HOW IS BC PARTNERS MANAGING HUMAN CAPITAL RISK AT ITS PORTFOLIO COMPANIES?

Despite being considered essential, employees at BC Partners’ portfolio companies may face low wages, lack of access to affordable health care, and inadequate sick leave or family leave.

Private equity firm BC Partners is already among the larger private equity firms by total number of portfolio company employees, with nearly 250,000 employees at companies it owns globally. With portfolio company GardaWorld’s proposed acquisition of competitor G4S (530,000 employees)\(^1\), that number could more than triple, to nearly 780,000 employees. This would likely make BC Partners the largest private equity firm in the world by portfolio company employees.

In the midst of the COVID-19 pandemic, a significant majority of employees at BC Partners’ companies are essential workers, working in industries such as retail, security, and waste disposal. These employees are unable to work remotely during the pandemic and in many cases work in environments where they are at risk of COVID-19 infection and of infecting coworkers or customers.

BC Partners’ failure to respond to or adequately address human capital concerns in the midst of the pandemic at its existing portfolio companies raises questions about its ability to do so with three times as many portfolio company employees.

At portfolio company PetSmart/ Chewy (68,000 employees), BC Partners has not responded to employees’ request that the retailer provide adequate personal protective equipment (PPE) and hazard pay to those required to work, and severance pay to employees that are laid off despite collecting billions of dollars of dividends from the retailer.

### KEY POINTS

- BC Partners is already one of the largest private equity firms globally by portfolio company employees, with around 250,000 employees at its companies.
- If portfolio company GardaWorld’s proposed acquisition of competitor G4S is successful, BC Partners’ portfolio companies would have around 780,000 employees globally, making it perhaps the largest private equity firm by portfolio company employees.
- In the midst of the COVID-19 pandemic, a significant majority of employees at BC Partners’ companies are essential workers, working in industries such as retail, security, and waste disposal. These employees are unable to work remotely during the pandemic and in many cases work in environments where they are at risk of COVID-19 infection and of infecting coworkers or customers.
- BC Partners’ failure to respond to or adequately address human capital concerns in the midst of the pandemic at its existing portfolio companies raises questions about its ability to do so with three times as many portfolio company employees.
- At portfolio company PetSmart/ Chewy (68,000 employees), BC Partners has not responded to employees’ request that the retailer provide adequate personal protective equipment (PPE) and hazard pay to those required to work, and severance pay to employees that are laid off despite collecting billions of dollars of dividends from the retailer.
security, and waste disposal. These employees are unable to work remotely during the pandemic and in many cases work in environments where they are at risk of COVID-19 infection and of infecting coworkers or customers. Despite being considered essential, employees at BC Partners’ portfolio companies may face low wages, lack of access to affordable health care, and inadequate sick leave or family leave.\footnote{Jim Baker}{jim.baker@PEstakeholder.org}{312.933.0230}

A review of BC Partners’ portfolio suggests the overall number of employees at the private equity firm’s portfolio companies has grown dramatically in recent years. At the same time, the firm’s failure to respond to or adequately address human capital concerns in the midst of the pandemic at its existing portfolio companies raises questions about its ability to do so with three times as many employees.

BC Partners faces a number of issues related to employees at some of its larger portfolio companies.

**PETSMART/ CHEWY (68,000 EMPLOYEES)**

BC Partners’ second largest portfolio company by employees is PetSmart, a pet supply retailer in North America with 56,000 employees and 1,600 stores in the US and Canada. PetSmart is the majority owner of Chewy, an online pet supply retailer with another 12,000 employees.\footnote{Continued from Page 1}{Jim Baker}{jim.baker@PEstakeholder.org}{312.933.0230}

- In August, PetSmart drew media attention for firing a Black employee for a wearing face mask calling attention to Black Lives Matter movement and institutional racism. The termination was later rescinded.
- While portfolio company GardaWorld (102,000 employees) is a newer BC Partners portfolio company (acquired October 2019), existing human capital issues raise questions about how BC Partners evaluated these issues when conducting due diligence on the acquisition and what steps it is taking to address them.
- Since 2016, GardaWorld affiliates have been fined for dozens of workplace safety and health violations by the US Occupational Safety and Health Administration (OSHA), including multiple “repeat” and “willful” violations.
- GardaWorld has recently paid millions of dollars related to class action lawsuits by employees alleging wage and hour violations. It faces additional suits from employees that are ongoing.
Human Capital Risk at BC Partners’ Investments

BC Partners fails to respond as employees raise concerns over workplace safety, lack of hazard pay

In July, more than 500 current and former PetSmart employees sent a petition to BC Partners asking the private equity firm to provide adequate personal protective equipment (PPE) and hazard pay to those required to work, and severance pay to those laid off.6

Early in the COVID-19 pandemic, PetSmart and other pet supply retailers engaged in successful industry lobbying to secure an “essential” designation, allowing them to remain open as other businesses were ordered to close. PetSmart has seen its sales increase during the pandemic as stores have remained open. The company has been extremely profitable for investors: one co-investor alongside BC Partners in PetSmart reported that the investment had yielded a 3.3x return on invested capital (i.e. 230% profit) as of June 30, 2020. The value of PetSmart’s majority stake in online pet supply retailer Chewy.com has more than doubled since early March.7

Yet PetSmart employees report that the company has done little to protect them or compensate them for the additional risk they take working during the COVID-19 pandemic. In the July letter to BC Partners, PetSmart employees noted:

“"The vast majority of us are working in stores that lack basic safety precautions, like adequate masks and gloves, and have drastically cut hours, while the rest of us are navigating the unemployment process due to the mass furloughs and layoffs in the midst of a global health crisis and recession."

“We are calling on BC Partners to prioritize our health and safety and minimize the economic hardship on employees and our families. We are very concerned about the conditions and the lack of worker safety in our stores. Many of us face a range of health issues, from living with pre-existing conditions like diabetes, asthma, and cancer, to those who are pregnant and new mothers and are at-risk categories for experiencing severe complications from COVID-19.”8

The PetSmart employees’ letter called on BC Partners to publicly commit to:9

1) Provide hazard pay to all frontline employees with back pay to March 1, 2020.
2) Provide healthcare to all employees, including part timers, and cover premiums to all employees including furloughed until the end of the pandemic and those who are laid off for at least 90 days.
3) Establish a severance policy for all employees, including those recently laid off during the pandemic of at least one week of pay, per year of employment, two weeks minimum. Any layoffs should be done in order of reverse seniority and where possible, employees should get at least 60-days’ notice.
4) Prioritize our health and safety by providing sufficient personal protective equipment (PPE) to all frontline employees; limiting the number of customers at the same time in the stores and restrict or limit the shipment and sale of live animals during the pandemic.

“Since we are risking our lives to keep our stores open, we need PPE, hazard pay, and quality healthcare so that we can keep ourselves and our families as safe and healthy as possible during this pandemic. With coronavirus cases on the rise again, we don’t need lip service, we need action.”

Alex Ludwig, PetSmart employee
July 2020
5) Frontline employees should have a seat at the board of directors to bring our perspective and experience into the board room and ensure our employees and company succeed for the long-run.

The PetSmart employees’ letter also drew an article in the Wall Street Journal, which noted that “The company has in recent months furloughed or laid off staff at multiple locations across the U.S., people familiar with the matter said. Some staff lost access to health benefits after losing their jobs, an email to a former employee reviewed by The Journal shows.”

“I want to go to work and know BC Partners is doing everything to keep me, my family, and our customers safe,” Alex Ludwig, PetSmart employee of 3 years, told Pet Business in July. “Since we are risking our lives to keep our stores open, we need PPE, hazard pay, and quality healthcare so that we can keep ourselves and our families as safe and healthy as possible during this pandemic. With coronavirus cases on the rise again, we don’t need lip-service, we need action.”

PetSmart has stood out among US retailers for not providing hazard pay to employees working during the COVID-19 pandemic. Hazard pay is a premium paid above the base wage to acknowledge and compensate employees for the potential risks and unsafe conditions they encounter while on the job. At the peak of the pandemic other large US retailers such as Target, Amazon, Costco, Kroger, Whole Foods, and Albertsons began paying $2 hourly premiums to their employees.

Employees report that months later, BC Partners has still not responded to the letter and PetSmart has not taken action in response to workers’ requests.

While it has not responded to PetSmart employees’ request for protective equipment and hazard pay during the COVID-19 pandemic, BC Partners has collected billions of dollars in assets from the retailer in recent years and sought to collect billions more during the pandemic. Bloomberg in October reported that BC Partners in late October sought to transfer all of the PetSmart’s remaining shares in Chewy.com (currently worth around $16.3 billion) off of the company’s balance sheet to the BC Partners-led ownership group. While the deal would reduce PetSmart’s debt somewhat, this represents a massive payout of at least $11 billion in Chewy stock to BC Partners and other PetSmart owners. On October 30, facing a rebuke from lenders, BC Partners and PetSmart pulled the proposed recapitalization deal. It is unknown whether the firm will revisit it as credit markets stabilize or simply transfer the Chewy shares without raising additional debt.

This is in addition to the $800 million dividend they took from PetSmart in 2016 and the dividend of Chewy stock (now worth about $5 billion) in 2018.

“I risk exposure to the virus every single day and barely earn enough for basic necessities like rent, food, and healthcare. Meanwhile BC Partners is cashing out with $11 billion in profit for themselves, and thanking workers like me with a commemorative pin. We need PPE and hazard pay - not empty gestures from BC Partners,” said Christian Hopkins, a PetSmart employee from Winston-Salem, NC.

PetSmart fires Black employee for wearing face mask calling attention to Black Lives Matter movement and institutional racism

In August, the State Journal-Register reported that PetSmart fired an employee in Springfield, Illinois after she wore a mask featuring the phrase “I Can’t Breathe,” drawing attention to the Black Lives Matter movement against institutional racism. The phrase is derived from the final words of Eric Garner, an unarmed Black man who was killed in 2014 after being put into a chokehold by a New York City police officer.

After the PetSmart employee, Shaunna Kirk, refused to take the mask off, she was fired from the job she held for more than three years due to “insubordination.”

“I put in that much time and you would think that they would value me as a valued employee because my performance was never an issue,” Kirk said. “I just felt completely unvalued and no human being should ever feel that unvalued.”

In an email, a PetSmart human resources employee wrote of Kirk’s mask, “It’s not allowed. The associates can...
wear the ones we provided or the ones we sell and that’s it per our dress code policy…. If we allow this statement/message we have to allow ANY (sic) other message to be on a mask or shirt (including union messages).”

Kirk has since filed a complaint with the Illinois Department of Human Rights, alleging that PetSmart failed to make a reasonable accommodation, created a hostile working environment and retaliated and discriminated against her.

“I want my life to stand for something,” Kirk said. “So I would not dare want another African American to feel the same way I felt or to have to even go through that because that's not fair.”

In a statement to the State Journal-Register, PetSmart reported that it has rescinded Kirk's termination.

**GARDAWORLD (102,000 EMPLOYEES)**

BC Partners acquired a majority stake in security and cash transportation company GardaWorld in October 2019. With the acquisition, GardaWorld became BC Partners’ largest portfolio company by employees. GardaWorld has 102,000 employees in 45 countries.

Given that the transaction is just a year old, many of the human capital issues at GardaWorld predate BC Partners’ ownership. Still, investors might ask how BC Partners evaluated these issues when conducting due diligence on the acquisition and what steps it is taking to address them.

These questions are particularly relevant in the context of GardaWorld’s and BC Partners’ proposed takeover of G4S, which would add another 530,000 employees.

**Tampa Bay Times investigation highlights safety concerns for GardaWorld US armored truck workers**

In March, the *Tampa Bay Times* released a yearlong investigation into GardaWorld Cash Services based on thousands of pages of court records, police reports, government inspections, internal company documents and photos and videos taken by workers. Ninety current and former Garda employees spoke to the Times about what it was like to drive an armored truck, run a branch, oversee maintenance and make high-level corporate decisions.

The *Tampa Bay Times* investigation highlighted safety concerns for GardaWorld employees and the broader public:
“In its rush to grow, Garda took shortcuts that put unsafe trucks and error-prone drivers on the road, a Tampa Bay Times investigation has found.

The company has spent so little on maintenance that its trucks have often lacked reliable brakes, seat belts or even seats. It gave drivers barely any training, pressured them to work at a frantic pace and let some keep driving as they crashed again and again.

The result has been armored trucks hurtling out of control in communities across America — swerving into traffic, plunging into ditches and smashing into cars.”

According to the investigation, From February 2014 to July 2016, the company’s trucks averaged nearly 100 collisions a month, according to the crash database. More than 320 people were injured — a rate of one about every three days.

Jammie Bolton, the manager of Garda’s St. Louis branch from June 2017 to August 2018, said his supervisors told him to dispatch trucks even if they were in dangerously poor condition.

The Times interviewed 56 current or former Garda drivers. All but one said they worked in vehicles with mechanical problems. Twenty-five of the drivers worked at the company in 2018 or 2019.

Photos of the back of one truck show that a worker had to sit on an overturned plastic bin with a cushion on top. Another truck had a bungee cord instead of a seat belt.

Thirty-two workers said they’d driven trucks with broken speedometers. Thirty-eight said some trucks lacked working seat belts. Forty described trucks with bad brakes.

Former Garda branch managers, maintenance workers and drivers told the Times that Garda regularly ignored requests for repairs and did the bare minimum to get a truck to run.

Fifty-one drivers told the Times that the company provided little to no instruction.

Nearly a dozen employees who worked at Brink’s, Loomis or Dunbar — many of whom also worked for Garda — said the companies gave drivers more extensive training and were more willing to repair trucks.

Citing Department of Transportation records on crashes, the Times investigation noted that from 2014 to 2019, Garda’s trucks crashed 321 times — 58 more than Loomis, 68 more than Brink’s and 205 more than Dunbar. Adjusted per mile, Garda crashed 46 percent more often than Brink’s and about 80 percent more often than Loomis or Dunbar. 2018 was the company’s worst year, measured by crashes per mile. The second-worst year was 2019.

**GardaWorld fined for dozens of workplace safety and health violations**

In the United States, GardaWorld and its affiliates have been fined hundreds of thousands of dollars for dozens of workplace health and safety violations since 2015.

The Occupational Safety and Health Administration (OSHA), part of the US Department of Labor, is responsible for setting and enforcing standards to ensure safe and healthful working conditions. OSHA conducts investigations into complaints of workplace safety laws and can levy fines for violations.

OSHA generally groups violations into a few distinct categories, including Willful, Repeat, Serious, and Other, with willful and repeat violations drawing the steepest fines.

Since 2015, GardaWorld has been fined more than $650,000 for 84 separate OSHA violations. OSHA allows employers to reduce fines by offsetting some of the cost of abating safety hazards against fines. Even after reduction, OSHA fines levied against GardaWorld totaled more than $360,000.

At least one of the fines related to the death of a Garda employee. In 2019, OSHA conducted an investigation following the death of a Garda armored car driver, noting, “On February 6, 2019, an employee was driving his usual route when he lost control of his armored vehicle. The employee was not wearing a seatbelt. The vehicle rolled over, killing him.”

In that case, OSHA levied a $20,000 fine against GardaWorld for a “Willful” violation.

That was not Garda’s first willful violation. In July 2016, Garda Cash Logistics Central was fined a total of $103,000 for five “Willful”, two “Serious”, and three “Other” violations.

**GARDAWORLD OSHA VIOLATIONS 2015-2020**

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Garda has also been cited with multiple “Repeat” violations, including at least one since the company has been owned by BC Partners. An employer may be cited for a repeat violation if that employer has been cited previously for a substantially similar condition. In May 2020, OSHA issued a $108,000 fine against GardaWorld, the largest share of which related to a “Repeat” violation. Since 2015, GardaWorld and its affiliates have been cited for at least three other repeat violations.42

Garda has also drawn substantial fines for several “Serious” violations in recent years, including after BC Partners acquired the company. In September 2016, for example, GardaWorld was fined more than $25,000 after employees operating and riding in an armored vehicle were exposed to excessive heat. Following abatement, the penalty was later reduced to $6,300.43

OSHA issued a citation against Garda CL Central Inc in July 2020 for a serious violation.44

The fact that OSHA has continued to levy penalties against GardaWorld after BC Partners acquired the company in late 2019 raises questions about what steps BC Partners has taken to ensure that Garda complies with workplace health and safety and other laws to protect employees.

GardaWorld has recently paid millions of dollars related to class action lawsuits by employees alleging wage and hour violations, faces additional suits

GardaWorld has not only faced fines for workplace safety violations in recent years, but has also faced judgments and paid millions of dollars to settle lawsuits by employees alleging that the company violated laws mandating minimum wages and employee breaks.

WASHINGTON – In October 2015, a judge in Washington State ruled that Garda had violated Washington laws requiring the company to provide meal and rest breaks to 500 employees of Garda CL Northwest, Inc between 2006 and 2015. The court awarded the Garda employees an $8.2 million settlement including punitive damages and prejudgment interest. The court also ordered Garda to pay $1.1 million in attorney fees. A Washington State appeals court and the Washington Supreme Court later upheld the decision, but reduced the prejudgment interest awarded to employees.45 Garda later faced a second class action lawsuit by employees in Washington seeking damages for missed breaks after February 2015. In September 2019 Garda settled both cases for a total of $12.5 million, according to the attorney for the employees.46

CALIFORNIA – In May 2020, GardaWorld entered into a $4 million settlement with a class of employees in California after employees alleged that the company failed to pay employees for all hours worked including overtime hours and failed to provide legally-compliant meal and rest breaks under California law between April 2013 and August 2020. Garda has not admitted any liability or wrongdoing.47

FLORIDA – In October 2019, a former GardaWorld employee filed a lawsuit in Florida alleging that she and similarly situated Garda employees were not paid overtime compensation (i.e. one and a half times regular hourly pay) for hours worked over forty hours per week. Garda quickly settled the suit, agreeing to pay the employee thousands of dollars in lost wages and liquidated damages.48

“Photos of the back of one truck show that a worker had to sit on an overturned plastic bin with a cushion on top. Another truck had a bungee cord instead of a seat belt.”

Tampa Bay Times, March 1, 2020

“I’ve worked at a lot of logistics firms and I never saw anything in my life that is remotely close to what Garda has going on. … The conditions that these guys are asked to drive in — it is really just shameful.”

Garda branch manager Jammie Bolton quoted in Tampa Bay Times
March 1, 2020
People and Planet: The Impact of Private Equity Investments on Human Capital

Human Capital Risk at BC Partners’ Investments

NEW YORK – In May 2020, a former GardaWorld employee filed a putative class action lawsuit in New York alleging that between 2015 and 2020 Garda had failed to pay him and similarly situated employees overtime premiums (i.e. one and a half times regular hourly pay), failed to provide employees with notices required by New York’s Wage Theft Prevention Act at the start of their employment, and failed to provide employees with accurate wage statements reflecting all hours, including overtime hours, worked as required by the Wage Theft Prevention Act. The case is ongoing. The case is notable in that the period when the alleged violations occurred continued after BC Partners acquired GardaWorld in October 2019.

QUESTIONS FOR INVESTORS

BC Partners is in the process of raising its next buyout fund, BC Partners Fund XI, seeking €8.5 billion/ $10 billion. Current and potential BC Partners investor should ask the firm:

How it will manage human capital risks at its portfolio companies, particularly during the COVID-19 pandemic, given that the majority of employees of its portfolio companies are essential workers?

Why has BC Partners failed to respond to PetSmart employees request for protective equipment, hazard pay, and severance for laid off workers?

How did BC Partners assess human capital risks when conducting due diligence for its acquisition of GardaWorld, particularly related to health and safety issues and wage and hour litigation?

What steps has BC Partners taken to address human capital risks at GardaWorld post acquisition?

How will BC Partners manage human capital risks if it is successful at acquiring G4S and has three times as many employees (780,000) at its portfolio companies as it does currently?
Endnotes


8 Open letter to BC Partners from PetSmart frontline employees, July 2020. (https://united4respect.org/open-letter/open-letter-to-bc-partners-from-petsmart frontline-employees/)

9 Open letter to BC Partners from PetSmart frontline employees, July 2020. (https://united4respect.org/open-letter/open-letter-to-bc-partners-from-petsmart frontline-employees/)


**Human Capital Risk at BC Partners’ Investments**

19 “She wore a BLM face mask to work, a week later, she was fired,” State Journal-Register, Aug 12, 2020. (https://www.sj-r.com/news/20200812/she-wore-blm-face-mask-to-work-week-later-she-was-fired)

20 “She wore a BLM face mask to work; a week later, she was fired,” State Journal-Register, Aug 12, 2020.

21 “She wore a BLM face mask to work; a week later, she was fired,” State Journal-Register, Aug 12, 2020.

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