AMERICAN SECURITIES RISK ASSESSMENT

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PRIVATE EQUITY
STAKEHOLDER
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Introduction

American Securities began as a family office in 1947, and opened a private equity fund to other investors in 1994. CEO Michael Fisch has led American Securities since then, overseeing the firm's growth to **$27 billion** in assets under management. As of 2024, the firm **operates** in 49 countries and employs 149,000 people through its investments.

American Securities has raised tens of billions of dollars from institutional investors, such as pension funds, university endowments, and foundations. Institutional investors should assess whether the returns generated by American Securities' investments are adequate for the risks they entail. This report will review risks of American Securities investments as well as returns generated by the firm's investment funds. Specifically, the report finds:

1. Strategy and execution risks
2. Headline risks
3. Regulatory and legal risks
4. ESG risks tied to privatization of public services

Strategy and Execution Risks

Several of American Securities' investments have filed for bankruptcy or entered distress in the past five years, suggesting potential vulnerabilities in the firm's investment strategy.

Distressed Exits: Air Methods, Mortgage Contracting Services, Longview Power

In 2017, American Securities acquired Air Methods, an air medical transport service provider. The company **filed for bankruptcy** and was turned over to its lenders in 2023.

The No Surprises Act is federal legislation that went into effect on January 1, 2022 to address the problem of **surprise medical bills**. Surprise medical billing is when a patient is hit with an unexpected bill after receiving healthcare services at a supposedly in-network provider. This happens because many hospitals and providers contract with third party physician groups to provide services which negotiate their own billing rates with insurers. The No Surprises Act is an effort to curb the practice even further in order to protect patients from outsized and unexpected bills when they seek emergency (and even scheduled) care.

Air ambulances are a **major driver** of surprise medical bills. In the first six months of 2023, Air Methods made up **17 percent** of all **air ambulance payment disputes**. In October 2023, Air Methods **filed for bankruptcy**. According to AIN, reports had surfaced that the No Surprises Act led to r**educed company revenues** by more than 50 percent in late 2023.

Air Methods is not American Securities' first distressed exit in the last few years. In 2020, the firm turned over Mortgage Contracting Services (MCS) to its lenders as the company sank under debt. MCS, which provides services to default and real estate-owned properties, **recapitalized** its balance sheet to stay afloat. Air Methods and Mortgage Contracting Services were both **acquired** through American Securities Partners VII, which was performing in the third quartile compared to its peers as of May 2024 according to data provider Pitchbook. Longview Power, which operates a coal plant in West Virginia, **first filed** for bankruptcy in 2013, after which American Securities and other private equity firms acquired the assets. The company **filed for bankruptcy** again in 2020.

Current Portfolio Companies

Other current American Securities portfolio companies have experienced difficulties. S&P **changed** chemical manufacturer Hexion's outlook from stable to negative in December 2023, citing risk due to "exposure to diversified but cyclical end markets, a competitive operating environment, and its ability to pass on volatile raw material costs."

ViaPath Technologies, formerly Global Tel Link, is one of the nation's largest prison telecom corporations. In February 2023, **Bloomberg reported** that SPAC Tristar Acquisition I Corp (TRIS) was considering acquiring ViaPath Technologies. In March, Tristar **reported** that it had entered into a non-binding letter of intent that sets forth the preliminary terms and conditions of a potential business combination. In a June SEC filing, Tristar **announced** that it had terminated its letter of intent to acquire ViaPath.

ViaPath is not the only prison company struggling to pay down its debt, suggesting that investing in the industry itself may be risky. ViaPath competitor Aventiv, owned by private equity firm Platinum Security, has been unable to service its **mountain of debt**, leading to a **recent default**. After months of failed refinancing efforts and repeated **credit downgrades**, Bloomberg **reported** that Aventiv has recently reached a deal with lenders on the condition that Platinum Equity sells Aventiv within the year. If Platinum fails to find a buyer, Bloomberg noted that Aventiv may "pivot to restructuring its debt through a bankruptcy filing or otherwise rework its obligations outside of court."

Headline Risk

Some companies owned by American Securities also face headline risk – the possibility that media coverage may impact the value of the investment. Two of the firm's most high profile companies are ViaPath and Amentum.

ViaPath

ViaPath has garnered attention for engaging in a wide variety of predatory practices over the years, from charging families exploitative rates as high as **$1 per minute** to speak to incarcerated loved ones to illegally **recording privileged attorney-client calls**. Prisons and jails have increasingly relied on telecommunications since the start of the Covid-19 pandemic, leading to increased scrutiny of company profits and practices. Beyond ViaPath, Michael Fisch himself has been subject to **bad press** as students at Princeton Theological Seminary campaign to remove him from the school's board for his ties to the company. Here are just a few headlines from articles in the past few years about the company:

- **Lawsuits Accuse 2 Michigan Jails of Banning Family Visits to Increase Revenue**, New York Times, March 2024
- **Princeton seminary students and alums demand ouster of chair over ties to prison profits**, NJ.com, March 2023
- **How Corporations Turned Prison Tablets Into a Predatory Scheme**, The Appeal, March 2022
- **Prison Phone Co. to Pay $67M to Settle Claims It Looted 'Inactive' Accounts**, Law.com, December 2021
- **Prison Phone Companies are Recording Attorney-Client Calls Across the US, Vice**, December 2021
- **Silicon Valley Firm Powers Predatory Prison Video Calls**, The American Prospect, May 2021
- **Drakeo's Acclaimed Album Highlights How Much Prisons Profit From Phone Calls**, NPR, August 2020
- **Mississippi's Prison Bribery Scandal Is in the Past, But the State Still Hasn't Learned Its Lesson**, Mother Jones, February 2019

Amentum

In 2020, American Securities and private equity firm Lindsay Goldberg announced the creation and acquisition of Amentum. The new company spun out of AECOM, a federal contractor and infrastructure consulting firm. Amentum then acquired Dyncorp and PAE, both private defense contractors. Former employees of AECOM, Dyncorp, and Amentum subcontractors have **claimed** to be victims of human trafficking and forced labor. A *Washington Post* investigation at military bases in the Persian Gulf found that "many of the thousands of migrants employed on Persian Gulf bases have had their passports confiscated, been saddled with onerous debts after paying illegal recruitment fees or been denied 'release papers' required under local laws."

One employee who worked for an Amentum subcontractor reported being repeatedly denied permission to travel home for emergency surgery – when the request was eventually approved, he had to take unpaid leave. He **explained** the restrictive practice of release papers: "We have our passport all the time, as that is Amentum's guideline. But having our passports on hand doesn't mean we are free to leave." Though Amentum operates through subcontractors in the region, at least one lawsuit has proceeded against the firm for its potential role in trafficking. The case is ongoing. See recent articles about Amentum:

- **Federal Court Allows 'Human Trafficking' Suit Against Amentum Units**, Engineering News-Record
- **Abuses on U.S. bases in Persian Gulf ensnare legions of migrant workers**, Washington Post

In addition to workplace injuries, Amentum can be a dangerous place to work – 10 percent of severe workplace injuries for US aviation mechanics in 2022 **occurred** at Amentum sites.

Regulatory and Legal Risks

Antitrust Liability

In 2019, American Securities paid $13 million to settle an antitrust lawsuit that accused the firm of price fixing at portfolio company General Chemical. The plaintiffs in this suit argued that the private equity firm was responsible because it allegedly had "active management of its portfolio company's bidding process." Though American Securities sold General Chemical in 2014, the alleged price fixing occurred during the firm's ownership.

FCC + ViaPath

In December 2022, Congress approved the The Martha Wright-Reed Just and Reasonable Communications Act after a decades-long fight to make prison communications more affordable. Named for a woman who sued Corrections Corporation of America (now CoreCivic) in 2000 after paying thousands of dollars to call her grandson, the bill gives the Federal Communications Commission (FCC) the authority to regulate costs of phone calls and other communications between incarcerated people and their loved ones. Though the FCC already had the power to regulate prices for calls between states, the Commission did not have authority to do so within states. Furthermore, the bill extends the FCC's authority to all forms of communication, as video calling has become increasingly popular in the last few years.

Some states have already taken action to reduce or eliminate prison communications costs – at least 11 states have banned kickbacks, while calls are free in California and Connecticut. The Act requires the FCC to implement maximum service rates between 18 and 24 months from the enactment, meaning that new rates will go into effect in the second half of 2024. Without the ability to charge higher fees and offer greater commissions to state and local governments, ViaPath will need to make efficient, innovative communications systems for affordable prices in order to beat competition. Thismay be another reason American Securities has recently attempted to sell ViaPath.

This bill will almost certainly affect revenues for prison telecommunications services, the largest of which are owned by private equity firms. ViaPath, along with Securus, owned by Platinum Equity, dominated an estimated 65 percent of the market as of June 2022. Prisons contract with a single provider, allowing companies to charge ridiculous prices in what is literally a captive market. In 2018, ViaPath charged as much as $16.50 for a 15-minute phone call. On top of the base per-minute charges for calls, companies like ViaPath tack on additional fees for things like adding funds to an account or making a call without an account.

Beyond easing burdens for people both inside and outside of prison, the bill will likely interrupt and possibly reverse consolidation in the prison communications sector. According to Senator Tammy Duckworth, the bill's lead sponsor, "the existing market has failed to produce adequate competition to protect inmates and detainees, their families, and law enforcement. The bill addresses this market failure ("localized monopolies") that limits competition at facilities." This is a problem that the FCC has been concerned with for years; in 2017, former FCC Commissioner Mignon Clyburn **called the sector** "the clearest, most glaring type of market failure I've ever seen as a regulator."

Massachusetts Investigations into Aspen Dental

The state of Massachusetts has investigated American Securities portfolio company Aspen Dental twice for deceptive practices.

In 2014, the Attorney General accused Aspen of misleading the public with deceptive advertisements. The AG alleged that between September 2009 and December 2013 Aspen ran confusing advertising and charged customers for services months before they were provided. It also **allegedly advertised** "free" services that were in reality not free and refused to provide patients refunds for services not performed. In order to avoid litigation, Aspen **agreed to pay** a $1 million settlement that included assurances that it would cease the deceptive practices.

In December 2021, Massachusetts Attorney General Maura Healy **filed suit against Aspen** for allegedly cheating thousands of Massachusetts consumers through a series of bait and switch advertising campaigns. The AG **alleged** that the deceptive practices violate the state's Consumer Protection Law and assurances Aspen made in a previous settlement with the state regarding similar deceptive practices. In 2023, the AG's Office and Aspen agreed to a settlement under which Aspen would pay $3.5 million, resolving the following allegations:

- Deceptively advertising and marketing dental services and products in Massachusetts
- Misrepresenting third party credit arrangements
- Misrepresenting its refund policies and failing to provide refunds to patients for services that have not been rendered
- Billing thousands of Massachusetts residents for hundreds of thousands of dollars of services it deceptively represented as free and unfairly withholding tens of thousands of dollars in refunds owed to hundreds of Massachusetts consumers
- Participating in incentivizing and training Massachusetts Aspen Dental office personnel to engage in unfair and deceptive marketing
- Participating in training Massachusetts Aspen Dental office personnel to engage in additional unfair practices, including unfairly charging Massachusetts consumers for services and treatments before they were performed
- Engaging in unfair and deceptive debt collection practices

ESG Risks Tied to Outsourcing of Critical Services

There is increasing scrutiny from the general public, legislators, and regulators around private equity investments in public services such as healthcare and education. American Securities invests in both sectors, potentially opening itself to regulation and critique surrounding privatization. Many of American Securities' largest investors are public employee pension funds.

ESG Impacts

As part of the overall credit rating, Moody's **assesses** environmental, social, and governance (ESG) risks associated with each company. This results in a credit impact score (CIS) ranging from 1 to 5, with 1 representing a positive ESG impact on the rating and 5 representing a pronounced negative impact. All American Securities companies reviewed by Moody's received a CIS-4 rating as of June 2024,[1] **signifying** that "ESG considerations have a discernible impact on the current rating, which is lower than it would have been if ESG risks did not exist." These risks are particularly salient in industries with vulnerable populations such as patients and students.

Healthcare: North American Partners in Anesthesia

American Securities and Leonard Green and Partners own North American Partners in Anesthesia (NAPA), the largest anesthesia staffing company in the United States. Since being acquired by the private equity firms for $1 billion in 2016, NAPA has been in several disputes with hospital systems around the county, primarily around understaffing.

Most recently, hospital systems in New York and Florida **sued** NAPA for forcing employees to sign non-compete agreements, which prevents them from working as direct employees of the hospital or at other anesthesia staffing

1 **Amentum**, **Aramsco**, **BELFOR**, **Conair**, **CPM Holdings**, **FleetPride**, **Foundation Building Materials**, **FullBloom (ASP Dream Acquisition Co)**, **Hexion**, **Learning Care Group**

companies. The hospitals also allege that NAPA has "been consistently unable to adequately staff" necessary anesthesia procedures. NAPA **requested** a temporary restraining order that would prohibit St. Joseph's in New York from hiring anesthesia staff employed by NAPA – the court **denied** this request. The lawsuits are pending.

In New Jersey, Cooperman Barnabas Medical Center sued NAPA for understaffing in 2022. In the lawsuit, the nonprofit medical system in New Jersey **argued** that state "laws and regulations preclude corporations from exercising clinical control over health care decisions." A decision in this case may set precedent for NAPA's practices in the state. The lawsuit is pending.

Complaints at Southcoast Health in New Bedford, Massachusetts led to the hospital system **refusing to renew** its contract with NAPA in 2021. A physician with the health system reported the largest issues with NAPA were, "lack of communication, staffing and availability," leading to delays and lapses in patient care. Renown Health in Reno, Nevada allowed its contract with NAPA to **expire** in April 2022, then **rehired** most of the staff that had been working for the company. Cigna **terminated its contract** with NAPA unit American Anesthesiology of Tennessee due to the company's high costs.

Education: Learning Care Group, FullBloom

American Securities **acquired** Learning Care Group in 2014. As of 2023, **Learning Care Group** was the **second-largest** for-profit childcare provider in the country, with 11 brands and more than 1,070 schools across the country. Several states are directing more funding toward childcare to combat the crisis of rising costs, which could be profitable for private equity-backed chains, but some states are placing guardrails on for-profit providers.

In March 2024, the Massachusetts Senate **passed a childcare bill** that would limit funding access for providers with 10 or more programs. The bill would restrict funding to such providers to just one percent of the proposed $475 million in grants and require for-profit centers to enroll children whose families receive public subsidies, use a portion of funding for educator compensation, and disclose how the center uses grant money. Other states including Vermont and New Jersey have also **included guardrails** for childcare chains such as disclosure requirements and profit margin limits.

American Securities' other education investment is under close watch by advocacy groups. In 2021, American Securities acquired FullBloom, which provides curriculum, instruction, and behavioral health services to students in the United States. In March 2024, The Connecticut Office of the Child Advocate and Disability Rights Connecticut **announced** that 8 schools operated by Specialized Education Services Inc (SESI), **a division of Fullbloom**, "grossly underserved" students. Investigators found that the SESI schools "frequently didn't have credentialed teachers, frequently didn't background check staff that were working directly with children, frequently were not reporting to school districts that they were not in compliance." Investigators claim that this neglect led to poor outcomes for students, who were disengaged and often absent.

Conclusion

Institutional investors need to assess whether the returns generated by American Securities' investments are adequate for the risks they entail. Several of the firm's investments have experienced significant execution risk, headline risk, and/or regulatory risks, leading to bankruptcies, negative headlines, and millions of dollars in settlements.

American Securities investments impact patients in need of life-saving care, incarcerated people trying to connect with loved ones, and students bearing the weight of an ongoing education crisis. Given these broader impacts and the risks described above, institutional investors should evaluate whether American Securities' investment strategy is appropriate to support.