Private Equity Firms Have Caused Painful Job Losses And More Are Coming

Ann Marie Reinhart-Smith, former Toys 'R' Us employee

Courtesy of United for Respect

The American Investment Council (AIC), a private equity lobby, recently partnered with Ernst and Young to write a report that describes private equity's contributions to the U.S. economy. One main finding of the report is that "The US private equity sector provides employment and earnings for millions of workers. Overall, in 2018, the US private equity sector directly employed 8.8 million workers earning $600 billion in wages and benefits. The average US private equity sector worker earned approximately $71,000 in wages and benefits in 2018. For a full-time worker this is approximately $36 per hour."

Just in that one finding, there are quantitative and qualitative shortcomings. Private-equity backed companies buy out companies with existing employees. Private equity companies are not job creators. In fact, private equity firms cause significant unemployment. As I wrote a few weeks ago, economists at Harvard University and the University of Chicago found that when private equity take over companies, employment in the private-equity backed companies decreases by over 4% in the first two years following the buyout. The research piece "The Economic Effects of Private Equity" also described that when private equity firms buy out large publicly traded companies with numerous employees, job losses are far worse, about a 13% decrease in jobs in the first two years. Eileen Applebaum, Co-Director of the Center for Economic and Policy Research rightly points out that "If you are a worker at a company that has been acquired by a private equity firm, these are the numbers that matter to you – the probability that you or some of your colleagues will lose their jobs."

Eileen Applebaum, Co-Director of the Center for Economic and Policy Research

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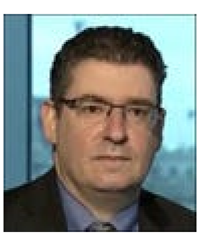
Oddly, this study reported on average wages and benefits and not the median. "Industry averages include the earnings of CEOs and top managers at PE-owned companies along with their hourly employees. It ignores the huge disparities in pay for workers in different occupations," explained Applebaum.

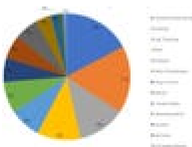
All too often when private equity professionals tout their cost cutting strategies, they do not mention that cost cutting means firing people and taking away their livelihoods. Private equity executives would learn a lot from speaking to Ann Marie Reinhart-Smith, a North Carolina resident who is a former employee of Toys "R" Us. "Buying up a company with borrowed money is not supporting jobs or our economy. I saw first-hand the cuts private equity made to Toys "R" Us after the 2005 buyout. They took away our full-time positions, hours and benefits and made us take on more work." Reinhart-Smith who is now a United For Respect leader sadly said that "In the end, I lost my career, my retirement, and my financial stability that took me 29 years to build up. At the age of 60 I'm still not able to find a full-time job 18 months after my store closed. Wall Street needs accountability, not a pat on the back."



Marcus Stanley, Policy Director at Americans for Financial Reform

Americans for Financial Reform

According to Marcus Stanley, Policy Director at Americans for Financial Reform, the American Investment Council and Ernst and Young study "simply documents that private equity is large and owns many companies, which no one disputes and is not the issue." I concur with Stanley that the real issue "is the harm caused to those companies, their workers, and their customers by private equity practices that cut back on wages and service, create excessive debt and drain value. The study simply ignores the ample evidence that this happens." Stanley told me that he supports The Stop Wall Street Looting Act, a bill co-sponsored by House and Senate Democrats, because it "is designed to prevent those practices by private equity firms and which will benefit workers in PE-owned firms."



Private-Equity Backed Distressed Rated Companies

Buyouts Insider

The companies to look at for potential future layoffs are those private-equity backed companies, which have recently defaulted on their debt payments, and those with distressed credit ratings. This year 14 private equity backed rated companies defaulted. The highest number are in the retail sector.

2019 Private-Equity Backed Defaulted Firms

Buyouts Insider

*Selective Default: An 'SD' rating is assigned when S&P Global Ratings believes that the obligor has selectively defaulted on a specific issue or class of obligations but it will continue to meet its payment obligations on other issues or classes of obligations in a timely manner.

PE backed distressed rating companies, those that are rated B- or worse and which also have a negative outlook, have risen by almost 30% since last year. Consumer products and industrials are the majority of PE backed companies that have distressed credit ratings. These distressed rating companies are the ones to watch for potential cost cutting to service the debt, that is, people are at risk of losing their jobs. To avoid defaulting, these distressed rated private-equity backed companies are likely to be pressured to lay off employees in order to service their debt. Company executives know that if they default on their debt, it will be very difficult and expensive for them to issue debt or obtain loans in the future.

Private-Equity Backed Distressed Rated Companies

Standard & Poor's, Moody's Investors Service and Buyouts; ratings are current as of Oct. 7, 2019.

The table lists select ratings actions on the debt of an LBO-backed company by either Moody's Investors Service or Standard & Poor's since January 1, 2019

Private-Equity Backed Distressed Rated Companies

Source: Standard & Poor's, Moody's Investors Service and Buyouts; ratings are current as of Oct. 7, 2019

Reinhart-Smith is 60. I wonder if private equity professionals, the vast majority who are under 50, could possibly understand what it must like to be an unemployed 60 year-old, in a country where policy makers have not focused on retooling people who lose their jobs. If anyone knows of a private equity firms that retrains people it fires, let me know. I sure would love to pass on that information to the thousands of people who have lost their jobs at private-equity backed firms.

Note: Recently, I have devoted a significant amount of time researching and writing about private equity's investments in detention centers and private prisons and about how their intense chase for yield has adversely impacted Americans.