysis captured more than one-third of the funding through the program to private equity-owned or controlled companies that we identified (\$550 million, see Table 3).

Private equity backed companies capture funds that should have supported small businesses, especially those owned by women and people of color

The volume of lending to private equity-backed companies effectively made it harder for genuinely small and independent businesses to access the pandemic loan program. The \$349 billion in initial PPP funding ran out within weeks, largely driven by big chains and larger companies getting access to a program meant for small

businesses.⁴⁴ Many smaller businesses were deterred from applying because they lacked existing banking relationships the program favored, had concerns about the complexity of the application process, were worried about repayment, or simply believed that they would not get approved for the program.⁴⁵ Even when the program received a new round of funding in December 2020, more than 90 percent of PPP lending went to companies that had already received loans from the earlier CARES Act funding.⁴⁶

The impact was especially pronounced for small businesses owned by people of color and women, which were more vulnerable during the pandemic. According to reporting by the *Associated Press*, companies owned by people of color “were at the end of the line in the government’s coronavirus relief program as many struggled to find banks that would accept their applications or were disadvantaged by the terms of the program.”⁴⁷ In the first months of the pandemic, the number of businesses owned by people of color and women plummeted far faster than those owned by white men.⁴⁸ Yet a Goldman Sachs survey found that Black-owned businesses were less likely to apply and more likely to get rejected for PPP loans.⁴⁹

Private equity fast food chains gobbled up small business loans

Restaurant chains captured over one-sixth (18 percent) of the small business loans that went to private equity portfolio companies. Private equity firms have invested heavily in restaurants including fast food, fast casual, and even higher-end fine dining establishments, buying nearly 850 chains or locations from 2010 to 2017, more than 100 every year.⁵⁰

Many private equity-backed fast-food chains flourished during the pandemic.⁵¹ The CEO of Oak Hill Capital-owned Checkers/Rally’s chain claimed the chain experienced “pandemic tailwinds” that gave the chain “an extremely good year.”⁵² Other restaurants were not so lucky. Nearly 30 percent of restaurants — most of which are independent — are expected to close permanently because of the pandemic and over 110,000 were already out of business by October 2020.⁵³ Although firms were supposed to certify that they needed the small business loans, more than 5,800 SBA loans worth over \$224 million were awarded to private equity-backed restaurants.

TABLE 4: TOP 10 PRIVATE EQUITY-BACKED RESTAURANT CHAINS THAT RECEIVED SBA LOANS

Chain	Private Equity Firm	No. SBA Loans	SBA Loans (\$M)
Sonic	Roark	707	\$53.1
Dunkin'	Roark	2,248	\$27.3
Mod Super-Fast Pizza	Clayton, Dubilier & Rice	3	\$15.5
Zoe's Kitchen	The Invus Group	2	\$10.0
Torchy's Tacos	General Atlantic	1	\$10.0
Sbarro	Apollo	15	\$9.9
Hopdoddy Burger Bar	L Catterton	1	\$9.5
Burger King	3G Capital	205	\$9.4
Tastes On The Fly	H.I.G. Capital	5	\$8.7
Jimmy John's	Roark	500	\$8.4
Top 10 Total		3,687	\$161.8
Source: POGO Database			

More than half the small business loans to private equity-backed restaurants went to Roark Capital. Roark's portfolio of restaurants including Dunkin' Donuts, Sonic, Arby's, Jimmy John's, Hardees and Buffalo Wild Wings received 4,447 small business loans worth \$115 million. More than two-thirds of all restaurant support (\$161 million) went to the 10 largest restaurant recipients including Sonic, Torchy's Tacos, and Burger King (see Table 4).

C. Private Equity's Lobbying Efforts Helped Secure Access to Public Funds

Part of the success private equity-backed portfolio companies have enjoyed in accessing public funding can be attributed to the lobbying efforts of their parent firms. Private equity firms have long been among the major players on K Street, spending tens of millions every year lobbying the federal government. In most cases, these expenditures were ramped up as Congress began debating how to best respond to the economic crisis caused by the pandemic.

This analysis shows that eighteen private equity firms and the industry's primary trade association spent almost \$32 million on lobbying during 2020, including on pandemic related issues, based on lobbying disclosures data from the Center for Responsive Politics.⁵⁴ Federal rules do not require registrants to break down how much was spent lobbying each issue, but Oak Hill Capital and Searchlight Capital Partners never reported any lobbying expenditures before the pandemic, yet reported spending \$180,000 and \$100,000 on lobbying in 2020, respectively. The only issue listed on their disclosures was the CARES Act.⁵⁵

The five biggest spenders (Blackstone, Apollo, Carlyle, Cerberus, and Energy Capital Partners) all spent more than \$3 million each on lobbying during 2020 (See Table 5. Apollo increased its spending on lobbying by 77 percent between 2019 and 2020; Blackstone and Carlyle both increased their spending on lobbying by more than 50 percent. It appears this lobbying was a good investment. Apollo spent \$4.4 million lobbying during 2020 and its portfolio companies received \$1.49 billion in pandemic support; Cerberus spent \$3.2 million lobbying and its portfolio companies received over \$883 million.

The industry lobbied both Congress and the Small Business Administration to specifically allow all private equity-owned companies to be eligible for the PPP.⁵⁶ Leading many of the lobbying efforts was the major trade group representing the industry, the American Investment Council, which spent over \$2.2 million in 2020, including \$640,000 in the first quarter of 2020 in an attempt to shape the rollout of the pandemic relief funds.⁵⁷ The Small Business Administration officials privately told the private equity industry to use its own cash reserves instead of the PPP to support their struggling portfolio companies.⁵⁸ Nonetheless, one private equity firm threatened to fire workers unless it was given access to the small business loans,

TABLE 5: TOP PRIVATE EQUITY LOBBYING EXPENDITURES 2019-2020

Private Equity Firm	2019 Lobbying Spending (All Issues)	2020 Lobbying Spending (All Issues)	2019 to 2020 Lobbying Spending Increase	CARES Act Money Received by Portfolio Companies
The Blackstone Group	\$3.6	\$5.6	55%	\$34.3
Apollo	\$2.4	\$4.3	77%	\$1,489.3
The Carlyle Group	\$2.2	\$3.3	52%	\$131.0
Cerberus	\$2.3	\$3.1	33%	\$883.3
Energy Capital Partners	\$5.9	\$3.0	-49%	\$9.4
Kohlberg Kravis Roberts	\$1.6	\$2.4	46%	\$198.4
American Investment Council (trade association for the private equity industry)	\$2.0	\$2.1	5%	N/A
Morgan Stanley Energy Partners / Morgan Stanley Capital Partners	\$2.6	\$2.0	-21%	\$0.5
TPG Capital	\$1.5	\$1.5	-1%	\$428.6
Ares Capital	\$1.0	\$1.4	38%	\$164.7
AEA Investors	\$0.9	\$1.0	6%	\$2.9
Total	\$26.5	\$30.2	14%	\$3,343.4

Source: All figures are in millions USD. Center for Responsive Politics and POGO Databases

telling the *Financial Times* that “if the government wants to limit [PPP] funding for companies we own just to punish the private equity industry, we will have to take drastic measures...That means cutting costs aggressively and restructuring.”⁵⁹

Notably, some pandemic relief loans may have essentially subsidized anti-worker lobbying efforts. In 2021, Roark Capital’s Inspire Brands (the operator of restaurant franchises like Sonic and Arby’s) told its workers and franchises that it had successfully lobbied against measures to raise wages from being included in the Biden administration’s pandemic stimulus legislation and against legislation to protect workers trying to form unions.⁶⁰ The Inspire memo stated clearly “We were successful in our advocacy efforts to remove the Raise the Wage Act, which would have increased the federal minimum wage to \$15 and eliminated the tip credit.”⁶¹

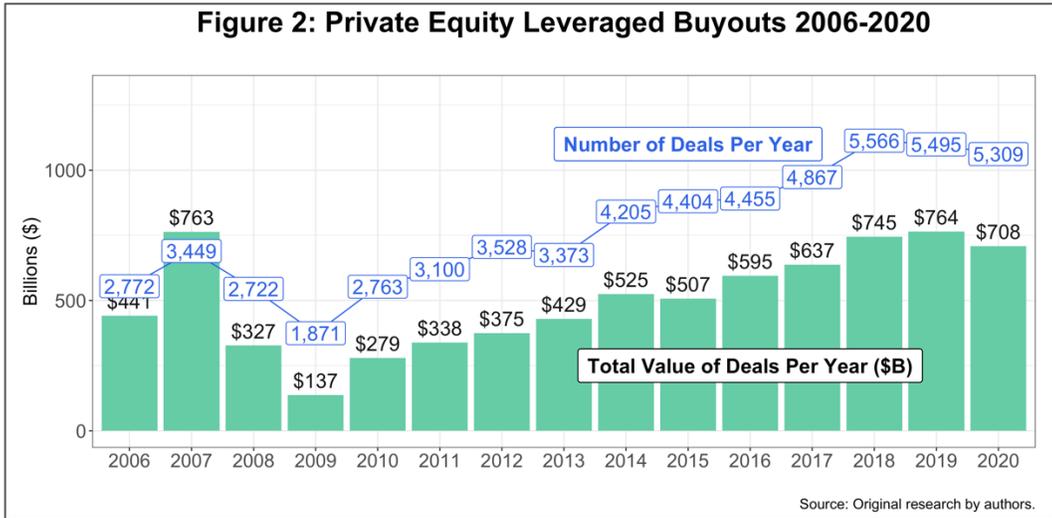
3. Private Equity Was Positioned to Thrive During the Pandemic Without Public Support

The private equity industry was sitting on a record-breaking mountain of cash headed into the pandemic — nearly \$1.5 trillion at the end of 2019.

Private equity firms use money from both wealthy individuals and institutional investors like pension funds, university endowments, and sovereign wealth funds to take over companies as investment vehicles. Purportedly, these firms deliver management expertise and needed financing to struggling or undervalued companies in order to improve their performance. Then they either sell these portfolio companies or launch them onto the stock exchange through initial public offerings. In reality, the private equity industry deploys predatory practices and exploits regulatory blind spots to shift value and profits from the real economy to Wall Street firms and executives.

The private equity industry's predatory practices generate outsized profits for investors but can imperil portfolio companies and workers. The industry's tactics include aggressive cost cutting, imposing high debt loads from leveraged buyouts, wringing out value in fees and dividends, and stripping out valuable real estate and other assets from portfolio companies. The absence of binding conditions in the CARES Act allowed the unabated continuation of these practices during the pandemic.

Private equity firms have taken over a larger and larger share of the economy. In the decade between 2010 and 2019, the number of private equity leveraged buyouts doubled, with the value of the deals surging 175 percent from \$2.7 billion in 2010 to \$5.5 billion in 2019 (see Figure 2).⁶² Although private equity takeovers declined in 2020, the decline was far smaller than immediately after the 2008 financial crisis, which saw a 31 percent decline in the number of deals from 2008 to 2009 compared to a 3 percent decline from 2019 to 2020. The private equity industry had a substantial grip on the real economy on the cusp of the pandemic. In May 2020, U.S. private equity firms controlled 8,000 companies amounting to 5 percent of the economy and workforce.⁶³



Private equity takeovers often overburden portfolio companies with so much debt and fees that the companies slide into bankruptcy. The target companies — not the private equity investors — are responsible for repaying the debt from leveraged buyouts and dividend recapitalizations. Highly leveraged buyouts mean that the private equity firms and executives can generate more profits from successful investments, but the high level of debt the acquired companies are saddled with can cause portfolio companies to collapse. A 2019 California Polytechnic State University study found that 20 percent of companies taken over by private equity went into bankruptcy — a rate ten times higher than the non-private equity-backed companies.⁶⁴ Private equity-driven bankruptcies have become especially common in the retail industry. From 2015 to 2019, all before the pandemic, nearly two-thirds (62.5 percent) of retail companies that went into bankruptcy were owned by private equity.⁶⁵

Although their portfolio companies are more vulnerable to bankruptcy, private equity firms had ample financial resources to support them during the pandemic yet still accessed public support that could have gone to those with fewer reserves. The private equity industry was sitting on a record-breaking mountain of cash headed into the pandemic — nearly \$1.5 trillion at the end of 2019.⁶⁶ This huge amount of cash on hand (including money already committed from outside investors), known as dry powder, was available to take over more portfolio companies or shore up struggling ones during the pandemic. The 113 private equity firms analyzed in this study had \$908 billion in dry powder during 2020.

Using public money to stabilize their portfolio companies during the pandemic, allowed private equity firms to hoard their dry powder to pursue new investments and extend their reach even further, taking advantage of other distressed firms. Some private equity firms even asked their portfolio companies to use their own credit lines — e.g., take on even more debt — to pump cash into struggling businesses.⁶⁷

The private equity industry contends that dry powder reserves are not always available to support portfolio companies — older private equity funds may have exhausted their reserves and newer funds may be dedicated to new leveraged buyouts.⁶⁸ But the reality is that most of the dry powder is from funds raised in the past few years, and these funds *could* be used to shore up older investments (known as cross-fund investments).⁶⁹ And many older funds do have sufficient capital to backstop struggling portfolio companies. For example, about one-fifth of Blackstone’s dry powder was in older funds that could “support companies on the defensive,” according to one Blackstone advisor.⁷⁰

The private equity industry was more interested in the greater potential for profits from new leveraged buyouts and takeovers than reinvesting dry power in struggling companies, even when there were funds available.⁷¹ The industry has touted the golden opportunities to capitalize on the pandemic recession and eventual recovery. Blackstone chief executive Steven Schwarzman said his firm was “looking aggressively” for “very significant investments” to deploy its dry powder.⁷² Apollo’s Leon Black stated that the pandemic presented a “massive” investment opportunity for private equity firms.⁷³ A Bain & Co. presentation to investors cheered that “during and post this crisis, private equity firms will be presented with unique opportunities to invest — important to be ready to act.”⁷⁴ One Goldman Sachs associate said that “corporate raiders and private equity firms are already sharpening their knives because prices are obviously very low right now.”⁷⁵

This mirrors the vulture capitalist strategy the private equity industry followed after the 2008 financial crisis: Use its mountain of cash to buy distressed companies and make a killing.⁷⁶ It appears the public pandemic support for private equity portfolio companies may have facilitated the ability of the industry to go on another takeover tear. In 2020, one KKR official told investors that the firm had “invested into the recovery” after the 2008 financial crisis and was eager to profit on the country’s recovery from the pandemic.⁷⁷

4. Private Equity's Predatory Practices Have Been Essentially Supported by Public Money

The CARES Act provided about \$2 trillion in support during the pandemic,⁷⁸ but the legislation provided few requirements to ensure public funding was used to support workers and business operations, rather than enrich investors or executives. Advocates and some members of Congress were only minimally successful in including binding conditions on the receipt of public money that would direct funding to workers, prevent the extraction of dividends and fees, or prohibit the acquisition of additional companies.

Private equity firms that owned or backed companies receiving public money were largely free to continue their predatory practices of extracting value through dividends, cutting costs (including layoffs), and pursuing more takeovers. The result was that the public support that flowed to the private equity portfolio companies effectively subsidized these private equity practices that could enrich investors, harm workers, and undermine the viability of portfolio companies during the pandemic-driven economic slump.

The largely unconditional public financial support that flowed to private equity-backed companies poses unique risks because of the industry's extractive business model. Public support could easily be diverted from portfolio companies to the private equity firms. The general lack of guardrails to protect jobs and workers or prevent the diversion of public funds to investors meant that there were no limits on private equity firms' ability to siphon away pandemic relief expenditures.

Collectively the industry's predatory practices generate outsized revenues and profits that are shifted from the real economy to the private equity firms and can put target companies at higher risk of failure. As *Vanity Fair* observed, "the fear, of course, is that private equity will do what private equity does best, which is pocket the money themselves rather than devoting it to the businesses they've invested in."⁷⁹ There are five common private equity financial engineering schemes that extract value from portfolio companies: cost cutting that harms workers, leveraged buyout acquisitions, extracting debt-funded dividends, charging exorbitant fees, and exploiting tax loopholes.

A. Private Equity-backed Companies Accepted Public Support but Shed Workers

The CARES Act had few binding requirements that companies receiving aid keep workers on payroll or maintain critical benefits like healthcare or sick leave during the pandemic. A common tactic used by private equity to make money off their acquisitions is to impose severe cost cutting on their portfolio companies. According to *Businessweek*, this cost-cutting “inevitably means job cuts;” layoffs and/or downsizing help lower expenses and increase revenues.⁸⁰

Many CARES Act provisions lacked any job retention requirements (like the healthcare grants), others had imperfect provisions that did not require recipients to keep workers on the payroll. Only the aviation payroll program had binding measures that directed the funding to safeguarding workers. The Treasury programs that provided loans to businesses only required a limited subset of companies (airlines, air cargo, and defense) to maintain their workforce “to the extent practicable.”⁸¹ The airline program was largely successful in terms of job retention (but thousands of workers were furloughed when the program expired for a period in late 2020⁸²). Three air transport companies owned by the largest private equity firms took public funding that was supposed to protect workers’ jobs and nonetheless laid off workers (see Box B). Other programs administered by the Treasury Department did not have meaningful requirements to protect workers, allowing some recipients to skirt oversight.⁸³ Although the Federal Reserve’s Main Street Lending Program instructed borrowers to make “commercially reasonable efforts to retain employees,” companies that fired or furloughed workers were still eligible for the loans.⁸⁴

For the more than 73 percent of the public funds that flowed to the largest private equity-owned and -backed companies went to the healthcare industry, there were no requirements that recipients keep workers on the job even though healthcare workers were essential during the public health crisis. While some of the public money was used to provide Coronavirus treatments, much replaced lost revenues caused by the sharp decline in non-urgent, elective health services during the pandemic.⁸⁵ Companies that received public funds were able to keep facilities afloat, but did not need to maintain their workforce or to direct the public funding to maintaining previous operational levels.

BOX B: Private equity-backed airlines fired workers in apparent violation of the aviation payroll protection requirements

Some private equity-backed air transport companies received funding under a program designed to protect aviation workers but nonetheless furloughed workers. The CARES Act aviation worker payroll protection program contained the only binding protections ensuring relief recipients retained workers and prohibited beneficiaries from shifting public funds to executives or investors.⁸⁶ The air transport companies that received CARES Act support were required to maintain 90 percent of their workforce through the end of September 2020, to use the funding exclusively for payroll support, to protect existing agreements with unionized workers, and to prohibit airlines from furloughing workers or cutting pay or benefits.⁸⁷ The Air Line Pilots Association reported that the program was quite successful and estimated that 83 percent of airline and air cargo workers still were working for the industry a year later and the worst impacts of the pandemic on the industry had been successfully mitigated.⁸⁸

These aviation-specific conditions applied to the private equity-owned air transport companies that received nearly \$341 million in public support. Nonetheless, some appear to have reduced payrolls even after they agreed to take aviation payroll support. Three air transport companies that the House Select Subcommittee on the Coronavirus Crisis found had laid off workers after they signed agreements under the aviation payroll program were backed by private equity firms. Carlyle's PrimeFlight and Nordam Group (nearly \$120 million in public support) as well as JLL Partners-owned Aviation Technical Services (ATS) (nearly \$40 million) laid off workers *after* they applied for the aviation payroll program.⁸⁹

Two private equity owned aviation companies laid off workers before the legislation was finalized, and then applied for and received money. PrimeFlight and ATS laid off workers as the CARES Act was being finalized,⁹⁰ which sidestepped the requirement to keep workers in their jobs. ATS slashed nearly one-fifth of its jobs before it finalized its aviation payroll support agreement and implied that it would be forced to fire more workers without federal support.⁹¹

Some healthcare companies that received public support furloughed or reduced the hours for medical workers during the pandemic. In April 2020, Apollo-owned LifePoint Health hospitals began laying off workers, typically announcing that furloughed workers would receive 25 percent of their pay and full benefits. The chain's hospitals offered nearly identical quotations: "these are necessary measures to ensure we are maximizing our resources and supporting our teams on the front lines of battling COVID-19."⁹² The LifePoint chain received over \$1.4 billion in federal assistance even as it furloughed workers. While LifePoint's workers struggled during the pandemic, Apollo and its investors had already realized profits of more than \$800 million as of March 2020.⁹³

Other companies let healthcare workers go during the pandemic while receiving public support. KKR-owned Envision Healthcare received \$61 million and New Mountain Capital-owned Alteon Health received over \$3 million, but both reduced medical staff hours, and Alteon furloughed staff and reduced benefits, according to *ProPublica*.⁹⁴ Blackstone-owned TeamHealth received \$2.8 million in public support but apparently fired one of its doctors for raising concerns about worker safety during the pandemic. A Seattle TeamHealth emergency room physician warned early in the pandemic that the hospital was not taking basic safety precautions, such as separating coronavirus patients from other patients or adequately protecting workers from exposure.⁹⁵ The doctor, who was warned that the hospital was upset about statements he had made on Facebook, was fired at the end of March 2020.⁹⁶

B. Private Equity Firms Pursued Hundreds of Takeovers During the Pandemic

Private equity firms continued a takeover tear during the pandemic even as their portfolio companies received public funding. The CARES Act had no provisions that would prevent the recipients of public money or their investors from acquiring other companies during the economic downturn. Federal support could subsidize or encourage consolidation by making it easier for private equity firms to use resources to purchase rival or complementary businesses, as happened in the aftermath of the 2008 financial crisis.⁹⁷ The ten private equity firms whose portfolio companies received the most pandemic relief acquired 230 companies in leveraged buyouts with a disclosed value of over \$45 billion from March to December 2020.

Private equity firms are relentless acquirers, purchasing companies through leveraged buyouts that force the target companies to take on debt to finance their own takeover. The huge debt loads imposed on target companies to finance these buyouts are the “core of the business” according to *Businessweek*.⁹⁸ The leverage can produce outsized gains for private equity executives, while the portfolio company is responsible for repaying the loans, creating a debt burden that requires it to divert revenues to pay it back, and that can overwhelm its finances and lead to bankruptcy, costing workers their jobs and economic security. The portfolio companies are forced to divert revenues to service the debt loads. The CARES Act did not prevent recipients from using public money to repay private equity-imposed debts, meaning funds could be diverted from keeping workers on the job to those payments.

Public funds flowed to portfolio companies already struggling from leveraged buyouts

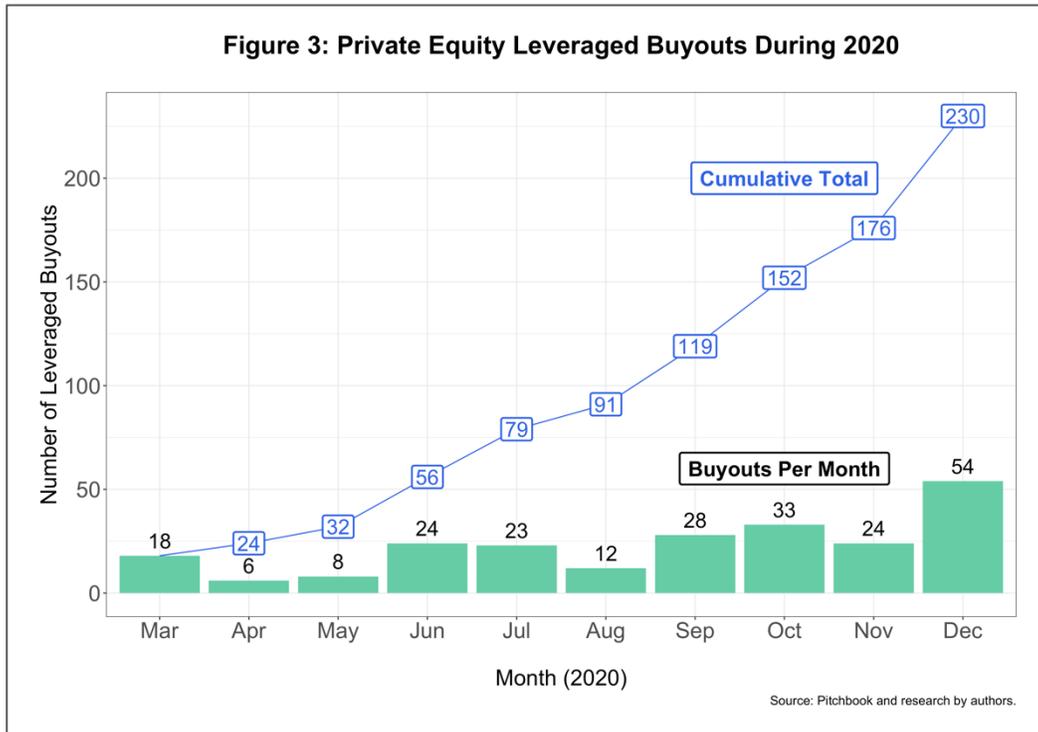
Several private equity-owned companies that received pandemic relief have massive leveraged buyout debt loads. Cerberus-owned Steward Health Care network of hospitals received over \$776 million in public support. The chain has struggled under \$1.3 billion in debt rooted in a 2010 leveraged buyout, compromising the quality of care and its financial viability according to *Bloomberg*.⁹⁹ Cerberus sold the hospital chain during the pandemic (and after much of the public support had been doled out), but not before quadrupling its investment and pocketing \$800 million in profits.¹⁰⁰ Most of the profits were not from successful hospital operations, but were from Cerberus selling the hospital real estate to other investors, generating profits for Cerberus but forcing the hospital to pay rent on facilities the chain previously owned, known as a sale-leaseback.

Multiple portfolio companies that received CARES Act funding were teetering on the brink of bankruptcy before the pandemic because of private equity-imposed debt loads and financial engineering. For example, Apollo bought the Chuck E. Cheese's restaurant chain in a 2014 \$1.3 billion leveraged buyout that imposed a \$925.9 million debt burden on the company.¹⁰¹ The kids-oriented restaurant chain was struggling before the pandemic because its debt load constrained its ability to update its business.¹⁰² Nine Chuck E. Cheese restaurants received a combined \$110,000 in CARES Act funding before the chain slid into bankruptcy in June 2020 as the debt burden made it impossible to cope with the pandemic's impact on the chain's business.¹⁰³

Six Art Van Furniture stores received \$298,000 in CARES Act funding, even though the T.H. Lee Partners-owned retailer was *already* in bankruptcy by March 2020 as a result of the \$400 million in debt from its 2017 leveraged buyout.¹⁰⁴ In March 2020, before the CARES Act was enacted, Art Van had closed all of its stores and laid off 4,500 workers and refused to repay workers for the money they deposited in their flexible health savings accounts.¹⁰⁵ It took fired workers organizing and pressing T.H. Lee for a year to get the company to establish a \$2 million fund to provide about \$1,200 each to those who lost their jobs.¹⁰⁶

Public funds fuel private equity takeovers

The private equity firms that held portfolios that received the most in public money were highly acquisitive after the CARES Act was enacted. The public support that went to the portfolio companies provided more latitude for new acquisitions and could even subsidize the debt used to finance these leveraged buyouts. The ten private equity firms whose portfolio companies received the most CARES Act funding made 230 leveraged buyouts (LBOs) in the United States with a disclosed value of over \$45 billion from March 2020 to December 2020 (see Table 6).¹⁰⁷ The number of leveraged buyouts stalled in the early months of the pandemic but rose steadily over the rest of the year, exceeding 50 LBOs in December alone (see Figure 3).



Some private equity-backed companies that received pandemic relief subsequently bought up more companies. Kindred Healthcare (owned by TPG Capital and Welsh, Carson, Anderson & Stowe) received more than \$240 million in public support. In the summer of 2020, it announced the takeover of two behavioral health hospitals in Dallas for an undisclosed sum.¹⁰⁸

Table 6: Leveraged Buyouts by Top 10 CARES Act Private Equity Firms

Private Equity Firm	CARES Act (\$M)	No. of LBOs*	LBO Value (\$M) ^o
Apollo	\$1,489.3	13	\$9,353.0
Cerberus	\$883.3	7	\$250.0
Leonard Green & Partners	\$419.3	36	\$5,226.0
Welsh, Carson, Anderson & Stowe	\$436.3	12	\$700.0
TPG Capital	\$428.6	24	\$3,198.6
Roark Capital Group	\$183.4	5	\$10,310.0
KKR	\$198.4	46	\$8,808.1
Ares Capital	\$164.8	16	\$1,118.0
The Carlyle Group	\$131.0	61	\$6,123.2
Bain Capital	\$142.0	20	\$2,501.2
Top 10 Total		230	\$45,116.0

Source: Pitchbook and POGO databases. * Number of LBOs includes 10 club deals where more than one firm participated in the takeover, total reflects the number and value of the target LBOs. ^o LBO value reflects reported values; 80 percent of the LBOs did not report deal value.

North American Partners in Anesthesiology (owned by American Securities and Leonard Green) received more than \$15 million in pandemic relief before buying American Anesthesiology in an estimated \$250 million deal.¹⁰⁹ American Anesthesiology had also received \$13 million in funding before the takeover, meaning the federal government supported both the acquirer and the target. Other leveraged buyouts targeted companies that had been big recipients of CARES Act funds. For example, Dunkin' received \$27 million in CARES Act support before Roark Capital bought it in an \$11.3 billion leveraged buyout in October 2020.¹¹⁰ Levine Leichtman Capital Partners bought the nearly 900-location Tropical Smoothie Café after it received \$6.6 million in small business loans during the pandemic.¹¹¹

And, the tear is not over. Apollo is aggressively pursuing more hospital acquisitions. In March 2020, an Apollo partner said that pandemic was Apollo's "time to shine."¹¹² In May 2020, the firm wrote to investors: "Independent hospital systems have greater difficulty weathering prolonged periods of financial stress ... A consolidation strategy will provide meaningful upside for Apollo funds' investment."¹¹³ In 2021, Apollo's LifePoint announced intended deals to buy Kindred Health's network of about 190 rehabilitation facilities and reportedly was in serious discussions to buy Ardent Health Services' chain of 30 hospitals.¹¹⁴

C. Private Equity Firms Took Dividends out of Companies that Received Pandemic Relief

Private equity firms managed to extract debt-funded dividends from companies that received public support. Private equity firms often require portfolio companies to borrow more money to pay a dividend to the private equity firm, known as dividend recapitalization.¹¹⁵ This extraction delivers instant cash to the private equity firm but adds to the portfolio companies' debt loads and can contribute to bankruptcies.¹¹⁶ Dividend recapitalizations actually increased during the pandemic, reaching a record level of \$6 billion in September 2020 alone.¹¹⁷

The CARES Act had few prohibitions to keep private equity firms or other companies from extracting dividends from companies that received public support. Most programs had no statutory limitations on recipients paying dividends, with only the airline workers program, the SBA's Economic Injury Disaster Loan programs and the Main Street Lending Program banning the practice (in the latter case, the Treasury

could waive the requirements).¹¹⁸ Participants in the healthcare programs and the small business Paycheck Protection Program were free to pay out dividends.

Several of the largest private equity firms capitalized on this leniency, and took out dividend recapitalizations from their portfolio companies that received public support (see Table 7). Ares-backed DuPage Medical Group received over \$79 million in CARES Act funding and in 2020, it announced it would pay a \$209 million dividend payment to its owners including Ares.¹¹⁹

In February 2020 before the pandemic hit, Aspen Dental paid a \$50 million dividend recapitalization to American Securities, Ares, and Leonard Green & Partners just before Aspen received \$21 million in pandemic relief; in December 2020, Aspen paid another dividend of an undisclosed amount to its private equity owners.¹²⁰ Dividend recapitalizations are rarely publicly reported, so there could be more companies that received public support while also paying dividends to their private equity backers.

Portfolio Company	CARES Act (\$M)	Dividends (\$M)	Date	Private Equity Firms
DuPage Medical Group	\$79.5	\$209	Mar-21	Ares Capital
Aspen Dental	\$21.2	\$50	Feb-20	American Securities, Ares, Leonard Green & Partners (also Candescant Partners, not in this study)
		Undisclosed	Dec-20	
Nothing Bundt Cakes	\$2.5	Undisclosed	Dec-20	Levine Leichtman
Iron Bow Technologies	\$0.05	Undisclosed	Aug-20	H.I.G. Capital
TruGreen	\$0.04	\$349	Oct-20	Clayton, Dubliner & Rice

Source: Pitchbook and POGO Databases

D. Private Equity Firms Charged High Fees to Portfolio Companies Struggling in the Pandemic

Private equity firms continued to charge high fees to portfolio companies that struggled to stay afloat during the pandemic. Private equity firms charge high fees for their purported management expertise, which, according to *Bloomberg*, now “yield a geyser of profit.”¹²¹ The Center for Economic and Policy Research has criticized these charges as “excessive, unnecessary consulting fees.”¹²² These fees include monitoring fees that are often really a disguised dividend paid to private equity firms and not a service provided to investors.¹²³ A 2016 University of Oxford study estimated that private equity firms charged 600 companies \$20 billion in monitoring and management fees over two decades that should have been counted as dividend income.¹²⁴ These fees add to the higher operating costs portfolio companies face (on top of rising debt servicing costs), adding to financial trouble and threatening portfolio companies’ financial sustainability in hard times.

The CARES Act did not prevent companies from using public support to pay management fees to their private equity owners. Most private equity fee revenue is not publicly disclosed, but the portfolio firms owned by the largest, publicly traded private equity firms (Apollo, Blackstone, Carlyle, and KKR) owned or backed portfolio companies that received \$1.8 billion in CARES Act money while charging all their portfolio companies and investors over \$5.4 billion in management fees in 2020.¹²⁵ These four private equity firms actually received 9 percent more in fees during the 2020 pandemic year than in 2019, amounting to a nearly \$470 million revenue increase.¹²⁶ These four public private equity firms report their fees; the other private equity firms in this analysis likely continued to charge management fees, including to companies that received CARES funds, but do not disclose that information publicly.

E. More Public Aid Flowed to Portfolio Companies than Some Private Equity Firms Paid in Taxes

The private equity industry and its executives rely on extensive tax benefits to bolster income and minimize the taxes they pay. This tax avoidance has been thrown into higher contrast given the public support flowing to private equity portfolio companies during the pandemic. Four out of five publicly traded private equity firms in this study

(Apollo, Ares, Carlyle Group, and KKR) paid less in average taxes over a three-year period than their portfolio firms received in support.

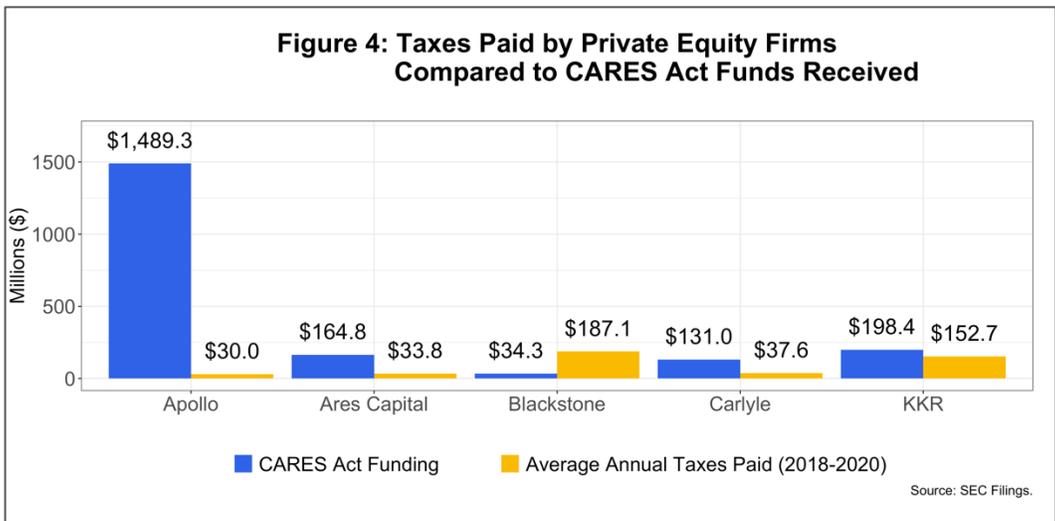
Favorable tax treatment is a key element of the industry's financial engineering that extracts value from the economy. As a *Financial Times* editorial observed, "offering taxpayer money to an industry whose financial model is based in part on reducing the amount of tax it pays would be controversial at the best of times, and even more so today."¹²⁷

The private equity industry has generated excessive untaxed revenues over the past decades by structuring their funds to avoid taxes and through a strategy of misclassifying certain earnings, exploiting tax loopholes, and utilizing complex and opaque business structures to shield earnings from IRS scrutiny. Private equity executives and firms generate most of their profits from the sale of portfolio companies and other assets that are taxed at a much lower rate than ordinary income as long-term capital gain investments.

Private equity firms' significant revenues from monitoring can be deducted from their income as a provided service, significantly lowering their tax burden. But monitoring fees are often really a disguised dividend paid to private equity firms from the portfolio companies and not a service provided to investors.¹²⁸ A 2015 Oxford paper estimated that private equity firms charged 600 companies \$20 billion in monitoring fees over two decades that should have been counted as dividend income.¹²⁹ Firms also can waive their fee income in lieu of a higher share of any profits, which are taxed at an even lower capital gains rate that can be deferred for years. Since management fee waivers are widely used by a majority of private equity firms, the income tax revenue lost is likely to be in the billions.¹³⁰ And U.S. based private equity firms and their investors can and do avoid taxes by domiciling their funds in tax havens such as the Cayman Islands, now home to one-third of all private funds.¹³¹

Private equity executives further benefit from the carried interest loophole, that applies a lower 20 percent long-term capital gains tax rate to what are basically their management fees that would otherwise be taxed as ordinary income (where rates currently top out at 37 percent).¹³² As a result wealthy private equity executives wind up paying lower income tax rates than teachers and firefighters.¹³³ Treating the profits that flow to private equity partners and managers as ordinary income would generate between \$1.4 billion and \$18 billion in revenues annually.¹³⁴

The private equity industry successfully fought to protect the carried interest loophole in the 2017 Tax Cuts and Jobs Act. The industry’s primary trade association, the American Investment Council (AIC), pushed for “tax reforms that would keep carried interest — the tax-advantaged profit share keeping private equity managers wealthy — in play,” according to *Institutional Investor*.¹³⁵ The 2017 tax law maintained the carried interest loophole for investments held over three years, which includes virtually all private equity investments.¹³⁶ As the Biden administration considers closing corporate tax breaks and loopholes, AIC and individual private equity firms are aggressively lobbying to try to retain their preferential tax treatment.¹³⁷



Most private equity firms do not disclose their tax payments or any other financial information — it is the private part of private equity. But portfolio companies owned or backed by five large, publicly traded private equity firms in this study received more than \$2 billion in support combined, nearly five times the combined \$441 million typical annual taxes paid by these firms from 2018 to 2020 according to their Securities and Exchange Commission filings (see Figure 4).¹³⁸ The portfolio companies of Apollo, Ares, Carlyle, and KKR each received more pandemic relief than the private equity firms paid in taxes (only Blackstone paid more in taxes than its portfolio companies received). Apollo portfolio companies received nearly 50 times more than the firm paid in taxes on average. Similarly, portfolio companies of Ares received nearly five times more in pandemic relief and those held by the Carlyle Group portfolio received over three times more than the private equity firms paid in taxes on average from 2018 to 2020.¹³⁹

5. Conclusions & Recommendations

Companies owned by the largest private equity firms were able to access nearly 16,000 awards worth at least \$5.3 billion in public support under the CARES Act. The difficulty of matching public funding to specific private equity-backed companies due to the fundamentally opaque nature of the industry means that the private equity firms in this study likely received even more pandemic support. Companies owned by private equity firms with under \$5 billion in assets also were probably recipients of funds.

The CARES Act largely failed to prevent the public funds from being used to support predatory practices of private equity firms, which include downsizing, dividend and fee extraction, acquisitions, and other practices that can imperil their portfolio companies, the workers at those companies, patients and consumers, and communities. Good government, public interest, labor, consumer, community and other civil society organizations made these precise demands when the CARES Act was being negotiated in 2020 and the failure to adopt binding conditions allowed the well-financed private equity firms and their portfolio companies nearly unfettered access to public support.

Private equity firms should use their own dry powder to shore up their portfolio companies during economic crises and not seek public money. Any future economic stimulus needs strong guardrails that direct the money to workers, their safety, and keeping the portfolio companies afloat and prevent public funds from being diverted to enrich private equity firms. These requirements should include:

Binding requirements that put workers first: All companies that receive public support during an emergency must keep workers on payroll, halt offshoring or outsourcing of jobs, maintain benefits (especially healthcare and sick leave during a public health crisis like the pandemic), refrain from undermining collective bargaining agreements, and endorse neutrality in union organizing efforts. The CARES Act aviation worker program had similar binding conditions and it largely succeeded in keeping workers employed and the companies afloat during the pandemic.

Prohibit private equity firms or other investors from extracting value from companies that receive public support: Firms receiving public money should be prohibited from paying out dividends to investors, making stock buybacks, and paying lavish executive salaries. Private equity firms should be prohibited from taking

dividend recapitalizations, shifting real estate or other assets from their portfolio companies, and from charging management fees to their portfolio companies during the public assistance period.

Acquisition moratorium as a condition of receiving public support: This analysis found that the private equity firms with portfolios that received the most public support bought up hundreds of U.S. businesses within ten months of the CARES Act enactment. Companies that receive public support and private equity firms that own or back recipients should be prohibited from acquiring rival or complementary companies for two years to prevent public funds from subsidizing a consolidation wave during economic downturns.

Small business programs should exclude investor-owned firms like those owned by private equity: Companies owned by the largest private equity firms managed to capture \$1.2 billion in pandemic relief, taking for themselves funds that should have supported small, independent businesses, especially those owned by women and people of color. Programs should not create exceptions to the size and affiliation rules, and the SBA must rigorously enforce them so that large companies or investment firms cannot indirectly access programs intended for genuinely small and independent businesses.

Strengthen public disclosure for any public stimulus measure: The CARES Act lacked strong statutory disclosure provisions to enable the public and public officials to assess the federal measures that were taken to provide economic and public health relief and monitor compliance with the relief programs' rules.¹⁴⁰ Private equity firms' indirect receipt of public money to their portfolio companies was largely shielded from public view because the legislation did not require recipients to disclose parent companies or controlling investors. The limited and fragmented disclosure prevented the public from clearly understanding which companies received money and how these recipients used the relief to protect workers and the public health.

The CARES Act and subsequent pandemic relief measures were essential to keep the economy afloat and shore up a struggling healthcare system during the pandemic. The federal relief measures did not include sufficient safeguards to protect workers nor did they prevent well-financed private equity firms from accessing public funds that should have gone to companies with fewer resources. Future funding programs for emergencies should ensure that relief flows where it is most needed, not to further enrich private equity firms.

6. Methodology

This study estimates the volume of public pandemic relief funding that flowed to the portfolio companies of the largest private equity firms. The analysis in this report relies on a unique dataset of private equity-owned or -backed portfolio companies receiving various types of direct COVID relief assistance, primarily loans and grants delivered to companies. This analysis does not cover either contracts or secondary market transactions where the Federal Reserve purchased bonds or equities in private companies.

Private equity firms do not have to disclose to the general public the companies they own through leveraged buyouts and other types of acquisitions or investments. This lack of transparency has resulted in a somewhat fragmented data environment, with private companies such as Preqin, Pitchbook, and Orbis using proprietary methods to collect information on private equity activities and portfolios. Over the last year, the team of authors on this report combined these private data sources with publicly available data from the internet and media coverage to estimate the private equity holdings of the largest firms during the pandemic.

The private equity industry's general opacity means these findings are necessarily an estimate. Some private equity-backed companies or subsidiaries that were invisible to the authors were likely to have received CARES Act money that could not be assessed. The estimates of CARES Act support of private equity firms' portfolio companies are not adjusted for the share of their investments when multiple firms have invested in the same company that received pandemic funds. This study attributes CARES Act funding to portfolio firms and funding to their private equity owners and backers. In some cases, CARES Act recipients were owned by more than one large private equity firm in this analysis (or other private equity firms that are below the study's size threshold) and all the public funding is included in each of the private equity firm's portfolio receipts. Only 18 portfolio companies of 611 in this study were owned by more than one private equity firm and they received \$538 million, or ten percent of the \$5.3 billion that went to all portfolio companies in this study.

This section provides more detail about how this investigation was constructed. First, we identified 148 private equity firms that had at least \$5 billion in assets under management (AUM) as of August 2020. These represent the largest private equity firms that were likely to own or back businesses, although AUM also can include real

estate or other assets like mineral rights or infrastructure. We selected this minimum AUM threshold in order to better focus our efforts on those private equity firms which had the internal resources to assist portfolio companies in managing the fallout from the pandemic.

Next, we constructed a list of all the investments each private equity firm had in portfolio companies during the pandemic, starting with the portfolio holdings as of May 1, 2020. The process first involved scraping each firm's public-facing website, which in many cases listed the name and address of their portfolio investments. We supplemented this self-reported information with data from Preqin, Pitchbook, and Orbis (a service of Bureau van Dijk) to arrive at a list of 11,493 unique portfolio companies owned fully or partially by our master list of private equity firms.

Private equity firms are constantly buying and selling portfolio companies and during economic downturns these firms aggressively pursue vulnerable and potentially undervalued companies for acquisition, as the industry did in the aftermath of the financial crisis. This analysis begins with the private equity portfolio in May 2020, after the CARES Act was in effect, and is supplemented with available information on leveraged buyouts during 2020. For example, Roark Capital purchased Dunkin', the owner of Dunkin' Donuts and Baskin-Robbins, during the pandemic after the chain had received \$27 million in CARES Act money. It includes portfolio companies that received CARES Act money that were subsequently sold.

Many of these private equity-backed companies, particularly those in the healthcare, retail, and food services sectors, operate subsidiaries and franchises across the United States. These independently registered businesses were eligible to receive CARES Act money. To locate such subsidiaries, we adopted a two-pronged approach. First, we used company industry codings from Preqin to identify 172 portfolio companies working in healthcare. We then manually scraped data on subsidiary names and locations from each of these companies' websites where it was available (such information usually was stored on Locations, Branches, Offices or other tabs accessible from the main page). Next, we built a list of the most common franchises operating in the United States based on a disclosures directory from Franchise Information Services, Inc.¹⁴¹ Using publicly available data on acquisitions, we then identified all franchises that were owned by one of the private equity firms on our master list.

Altogether, we were able to identify 611 unique businesses backed by 113 private equity firms, a total that includes direct, indirect, add-on, and subsidiary investments. We applied a simple cleaning algorithm to remove stopwords from company names, as well as standardized and geolocated addresses.

We matched this list of private equity investments to COVID-related spending data through December 2020 compiled by the Project on Government Oversight (POGO), which graciously shared the data collected through their COVID-19 Relief Spending Tracker, which “includes all transactions listed for 13 assistance programs specifically created to respond to the coronavirus crisis.”¹⁴² These data include over 15 million assistance transactions from 13 different federal government programs introduced in the wake of the pandemic.¹⁴³ To prepare this raw data for matching to our private equity database, we applied the same standardizing algorithms on recipient name and address.

Matching between the PE and COVID spending databases was done iteratively using a fuzzy string algorithm on name and address. Each match was manually reviewed for accuracy by multiple members of the team with each match receiving two or more levels of manual quality assessment. All transactions over \$100,000 received an additional review.

For chains or franchises with multiple locations, we only included locations with an exact legal name or doing-business-as name match to establishment names listed on portfolio company websites. Additionally, we spot-checked addresses on Google Street View to confirm these locations featured the brand names. However, some franchise owners likely filed for pandemic relief at their homes and not their stores or restaurants; we did not exclude residences associated with unique brands. It is possible that this analysis unintentionally includes a small number of identically named locations that are different businesses (a Popeyes optometrist, for example), but even these inclusions would represent an insignificant share of the total pandemic relief flowing to any given private equity-backed portfolio company and the entire public support for private equity-backed companies.

For health care companies, we used the Centers for Medicare and Medicaid Services National Provider Identifier to match locations, doing-business-as names, the portfolio firms' location lists, and the POGO database. To further ensure quality control, we compared our findings to other investigative work on private equity and covid relief, such as those compiled by *Bloomberg* and the *Washington Post*.

While we believe our approach accurately uncovered the vast majority of portfolio companies receiving assistance, no set of automated or manual tools can match all data perfectly. There are undoubtedly portfolio companies backed by the largest private equity firms that are not included in this analysis because it could not connect CARES Act recipients to portfolio companies. For example, if CARES Act recipients use historical incorporation names that cannot be connected to any current corporate brand of the private equity-backed firms, it would be impossible to attach that firm to any private equity-backed company.

It is likely that the undercount exceeds any incidentally but erroneous firms included in this estimate. Because we are reliant on self-reported data from private equity firms as well as third-party data from aggregators to build our database, we do not accept responsibility or liability for any inaccuracies in these data.

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