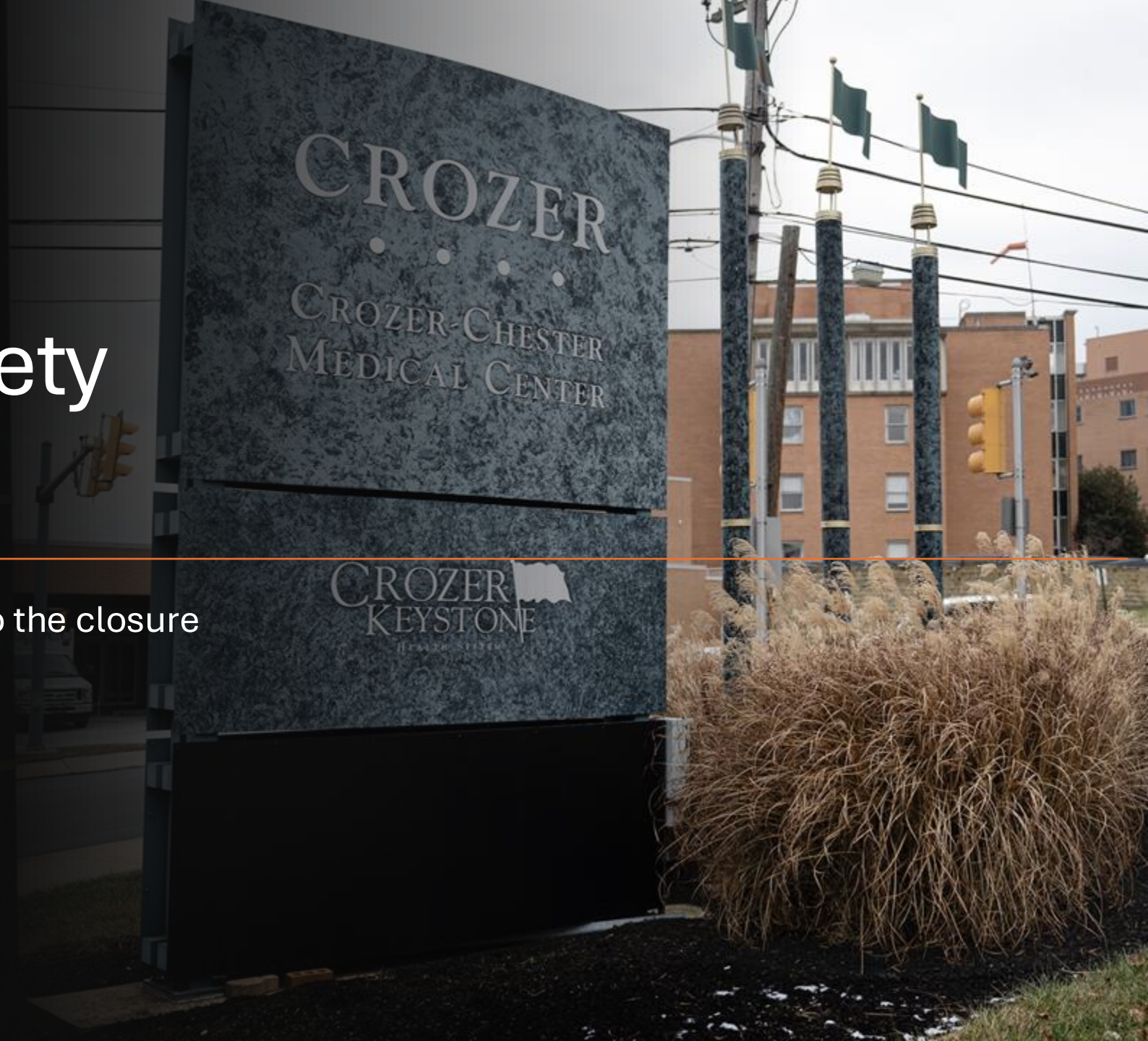


PRIVATE EQUITY  
STAKEHOLDER  
PROJECT

# Raiding the safety net

How private equity extraction led to the closure of Crozer Health

May 7, 2025



# About PESP

- The **Private Equity Stakeholder Project** is a nonprofit watchdog group focused on the impacts of private equity investments on people, the economy, and the planet.
- We do:
  - Research
  - Coalition work with impacted stakeholders
  - Policymaker engagement
  - Investor engagement

**Issue areas:** Healthcare, Labor & Jobs, Housing, Detention & Surveillance, Climate

# Leonard Green and Prospect: An overview

- Leonard Green is a Los Angeles-based PE firm with ~\$75 billion in assets under management.
- In 2010, Leonard Green purchased Prospect in a \$205 million leveraged buyout; \$158 million of the transaction was financed with debt (77% of deal value).
- Prospect is a safety net hospital system that until recently, owned 17 hospitals across 5 states: California, Connecticut, New Jersey, Pennsylvania, Rhode Island.
- Leonard Green exited its stake from the struggling company in 2021 for a mere \$12 million (after having extracted \$437 million).

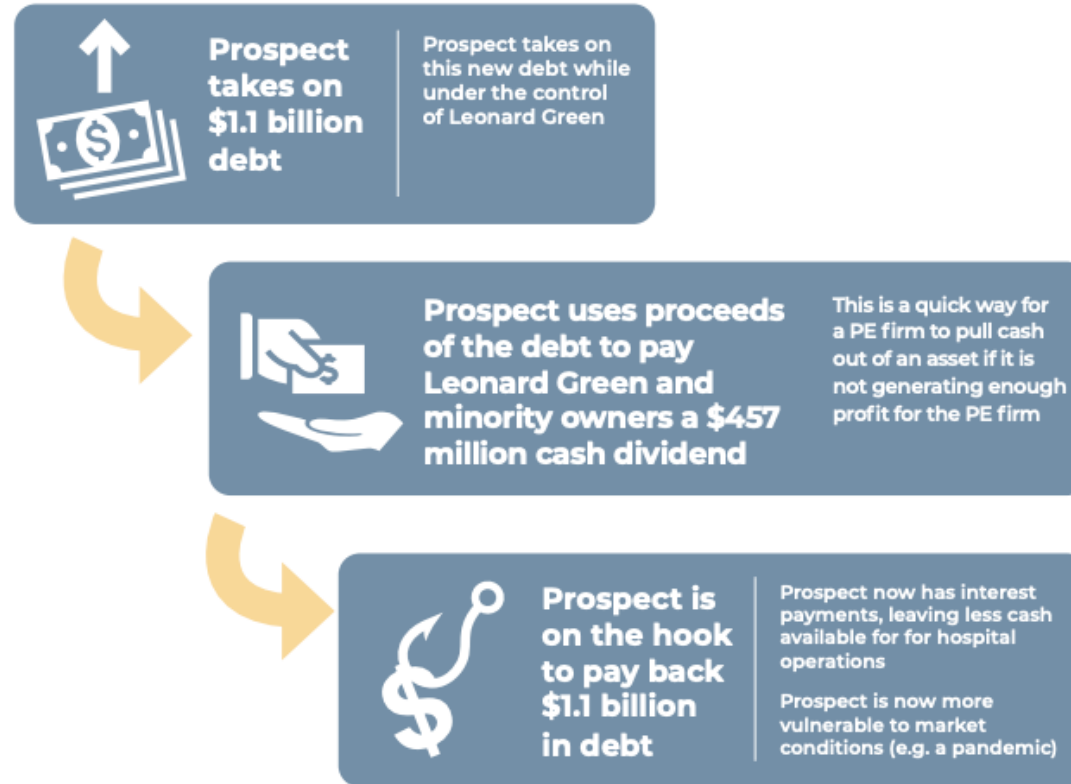
**LGP** | LEONARD GREEN  
& PARTNERS



CROZERHEALTH 

## What is a dividend recapitalization?

Dividend recapitalizations are transactions by which private equity firms load debt onto companies they own to give themselves cash payouts. In a dividend recapitalization transaction, a company will take on new debt and then use the proceeds of the loan to provide a special dividend to its private equity owners.



The tactic has been widely criticized by both supporters and skeptics of the private equity model for needlessly saddling companies with debt to extract capital without making substantive operating improvements. This puts those companies at risk for restructuring, bankruptcy, or cost cutting to make up the interest payments and pay off debt.

# Private equity extraction: dividend recaps and fees

## Fees and Dividends paid to Leonard Green and other Prospect owners

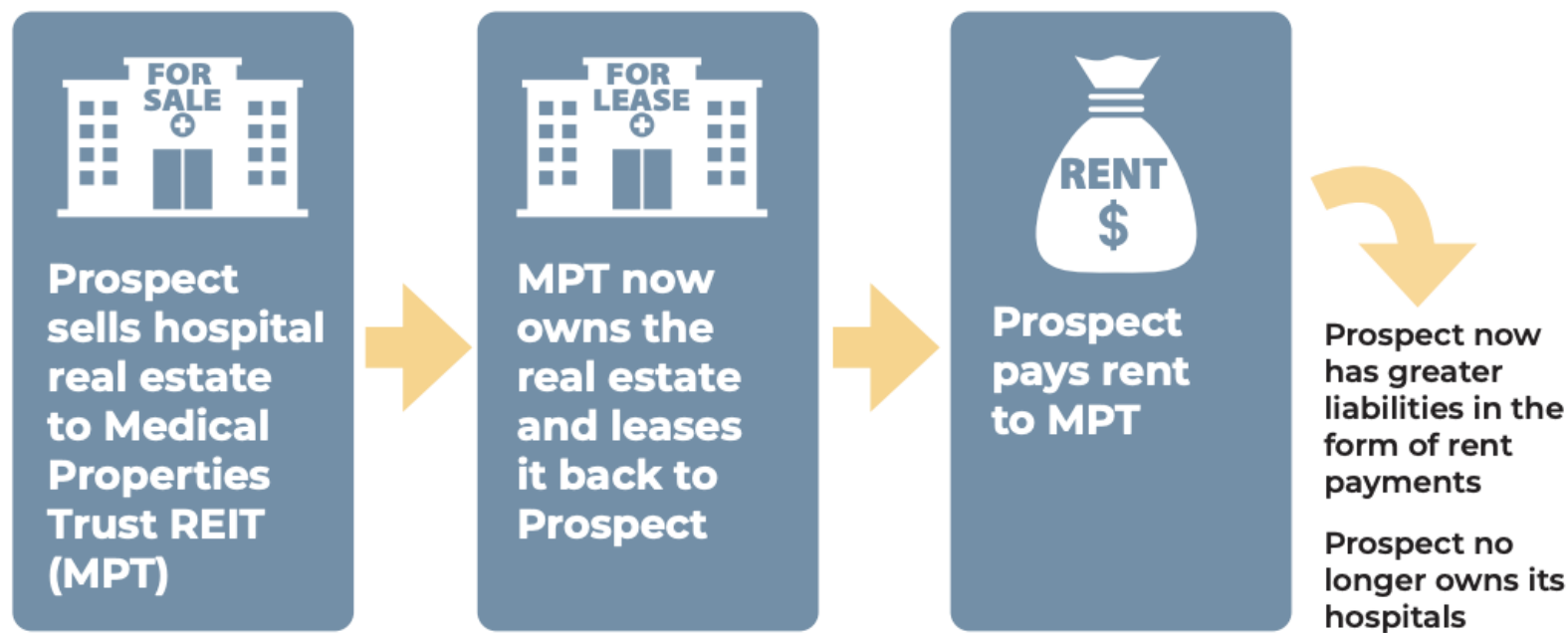
Type	Date	Amount
Annual \$1 Mil Management Fee <sup>19</sup>	2011-2019	\$9,000,000
Ivy Holdings Merger Transaction Fee <sup>20</sup>	2010	\$4,441,000
Dividend	2012	\$88,000,000
Dividend	2013	\$100,000,000
Dividend	2018	\$457,000,000
<b>Total<sup>21</sup></b>		<b>\$658,441,000</b>

Sources: Prospect Medical Holdings, Inc. Consolidated Annual Financial Statements.



## What is a sale-leaseback transaction?

In a sale-leaseback transaction, an owner of real property (e.g., a hospital) sells the asset and leases it back from the new owner. This essentially replaces mortgage payments with lease payments and strips companies of a valuable asset.



Sale-leaseback transactions are a common tactic of private equity firms because they provide a quick and easy way to monetize a company's assets. In many cases, the proceeds of the real estate sale go to the private equity firm in the form of a dividend, or in Prospect's case, to help paydown debt that had funded a dividend.<sup>18</sup>

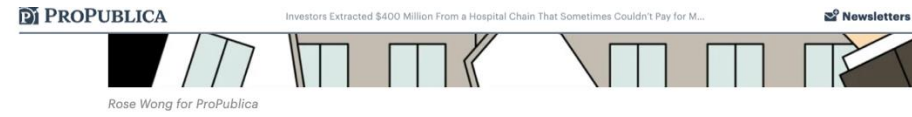
# Impacts of PE extraction at Prospect hospitals

- Understaffing/Unsafe staffing
- Layoffs
- Health and safety concerns
- Poor quality of care
- Unpaid vendors
- Unpaid taxes
- Hospital closures

DELAWARE COUNTY

## 'It's not fair': Delaware County's Crozer-Chester hospital closes its doors

Prospect Holdings-owned Crozer-Chester Medical Center in Chester, Pennsylvania, ceases operations on May 2, 2025



## Investors Extracted \$400 Million From a Hospital Chain That Sometimes Couldn't Pay for Medical Supplies or Gas for Ambulances

Prospect Medical, which mostly serves low-income patients, has broken elevators, dirty surgical gear, bedbugs and more. Its owners, & Partners and Prospect's CEO, have cashed in.

by Peter Elkind with Doris Burke, Sept. 30, 2020, 1:27 p.m. EDT



## For-profit operator to close Nix Medical Center in San Antonio

Prospect Medical Holdings will close Nix Medical Center, a 208-bed hospital in San Antonio with approximately 585 employees, according to the [San Antonio Express-News](#).

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NEWSLET

INVESTIGATIONS

## In 2016, Rockville was a bustling local hospital. Then Prospect Medical took over.

by Katy Golvala and Jenna Carlesso

October 29, 2023 @ 5:00 am

or

Higher Education Funding

Eviction Reform Debate

HEALTH

## Prospect Medical chain owes CT \$67 million, tax liens show

by Dave Altimari, Jenna Carlesso and Keith M.

Phaneuf

January 9, 2024 @ 5:52 pm

# Private equity bankruptcies in 2024

- Prospect's bankruptcy is not an outlier.
- Private equity accounts for 6.5% of the U.S. economy according to its primary lobbying group. Yet, **private equity was responsible for 56% of the largest\* bankruptcies in 2024.**
- In healthcare, private equity-backed companies accounted for **7 of the 8 largest bankruptcies in 2024.**

*\*Bankruptcies with liabilities over \$500 million*





# How PE is different from other forms of for-profit healthcare



Lack of transparency



Use of debt



The moral hazard of limited liability

# PE-specific policy recommendations

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- **Limit or prohibit the extractive practices used by PE (i.e. dividend recaps & sale-leasebacks)**
- Create or enhance comprehensive regulatory review of hospital mergers and acquisitions
- Place limits on the amount of debt that can be used to finance healthcare transactions.
- Require regular and audited financial reports for all hospitals AND their parent companies

