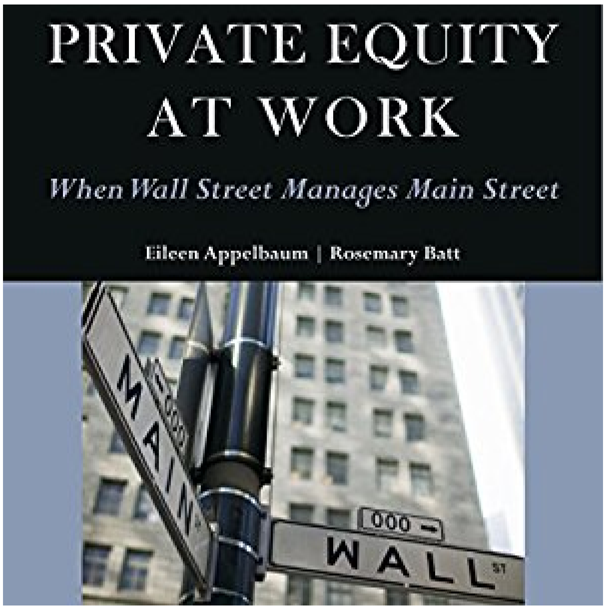
Private Equity At Work: When Wall Street Manages Main Street



Synopsis

Private equity firms have long been at the center of public debates on the impact of the financial sector on Main Street companies. Are these firms financial innovators that save failing businesses or financial predators that bankrupt otherwise healthy companies and destroy jobs? The first comprehensive examination of this topic, Private Equity at Work provides a detailed yet accessible guide to this controversial business model. Economist Eileen Appelbaum and Professor Rosemary Batt carefully evaluate the evidence including original case studies and interviews, legal documents, bankruptcy proceedings, media coverage, and existing academic scholarship to demonstrate the effects of private equity on American businesses and workers. They document that while private equity firms have had positive effects on the operations and growth of small and mid-sized companies and in turning around failing companies, the interventions of private equity more often than not lead to significant negative consequences for many businesses and workers. Prior research on private equity has focused almost exclusively on the financial performance of private equity funds and the returns to their investors. Private Equity at Work provides a new roadmap to the largely hidden internal operations of these firms, showing how their business strategies disproportionately benefit the partners in private equity firms at the expense of other stakeholders and taxpayers. In the 1980s, leveraged buyouts by private equity firms saw high returns and were widely considered the solution to corporate wastefulness and mismanagement. And since 2000, nearly 11,500 companies representing almost 8 million employees have been purchased by private equity firms.

Book Information

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Customer Reviews

Eileen Appelbaum and Rosemary Batt show with much conviction how much influence private equity (PE) firms have acquired through their ownership and control of Main Street companies across the US economy. Ms. Appelbaum and Ms. Batt also cover PE firms operating abroad whenever appropriate for the understanding of their examination of PE.To their credit, Ms. Appelbaum and Ms. Batt don't characterize all PE firms as uniformly harmful to the acquired companies and their stakeholders. Some PE firms - especially those that buy and sell small or mid-market companies with enterprise values lower than $300 million - may undertake profit-seeking activities by creating value and increasing wealth not just for themselves, but also for the acquired companies and their stakeholders.Unfortunately, all too often PE firms undertake rent-seeking activities that maximize their own returns while putting operating companies and their stakeholders at risk. Both authors examine financial engineering activities such as high leverage, the sale of assets, tax arbitrage, dividend recapitalizations, and the use of bankruptcy proceedings under rent-seeking activities.Ms. Appelbaum and Ms. Batt call for thirteen policies to rein in the PE excesses that they documented in the book under review:1) Curb private equity compensation to reduce moral hazard and risky behavior. The current legislation on this subject does not have real teeth to reduce the incentives for excessive risk-taking for financial institutions, including PE firms.2) End preferential tax treatment of carried interest. Both authors argue that the general partners of PE firms are similar to real estate developers and should be taxed accordingly.

Applebaum and Batt begin with a success story â " a private equity (PE) group buys a specialist sausage maker, expands the workforce from 140 to 350 in three years and resells the company to a major foods group. However, once you read beyond the first paragraph the message is less positive and the majority of the book will be a depressing read if you are an employee of a PE-owned company (i.e. a portfolio company).A private equity firm is controlled by the general partners who typically contribute just 1 or 2 percent of the working capital while the remaining equity is provided by limited partners such as pension funds who commit their investments for an extended period which can be up to 10 years. PE funds improve their returns by the aggressive use of leverage whereby they may borrow as much as 94% (in the sad case of KB Toys) of a target companyâ ™s purchase price. With a highly leveraged purchase, a small increase in the value of the company can produce a large return to the owners and the general partners are also in the fortunate position of using other peoplesâ ™ money to buy a company which may then hire them as highly paid consultants â |"The general partner receives three streams of income: management fees from the limited partners, profits from investments, and fees from the portfolio companies."Loans are easier to obtain when they can be secured against tangible assets such as property so retailers and restaurant groups have been common acquisition targets and A&B present several case studies where such deals have resulted in bankruptcies and mass layoffs.

Private Equity at Work: When Wall Street Manages Main Street Bull by the Horns: Fighting to Save Main Street from Wall Street and Wall Street from Itself Getting a Job in Private Equity: Behind the Scenes Insight into How Private Equity Funds Hire The Private Equity Edge: How Private Equity Players and the World's Top Companies Build Value and Wealth The Masters of Private Equity and Venture Capital: Management Lessons from the Pioneers of Private Investing Peterson's Private Secondary Schools 2000-2001 : The Smart Parents' Guide to Private Education (Peterson's Private Secondary Schools, 2000-2001) The Hamster Revolution: How to Manage Your Email Before It Manages You (Bk Business) The Hamster Revolution: How to manage your email before it manages you He Manages Me Sadistically Vol.2 (TL Manga): The Sudden and Dark Cohabitation Mecca and Main Street: Muslim Life in America after 9/11 Mystery on Main Street (Advanced Puzzle Adventures Series) Vanishing America: The End of Main Street Diners, Drive-Ins, Donut Shops, and Other Everyday Monuments Applied Equity Analysis: Stock Valuation Techniques for Wall Street Professionals The Wall Street Journal Guide to Understanding Money and Investing, Third Edition (Wall Street Journal Guide to Understanding Money & Investing) The Wall Street Journal Complete Money and Investing Guidebook (The Wall Street Journal Guidebooks) Terror on Wall Street, a Financial Metafiction Novel (Wall Street Series Book 1) Venture Capital, Private Equity, and the Financing of Entrepreneurship Venture Capital and Private Equity: A Casebook Investing in Real Estate Private Equity: An Insider's Guide to Real Estate Partnerships, Funds, Joint Ventures & Crowdfunding Leveraged Buyouts, + Website: A Practical Guide to Investment Banking and Private Equity