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Stop Private Equity from Driving Retailers into Bankruptcy, Destroying Jobs and Livelihoods

Private equity firms have devastated the retail industry, driving dozens of major chains into bankruptcy, shutting down thousands of stores, and costing over half a million of jobs nationwide over the past two decades. Private equity firms exploit tax loopholes and regulatory blind spots to siphon profits away from their retail portfolio companies that leave them vulnerable to collapse. These catastrophes upend the already fragile economic security of the low-paid and disproportionately Black and Latinx women who work in retail.

While the retail industry faces challenges from competitors like Amazon and big box stores, private equity-owned retailers fare worse. Overwhelmed by debt from leveraged buyouts and dividend payments to private equity owners, private equity-owned retailers failed to invest in their workers, e-commerce, or innovation, leaving them less capable of surviving a rapidly changing marketplace.[1] Even before the pandemic, private equity retailers went into bankruptcy more frequently. The pandemic worsened the private equity-driven retail crisis where mismanagement and heavy debt loads left retailers and their workers unprepared for 2020's economic downturn.

Private equity leveraged buyouts imperil retailers: Private equity retail takeovers use leveraged buyouts funded by debt that the retail chain — not the PE firm — must repay. These unsustainable debt loads impose new costs and imperil the finances of retailers and even drive them into bankruptcy.[2] For example, in 2005, Bain Capital, KKR, and Vornado Realty Trust bought Toys R Us in a $7.5 billion leveraged buyout that swamped the chain with over $5 billion in debt. Although its sales remained steady, its debt payments consumed almost all of its operating income (97 percent in 2007), preventing business investments necessary to survive a difficult retail environment. The debt capsized the retailer, which slid into bankruptcy and shuttered all its stores in 2018, laying off 33,000 workers.[3]

Private equity fees, dividends, and asset stripping compound threats to retailers: Private equity firms also often force retailers to take on more debt to pay dividends to the private equity firms, pay fees for purported management expertise, or extract valuable assets from the chains. Those fees and payments contributed to the collapse of famous retailers like Payless Shoe Source and J. Crew.[4] Private equity firms can strip assets like real estate, brands, or e-commerce platforms from their acquisitions. The private equity firm sells off the real estate, forcing the chain to pay rent on the stores it formerly owned, adding significant new operating costs. After Sun Capital bought Shopko, it sold the real estate for $800 million and forced Shopko to lease-back its stores. The added rent costs helped drive Shopko into liquidation that destroyed over 20,000 jobs.[5]

Private equity is a significant driver of retail bankruptcy: Private equity retail takeovers have frequently led to major bankruptcies and shutdowns, such as those of Toys R Us and Payless Shoe Source.[6] These retailers are left struggling to service the large debt loads, while the private equity firms and executives walk away largely unscathed or even profiting from the deals that led to their collapse. A 2019 California Polytechnic State University study found that 20 percent of private equity takeovers ended in bankruptcy — a rate ten times higher than for non-private equity firms.[7] From 2015 to 2020, there were more than 50 private equity-owned retail bankruptcies — more than half (56 percent) of *all* retail bankruptcies were owned by private equity.[8]

Private equity-backed retailers shed half a million jobs over past two decades: Private equity-driven bankruptcies, store closings, and downsizings have shuttered about 18,000 stores that eliminated nearly 542,000 jobs between the point of takeover and February 2020.[9] Many private equity-owned retailers that have disappeared caused devastating layoffs nationwide — like Payless Shoes, Toys R Us, and the downsizing of Sears/Kmart. Workers lost their livelihoods and economic security often without severance pay, their pensions, or recourse.[10] Even without retail chain closures, private equity's aggressive cost-cutting strategies can lead to reduced pay, benefit cuts, and more unstable work schedules.[11] During the pandemic, essential workers at private equity-owned retailers like PetCo. continued to receive inadequate compensation, limited health benefits, and often inadequate protective procedures and equipment.[12]

Women and people of color bear the brunt of private equity's retail disasters: Women, Latinx, and Black workers make up a substantial portion of the retail workforce (56.5 percent, 12.5 percent, and 18.7 percent, respectively) and typically earn only about $10 an hour.[13] Typically, Black and Latinx workers are frequently employed at the lowest-paid jobs because of occupational segregation and racial discrimination, leaving 40 percent of them toiling below or near the poverty level.[14] The private equity-

driven retail job losses likely cost 300,000 women, 101,000 Latinx, and 68,000 Black workers their jobs over the past two decades that like faced a protracted period of unemployment, income disruption, and difficulty finding new jobs.[15]

Congress should curb private equity's corrosive role in the economy: Congress should pass strong legislation to stop private equity's predatory and extractive practices that threaten the viability of retail chains and workers. Congress should pass the Stop Wall Street Looting Act to prevent private equity firms from using regulatory loopholes and financial engineering to harm workers, the economy, and communities. Visit stopwallstreetlooting.org to learn more and contact your legislator to urge them to support the Stop Wall Street Looting Act.

Endnotes:

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[6] Al-Muslim, Alisha. "Analysis: PE ownership common in retail bankruptcies." *Newsday*. April 21, 2017; Covert (2018).
[7] Ayash, Brian and Mahdi Rastad. California Polytechnic State University. "Leveraged Buyouts and Financial Distress." July 19, 2019.
[8] AFREF, CPD, and UFR (2020) at 8 to 9.
[9] *Ibid*. at 2 to 3.
[10] Whoriskey, Peter. "As a grocery chain is dismantled, investors recover their money. Worker pensions are short millions." *Washington Post*. December 28, 2018; Zumbach, Lauren. "Feds move to take over Sears pension plans, will cover 'vast majority' of benefits for retailer's 90,000 retirees." *Chicago Tribune*. January 18, 2019.
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[14] Ruetschlin, Catherine and Dedrick Asante-Muhammad. Demos. "The Retail Race Divide How the Retail Industry Is Perpetuating Racial Inequality in the 21st Century." June 2, 2015 at 14.
[15] AFREF, CPD, and UFR (2020) at 2 and 13 to 14.