



PRIVATE EQUITY'S HIGHLY-LEVERAGED BET ON RETAIL PUTS A MILLION JOBS AT RISK DURING THE COVID-19 CRISIS

OVER THE LAST DECADE AT LEAST 600,000 PEOPLE WORKING AT PRIVATE EQUITY-OWNED RETAILERS HAVE LOST THEIR JOBS DUE TO BANKRUPTCIES AND STORE CLOSURES.¹



Just since last summer, private equity-owned retailers such as Fairway, Art Van Furniture, and Fred's have shut their doors. Yet for all the lost jobs, as of 2019 private equity-owned retailers still employed around a million workers in the US.

As the COVID-19 pandemic ravages the retail industry, private equity's aggressive use of debt and collection of billions of dollars of dividends and fees from retailers raise particular concern for the industry and retail workers:

- According to the Bureau of Labor Statistics, the number of retail jobs in the U.S. fell by 2.1 million in April.²
- The leveraged loan default rate for US retail hit a record high at 10.34% and is expected to continue climbing substantially.³

- The Wall Street Journal reported that as of April 20, twenty-seven of the 38 retailers with the weakest credit profiles were owned by private-equity firms.⁴

As private equity-owned retailers with tens of thousands of workers go bankrupt, many of their private equity owners are sitting on record-breaking piles of cash waiting to be invested.

Below is a list of private equity-owned retailers that have filed for bankruptcy or are particularly at risk during the COVID-19 pandemic.

J. Crew – TPG, Leonard Green & Partners

TPG and Leonard Green & Partners-owned clothing retailer J. Crew became the first major retailer to go under during the pandemic when it filed for Chapter 11 bankruptcy on May 4, 2020.⁵ The company had struggled for years to recover from the high debt burden imposed by the private equity firms' leveraged buyout, which stood at \$1.7 billion in March.⁶ The firms contributed just \$1.1 billion equity for the \$3 billion buyout deal.⁷

Despite J. Crew's high debt burden, TPG and Leonard Green continued to collect fees and dividends from the company. Since their acquisition in 2011, the firms paid themselves \$765.9 million in management fees and debt-funded dividends.⁸

See our recent post "Leonard Green and TPG-led Owner Group Collected \$765 Million in Fees and Dividends From Bankrupt Retailer J. Crew."

TPG has \$32.3 billion available capital to invest. Leonard Green has \$16.92 billion available capital.⁹

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Neiman Marcus – Ares Management, CPPIB

Luxury clothing retailer Neiman Marcus filed for bankruptcy on May 7, 2020 with around \$5 billion in debt and other liabilities. Fifteen years of private equity ownership and two leveraged buyouts left the company with insurmountable debt.¹⁰

Private equity firms Warburg Pincus and TPG first acquired Neiman Marcus in 2005 for \$4.9 billion and later added Leonard Green & Partners as a minority investor. In 2013 the consortium sold the company to Ares Management and the Canada Pension Plan Investment Board (CPPIB) for \$6 billion.¹¹

Despite its high levels of debt, Neiman Marcus' various private equity owners collected over \$500 million in fees and dividends from the company over the last decade. Warburg Pincus and TPG reaped the majority of the dividends with a payment for \$449.3 million in 2012.¹² In 2014, Ares and CPPIB charged Neiman Marcus a \$17.4 million fee for its own acquisition.¹³

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NEIMAN MARCUS FEES & DIVIDENDS

	DIVIDENDS	ARES, CPPIB FEES	TGP, WARBURG PINCUS FEES	TOTAL
2019				
2018		\$0.3		\$0.3
2017		\$0.1		\$0.1
2016		\$0.3		\$0.3
2015		\$0.4		\$0.4
2014		\$17.4	\$2.8	\$20.2
2013			\$10.0	\$10.0
2012	\$449.3		\$10.0	\$459.0
2011			\$10.0	\$10.0
Total	\$449.3	\$18.5	\$32.8	\$500.6

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In mid-March the COVID-19 pandemic forced Neiman Marcus to temporarily close all 43 of its stores and furlough almost all of its 14,000 employees.¹⁴

Neiman Marcus is reportedly considering closing some stores permanently in the bankruptcy.¹⁵

Ares has \$149 billion waiting to be invested. CPPIB has \$346.67 billion in assets under management.¹⁶

Art Van – Thomas H. Lee Partners

Michigan-based Art Van furniture filed for bankruptcy March 3, 2020, three years after private equity firm Thomas H. Lee partners acquired the company in \$612.5 million leveraged buyout.¹⁷ Art Van was the Midwest's biggest mattress and furniture retailer, with over 3,000 employees and 169 stores in Michigan, Indiana, Ohio, Illinois, Pennsylvania, Maryland, Missouri and Virginia.¹⁸

THL Partners contributed just \$100 million to the purchase price when it acquired Art Van furniture in 2017. The remainder of the transaction was funded by the proceeds of several sale-leaseback transactions in which the it sold the company's real estate and leased it back, as well as debt secured against the company. At the time of bankruptcy, Art Van had \$208.5 million in debt from the buyout.¹⁹

When Art Van first filed for bankruptcy, the company told workers they would have 90 days of coverage as it sold off the remaining stores, but then later told workers they would lose coverage six weeks earlier than planned.²⁰

Instead, Art Van said it is setting up a \$1 million relief fund. Former Art Van employees have called the relief fund "grossly inadequate," pointing out that the \$300-\$400 allotted to each employee would not come close to the cost of three months of family health care coverage on the open market.²¹

Thomas H. Lee Partners has \$26 billion in assets under management.²²

Academy Sports & Outdoors – KKR

Private equity firm KKR acquired Academy Sports & Outdoors in 2011.²³ Academy Sports operates 259 stores in 16 states and has more than 22,000 employees.²⁴

Academy Sports has been distressed since early last year, when its credit rating was dropped to Caa1 due to weak operating performance and high leverage.²⁵ Moody's downgraded Academy Sports again in April 2020 with an elevated probability of default, citing headwinds caused by



the COVID-19 pandemic, high leverage, and projected earnings deterioration.²⁶

Over the course of its nine-year ownership, KKR has collected nearly \$900 million in dividends from the Academy Sports.²⁷ Its most recent dividend payment was for \$200 million in June 2015.²⁸

In April, Academy Sports said that a "substantial number" of employees at its corporate office and distribution centers have been furloughed.²⁹ It considers itself an essential retailer. As of April 29, 2020, all Academy Sports stores are open.³⁰

KKR has \$34.84 billion in capital available to invest.³¹



Guitar Center – Ares Management

Guitar Center is owned by Ares Management.³²

In April, Moody's downgraded Guitar Center's credit rating to Caa3 with a negative outlook, signaling especially high risk for bankruptcy. Moody's noted that the company's high leverage, which stood at 7.1x EBITDA in February 2020, raises the probability of a default.³³

Guitar Center was at risk for bankruptcy before the pandemic began as it struggled under debt from multiple private equity owners over the past decade.

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Bain Capital took Guitar Center private in 2007 for \$2.1 billion, saddling the company with \$1.6 billion in debt. In 2014 Ares, Guitar Center's primary creditor, took control of Guitar Center through a \$500 million debt-for-equity swap.³⁴

While Guitar Center missed debt payments in April, the company sold new bonds in May to belatedly fulfill those obligations and stave off default.³⁵

Guitar Center furloughed 9,000 of its estimated 11,000 employees in April.³⁶

Ares has \$149 billion in capital waiting to be invested.³⁷



Petco - CVC Capital Partners Advisory, CPPIB

Petco is owned by CVC Capital Partners Advisory and Canada Pension Plan Investment Board (CPPIB).³⁸

In April, Moody's downgraded Petco's credit rating to Caa1 due to "weak operating trends and high financial leverage that stems from the acquisition of the company by the CVC Capital Partners Advisory (U.S.) and Canada Pension Plan Investment Board in January 2016."³⁹

Petco has been deemed an essential business for its sales of pet supplies, but workers have raised concern for continuing non-essential services, such as new shipments of birds, small mammals, reptiles and aquarium fish, that create unnecessary risk. As of mid-April, Petco was still operating dozens of its in-store pet salons even in places where it was considered non-essential, possibly violating state stay-at-home orders.⁴⁰

In April, Petco announced furloughs, pay cuts, layoffs, and reduced hours for its 27,000 employees.⁴¹

CVC Capital has \$28.76 billion available capital to invest. CPPIB has \$346.67 billion in assets under management.



Bass Pro Shops - Goldman Sachs Group, Pamplona Capital Management

Sporting goods retailer Bass Pro Shops is owned by Goldman Sachs and Pamplona Capital Management.⁴²

In March, Moody's affirmed Bass Pro's Ba3 corporate family rating and changed its outlook to negative, noting high leverage and "aggressive financial strategies, including its use of cash flow and incremental debt for member distributions and redemption of preferred equity issued by Bass Pro's parent."⁴³

Bass Pro's owners appear to have taken out at least \$400 million in debt-financed dividends: one dividend in March 2012 for \$100 million and one in May 2015 for \$300 million.⁴⁴ According to data provider Pitchbook, Bass Pro underwent a dividend recapitalization for an undisclosed amount in November 2013.⁴⁵

Bass Pro has initiated several sale-leaseback transactions under its private equity ownership, including in November 2017, June 2019, and January 2020.⁴⁶

In April, Bass Pro announced that it was "drastically scaling back operations" by reducing staff through furloughs and layoffs.⁴⁷

Pamplona has \$3.57 billion in assets waiting to be invested. Goldman Sachs has \$1.5 trillion assets under management.⁴⁸

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Belk – Sycamore Partners

Sycamore Partners acquired Southern department store chain Belk in 2015 for nearly \$3 billion.⁴⁹ Sycamore's ownership has added debt to total \$1.6 billion due this year.⁵⁰

Moody's downgraded Belk's credit rating in April to Caa1 with a negative outlook, indicating high probability of default.⁵¹

Weeks earlier, Belk furloughed most of its 22,000 employees and implemented pay reductions for those who remain working.⁵² However, layoffs at Belk began before the pandemic—in mid-February the company announced 80 layoffs at its headquarters as part of a corporate restructuring.⁵³

Sycamore Partners has \$4.07 billion in capital available to invest.⁵⁴

PRIVATE EQUITY RETAIL BANKRUPTCIES SINCE 2019

COMPANY	PRIVATE EQUITY OWNER	LAST ACQUIRED	ESTIMATED EMPLOYEES	BANKRUPTCY DATE
Sur La Table	Investcorp, TriArtisan Capital Advisors	9/20/2011	2,300	July 9, 2020
Lucky Brand Jeans	Leonard Green & Partners	2/3/2014	3,000	July 4, 2020
Centric Brands	Blackstone Group, Tengram Capital Partners, Ares Capital	6/13/2013	4,000	May 18, 2020
Neiman Marcus Group	Ares Management, Canada Pension Plan	10/25/2013	13,500	May 7, 2020
J. Crew	TPG Capital, Leonard Green & Partners	3/7.2011	12,400	May 4, 2020
True Religion Apparel	TowerBrook Capital Partners	5/11/2013	1,000	April 13, 2020
Bluestem Brands (Fingerhut, Gettington, Appleseed's, Draper's & Damon's and Blair)	Centerbridge Partners, Capmark Financial Group, Cerberus Capital	9/29/2014	2,900	March 2020
Art Van Furniture	TH Lee Partners	1/25/2017	5,500	March 9, 2020
Earth Fare	Oak Hill Capital	4/9/2012	3,000	February 4, 2020
Fairway Market	Brigade Capital Management,	1/1/2018	3,000	January 23, 2020
Barneys New York	Jasper Ridge Partners, Lion Capital and BlackRock Private Equity Partners	11/1/2019	2,100	August 6, 2019
Things Remembered	Balmoral Funds	2/6/2019	1,400	February 6, 2019

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TOP RETAILERS CURRENTLY OWNED BY PRIVATE EQUITY FIRMS

COMPANY	CURRENT OWNER	LAST ACQUIRED	ESTIMATED EMPLOYEES
Albertsons	Cerberus, Lubert-Adler, Kimco Realty	2006, 2013	270,000
Staples	Sycamore Partners	9/12/2017	70,000
PetSmart	BC Partners, Caisse de dépôt, ACE & Company, Korea Investment Corporation, StepStone Group, GIC, Ardian Holding and Longview Asset Management	3/11/2015	56,000
Sears/ Kmart	ESL Investments	2005, 2019	45,000
Michael's	Bain Capital (36%), Blackstone Group (14%)	10/31/2006	44,000
Bass Pro Shops/ Cabela's	Goldman Sachs Group and Pamplona Capital Management	10/3/2016	40,000
Signet Jewelers	CVC Capital Partners, Canada Pension Plan	1/29/2016	25,000
Barnes & Noble	Elliott Management	8/7/2019	24,000
Academy Sports + Outdoors	KKR	8/4/2011	23,000
Jo-Ann Stores	Leonard Green & Partners	3/18/2011	23,000
Savers	Crescent Capital Group, Ares Private Equity Group	3/29/2019	21,000
DeMoulas Super Markets (Market Basket)	Blackstone Group (minority stake)	12/15/2014	20,000
Claire's Stores	Elliott Management, Monarch Alternative Capital	10/12/2018	17,300
99 Cents Only Stores	Ares Management, Canada Pension Plan	1/13/2012	17,200
Top's Markets	Fidelity Investments and Silver Point Capital	2/22/2018	14,000
Neiman Marcus Group (bankruptcy)	Ares Management, Canada Pension Plan	10/25/2013	13,500
The Fresh Market	Apollo Global Management	4/27/2016	12,600
J. Crew (bankruptcy)	TPG Capital, Leonard Green & Partners	3/7/2011	12,400
Smart and Final (SFS)	Apollo Global Management	6/20/2019	12/232
Tween Brands	Bluestar Alliance	7/20/2015	12,000
rue21	BlueMountain Capital Management, Southpaw Asset Management, Pentwater Capital Management	5/15/2017	11,000
Guitar Center	Ares Management, Bain Capital	2007, 2014	11,000

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COMPANY	CURRENT OWNER	LAST ACQUIRED	ESTIMATED EMPLOYEES
David's Bridal	Oaktree Capital Management	11/5/2019	10,000
The Talbots, Inc.	Sycamore Partners	8/3/2012	9,000
PSEB Group (Pacific Sunwear of California/ Eddie Bauer)	Golden Gate Capital	September 2016 (PacSun), August 2009 (Eddie Bauer)	8,800
Hot Topic	Sycamore Partners	6/12/2013	8,600
Nine West (Premier Brands Group Holdings)	CVC Capital Partners, Brigade Capital Management	3/20/2019	8,380
GPM Investments	Harvest Partners	1/30/2017	7,500
Coldwater Creek	Sycamore Partners	6/9/2014	6,600
Torrid	Sycamore Partners	4/27/2015	6,500
Forever 21	Brookfield Property Partners, Authentic Brands Group and Simon Property Group	2/3/2020	6,400
Mills Fleet Farm	KKR, Ardian Holding, Investar Financial	2/26/2016	6,000
Art Van Furniture (bankruptcy)	TH Lee Partners	1/25/2017	5,500
Jetro Cash & Carry/ Restaurant Depot	Leonard Green & Partners, SVG Capital and CCMP Capital Advisors	6/1/2014	5,000
The Container Store	Leonard Green & Partners (56.2%)	7/3/2007	4,900
Value City Furniture	SB Capital Group		4,000
West Marine	Monomoy Capital Partners	9/14/2017	4,000
The Limited	Sycamore Partners	2/24/2017	4,000
Destination Maternity	Neuberger Berman	1/1/2020	3,400
Cardenas Markets	KKR, Victory Park Capital	11/29/2016	3,000
Forman Mills	Cohesive Capital Partners, Goode Partners	10/4/2016	3,000
Bluestem Brands (Fingerhut, Gettington, Appleseed's, Draper's & Damon's and Blair)	Centerbridge Partners, Capmark Financial Group, Cerberus Capital	9/29/2014	2,900
Gelson's Markets	TPG Capital	2/19/2014	2,500
Barneys New York (bankruptcy)	Jasper Ridge Partners, Lion Capital and BlackRock Private Equity Partners	11/1/2019	2,100
Save-A-Lot	CoreCo Private Equity, Onex	12/5/2016	2,070

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