Private Equity Stakeholder Project (PESP) – Statement for the Record

October 20, 2021 Hearing of the Senate Committee on Banking, Housing, and Urban Affairs, Subcommittee on Economic Policy

Protecting Companies and Communities from Private Equity Abuse

Chairman Warren, Ranking Member Kennedy, and Members of the Subcommittee, thank you for the opportunity to provide a statement for the October 20, 2021 hearing "Protecting Companies and Communities from Private Equity Abuse" by the Subcommittee on Economic Policy.

My name is Jim Baker and I am the executive director of the Private Equity Stakeholder Project. The Private Equity Stakeholder Project is a non-profit organization whose mission is to identify, engage, and connect stakeholders affected by private equity with the goal of engaging investors and empowering communities, working families, and others impacted by private equity investments.

This hearing could not come at a more critical time. The private equity industry has grown dramatically in recent years. Private equity and other private funds firms had less than $1 trillion in assets under management in 2004. They now manage more than $7.5 trillion, and are growing quickly.[1]

While the world and the global economy continue to struggle with the COVID-19 pandemic, private equity firms have taken advantage of the flood of cheap debt that the US Federal Reserve's and other central banks' stimulus efforts have made available to buy companies at a record pace and to extract debt-funded dividends from companies they currently own.[2]

In the first half of 2021, private equity firms had their busiest six months ever, announcing 6,298 deals worth $513 billion, according to the *Financial Times*.[3]

As private equity firms and deals have grown, they have come to impact growing numbers of people. In the past year, private equity firms have acquired companies with hundreds of thousands of workers such as G4S (530,000)[4] and Dunkin Brands (250,000).[5] A private equity-owned rural hospital company, LifePoint Health, is in the process of trying to acquire competitor Kindred Healthcare. The combined company will have 77,000 employees in 34 states and will be the largest private-equity-owned healthcare company in the US.[6]

Based on reports by the private equity industry's main lobbying group, the number of US employees at private equity-owned companies has increased substantially in recent years – from 8.8 million in 2018 to 11.7 million in 2020, a 33% increase.[7] This increase is striking as overall US employment dropped by 4.5% over the same period.[8]

Based on academic studies showing that private equity takeovers typically result in job losses at acquired companies,[9] this increase appears to be largely driven by private equity firms acquiring more and larger companies – putting the jobs of millions more US workers at risk.

The private equity buying spree that we have seen over the past year is certain to continue. As of mid 2021, private funds managers had amassed a record $3.3 trillion of unspent capital.[10]

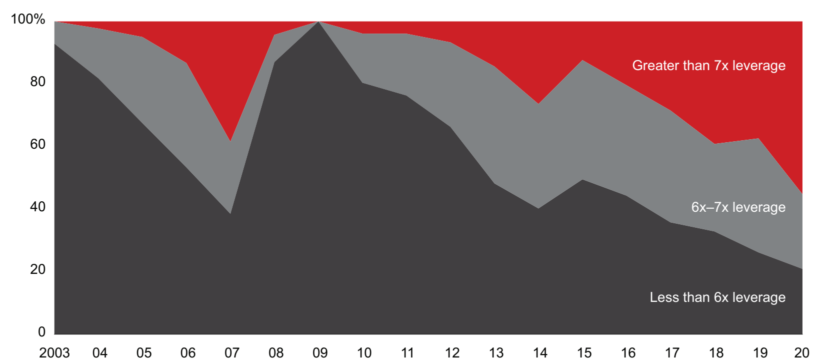
The house always wins – and workers, patients, communities and the planet often lose

Private equity firms almost always use debt, often very significant amounts of debt, to buy companies. This debt ends up on the balance sheets of the companies that are acquired, rather than the private equity firms themselves. Debt levels at private equity-owned companies have grown in recent years.

Consulting firm Bain & Co. reported earlier this year that for around half of 2020 buyouts, private equity firms utilized leverage greater than seven times the portfolio company's Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA), a proxy for cash flow.[11]

"Despite the deep uncertainty surrounding the Covid-19 economy, debt multiples shot up in 2020, with almost 80% of deals leveraged at more than 6 times EBITDA—traditionally the level at which federal regulators start to raise eyebrows," Bain & Co. added.[12]

Share of US leveraged buyout market, by leverage level

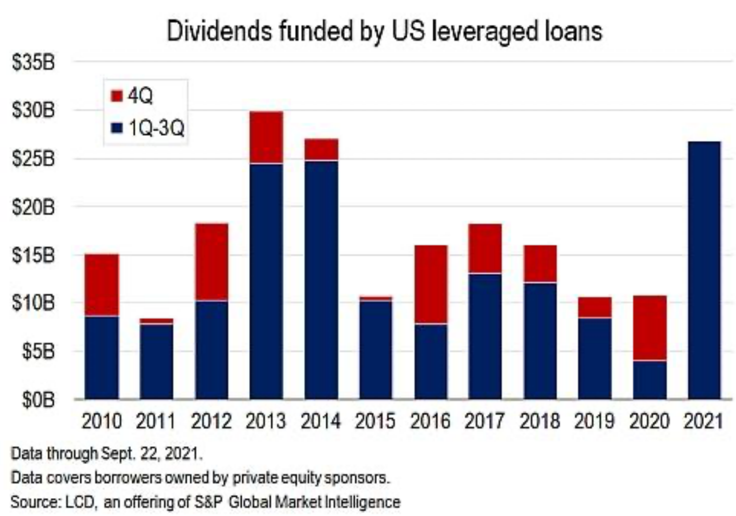


Source: Refinitiv LPC

Debt-funded dividends

In addition to using record levels of debt to acquire new companies, in the past year private equity firms have also added record amounts of debt to the balance sheets of portfolio companies they already own to finance dividend recapitalizations, or debt-funded dividends.[13]

Dividend recapitalizations do nothing to grow private equity-owned businesses but instead are a way for private equity firms to extract cash from these companies. Instead, debt-funded dividends leave portfolio companies with more debt, making defaults and bankruptcies more likely. Credit rating



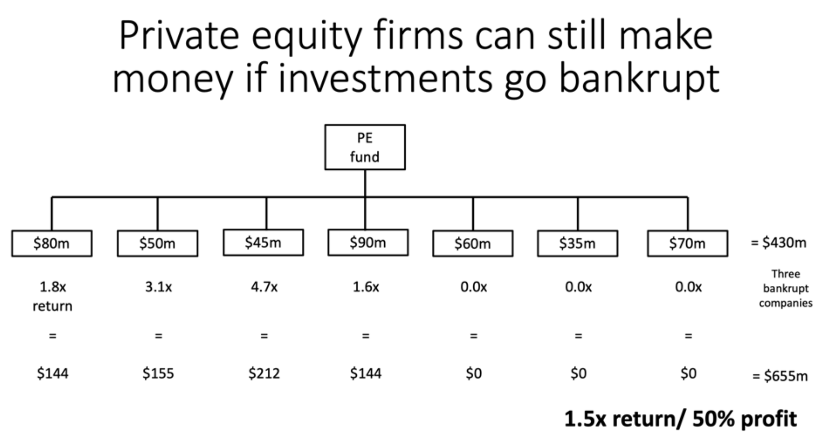
agency Moody's noted in September that "The surge of dividend recapitalizations lays bare private equity firms' intentions to recoup their investments after paying high acquisition multiples."[14]

Heads I win, tails you lose

Private equity firms' heavy use of debt at portfolio companies (and limited investment of their own money), growing extraction of cash from portfolio companies through debt-funded dividends, and limitation on their own liability increasingly set up a "heads I win, tails you lose" structure where private equity firms can make substantial profits for themselves even as the companies they own struggle, default on debt, or go bankrupt.

Private equity firms typically invest in companies through funds that may acquire 20-30 companies, holding each of those companies for around 4-7 years. Private equity firms have a large incentive to identify and invest in companies in which they can dramatically grow cash flow over 4-7 years, either by growing revenue or cutting costs. Private equity firms are typically judged, and private equity executives paid, based on fund-level returns – i.e., the combined returns of all of the companies that a private equity fund has invested in.

As the hypothetical example at the right demonstrates, a private equity fund that invests in several companies and generates strong returns on some may still generate a profit for the private equity firm even if multiple portfolio companies go bankrupt and the private equity fund's stakes in those companies are wiped out. In this case even though three of seven companies went bankrupt, the private equity fund still generated a 1.5x gross return – i.e., a 50% profit.



Even when portfolio companies go bankrupt, private equity firms cannot lose any more than the limited capital they put in. On the other hand, when things go well, private equity firms' potential upside is unlimited and is magnified by high debt.

This structure means private equity firms' interests are often not aligned with those of portfolio company stakeholders such as workers, consumers, communities in which the companies operate, tenants, government payors, and others. Rather than being focused on the long-term sustainability of these businesses, private equity firms may instead be focused on how to grow cash flow as quickly as possible in a few years for their own benefit, regardless of the consequences to others.

We have seen these consequences in examining impacts of private equity investments on workers, climate change, healthcare, and civil rights, among other areas.

Private equity's impact on workers and jobs

The main US private equity lobbying group, the American Investment Council (AIC), has touted private equity's contributions to the US economy by employing millions of workers.[15] However, since private equity firms acquire companies with existing workers, they often do not create new jobs. Indeed, as economists have documented, when private equity firms take over a company, the total number of workers usually goes down.[16]

Job losses at private equity-owned companies

A 2019 study by researchers at Harvard Business School and the University of Chicago found that private equity takeovers result in significant job losses. The report found average job losses of 4.4% in the two years after a company was bought by private equity, relative to control companies.[17]

A 2019 report by the Private Equity Stakeholder Project, United for Respect, and Americans for Financial Reform found that in the prior decade, 597,000 people working at private equity and hedge fund-owned retail companies lost their jobs after their Wall Street-managed retailers went bankrupt or liquidated.[18]

These retail layoffs are especially troubling because they occurred while the retail industry added over one million additional jobs during the same period.[19] Over the same period, private equity and hedge fund-owned retailers added only around 76,000 jobs—creating only one job for every eight jobs that were eliminated — meaning that private equity cost the retail sector over half a million (521,000) in net job losses. These job losses spanned over 25 retailers, including household names like Sears, Toys "R" Us, Payless, Sports Authority, Claire's, and RadioShack.[20]

These job losses devastate local economies and ultimately ripple throughout the national economy as suppliers and local small businesses feel the downstream effects. Not only have private equity and hedge fund-owned retailers laid off hundreds of thousands of workers, the Wall Street-driven retail bankruptcies also have effects that are felt far beyond those retailers and their former employees. Businesses and their workers, including in the retail sector, not only provide direct jobs but also have multiplier effects on indirect jobs; in other words, their economic activity supports workers in other industries, such as those who manufacture and deliver the products sold at retailers and businesses where retail employees spend their income, like grocery stores or gas stations.

Private equity-owned retailers' suppliers and their employees suffer when the retailers go bankrupt, close stores, or shut down completely. For example, in July 2018, just months after Toys "R" Us shut down, Mattel, the maker of Barbie and Hot Wheels, announced it was laying off 2,200 workers after its sales dropped by 14 percent.[21] Then, in October 2018, toymaker Hasbro — which produces Play Doh, Transformers, and My Little Pony toys — announced it would lay off up to 10% of its employees. Hasbro's sales fell 12% in the third quarter 2018, a drop the company attributed primarily to the loss of Toys "R" Us.[22]

A January 2019 study by the Economic Policy Institute noted that for every 100 direct jobs lost at retailers, approximately 122 additional indirect jobs are lost.[23] Based on this multiplier, over the decade to 2019, the 597,000 documented direct retail job losses at private equity-owned retailers would have caused an estimated additional 728,000 indirect job losses, meaning Wall Street's gamble in retail has likely cost more than 1.3 million total job losses.

A 2011 National Bureau of Economic Research analysis of over 3,000 private equity acquisitions found that retail companies acquired by private equity experienced a 12 percent drop in employment over the subsequent five years.[24]

Job losses at private equity-owned companies are not limited to retailers, but extend to virtually every industry.

Case study: OpenGate Capital and HUFCOR

Private equity firm OpenGate Capital serves as a clear example of the private equity destroying, rather than createing, jobs. In 2017, OpenGate, a Los Angeles-based private equity firm bought HUFCOR, which manufactures portable room partitions for hotels and convention centers and has been operating in Janesville, Wisconsin for 120 years. This past summer, OpenGate announced that it would close the factory and shift its operations to Mexico, permanently laying off 166 workers, many of whom had spent their entire adult lives working for the company.[25]

HUFCOR was just the latest casualty in OpenGate's history of buying viable businesses and then running those companies into the ground, throwing employees out of work, sometimes without advance notice, and harming communities. In a span of less than four years, OpenGate Capital ran at least five companies out of business, putting more than 1,300 US workers out of their jobs.[26]

Poverty wages

In addition, the largest numbers of workers employed by private equity-owned companies appear to be concentrated in industries where employers typically pay low wages such as food service and hospitality (at least 1.8 million workers), retail (at least 1.1 million workers), security (1 million+ workers), healthcare (800,000+ workers), and call centers (500,000+ workers).[27]

Case study: Roark Capital

There are at least 1.5 million workers at food service companies owned by private equity firms. Roark Capital is the largest private equity owner of food service companies. In December 2020, Roark acquired Dunkin' Donuts, bringing the total number of people working at Roark Capital-owned food service companies or their franchisees to over 750,000. Many of the jobs at these Roark Capital-owned companies pay low wages with minimal benefits.

Sample wages at Roark Capital-owned food service companies

Company	Position	Average Wage[28]
Dunkin' Donuts	Crew Member	$11.07/hr
Arby's	Team Member	$10.98/hr
Culver's	Crew Member	$10.54/hr
Sonic Drive-In	Cook	$10.58/hr
Hardee's	Crew Member	$10.20/hr

The wages at these companies are so low that some of these companies' workers must turn to public assistance in order to afford health care, food, and other basic necessities. A report last year from the US Government Accounting Office (GAO) found that some of Roark Capital's chains (such as Sonic, Dunkin' Donuts, and Arby's) were among the companies with the most workers relying on public assistance.[29]
In March 2021, Roark Capital-owned Inspire Brands sent employees and franchisees a report of its government lobbying activity that bragged about its success in helping to kill the federal Raise the Wage Act, which would have raised the minimum wage to $15 per hour.[30]

In contrast to Roark Capital, many other large restaurant chains have realized that they could continue to operate profitably with a $15 minimum wage and decided they would no longer support the National Restaurant Association's (NRA) opposition to raising the minimum wage. For instance, in 2019, McDonalds sent a letter to the NRA stating that the company would “not use our resources, including lobbyists or staff, to oppose minimum wage increases,” at any level, and that it would not “participate in association advocacy efforts designed expressly to defeat wage increase.”[31]

Over 230 large employers, including Amazon, Best Buy, Costco, Target, CVS, and Walgreens have announced they will pay their workers $15 per hour or more. Yet only one of these companies is owned by a private equity firm and employs fewer than 1,000 workers.[32]

Nonetheless, Roark Capital’s Inspire Brands has continued to oppose increases to the federal minimum wage, telling NBC News in October 2021 that “we don’t support a one-size-fits-all approach to the minimum wage.”[33]

Private equity and healthcare

Private equity increasingly makes up a substantial portion of investment in US healthcare companies, touching virtually every sector, and is expected to continue to grow. Asset managers have record levels of available capital earmarked for health care investment; as of 2019, private equity firms had $29.2 billion in capital waiting to be invested in health care.[34] These firms benefit from trillions of dollars of government health care spending.

As private equity ownership of health care companies grows and continues to benefit from taxpayer funded health care spending, it is essential for lawmakers to understand the risks associated with private equity investment in the industry and create policy that protects patients and supports health care workers.

Private equity and nursing homes

Concerns surrounding private equity ownership of nursing homes echo critiques of private equity in the broader health care industry. Private equity investors’ outsized return expectations over short time horizons may lead to profit-seeking tactics that hurt patient care. High levels of debt left over from leveraged buyouts can leave nursing homes with less capital available for operations as more money is diverted to interest payments. Sale-leaseback transactions, where a company is made to sell its real estate to a third party and lease it back, can leave nursing homes with fewer assets and increased liabilities in the form of rent payments. Management fees and shareholder dividends can further bleed nursing home companies of money that could be invested into patient care.

A 2020 paper published in the National Bureau of Economic Research (NBER) made waves for its disquieting findings on how private equity ownership of nursing homes impacts operations and patient care, including increasing the mortality of Medicare patients by 10%. The study, “Does Private Equity Investment in Healthcare Benefit Patients? Evidence from Nursing Homes,” analyzed data reported by Centers for Medicare and Medicaid Services by US nursing facilities between 2005 and 2017.[35]

Key findings from the study are summarized below:[36]

- Private equity ownership increases the short-term mortality of Medicare patients by 10%, implying 20,150 lives lost due to private equity ownership between 2005 and 2017.
- Taxpayer spending over a short-term Medicare patient stay at a private equity-owned nursing home increases by 11%.

- Average staffing decreases at private equity-owned nursing homes. After a private equity buyout, the number of hours provided by frontline nursing assistants decreases on average by 3% and overall staffing declines by 1.4%. The vast majority of time spent by frontline nursing assistants is used provide mobility assistance, personal interaction, and cleaning to minimize infection risk and ensure sanitary conditions.
- After a private equity firm buyout, patient mobility declines and pain intensity increases.
- Going to a private equity-owned nursing home increases the probability of taking antipsychotic medications – discouraged in the elderly due to their association with greater mortality – by 50%. Elevated antipsychotic use could also be partly explained as a substitution response to lower nurse availability.
- After a private equity buyout: management fees increase by 7.7%, lease payments increase by 75%, and interest payments increase by about 325%. Cash on hand decreases by about 38%.

The complex business structures used by many nursing home companies can obfuscate ownership and make it difficult to track quality and compliance across nursing homes with the same owner. These structures also allow owners to reap excessive profits while limiting financial transparency, primarily through use of related party services.

Nursing home companies often contract with third party entities that have the same owner to provide services and goods, such as management services, staffing, supplies, and lease agreements. These structures legally allow nursing home owners to siphon money out of nursing facilities and hide profits. Nursing home owners can further boost profits by overpaying related parties. Third-party arrangements are not unique to private equity – more than 70% of US nursing homes use operating funds to pay related parties – but many of the private equity-owned nursing homes studied by PESP appear to operate with these structures.

See our report: "Pulling Back the Veil on Today's Private Equity Ownership of Nursing Homes"

Case study: Private equity ownership of a safety net hospital system

Between 2010 and 2021, private equity firm Leonard Green & Partners owned Prospect Medical Holdings, a safety net hospital company with 17 hospitals in Pennsylvania, New Jersey, Connecticut, Rhode Island, and California.[37]

After Leonard Green acquired Prospect in 2010, it used the hospital chain as a platform to raise debt so it could siphon off hundreds of millions of dollars in dividends and fees. According to Prospect's own financial statements, the owners collected at least $658 million from the hospitals—despite dramatic operating challenges, substantially underfunded pensions, and increasing regulatory scrutiny.[38]
The largest dividend that Prospect's owners collected in 2018 directly contradicted a commitment Prospect made to state regulators. When it bought hospitals in Rhode Island in 2014, Prospect told regulators It wouldn't pay out any more dividends. Just four years later, the Leonard Green & Partners-led ownership collected an almost $460 million dividend. That same year, Prospect generated a $244 million net loss.[39]

As a result of that dividend, Prospect ran out of cash by early 2019, forcing the owners to provide emergency cash infusion.

Prospect was eventually able to pay off the existing $1.1 billion in debt it had accrued in part to fund dividends, but only by selling off the bulk of Prospect's real estate to a REIT. The transaction replaced debt with lease liabilities and left Prospect with fewer assets and greater liabilities.[40]

- Prospect's hospitals have some of the lowest quality ratings from the Centers for Medicare and Medicaid Services.[41]
- Prospect completely shut down all of its facilities in San Antonio in late 2020 — laying off nearly 1,000 workers — and sold its hospital building to a hotel developer.[42]
- Last year, the California Attorney General formally charged Prospect executives with "gross negligence" related to persistent mold contamination of a hospital pharmacy, including in equipment used to mix patient medications. The pending Attorney General proceedings could revoke or suspend the hospital's pharmacy permit.[43]

These kinds of problems are magnified in the COVID-19 era. A 2020 ProPublica investigation found that in in Rhode Island, poor infection control led to COVID-19 infection of 19 of the 21 geriatric psychiatric ward residents: six of them died. Six housekeeping staff also got COVID in part due to limited access to PPE. The head of the department died.[44]

Leonard Green currently owns at least 11 other health care companies.[45]

Private equity and dental care

In recent years, private equity firms have increasingly carved out a substantial portion of the US dental industry, primary through ownership of Dental Services Organizations (DSOs). DSOs are companies that handle the business side of dental practices, such as administrative, marketing, bookkeeping, and financial services.

While DSO-affiliated practices currently make up a relatively small portion of the broader dental industry, the number is rapidly increasing. Today, private equity firms have near-complete control of the DSO market. Nine of the top 10 DSOs are owned by private equity firms, and 27 of the top 30 DSOs are private equity-owned. This amounts to approximately 84% of practice locations that contract with the top 30 DSOs.[46]

Private equity's dominance of the dental services industry raises concern. The high returns typically targeted by private equity investors over short time horizons may create perverse incentives that are harmful to patients, including cost-cutting tactics, high financial leverage, and a focus on profit-maximizing procedures.

Of critical concern is how the DSO structure may emphasize "quantity of care over quality of care." DSO proponents often claim that DSOs have no impact on clinical operations, and focus entirely on business management services. However, investigations by regulators have found that the relationship between DSOs and dentists is murkier than represented. In some cases, the owners of DSOs, i.e., private equity firms, exert undue influence over practices to increase profits.

A 2013 joint investigation by the U.S. Senate Finance and Judiciary committees into DSOs and corporate dentistry affirmed these concerns. The investigation, "Joint Staff Report on the Corporate Practice of Dentistry in the Medicaid Program," found "a failure to meet quality and compliance standards, including unnecessary treatment on children; improper administration of anesthesia; providing care without proper consent; and overcharging the Medicaid program."[47]

Pressure to meet revenue targets has been shown to lead to over-booking and understaffing or rushing through treatments to maximize the volume of patients. It can also lead dentists and hygienists to push unnecessary or expensive procedures, such as drilling into healthy teeth, conducting unnecessary and costly x-rays or screenings, and performing medically unnecessary root canals.[48]

The potentially harmful impact on patients especially raises concern given that a significant portion of patients receiving care at DSO-affiliated practices are Medicaid eligible, which may exacerbate problems of inequity in oral health for low-income people. While DSOs' scale may allow for expanded access for underserved communities, it is critical that access does not come at the expense of quality for these communities in the service of maximizing profit for private equity investors.

See our report: "[Deceptive Marketing, Medicaid Fraud, and Unnecessary Root Canals on Babies: Private Equity Drills into the Dental Care Industry"]

Private equity in dentistry case study: Benevis/Kool Smiles – FFL Partners

Georgia-based Benevis, formerly known as Kool Smiles, has been owned by various private equity firms since 2004. Benevis has had a troubled history including Medicaid fraud and significant medical malpractice suits, leading to the company's bankruptcy and subsequent restructuring in 2020. Today, Benevis has 150 affiliates in 17 states and has 3,500 employees.[49]

In January 2018, Benevis paid $23.9 million to settle a federal lawsuit alleging that it performed and billed for medically unnecessary dental services performed on children insured by Medicaid.[50] The alleged activity took place under the ownership of private equity firm Friedman Fleischer & Lowe (FFL), which first invested in Benevis in 2004.[51] The settlement was the second largest False Claims Act dental settlement in history.[52]

The US Department of Justice (DOJ) alleged that Benevis facilities submitted claims for performing medically unnecessary tooth extractions and root canals on babies, and sought payments for baby root canals that were never performed. The DOJ also alleged that Benevis "routinely pressured and incentivized dentists to meet production goals through a system that disciplined 'unproductive' dentists and awarded 'productive' dentists with substantial cash bonuses based on the revenue generated by the procedures they performed."[53]

The DOJ found that the alleged fraudulent activity took place at 130 of Benevis-affiliated clinics, which submitted false claims to 17 different state Medicaid programs.[54]

FFL's high return expectations allegedly played a key role in incentivizing fraud. In particular, the DOJ amended complaint alleged that FFL sought to boost returns in order to attract investors to subsequent private equity funds:

> "Not only did FFL's interest in the profits of portfolio companies provide a significant incentive to maximize those profits, FFL also intended to sponsor additional private equity funds, and its success in attracting investors in subsequent funds would depend greatly on the returns earned by investors in existing funds managed by it."[55]

The complaint further alleges that FFL's requirements pressured staff to commit Medicaid fraud:

> "FFL…established the business requirements necessary to attain the desired rate of return from the Kool Smiles clinics and directed [Benevis] to undertake these steps necessary to achieve those returns knowing that those returns would and did include the submission of false Medicaid claims. Accordingly, FFL and Capital Partners II are liable for the submission of those false claims as detailed herein."[56]

Two months after settling the federal lawsuit, FFL sold Benevis to private equity firms Littlejohn & Co and Tailwind Capital.[57] Littlejohn and Tailwind held on to Benevis for less than 2.5 years before taking the company into bankruptcy in August 2020.[58]

Private equity in behavioral health

Private equity investors have shown substantial interest in the behavioral health sector, and this trend is expected to continue.

In 2018, behavioral health acquisitions and mergers reached a historic high at 97 known transactions, representing a 59% year-over-year increase from 2017. Private equity-driven transactions made up a substantial portion of deal activity; between 2017 and 2018, private equity buyers went from accounting for 48% of acquisitions in behavioral health to 69% of acquisitions.[59]

Private equity interest in behavioral health has focused on a few key areas: autism, eating disorders, and addiction treatment.[60] Firms employ a familiar model in behavioral health: they typically buy or create a platform investment, such as a large treatment center, and then acquire add-on investments to expand the company. Consolidation and improvements to tech and administrative functions are expected to drive value creation.[61]

However, private equity's tendency to demand outsized returns in a sector that is already vastly underfunded, and serves vulnerable populations, raises serious concerns about its potential impact on patient care.

For example, health researchers who surveyed former owners of companies sold to private equity firms found expectations of "meeting your numbers" post-sale and, as a result, the eagerness to fill beds even without adequate staffing.[62] These kinds of behaviors may be especially harmful where having adequate staffing and training is vital both to providing safe and effective treatment as well safe working conditions for staff.

<u>Case study: Sequel Youth & Family Services – Altamont Capital</u>

Sequel Youth and Family Services runs teen residential treatment facilities, therapeutic group homes, community-based programs, and alternative education programs for youth. The company serves 10,000 people at 50 locations in 21 states.[63] It is owned by Altamont Capital Partners, Palo Alto-based private equity firm with $2.5 billion assets under management.[64]

In the last several years, Sequel has come under immense scrutiny for the death of a teenager and numerous instances of child abuse, neglect, and poor quality of care at its facilities in multiple states.

Altamont acquired Sequel in August 2017 through a leveraged buyout from Canadian private equity firm Alaris Royalty.[65] Alaris reported generating $71 million profit, or 23% annual return, on its investment in Sequel.[66]

Both Altamont and Alaris added substantial debt to Sequel over the course of their ownership; In August 2016, Alaris completed a dividend recapitalization of Sequel in part to pay itself a dividend. After Altamont acquired sequel in a leveraged buyout, it took out debt financing at least two more times, in 2017 and 2018, totaling at least $94 million.[67]

The litany of horrific conditions at Sequel facilities includes:

- Michigan: In May 2020, a Black teenager living at Sequel-operated Lakeside Academy in Michigan, died after being restrained by seven staffers. The state of Michigan had substantiated 56 violations at Lakeside Academy since 2018, including multiple instances of inappropriate physical restraints.[68]
- Alabama: In February and March 2020, Alabama Disabilities Advocacy Program (ADAP) conducted an investigation of a Sequel facility in Courtland, Alabama. In its report in the investigation, ADAP wrote that the facility had "unsafe, squalid living conditions and a disturbing cultural and programmatic environment that further traumatizes extremely vulnerable children." [69]
- Utah: A June 2019 report had found that police were called to the Sequel-owned Red Rock Canyon School 72 times since 2017. During the same period, 23 staff members were investigated for child abuse, nine were charged, and four more were referred for charges.[70]
- Ohio: In September 2020, children housed at Sequel Pomegranate were removed from the facility after multiple incidents of improper restraints, sexual abuse and violence. The facility's license was revoked.[71]
- Iowa: Sequel's Clarinda Academy shut down in February 2021 following numerous allegations of excessive restraint, assault, and rape.[72]

For more information, see our report: "Understaffed, Unlicensed, and Untrained: Behavioral Health Under Private Equity"

How private equity has defrauded government health care programs

There is substantial overlap between the risks associated with private equity ownership of health care companies and the activities targeted by the False Claims Act (FCA), a federal law that establishes liability for individuals or companies that defraud governmental programs.

The FCA is commonly used to prosecute health care companies that defraud Medicaid, Medicare, and related programs by submitting false claims for a variety of activities. Fraudulent activities may include providing substandard care, providing medically unnecessary services, receiving kick-backs for services provided, filing claims for services not provided, and providing services by unlicensed or improperly licensed providers.[73]

In an effort to achieve the high returns often expected by private equity investors, companies' aggressive profit-seeking may result in fraudulent activity.

Since 2013, at least 25 private equity-owned health care companies have paid a total of at least $570 million to settle false claims act suits related to alleged billing fraud that took place under private equity ownership. Altogether, the private equity firms that owned those companies currently own nearly 200 other health care companies, many of which also bill Medicare, Medicaid, and other government health programs.

The alleged fraud in these suits included providing medically unnecessary procedures and substandard care, engaging in kickback schemes, and hiring unlicensed licensed providers.

Many of the private equity firms that paid settlements are frequent health care investors, suggesting that there are substantial due diligence and operational failures that have enabled the alleged fraudulent behavior. This raises questions about what steps investors are taking to ensure that other health care portfolio companies are in compliance with applicable laws and regulations.

For more information, see our report: "[Money for Nothing: How Private Equity has Defrauded Medicare, Medicaid, and Other Government Health Programs, and How that Might Change]"

Dividend recapitalizations at healthcare companies

As discussed earlier in this testimony, dividend recapitalizations are transactions by which private equity firms add debt to their portfolio companies' balance sheets in order to collect dividends for themselves. By saddling their companies with debt to extract cash, private equity firms put those companies at risk for restructuring, bankruptcy, or cost cutting to make up the interest payments and pay off debt.[74]

Given the concerns over the impact of dividend recapitalizations on the viability of companies, it is especially troubling that private equity investors would reap debt-funded dividends from their health care portfolio companies. Siphoning cash from providers of critical health services, such as hospitals, nursing homes, dental offices, mental health clinics, and others, may negatively impact affordability, quality, staffing, and access to care.[75]

Many health care companies draw a substantial portion of their revenue from publicly funded programs such as Medicare and Medicaid. Now, billions more dollars are flowing into the industry through stimulus funding aimed to address the COVID-19 pandemic.[76]

Private equity-backed health care companies are taking full advantage of the stimulus funding. An analysis by Bloomberg found that $2.5 billion in COVID-19 aid has gone to just three private equity-backed hospital companies—LifePoint Health (Apollo Global Management), Steward Health Care (Cerberus Capital Management), and Prospect Medical Holdings (Leonard Green & Partners).[77]

In February 2021, private equity firm Ares Management paid itself a $209 million debt-funded dividend from its physicians' practice DuPage Medical Group (DPMG)[78] after DPMG had collected almost $80 million in CARES Act dollars.[79]

As taxpayer-funded programs continue to provide valuable resources to the health care industry, it is essential to examine the role of private equity-backed dividend recapitalizations to ensure that that money goes where it is intended—and not primarily to benefit wealthy investors.

Case study: The Mentor Network – Centerbridge Capital

Private equity firm Centerbridge Partners owns behavioral health company The Mentor Network (Mentor). Mentor is a national network that provides residential and other services to adults and children with intellectual and developmental disabilities and brain and spinal cord injuries, and to youth with emotional, behavioral and medically complex challenges. It is one of the largest for-profit foster care companies in the US.[80]

In February 2021, Centerbridge took out debt on Mentor in part to pay itself a $375 million dividend.[81] This is the second debt-funded dividend Centerbridge has extracted from Mentor. In October 2019, just six months after it acquired Mentor, Centerbridge paid itself a $100 million debt-funded dividend from the company. In all, Centerbridge has collected almost half a billion dollars in debt-funded dividends from Mentor over the course of its two-year ownership.[82]

Mentor has come under fire for allegations of widespread abuse, neglect, and deaths in its foster care and group home programs. A 2017 investigation by the US Senate Committee on Finance found that at least 86 children died in a 10-year period while in the custody of Mentor. In only 13 of those deaths did the company conduct an internal investigation.[83]

The Senate committee released its final reports on Mentor in December 2020.[84] While the majority of the investigation covered the period prior to Centerbridge's ownership,[85] the reports found that problems have persisted since its acquisition. For example, just weeks before the final report was completed, state regulators in Oregon discovered so many violations at a Mentor home that they shut the facility down for good.[86]

Given the ongoing problems with Mentor facilities and services, it is appalling that Centerbridge would add substantial debt to Mentor in order to pay itself dividends rather than investing in operations to improve patient care.

For more information, see our report: "Dividend Recapitalizations in Health Care: How Private Equity Raids Critical Health Care Infrastructure for Short Term Profit"

Private equity and climate change

The private equity industry has pumped hundreds of billions of dollars into fossil fuel companies—buying up offshore drilling in the Gulf of Mexico, propping up fracking operations, expanding infrastructure through pipelines and export terminals, spewing pollution from gas and coal power plants—with minimal public scrutiny.

Unlike publicly-traded oil companies, the private equity industry has investments in fossil fuel assets that are—by definition—private and exempted from most public disclosure rules. There are no comprehensive disclosures of their holdings, let alone of their environmental and community impacts.

An analysis of deals tracked by data provider Pitchbook showed that private equity firms have invested around $1.1 trillion dollars into energy assets since 2010.[87] That is double the market value of Exxon, Chevron, and Royal Dutch Shell combined.[88]

Private equity's energy investments are dominated by fossil fuel holdings that are contributing to the climate crisis through emissions of methane, carbon dioxide and other greenhouse gases (GHG). These investments and operations have significant and long-lasting impacts on the planet and its people, with communities of color shouldering a disproportionate share of the harms of fossil fuels including compromised health[89] and damage from extreme weather tied to climate change.[90]

Scientists convened by the United Nations warned in August that steep cuts in emissions are crucial, requiring immediate action to shift away from fossil fuels.[91] As publicly listed oil majors face growing pressure from shareholders[92] and courts[93] to cut emissions, many are seeking to demonstrate progress by selling fossil fuel assets. However, private equity firms have repeatedly stepped up as buyers of those assets, negating progress on climate impacts.[94]

Thus, investors may find fossil fuel assets shifting from their portfolios' public market investments over to the private markets, where fossil fuel extraction and operations continue in the shadows. Simultaneously, fundraising by private equity firms has accelerated, with $460 billion in commitments in the first half of 2021, giving firms plentiful capital to deploy.[95]

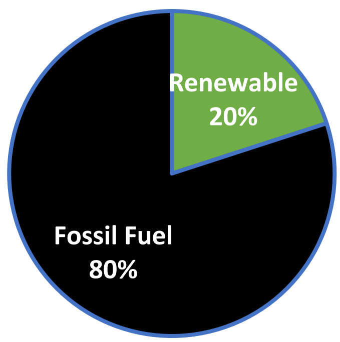
The Private Equity Stakeholder Project recently released a report entitled "Private Equity Propels the Climate Crisis" that explores the energy holdings for ten of the world's largest private equity managers which combined manage $3 trillion in assets:[96] Ares Management, Apollo Global Management, The Blackstone Group, Brookfield Asset Management/Oaktree Capital, The Carlyle Group/NGP Energy Capital, CVC Capital, KKR, Kayne Anderson, TPG Capital and Warburg Pincus.[97]

The private equity industry must take responsibility for its role in the climate crisis. Firms should disclose all energy holdings and impacts, a plan to swiftly transition to clean energy, and ensure investment practices align with a 1.5 degree Celsius scenario. Investors, regulators and policymakers must compel private equity firms to provide full transparency on their fossil fuel holdings and impacts and act now to ensure a livable future for all.

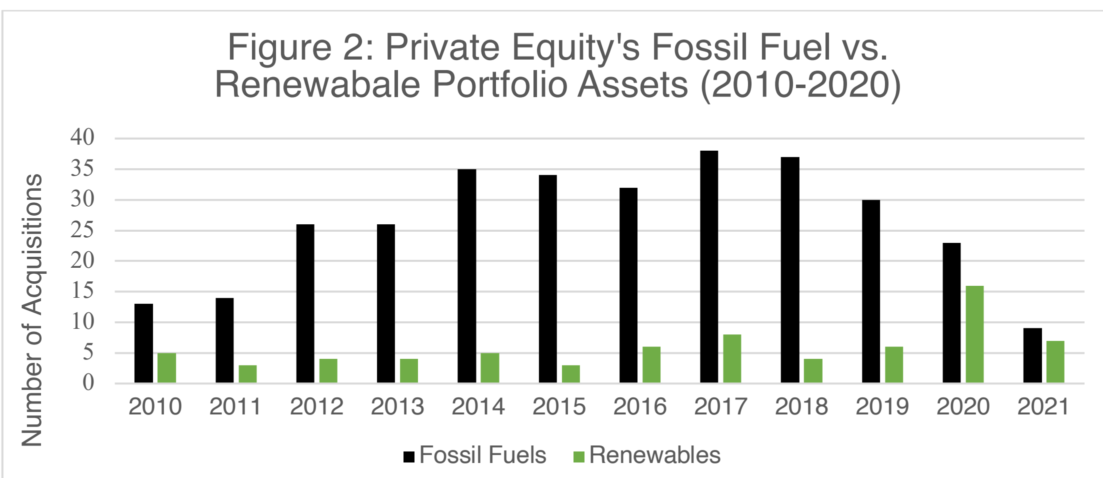
Fossil fuel investments eclipse clean energy

The ten private equity firms examined collectively own over 300 portfolio companies across the energy sector, with the vast majority related to oil, gas and coal.[98] Eighty percent of the energy assets held by these ten private equity firms reviewed are in fossil fuels, while only 20 percent are in renewables.

FIGURE 1: PRIVATE EQUITY ENERGY PORTFOLIO ASSET BREAKDOWN RENEWABLE VS FOSSIL FUEL



Fossil fuels continue to dominate energy investments by private equity despite the efforts of individual firms touting their Environmental, Social, Governance (ESG) investment strategies and appetite for renewables and the private equity industry trade group highlighting sustainable investments.[99]



A review of acquisitions by these firms year by year over the past decade illustrates the persistent focus on fossil fuel assets, as seen in the figure below. In 2020, the economic and fuel demand disruptions from the COVID-19 pandemic resulted in fewer fossil fuel deals for the ten firms examined, the smallest number of deals since 2011. By comparison, the number of acquisitions of renewable firms was higher than prior years – but was still behind the number of fossil fuel deals. So far in 2021, private equity managers continue to pursue new fossil fuel acquisitions to add to their existing oil and gas portfolios, in addition to renewable deals, which means their negative environmental impacts will be ongoing.

Beyond the number of deals executed, another measure of private equity's interest in fossil fuels is in the amount of capital deployed. In line with the lack of transparency across the industry, private equity firms do not consistently disclose the size of transactions. Based on the deal information available for the acquisitions examined, over the past decade the average fossil fuel deal was around $880 million, compared to the average for renewable deals of around $397 million.[100] In other words, on average, fossil fuel deals pursued by these ten firms were more than double the size of renewable deals.

Larger deals are heavily weighted toward fossil fuels; the ten private equity managers secured 83 deals over $500 million for companies in the oil and gas industry. Transactions in renewable energy trend toward smaller deals, with only 15 surpassing $500 million.

The combination of pursuing vastly more fossil fuel companies and transactions that are substantially larger indicates that private equity has pumped considerably more capital into dirty energy. Even with the recent uptick in renewable deals in 2020, private equity has directed a far smaller amount of money into climate solutions.

Fossil fuel holdings pose serious risks, provide low returns

Private equity firms' clients—institutional investors like pension funds—face risks from exposure to fossil fuels in their portfolios because of the mounting impacts of the climate crisis.[101] Institutional investors face the prospect of substantial losses through climate change risks including physical risks to assets from flooding, drought or fire; transition risks for investments in conventional energy with diminishing demand or stranded assets; and liability risk for failing to meet fiduciary obligations or duty of care by insufficiently accounting for climate change.[102]

Companies with extensive fossil fuel holdings are vulnerable in the transition to clean energy as fossil fuel consumption inevitably declines due to regulatory mandates and public demand.[103] Even the oil majors are acknowledging a permanent shift, with Royal Dutch Shell joining other oil majors in saying earlier this year that the world had reached peak oil production in 2019, and that going forward it expects annual declines.[104] Last September, British oil giant BP came to the same conclusion that oil demand peaked in 2019.[105]

Private equity's bets on energy have generally failed to deliver strong returns to investors over the past decade, despite hundreds of billions invested in the sector. Oil- and gas-focused funds have been among the lowest-yielding strategies for private capital over the past decade, lagging buyout firms by about five percentage points, according to a 2020 *Bloomberg* analysis of Preqin data.[106] An analysis of nearly 200 energy funds by *Cambridge Associates* also concluded in 2020 that returns trailed broader private equity returns.[107] The energy funds sponsored by many of the largest buyout firms, including Ares, Apollo, KKR and Carlyle, have posted negative returns.[108]

Private equity-backed oil and gas companies may be more susceptible to financial risks due to higher debt loads and volatility. In 2020, the disruptions to demand and price triggered by the pandemic resulted in an unusually high number of bankruptcies in the oil and gas sector, the majority of which were filed by companies owned by private equity firms—which also carried a higher debt burden.[109]

Code Red for communities of color and the climate

The climate crisis is accelerating with real time economic and social impacts, underscoring the urgency of immediate and meaningful action by corporations and governments. The summer of 2021 has clearly illustrated the crisis with a distressing number of events linked to climate change. A heat dome in the Pacific Northwest and Western Canada killed hundreds of people,[110] warped roadways[111] and left forecasters stunned.[112] At the same time, flooding in the Midwest overwhelmed infrastructure.[113] The parched Western U.S. is experiencing the worst drought conditions in two decades.[114] Intense wildfires on the West Coast sent smoke thousands of miles to contaminate air on the East Coast.[115] In Europe, catastrophic flooding killed hundreds in Germany and Belgium.[116]

The United Nations Intergovernmental Panel on Climate Change (IPCC) report published in August warned that sharp reductions in greenhouse gasses are urgently required. A 1.5 degree Celsius rise in global temperatures has become nearly unavoidable, due to decades of inaction and continued emissions from fossil fuel usage. The hazards unleashed by extreme weather and sea-level rise will accelerate in the coming decades, the report found, but even more devastating impacts could be ameliorated by an immediate shift away from fossil fuels.[117] UN Secretary General António Guterres said, “This report must sound a death knell for coal and fossil fuels, before they destroy our planet.”[118]

The world’s largest private equity firms contribute to the continued expansion of fossil fuel infrastructure and its associated harm towards marginalized communities. For instance, 64 percent of the total population living near the Blackstone Group's greenhouse gas (GHG) emitting facilities are people of color.[119] Similarly, 66 percent of the communities living around Arclight Capital's facilities are communities of color.[120] And 60 percent of the communities living around Ares Management's environmentally harmfully facilities are racially marginalized communities.[121]

From our sample of about 125 private equity-owned companies with domestic fossil fuel operations, communities in Oklahoma, Louisiana, New Mexico, and Texas each contend with substantial fossil fuel exposure. Low income and minority communities in south Texas bear the brunt of private equity’s environmental and public health harms,[122] with over 70 private equity owned companies primarily operating in the extraction and production hotbeds of the Permian Basin and the Eagle Ford Shale (see Figure 3).[123]

The majority of people living near gas flaring in these two drilling regions are people of color.[124] Latina women in the Eagle Ford shale face significantly higher risk of giving birth prematurely.[125] Other studies have found similar results in Colorado,[126] Pennsylvania,[127] and Oklahoma.[128] Moreover, fracking wastewater contains potentially harmful chemicals and metals and has been tied to contamination of surface and groundwater. A 2016 study published in the *American Journal of Public Health* found the that although fracking activity was slightly more prevalent in white communities, fracking wastewater wells were more frequent in communities of color. [129]

Together, the Permian Basin in Texas and New Mexico, the Eagle Ford Shale in Texas and the Bakken Shale in North Dakota and Montana account for 83 percent of the gas flaring activity in the country. Half a million people living in those basins reside within three miles of a flare, with 39 percent living close to more than 100 flares.[130]

As nations prepare for the UN Climate Change Conference (COP26) in November, public and private sector actors must make strong commitments to cut their own emissions.[131] The IPCC report’s “code red for humanity” brings increased urgency.[132] Seeking to restore its global leadership, the United States aims to cut its emissions by half within a decade.[133]

Adding to the urgency, the International Energy Agency released a Net Zero by 2050 roadmap, declaring that the pathway to achieve net-zero emissions is “narrow but achievable” and requires “nothing short of a complete transformation of the global energy system." The narrow pathway calls for no new oil, gas or coal projects to be developed, and for all existing operations to focus on emissions reduction.[134]

Given their massive fossil fuel exposure, private equity firms have an urgent responsibility to address the significant role they play in propelling the climate crisis, and must start being transparent about the financial and social risks of their continued exposure to the fossil fuel sector.

From sunlight to darkness – private equity shifts dirty energy into the shadows

Private equity firms continue to hold, build and buy more fossil fuel assets despite demands to urgently reduce emissions in order to forestall the worst of the climate crisis.

For example, Oaktree Capital has expanded its fossil fuel exposure, with at least three upstream acquisitions in 2020 including a $900 million commitment to FourPass Energy drilling company in Colorado,[135] a $700 million commitment to Banpu Kalnin Ventures to pursue upstream natural gas,[136] and a $1 billion deal with Diversified Energy & Gas to fund joint acquisitions to expand the company's footprint,[137] which in July 2021 acquired assets in Louisiana and Texas.[138]

Blackstone recently acquired midstream pipeline company Tallgrass Energy, which is developing a new oil export terminal in Louisiana that would emit more than 500,000 tons of greenhouse gasses annually and would be built over a historic graveyard for enslaved people, according to the *Times-Picayune*.[139]

Private equity firms have also shown a sizeable appetite for acquiring assets from publicly-traded oil majors that are looking to shed segments of their operations in response to public pressure and to reduce exposure to climate risks.[140] For example, the Carlyle Group recently acquired Occidental Petroleum's oil fields in Colombia and was in talks to acquire the company's oil fields in Ghana as well.[141] KKR's Contango Oil & Gas expanded its fracking operations by buying up all of ConocoPhillips' drilling assets in Wyoming in July 2021.[142]

Private equity firms are also acquiring fossil fuel assets from some of the world's largest producers, Abu Dhabi and Saudi Arabia, which are planning to expand production.[143] The *Financial Times* recently reported that pressure on publicly listed oil companies "in short-term production could shift to private or state-owned companies which face much less scrutiny over their activities."[144] Examples of such transactions include:

- In 2021, Brookfield bid $6.8 billion for Inter Pipeline, a major petroleum transportation and natural gas liquids processing business operating in Western Canada.[145]
- Private energy specialist EIG led a consortium in a $12 billion deal to buy a 49 percent stake in Saudi Arabia's pipelines in June 2021.[146]
- Several private equity firms have inked deals with the Abu Dhabi National Oil Company as well, including a $10 billion deal in 2020 by a consortium that included Brookfield Asset Management.[147]
- KKR participated in a $4 billion deal with the Abu Dhabi National Oil Company to buy a 40 percent stake in its pipelines in 2019.[148]
- In 2016, Brookfield invested in Brazil's NTS 2,000-kilometer (1,243-mile) gas pipeline network. Earlier this year, it increased its stake to 100 percent ownership.[149] This network is responsible for approximately 50 percent of gas consumption in Brazil.[150]

Stakeholders must act now to push private equity to exit fossil fuels

The accelerating climate emergency calls for dramatic action to reduce fossil fuels now. The private equity industry's energy investments contribute substantially to climate change, and thus, these asset managers must provide transparency to the public and investors about their fossil fuel holdings, emissions, and impacts on communities.

Based on the IPCC Climate Report, UN Secretary-General Guterres said, "The climate crisis poses enormous financial risk to investment managers, asset owners and businesses. These risks should be measured, disclosed and mitigated." He noted that corporations must align their portfolios with the Paris Agreement and that, "The public and private sector must work together to ensure a just and rapid transformation to a net-zero global economy."[151]

To date, the private equity industry has not adequately addressed its role in propelling climate change, which underscores the importance of engagement by stakeholders to press the industry to pivot away from fossil fuels.

Institutional investors whose capital is at risk must demand that their private market partners use their capital responsibly through investing in adherence to a 1.5 degree future. Investors should insist that private equity managers:

- Develop and disclose a plan with clear incremental benchmarks to shift energy portfolios to be pollution free
- Commit to no expansion of fossil fuel development or operations, in alignment with the IEA Net Zero 2050 roadmap[152]
- Provide a risk management strategy under a 1.5 degree warming scenario consistent with science-based emissions targets, as well as scenarios above 1.5 degrees
- Disclose all direct and indirect emissions (Scope 1, 2, and 3)[153] as well as other climate impacts such as spills, accidents, explosions, citations for environmental violations
- Engage with impacted communities to develop a just transition program both for the workforce and for communities impacted by current fossil fuel holdings
- Provide transparency on political spending and how it aligns with the UN PRI's Investor Expectations on Corporate Climate Lobbying[154] including:
    - Corporate and executive political spending – lobbying and campaign contributions
    - Political spending by portfolio companies and their executives
    - Membership in trade associations and how those trade associations' lobbying positions align with the goals of the Paris Agreement

Regulators like the Securities Exchange Commission (SEC) that oversee the stability of markets for investors have an important role to play as well. Under the current lax regulatory structure, private equity firms have produced subjective and vague reports of their efforts on environmental issues. For members of the public and investors, there is no way to discern which companies have greater climate impacts, which are engaged in greenwashing through misleading ESG policies, or which may be genuinely working to disclose and mitigate climate impacts and emissions.[155] The SEC is commencing a process to update climate disclosure requirements and received hundreds of comments in response to a request for public input in June 2021.[156]

Investors, regulators and policymakers must enact policies obliging private equity firms to provide full transparency on their fossil fuel holdings and the impacts of those holdings on the environment and on communities. The private equity industry must take responsibility for its role in the climate crisis and detail the steps it will take to transition to clean energy and certify that investment practices align with a 1.5-degree scenario, to ensure a livable future for investors and impacted communities alike.

For more information on the specific energy holdings of the largest private equity managers, please see the Private Equity Stakeholder Project's recent report, "Private Equity Propels the Climate Crisis."

Private equity and civil rights

A handful of private equity firms have invested heavily in companies providing services to prisons, jails, and detention facilities around the United States and the more than two million people housed at those facilities. Private equity-owned companies profiting from incarceration and detention include Securus and Global Tel Link (phone and communications), Wellpath and Corizon (healthcare), TKC Holdings (commissary), and Attenti (electronic monitoring).

The United States incarcerates more people than any other country in the world, both in terms of the number of individuals incarcerated and by percentage of population. In 2020, there were roughly 2.3 million people in the country's prisons and jails,[157] and about 1 in 113 adults in the U.S. were incarcerated;[158] if the number of imprisoned individuals in the U.S. were a city, it would be the fifth-largest in the country.[159]

Mass incarceration is overwhelmingly and discriminatorily aimed at communities of color**.** More than 60 percent of the U.S. incarcerated population are people of color, and according to the NAACP, "If African Americans and Hispanics were incarcerated at the same rates as whites, prison and jail populations would decline by almost 40%."[160]

While public and investor debate around the privatization of prisons, jails, and detention facilities has largely focused on publicly-traded companies such as CoreCivic and GEO Group, the largely private equity-owned firms that provide phone services, commissary services, healthcare, bail bonds and other services are more ubiquitous, serving thousands of prison, jail, and immigrant detention facilities around the country.

In addition, some of the same companies have been heavy political contributors opposing sentencing reform, bail reform, and other measures intended to reduce the incarceration rates. For example, just three days after California passed bail reform legislation in August 2018, an affiliate of private equity firm Endeavour Capital, then owner or Aladdin Bail Bonds, contributed $800,000 to become one of the largest funders of the successful effort to roll back the law.[161]

Most recently, private equity firm Warburg Pincus earlier this year acquired G4S, a gigantic security company with 530,000 employees globally.[162] Among other things, G4S runs a number of private prisons, jails, and immigration detention centers in the US, UK, South Africa, and elsewhere.[163]

Partial list of private equity-owned firms providing services to prisons, jails, and detention facilities:

Company	Industry/ Services	Scope	PE Owner(s)	Acquired
Securus/ Jpay	Telephone/ Communications	Serves more than 3,400 public safety, law enforcement and corrections agencies and over 1.2 million inmates across North America.[164]	Platinum Equity[165]	2017
GTL (Global Tel Link)	Telephone/ Communications	Serves approximately 2,300 facilities and 1.8 million inmates in 50 states, the District of Columbia and Puerto Rico.[166]	American Securities[167]	2011
TKC Holdings (Keefe Group/ Trinity Services Group/ Swanson Svcs/ ICSolutions)	Commissary/ Food/ Telephone/ Communications	Keefe Commissary Network serves more than 650,000 people weekly and 14 out of 17 outsourced state departments of corrections.[168] Telecommunications provider ICSolutions serves 300,000 people housed in over 400 correctional facilities nationwide.[169]	H.I.G. Capital[170]	2012
G4S	Private prisons, Detainee transportation	G4S runs private prisons, jails, and immigration detention centers in the US, UK, South Africa, and elsewhere.[171]	Warburg Pincus[172]	2021
Corizon Health	Healthcare	Corizon Health provides quality healthcare services to our clients at 220 facilities serving over 180,000 patients in 17 states.[173]	Flacks Group[174]	2020
Wellpath (Formerly Correct Care Solutions/ Correctional Medical Group Companies)	Healthcare/ Probation	Provides medical and behavioral health services for nearly 300,000 patients located in local, state and federal correctional facilities, as well as state hospitals and other facilities.[175]	H.I.G. Capital[176]	2013/ 2018
Comprehensive Health Services/ Caliburn	Detention Center Operations	Operated the Homestead child detention center in Florida as well as facilities in Texas[177]	DC Capital[178]	2018
Attenti	Electronic Monitoring	Global provider of electronic monitoring technologies to national, federal state and local correctional and law enforcement agencies around the world.[179]	Apax Partners[180]	2017
Sentinel Offender Services	Probation	Sentinel Offender Services is a private probation company that partners with community corrections, courts and law enforcement.[181]	Bison Capital Asset Management [182]	2012

Private equity firms’ heavy use of debt at portfolio companies (and limited investment of their own money), growing extraction of cash from portfolio companies through debt-funded dividends, and limitation on their own liability increasingly set up a “heads I win, tails you lose” structure where private equity firms can make substantial profits for themselves even as the companies they own struggle, default on debt, or go bankrupt.

Even when portfolio companies go bankrupt, private equity firms cannot lose any more than the limited capital they put in. On the other hand, when things go well, private equity firms’ potential upside is unlimited and is magnified by high debt.

This structure means private equity firms’ interests are often not aligned with those of portfolio company stakeholders such as workers, consumers, communities in which the companies operate, tenants, government payors, and others. Rather than being focused on the long-term sustainability of these businesses, private equity firms may instead be focused on how to grow cash flow as quickly as possible in a few years for their own benefit, regardless of the consequences to others.

There is a critical need for reforms to address the growing impacts of private equity firms.

Thank you,

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