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Private Equity & its Impact on Consumers and Financial Landscape

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ABSTRACT:
This research delves into the transformative role of private equity (PE) in reshaping global financial and business landscapes. Through an exploration of its historical evolution, operational mechanisms, and economic impact, the study evaluates PE's dual potential for growth and destabilization. Leveraged buyouts, a core strategy, are highlighted alongside case studies like Hilton's record-breaking turnaround and Toys "R" Us' bankruptcy. The paper critically examines PE's influence on employment, consumer welfare, and sustainability, proposing reforms to mitigate anti-competitive practices and enhance ethical operations. By balancing financial engineering with stakeholder inclusivity, the study underscores pathways for aligning PE with equitable and sustainable growth.

Chapter 1: Introduction

This paper aims to explore the evolution of and impact on the financial world due to the onset of private equity firms. It will discuss fundamentals, impacts (beneficial and detrimental), history, growth, suggestions, and conclusions. In a leveraged buyout, a specialised investment firm acquires a company using a relatively small portion of equity and a relatively large portion of outside debt financing. The leveraged buyout investment firms today refer to themselves (and are generally referred to) as private equity firms. Now, to explain it in simpler and more relative terms, a private equity firm is like a master chef who specialises in taking overlooked or struggling ingredients (businesses) and turning them into a gourmet meal. They buy companies (private), often ones that need help or have untapped potential, work hard to improve them by adding new ideas, better tools, and smarter ways of working, and then sell them for a profit. They are catalysts of potential, operating at the nexus of capital and vision. These entities transcend financial engineering, seeking to identify latent value within enterprises, often restricted by inertia. They invest not just in assets but in the possibility of reinvention, leveraging financial resources and strategic acumen to reshape the trajectory of businesses.

In crux, these firms are agents of metamorphosis; embracing risk and aligning incentives to drive innovation and growth. Although, their impact is twofold: they embody the promise of progress and the weight of responsibility, as their pursuit of profit often clashes with the lives of employees, communities, and broader market ecosystems. At their best, they are architects of renewal and at their worst, they risk reducing entities to transactional instruments. The businesses invested in by private equity range from early-stage ventures, usually termed venture capital investments, through businesses requiring growth or development capital to the purchase of an established business in a management buyout or buy-in. So, private equity is a general term that incorporates venture, growth, and buyout capital. Although all of these cases involve private equity, the term is now often used to refer to both later-stage development capital and, predominantly, buyouts (including LBOs) of established businesses, distressed businesses or startups with significant potential. **These are generally the focus of the paper**. Private Equity usually contrasts with Venture Capital which is used to describe early-stage investments. The term therefore has a confusingly loose definition, being both a generic term for 'not quoted equity' and a more precise definition referring specifically to the market for institutional private equity funds that target buyouts and growth capital. It is important to be clear which definition is being used when discussing or researching private equity. Each of these categories is known as an 'investment strategy. Buyouts constitute the largest of the investment strategies by value. They account for the majority of primary deal value and, when secondary strategies are included, they represent some 40 per cent of the private equity market value (Figure 1.1). (*John Gilligan & Mike Wright ; Private Equity Demystified)*

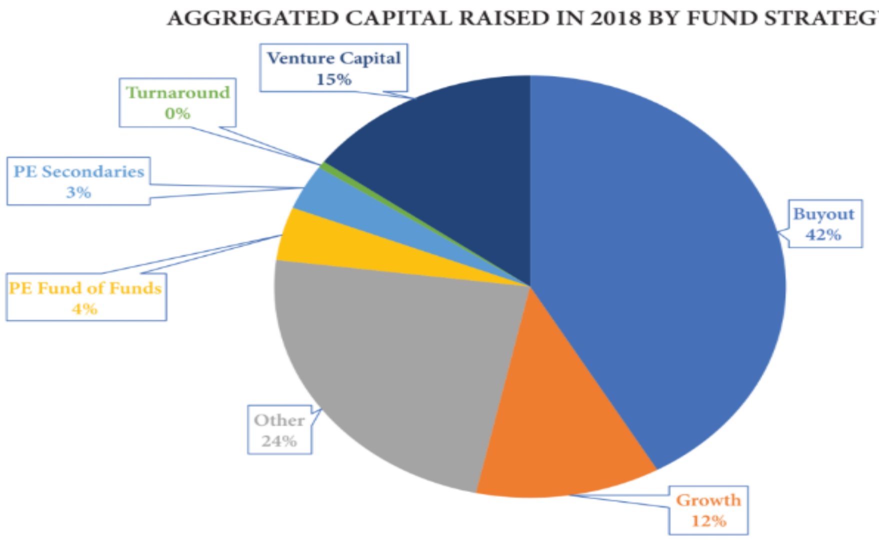


Figure 1.1: Aggregated Capital Raised in 2018 by Fund Strategy)

To understand what these firms are, how they operate and their impact on the economy and businesses, it's vital to first understand what leveraged buyouts are. As Investopedia defines it, a leveraged buyout (LBO) is a financial transaction where a company or group of investors acquire another company using a large amount of borrowed money. A leveraged buyout is like acquiring something valuable, such as a mansion, using borrowed funds, to increase its worth over time. In business, this involves purchasing a company by securing a huge loan and using the company itself as collateral to back the borrowing. The strategy is to improve the company, like revamping the mansion, so it makes better returns. Eventually, the buyers aim to sell it at a profit, repay the loans, and retain the remaining proceeds. However, if things go south, it can become problematic, as the loans still require repayment regardless of the outcome.

Investors have been acquiring businesses and making minority investments in privately held companies since the dawn of the Industrial Revolution. Merchant bankers in London and Paris financed industrial concerns in the 1850s; most notably Crédit Mobilier, founded in 1854 by Jacob and Isaac Pereire, who together with New York-based Jay Cooke financed the United States Transcontinental Railroad. (*Wikipedia; History of Private Equity)*

The story of private equity goes back to 1901, when J.P. Morgan, the man, not the bank, bought Carnegie Steel Co. from Andrew Carnegie and Henry Phipps for 480 million dollars. Phipps used his share of the money to start what was one of the first private equity funds, called the Bessemer Trust. While today it operates more like a private bank than a private equity firm, Phipps and his family began a trend of investing in promising companies or buying them. Between the early 1900s and the 1950s, most private investments focused on startups, like modern venture capital. The idea of private investors buying established private companies wasn't common. That began to change in 1958 when US President Dwight D. Eisenhower signed the Small Business Act. By the 1960s, more businesses began experimenting with this concept. In 1964, Lewis B. Cullman completed the first modern leveraged buyout by purchasing Orkin Exterminating Co.

Truthfully, It was not until after WWI that what is considered today to be true private equity investments began to emerge marked by the founding of the first two venture capital firms in 1946: American Research and Development Corporation (ARDC) and J.H. Whitney & Company. *(Wilson, John W. The New Ventures, Inside the High Stakes World of Venture Capital.)* Before World War II, venture capital investments were primarily the domain of wealthy individuals and families. ARDC was founded by Georges Doriot, the "father of venture capitalism" and founder of INSEAD, with capital raised from institutional investors, to encourage private sector investments in businesses run by soldiers who were returning from World War II. ARDC is credited with the first major venture capital success story when its 1957 investment of $70,000 in Digital Equipment Corporation (DEC) would be valued at over $355 million after the company's initial public offering in 1968 (representing a return of over 500 times on its investment and an annualized rate of return of 101%). It is commonly noted that the first venture-backed startup was Fairchild Semiconductor (which produced the first commercially practicable integrated circuit), funded in 1959 by what would later become Venrock Associates. *(Harvard Blogs; Private Equity, history and further development)*

While venture capital was burgeoning, another form of private equity was gaining traction—the leveraged buyout. Kohlberg Kravis Roberts (KKR), founded in 1976 by Jerome Kohlberg, Henry Kravis, and George Roberts, became one of the pioneers of this strategy. They executed some of the earliest and most notable LBOs. The strategy involved identifying companies with strong cash flows and underleveraged balance sheets and then restructuring them to improve profitability and efficiency. This approach was not without its critics, as it often involved cost-cutting measures, including layoffs and other austerity measures. However, it also led to some of the most significant returns in financial history, setting the stage for LBOs to become a staple strategy in private equity. *(digitaldefynd; History of the Private Equity Industry).* These early years set a foundation that would shape the private equity landscape and influence global financial markets and business practices profoundly. The dual rise of venture capital and leveraged buyouts represented a significant evolution in how businesses were financed and grown, emphasising a more aggressive and strategic approach to capital investment. Since the 1980s, as greater returns encouraged more investment in the asset class and the number of funds skyrocketed (a natural consequence of fund managers leaving one firm to found a new one) the industry continued to grow into what it is today. *(Judy Radler Cohen August 2, 2022; What is Private Equity? A Brief History).* This pro-business environment facilitated a boom in leveraged buyouts, with private equity firms capitalising on the availability of debt to finance ambitious buyouts. One of the most emblematic transactions of this era was the acquisition of RJR Nabisco by KKR in 1989. This $31.1 billion deal was not only the largest LBO then but also became a symbol of the 1980s corporate excess. Despite success and significant profits, the 80s saw significant challenges in the PE space. The extensive use of debt financing, while beneficial in facilitating acquisitions, also introduced high levels of risk. RJR's fall was the emblematic end to the Roaring Eighties. Hundreds of firms found themselves unable to service their debts. Bankruptcies replaced buyouts in the headlines and Drexel got put out of business by the government. However, the turmoil had a lasting effect on class relations. The challenge of servicing large debts meant firms had to hammer away at costs, and for most, their major cost was labour. Wage-cutting and mass layoffs hammered working-class living standards and self-confidence. For the dwindling number of workers with unions, concessions became the norm, and workers were often grateful to have a job at all *(Doug Henwood; How Private Equity Was Born).*

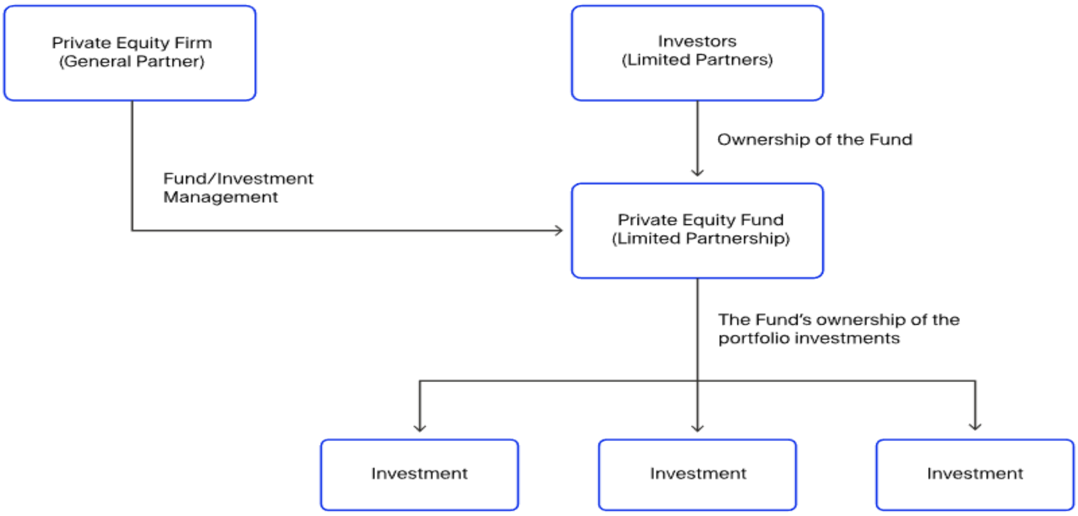
During the 1990s, the private equity industry underwent significant maturation, evolving beyond the primary focus of leveraged buyouts and venture capital that had defined it in earlier decades. The 1990s also marked a significant period of geographical expansion for the private equity industry. As markets in North America and Western Europe became increasingly competitive, many private equity firms looked to evolving markets in Asia and Eastern Europe, opening up due to economic liberalization and structural reforms. In Europe, the fall of the Berlin Wall and the subsequent opening of Eastern Europe provided a new frontier for private equity. Firms capitalized on privatization and the restructuring of state-owned enterprises, injecting capital and management expertise into these transitioning economies. Whilst in Asia, In Asia, economic reforms in countries like India and China created fertile ground for private equity. These markets offered high growth potential and an increasing acceptance of capitalist practices. The Asian financial crisis towards the end of the decade also created opportunities to acquire assets at depressed prices, drawing further interest from global private equity players. *(digitaldefynd; History of the Private Equity Industry).* Since the early 2000s, private equity (PE) has experienced significant growth, evolving into a dominant force in global finance. The early 2000s marked a period of substantial expansion, with PE firms executing large leveraged buyouts and raising record funds. For instance, in 2006, U.S.-based PE firms acquired 654 companies for a total of $375 billion, a substantial increase from previous years. *(Wikipedia; Private Equity In The 2000s).* The 2008 financial crisis posed challenges, but the industry demonstrated resilience, adapting strategies and continuing to attract significant capital. They shifted focus from aggressive leveraged buyouts to operational improvements, cost-cutting measures, and restructuring of portfolio companies to enhance efficiency and profitability (*FDICFR; Private Equity and Financial Stability: Evidence from Failed Bank Resolution in the Crisis).* In the subsequent decade, PE firms diversified their portfolios, investing in various sectors and geographies, and increasingly focusing on technology and emerging markets. By 2023, the global private equity market had grown substantially, with assets under management reaching new heights, underscoring the industry's pivotal role in shaping modern economies.

Importance of Studying Private Equity's Impact

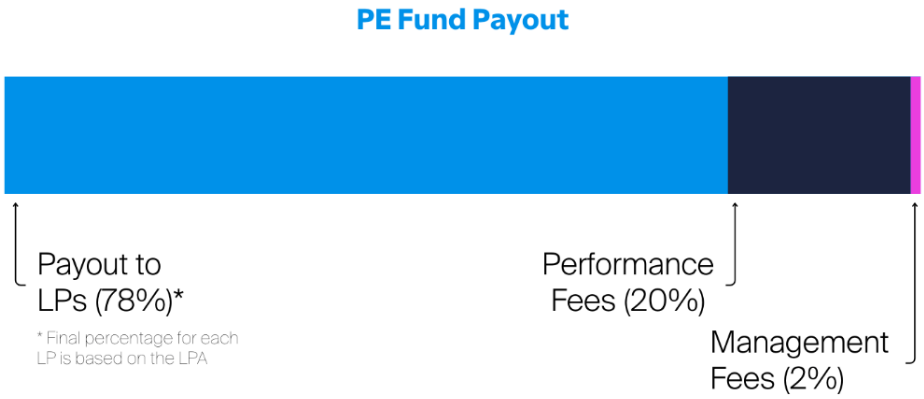
PE has become a major force in the financial landscape of the world. It has influenced many companies, industries and economies alike. Understanding its impact provides insights into the functioning of the corporate world. It is often argued that private equity's benefits are skewed toward the wealthy, enriching the elite while marginalizing workers. By studying these dynamics, we can create a better understanding of how to make private equity investments more inclusive and equitable.

Structure & Functioning of Private Equity

Understanding private equity and private markets means more than simply understanding the structure of a fund. It means understanding what happens at each point in a fund's life, why, and what that means for investors and the fund's managers. The simplest definition of a private equity fund is that it's an instrument for allowing multiple investors (called Limited Partners, or LPs) to pool their money together and buy ownership stakes in multiple operating companies. This pooled money is the private equity fund, which is then managed by a General Partner (which can be a company/limited liability partnership), also known as a fund manager. Of course, the goal of this PE fund is to return a profit on the investments made by the LPs. In cases of LBOs, the GP (the PE firm) takes a loan from a financial institution to facilitate the buyout and places the assets and cash flows of the target company (the company being bought) as collateral.



General Partner: To ensure a private equity fund runs properly, it must have the right team to manage it. For PE funds, it all begins with the General Partner, AKA the private equity firm. The GP has legal authority over the fund, sources the LPs who supply the capital, and makes the decisions about how to use that capital, including what operating companies are in the investment portfolio. As such, the GP is also known as the fund manager. They make money based on two types of fees: management and performance fees. Management fees, which are charged regardless of whether the fund turns a profit, are generally around 2% of the total assets under management (AUM). Performance fees, which are only paid if the fund is profitable, can vary based on the agreement between the GP and the LPs but are usually 20% of the gross profit.



Limited Partner: LPs are the people who supply the fund with the capital necessary to invest in the fund's portfolio. LPs get returns on their investments when the fund is liquidated. Examples of liquidation events are mergers, acquisitions, or initial public offerings (IPOs). As long as the liquidation event is profitable, the LPs get their investment back as well as a percentage of the profit. This percentage differs based on what was agreed upon in the Limited Partnership Agreements (LPAs), which we'll discuss in a later section. If the fund is not profitable, LPs only lose what they invested. Any difference between the value of the fund upon liquidation and what was invested is the responsibility of the GP. Because of the inherent risk, LPs are not your typical retail investor like those with shares in public companies (e.g., using money contributed to retirement accounts). Very few investors qualify to become an LP, or what's known as an accredited investor.

Structure of PE Firms

Since the General Partner in a private equity fund is the PE firm itself, it's important to understand how private equity firms are structured. Within a firm, there are a few different levels of employees, all working to ensure the success (AKA profitability) of their funds. The foundation of any good private equity firm is the data it uses and the analysts and associates that analyze it. From sourcing investment opportunities and mapping markets to understanding current events and forecasting future trends, the analysts and associates help the more senior members, such as VPs and Principals, make their decisions based on data. VPs are usually responsible for deciding which individual investments to pursue, while Principals generally manage entire portfolios of companies, including entire funds. Both VPs and Principals are the faces of their respective deals, serving as the closers. At the top of the firm are the Partners and Managing Partners, who oversee the entire firm. They are responsible for guiding the firm and choosing its overall path forward, as well as helping to source LPs and secure capital for the firm's funds. This private equity structure ensures all the key players are in place for the firm's and its funds' overall success.

Timeline Overview

The timeline of a PE fund begins with the fundraising phase, during which the GP obtains investments from LPs, like institutional investors, family offices, or high-net-worth people, to pool capital. Once the fund reaches its target, the investment period starts, usually for 3-5 years, where the GP identifies and acquires target companies, often using a mix of equity and debt. The focus then shifts to the value creation phase, where the GP executes improvements and operational strategies to improve the portfolio companies' value over time. During the fund's latter years, the GP enters the harvesting phase, exiting investments through sales, mergers, or initial public offerings to realize gains. The returns are distributed to LPs according to the agreed-upon structure, with the GP earning carried interest (profit share) after meeting the preferred return. Lastly, the fund reaches the wind-down phase, where remaining assets are liquidated, final distributions are made, and the fund is closed, completing its 8-12-year lifecycle.

An example of a PE fund timeline is KKR's acquisition of RJR Nabisco, a landmark deal that highlights the lifecycle of a PE investment:

Fundraising: KKR raised capital from institutional investors and limited partners to invest in large-scale opportunities through its PE funds.

Investment Phase: In 1988, KKR identified RJR Nabisco, a company operating in the tobacco and food industries, as an undervalued company with significant potential for value creation. KKR executed an LBO of RJR for around 31 billion dollars, which at the time was the largest LBO in history. They financed the deal with a mix of debt and equity, using RJR Nabisco's future cash flows to service the debt.

Value Creation: After the acquisition, KKR focused on optimising RJR Nabisco’s operations by selling assets, improving operations and focusing on profitable segments. The aim was to reduce costs, improve profits and generate stronger cash flows to repay debt and increase the company's value.

Exit Phase: KKR eventually exited portions of its investment by selling RJR Nabisco's divisions and assets over time. The exits generated great returns for KKR's investors, though the deal remains notable for its mixed success due to challenges in execution and high debt.

Distributions and Wind-Down: The proceeds from the asset sales and final exits were distributed to the fund's LPs according to the agreed structure, allowing KKR to achieve great returns despite challenges.

Chapter 2: Case Study Analysis

This chapter will explore two different case studies (one negative and one positive) of how PE firms operate and the impact of their operations. Before the different analyses which will be discussed further in the paper are displayed, the role of these case study examples is to offer an unbiased explanation of the two sides of Private Equity and are open to further interpretation.

2.1 Blackstone's Hilton LBO: A Record-Breaking Turnaround

There is always a certain amount of uncertainty involved with the financial markets. Most of the time is spent in speculation about the impact of future events. But time and again, there have been examples of companies generating alpha in contradiction to the general sentiments. One such example is Hilton Worldwide. Shortly before the real estate bubble of 2008, the world's largest private equity firm, Blackstone, decided to buy one of the world's leading luxury hotel chains, Hilton Hotels. The acquisition was long considered a failure and filled financial magazines with negative headlines. However, it turned out to be the most profitable leveraged buyout in history.

Hilton Worldwide Holdings Inc. is an American multinational hospitality company that manages and franchises a broad portfolio of hotels, resorts, and timeshare properties. Founded by Conrad Hilton in May 1919, the company is now led by Christopher J. Nassetta. Hilton is headquartered in Tysons, Virginia, United States. As of December 31, 2023, the company's portfolio includes 7,530 properties (including timeshare properties) with 1,182,937 rooms in 118 countries and territories. Hilton owns or leases 51 properties, manages 800 properties, and franchises out 6,679 properties to independent franchisees or companies. *(Wikipedia; Hilton Worldwide)*

Blackstone Inc. is an American alternative investment management company based in New York City. It was founded in 1985 as a mergers and acquisitions firm by Peter Peterson and Stephen Schwarzman, who had previously worked together at Lehman Brothers. Blackstone's private equity business has been one of the largest investors in leveraged buyouts in the last three decades, while its real estate business has actively acquired commercial real estate across the globe. Blackstone is also active in credit, infrastructure, hedge funds, secondaries, growth equity, and insurance solutions. As of May 2024, Blackstone has more than US$1 trillion in total assets under management, making it the world's largest alternative investment firm. *(Wikipedia; Balckstone Inc.)*

Pre-LBO Hilton

By the early 2000s, Hilton had a wide range of properties, including luxury hotels, mid-tier offerings and budget accommodations, under various brand names. The company was known for its strong presence in the United States and its growing international portfolio, positioning it as a leader in the hotel industry. Before the LBO, Hilton had a strategy of expanding its brand and building its loyalty programme, Hilton Honors, which helped in customer retention. Despite the success, the company faced increasing competition from other hotel brands, which set the stage for its acquisition by Blackstone in one of the largest private equity deals in the hospitality sector at the time. At the time, Hilton's senior management and board were frustrated that Hilton's stock traded at a lower EBITDA multiple than those of other companies in the hospitality and lodging industry. They routinely discussed strategies to change this. In fact, even before the Blackstone LBO, Hilton was approached by another PE firm that indicated an interest in a possible acquisition at 30 dollars per share, however, Stephen Bollenbach rejected the offer made at that price.

Interaction between Blackstone & Hilton

In September 2006, Hilton's board held an offsite retreat at which it studied expectations of future cash flows. Management presented an internal valuation that suggested Hilton's value should be approximately $42 per share. The board decided not to seek other potential acquirers because putting the company up for sale posed a risk of distracting management and could adversely affect business relationships with franchisees, operators, and suppliers. On September 25, 2006, Hilton entered into a confidentiality agreement with Blackstone to share information regarding its businesses. The agreement contained a two-year "standstill" provision which prevented Blackstone from disclosing any confidential information without Hilton's consent. Over the next two weeks, Blackstone conducted due diligence, after which Gray declared that he could not increase Blackstone's offer price. On October 4, 2006, under the confidentiality agreement, Hilton requested that Blackstone destroy all the information it had previously received from Hilton. (*Neroli Austin & Ludovic Phallipou; Decomposing Value Gains - The Case of the Best Leveraged Buy-Out ever - University of Oxford, Said Business School Working Paper 2022).* Between October 2006 and May 2007, Blackstone expressed periodic interest in acquiring Hilton but made no formal proposals until May 15, 2007, when it offered over $40 per share, which Bollenbach rejected. On May 30, Blackstone increased its offer to $42, then $45 per share, but both offers were rejected due to price expectations. At that time, hotel valuations were rising rapidly, facilitated by the CMBS market and growing real estate investor interest. On June 24, Blackstone raised its offer to $47.50 per share, citing worsening credit market conditions. Hilton's board, after evaluating acquisition scenarios, decided that the price was compelling. UBS (Hilton's main financial advisor) confirmed the offer as fair, and no alternative buyers emerged, given Hilton's size and complexity. The board approved the deal on July 3, 2007, citing Blackstone's ability to execute and potential synergies. The $26 billion acquisition, including a 40% premium, was announced on July 4, 2007.

The LBO

In the case of Hilton, Blackstone funded the transaction with 78.5% debt and 21.5% equity. Such a high leverage was typical, albeit of the high side, of buyout transactions conducted in 2005- 2007. Another important metric to gauge leverage is the debt to EBITDA (Earnings Before Interest, Taxes, Depreciation & Amortization, a financial metric used to evaluate a company's performance focusing on profitability from core business operations) multiple. In Hilton's case, it was 12.4x and this was about twice as much as the average that year. To compare, the largest PE transaction ever – Texas power company TXU Corp., which was taken private by KKR and TPG a few months earlier (February 2007) – had a similar leverage (81.5%) but a more typical debt to EBITDA multiple of 6.6x. Again the leverage was about 80%, but the debt to EBITDA multiple was twice that of Hilton. Hence, Hilton's high debt to Ebitda ratio was high but not exceptional. *(Ludovic Phallipou April 5 2014; Hilton Hotels: Real Estate Private Equity)*

Post-LBO Hilton

In the years that followed, Blackstone restructured Hilton's management, debt structure and operational process channels. A strong relationship has developed between the asset managers and Hilton's management within the investment period. "A big part of the story is that we really transformed the company," Nassetta said, noting that his own relationship with Blackstone and with Gray extends beyond

11 to 20 years. “We took a company that was a great global business and had lost its way — and we breathed a lot of new life into it. We’ve gone from a mediocre performer in the industry to a leading performer in the industry, and that’s because we’ve built an incredible culture — a team focused on one purpose and one cause to do great things together.” *(Felix Frickle March 6 2021; Hilton Leveraged Buyout — The Hospitality Buyout of the Century).* Beyond the vast organizational changes Nassetta set out to make (one industry insider said Nassetta was persona non grata at Hilton offices and hotels in the early days), including moving the headquarters to the Washington, D.C., area, there was a huge debt cloud hanging over the company with loans maturing in 2013. It was still years away but the economy was souring, Lehman's demise was on the horizon and, with it, the Great Recession, which did not augur well for travel. Blackstone and Hilton worked fast to restructure the debt. According to the Washington Post reports, in subsequent months they negotiated with the banks who held the notes and were able to work out new terms that not only pushed the maturity of the loans out to 2015 but forced the banks to take a loss of some $1.2 billion after Blackstone bought back $2 billion worth of debt for $800 million. On top of that, the consortium of banks that held the loans removed another $2 billion from the debt by converting it into Hilton's preferred stock. *(David Eisen- June 26, 2022; Blackstone made a fortune on Hilton. Is it the last of the Hotel megadeals?)*

Exit & Profit Statistics

In December 2013, Blackstone took Hilton public through one of the largest IPOs and raised approximately 2.35 billion dollars. However, Blackstone retained a 45.8% stake at that time. Over the following period, Blackstone gradually sold its stake through secondary offerings. By 2018, Blackstone had fully exited its investment, creating a total profit of over 14 billion dollars, making it one of the most successful leveraged buyouts in history. Blackstone invested around 5.5 billion dollars in equity, therefore the profit-to-investment ratio would be approximately 2.55 since the other amount was raised through leverage. In other words, they yielded a profit of around 255% of their investment.

2.2 The Sad Case of Toys “R” Us

Toys "R" Us is a major example of the negative impact that PE can have on a business. Acquired in 2005 by Bain Capital, KKR, and Vornado in a 6.6 billion dollar LBO, the company was burdened with 5 billion dollars in debt. This left no room for reinvestment in its operations, such as improving its stores or competing with other brands. By 2018 it was unable to service its debt and finally had to file for bankruptcy, resulting in the closure of over 700 U.S. stores and the loss of 33,000 jobs.

Toys “R” Us: Toys "R" Us is an American toy, clothing, and baby product retailer owned by Tru Kids (doing business as Tru Kids Brands) and various others. The company was founded in 1948; its first store was built in April 1948, with its headquarters located in Parsippany-Troy Hills, New Jersey, in the New York metropolitan area. *(Wikipedia; Toys “R” Us)*

Bain Capital: Bain Capital, LP is one of the world's leading multi-asset alternative investment firms. It is an American private investment firm based in Boston, Massachusetts, with around $185 billion of assets under management. It specializes in private equity, venture capital, credit, public equity, impact investing, life sciences, crypto, tech opportunities, partnership opportunities, special situations, and real estate. Bain Capital invests across a range of industry sectors and geographic regions. *(Wikipedia; Bain Capital)*

KKR Co. & Inc. (Kohlberg Kravis Roberts & Co.): KKR & Co. Inc., also known as Kohlberg Kravis Roberts & Co., is an American global investment company. As of December 31, 2023, the firm had completed private equity investments in portfolio companies with approximately $710 billion of total enterprise value. Its assets under management (AUM) and fee-paying assets under management (FPAUM) were $553 billion and $446 billion, respectively. *(Wikipedia; Kohlberg Kravis Roberts)*

Vornado Realty Trust: VRT is a real estate investment trust formed in Maryland in 1982, with its primary office in New York City. The company invests in office buildings and street retail in Manhattan. *(Wikipedia; Vornado Realty Trust)*

Pre-LBO Toys "R" Us

It was 1948, and Charles Lazarus had a hunch. Newly returned from World War II, he knew he wanted to go into business, and he knew—long before the term "baby boom" was a common phrase—that his friends were about to start having lots of babies *(Erin Blakemore March 19 2018; Inside the Rise and Fall of Toys 'R' Us).* The brand was originally founded as a baby furniture retailer. In 1966, it was acquired by Interstate Department Stores Inc. In the late 1950s, the focus of the store changed and became dedicated exclusively to toys. The store chain grew successfully and built a brand which was recognizable to many children born in the 1960s and 1970s, and it is in the success of the birth of popular culture successes of action figures. The brand grew and became much more famous by the early 2000s, however, profits dwindled during 2003-2004 due to certain developments in the retail toy industry.

Interaction between Toys "R" Us and Private Equity

Facing both difficult industry trends and weak performance of U.S. toy stores during the 2003 holiday season, Toys "R" Us decided to conduct a strategic evaluation of its worldwide assets and operations. At that time, their financial advisor was Credit Suisse First Boston (CSFB).

The Company and CSFB initially decided to separate the U.S. toy retailing business and Babies "R" Us by running a thorough sale process for its toy retailing business. However, participants in the auction determined it would be too difficult to uncouple the businesses. One participant said, "It would be like selling your kitchen to one buyer and your dining room to another". *(Toys 'R' Us Narrows Suitors to Four," Wall Street Journal, March 1, 2005)* With no compelling bids for any of the individual businesses after an extended period, pressure increased for Toys "R" Us to sell the portfolio of businesses together. Ultimately, a consortium that included Cerberus, Goldman Sachs, and Kimco Realty Corp. submitted a bid for the entire business. Subsequently, Kohlberg, Kravis & Roberts teamed up with Bain Capital Partners and Vornado Realty Trust (Bain and Vornado initially joined to bid on the toy business) and submitted a rival bid. On March 17, 2005, the Company announced that it had reached a definitive agreement to sell all of its worldwide operations to the consortium of KKR, Bain Capital, and Vornado Realty Trust. *(Toys "R" Us Company Press Release, March 17, 2005)*

The LBO

The company was sold for 26.75 dollars per share in a 6.7 billion dollar transaction. The $26.75 per share winning bid for Toys "R" Us represented an aggregate value of $6.7 billion, including all transaction fees. It is important to note that as part of the transaction, the consortium assumed the Company's existing debt and cash not used in the transaction. As per the agreement under this transaction, the company's CEO and president were to leave and were replaced by an interim CEO appointed by the consortium.

Post LBO Toys "R" Us

Strong debt curbed Toys "R" Us' ability to operate by diminishing its retained earnings. This restricted the scope for e-commerce operations and overall business strategy during rapid changes in the retail industry. The growth and advent of e-commerce giants like Amazon and Walmart, which offered competitive pricing and convenience, further damaged Toys "R" Us' condition. It struggled to adapt to these shifts, maintaining outdated stores and failing to increase its online presence. In spite of attempts to increase profits through new toy lines, international operations, and brand identity, they could not generate enough revenue to service the back-breaking debt.

Bankruptcy

On September 18, 2017, Toys "R" Us, Inc. filed for Chapter 11 bankruptcy, stating the move would give it the flexibility to deal with $5 billion in long-term debt by borrowing $2 billion so it could pay suppliers for the upcoming holiday season and invest in improving current operations *(Hals, Tom; Rucinski, Tracy - September 19, 2017; "Toys 'R' Us seeks bankruptcy to survive retail upheaval).* The company hadn't made a profit since 2013 and reported a net loss of approximately 164 million dollars in the quarter ending April 29, 2017. Finally, on March 15, 2018, the bankruptcy court approved Toys "R" Us to liquidate its stores before it emerged from bankruptcy as Tru Kids on January 20, 2019.

Chapter 3: Economic Impact & Performance

If the role of Private Equity as a messiah were to be explained in simple terms, it would go around like this: When a business experiences difficulties, private equity firms can buy the entire business or a stake in it and try to improve its performance. These firms feature experts. Many come from a business or financial background and bring knowledge and finance to struggling businesses. They help businesses regain their place in the market and help them thrive. By helping companies, these firms enable employees to keep their jobs and once successful again, the company can recruit more people. Moreover, it reduces pressure on the target company to go public. Also, unlike other investment methods, Private equity investments are typically held for several years, allowing for a long-term strategic approach. This long-term focus can enable companies to pursue growth and development initiatives without the short-term pressures that public companies often face from quarterly earnings reports and market expectations. As a result, PE is a good mechanism for funding innovation and bringing a positive change in society. However, there are always two sides to a coin.

In this paper, to measure the economic impact of PE firms, the following parameters will be used: a) Business Growth & Impact b) Employment c) Impact on Consumers and d) Sustainability & ESG

3.1 Economy & Private Equity

Business Landscape

The global financial crisis and the subsequent sovereign debt crisis have changed the landscape of the economy and its financial sector. Banks are looking at cleaning up their balance sheets and getting rid of bad loans while improving their capital ratios. As a consequence, the banks have significantly reduced their lending to businesses, and have also increased the costs for such loans. This is hurting in particular SMEs, as their access to bank financing has been hurt the most. This has clear negative consequences for the real economy. Several private equity managers therefore target companies that find it hard to access capital. Fund managers actively research markets and closely follow interesting companies to be well-positioned when capital is needed. They have also built industry networks that allow executives, owners and trade sellers to approach them. Therefore, it can not be denied that PE doesn't affect capital, it is one of the most optimum strategies for companies to raise capital as PE is a long-term investment strategy and includes other benefits as well. As explained in Chapter 1, PE also streamlines business operations and cuts costs. However, an essential component of the "magic PE sauce" is the back-breaking debt which the target company has to pay, no matter what. Loan repayments significantly reduce retained earnings and thus the company is unable to scale its operations and continue earning profits. The result of this is very obvious: In 2023, private equity-owned companies accounted for 16% of all U.S. bankruptcy filings.

Additionally, across various sectors, PE-owned companies are twice as likely to go bankrupt compared to public companies, primarily due to the high levels of debt associated with typical private equity deals. *(pestakeholder - June 20, 2024; Don't blame the shrimp: How private equity is bankrupting America)* Corporate narratives hypocritically place blame on consumers as scapegoats for financial strains. For instance, Red Lobster attributed its bankruptcy to their endless shrimp deal, suggesting that consumers' excessive eating in the all-you-can-eat promotion was the cause rather than addressing the company's debt history. Similarly, 99 Cents Only Stores, which recently filed for bankruptcy, had CEO Mike Simoncic claiming that the retailer's struggles stemmed from the COVID-19 pandemic, shifts in consumer demand, and even shoplifting *(David Hamilton; California-based 99 Cents Only Stores is closing down, citing COVID, inflation and product theft - AP News)*, despite crime data not indicating a nationwide increase in retail theft. *(Ames Grawert & Ram Subramanian - March 7, 2024; Myth vs. Reality: Trends in Retail Theft - Brennen Centre for Justice)*
Therefore, while PE has significant achievements like the Hilton case, the overall strategy is very risky and likely to fail due to the back-breaking debt which these target companies have to fulfil. Moreover, as statistics indicate, PE firms often reduce R&D investment *(Journal of Finance, 2021).* On the contrary, PE-backed businesses account for 5% of the USA's GDP and PE has expanded into emerging markets with a 20% increase in investments. Due to such arguments from both sides, PE can't be dismissed as either good or bad for the business landscape, unless we delve into sector-specific activity, for example: In retail 1/3rd of PE-owned companies have filed for bankruptcy within 5 years of acquisition. (*Private Equity Stakeholder Project, 2023)*

Employment

If we are to discuss the employment factors, there are two things to keep in mind: job creation & layoffs. If we consider job creation, as of 2022, PE-backed companies directly employed approximately 12 million workers in the US, accounting for about 6.5% of its GDP, which is around 1.7 trillion dollars in economic output. *(American Investment Council - April 24 2023; New EY Report – Private Equity Fuels Job Growth, High Wages, and Small Businesses)* In the case of Europe, businesses benefiting from PE investment employed around 10.2 million people in 2019. These companies added over 254,000 jobs in 2019, achieving an employment growth rate of 5.5% *(Invest Europe- 27 May 2021; Private equity backed companies create more than 250,000 jobs, growing more than six times faster than the European average).* Now, solely based on these statistics, PE appears to be quite beneficial in terms of employment. However, layoffs are also an important aspect to cover. In the first half of 2024, PE firms were involved in 65% of the largest U.S. corporate bankruptcies. Bankruptcies themselves result in automatic layoffs. Layoffs are also a fundamental activity enshrined in the basic operational functioning of a company acquired by PE because cost-cutting is one of the major activities undertaken post-buyout. However, this is also different in different cases. For example, In Sweden, it has been documented that employment remains unchanged *(Bergstr¨om, Grubb, and Jonsson, 2007)*, but in France, private equity firms appear to provide capital to firms, which generates positive employment growth *(Boucly et al., 2011).* Therefore, the net impact of PE on employment varies case by case but is generally neutral to slightly negative. While PE can drive growth and job creation in some businesses, the widespread use of cost-cutting and restructuring often offsets these gains, resulting in limited net job growth or mild job losses overall.

Consumer Welfare

Since the PE partners who work with the target companies don't have particular experience in any industry, they can't improve the quality of the goods and services supplied by the company. So, the most basic strategy in this case to increase profits is simply issuing state-of-the-art price-increasing strategies. Therefore, PE firms make the target companies lay an emphasis on financial engineering and consumer exploitation to derive maximum profits. In other words, as author Math Stoller has said, PE firms act as vectors for price gouging and legal arbitrage. A report in 2020 by the *Pew Research Center* discovered that editorial staff layoffs of 50% or more were common among PE-owned publications. Like, GateHouse Media (now Gannett), owned by Fortress Investment Group, executed severe staff cuts across its local newsrooms after acquiring newspapers. This lead to detrimental impacts on content quality due to low local coverage, increased reliance on wire services etc. Other examples include the hotel industry, where hotels backed by PE firms have eliminated complementary services like Wi-Fi or breakfast, whilst increasing room rates by 10-20%. On the contrary, it has often been argued that the pricing strategies, mainly the price increases are facilitated by expansion and increasing production costs rather than the direct motive of increasing margins. However, this is a weak argument to defend the exploitative nature of the corporate, simply because the expansion costs in it of themselves are covered by the funds invested by the PE firm. Therefore, an argument that expansion and increase in operations require higher selling prices is fundamentally flawed.

Thus, it is safe to conclude that in general, strategies employed by PE focus on short-term returns rather than consumer retention and welfare and that these practices eventually have adverse effects on consumers.

Sustainability & ESG

ESG stands for environmental, social and governance and refers to a set of standards used to measure an organization’s environmental and social impact. It’s typically used in the context of investing, although it also applies to customers, suppliers, employees and the general public. ESG has rapidly become a key source of differentiation and value creation for private equity funds, with the potential to unlock lasting benefits. PE firms which apply ESG in their practices see significant returns including lower costs and employee engagement. Moreover, institutional investors prioritise investments that align with ESG to meet public expectations and CSR. A report by Prequin in 2023 found that around 60% of investors considered ESG an important factor for PE selection. There are laws and regulations as well that mandate PE firms to disclose ESG impacts, for example, the SFDR in the EU. ESG due diligence is also useful in the case of profits as well because it helps to identify risks like regulatory penalties and inefficiencies in operations. Moreover, a direct link between higher returns and good ESG practices has also been identified by a 2022 McKinsey study which reveals that ESG-aligned companies had approximately 20% higher valuation multiples. However, it should still be kept in mind that the classic PE model prioritises quick returns which conflicts with the concept of sustainability and ESG. Notable contributions by PE in this field include: Carlyle Group’s 4.6 billion dollar renewable energy fund in 2022, KKR’s strong DEI (diversity, equity and inclusion) programme and Blackstone’s strong ESG integration which has led to a 15% reduction in emissions across its portfolio by 2023. As it stands, ESG is not optional as it is a critical component in risk management. Despite challenges, firms which successfully manage to integrate ESG in their operations ultimately benefit from the stronger value creation.

3.2 Performance from an Investor’s Perspective

On average, PE funds generate net returns of around 12-15%, outperforming high-end public equity returns (eg: Fortune 500 - 8-10%). However, returns may vary across different regions and scenarios. As the statistics indicate, top-quartile PE funds outperform public markets by a margin of 2-4%. In the context of private equity as a whole, returns are highly skewed towards top-quartile funds, whilst the funds at the bottom typically deliver either break-even or negative returns. However, since PE funds involve a higher risk, it is to be noted while ascertaining the performance of these funds. *(Ludovic Phalippou & Oliver Gottschalg; The Performance of Private Equity Funds).* Moreover, due to the high unconditional management fee that these funds charge, the risk factor often increases, not to mention that a further performance fee is derived after exit if the fund meets a certain returns threshold. The study by Professor Phalippou and Oliver Gottschalg also finds out that there is a bias in performance reporting, as datasets tend to include better-performing funds. Correcting for this bias lowers the perceived performance by around 4% in profitability indices. The lengthy lock-up periods, often 7-10 years, demand substantial patience and liquidity planning from investors. However, practically analysing, lengthier lock-up periods should equate to higher returns, which is not observed in the case of PE. Comparing this with real estate, REITs offer 7-12% returns and better liquidity and passive income access. Although, PE does stand as a better alternative to hedge funds. Hedge funds tend to employ aggressive strategies that include leverage and derivatives, resulting in higher risk and potential for both rapid gains and losses. This contrasts with private equity's more stable approach, which involves illiquid investments requiring capital commitment for several years before realising returns.

In conclusion, the PE sector is characterised by highly skewed results. The top-quartile funds generally outperform other investment strategies and generate significant returns. In contrast, low-end and medium-level funds do not manage to achieve such results, or results even close to the ones achieved by the high-quartile funds.

Chapter 4: Private Equity & Market Domination

When a Private Equity firm acquires a company in a fragmented market, that is a market with a lot of competition, then the PE firm will inevitably try to destroy the competition. The objective of this is very simple; to enable the PE firm to raise prices and reap more profits.

4.1 Case Study of Nordic Capital

After Nordic Capital (a PE investment firm) acquired Ryds Bilglas, (Established in 1947 by Erik Ryd in Sundsvall, Sweden. It is a leading company specializing in vehicle glass repair and replacement services. Over the years, it has expanded its operations across Sweden and into Norway and Denmark.) it initiated a wild spree, acquiring approximately one new company per month, acquiring 28 companies since 2019 *(tracxn; Acquisitions by Nordic Capital - October 4, 2024).* Nordic Capital has pursued an aggressive strength consolidation strategy, acquiring approximately one company per month to build a strong presence in the vehicle repair and replacement sector. Integrating complementary businesses such as vehicle glass specialists and collision repair shops has created a service network that delivers efficiency. Each acquisition strengthens its geographic footprint, infiltrating new regions and markets, while shared resources and technologies improve operations and cut costs. This consolidation strategy solidifies Nordic Capital's leadership in the industry.

4.2 Strength Consolidation

Now, in theory, competition and anti-trust laws should prevent this kind of market domination which eliminates competition. The question then arises: how does PE manage to get around the authorities and still pursue such strategies?

The answer is one simple term: Stealth Consolidation. Only large mergers must be reported to antitrust authorities. At the present moment, transactions valued below 110 million dollars in the US don't require any notification, and in many cases, even much higher thresholds apply. This isn't a problem if moderately

sized mergers are relatively harmless. However, many economically important industries are highly segmented, meaning each consumer is served by a small number of producers. In these cases, even minor mergers can produce major changes in market structure, competition, price, and quality. *(Thomas Wollman Dec. 15 2023; Is the FTC Targetting 'Strength Consolidation' by Private Equity?).* Therefore, we can define stealth consolidation as a type of business activity that involves merging or acquiring companies without notifying the government in advance. To facilitate their consolidation strategies, PE firms have hired lawyers to design specific nomenclature for their activities. PE doesn't "monopolise", it "acquires a platform". They don't "destroy competition", rather, they "streamline markets and make them efficient".
"Sometimes [the motive of a private equity firm is] designed to hollow out or roll up an industry and essentially cash out," Jonathan Kanter, head of the US Department of Justice's antitrust unit said in an interview with the Financial Times. "That business model is often very much at odds with the law and very much at odds with the competition we're trying to protect." *(Financial Times, 18 May 2022; Crackdown on buyout deals coming, warns top US antitrust enforcer)*

4.3 Adam Smith's Invisible Hand & Private Equity

The very ideology based on which private equity firms are founded is the concept of free-market capitalism and market economy. The fundamentals and main idea of which state that companies should compete because when they do so, a large number of benefits are derived: efficient and appropriate resource allocation, fair prices and consumer welfare is improved. This is, essentially, Adam Smith's invisible hand. These benefits can't be derived when there is no proper competition. In fact, operating in a free market economy structure without meaningful competition is fundamentally detrimental to society. The most basic result of this is increases in prices.

We can understand this better by looking at the case study of dental care in the United States. The dental industry in the U.S. has traditionally been fragmented and dominated by small, independently owned practices. This structure made it an attractive target for PE, seeking to capitalize on them due to their stable cash flows. PE stealthily infiltrated its market by acquiring independent dental offices under large dental service organisations (More commonly known as DSOs, dental service organizations are entities that dental practice owners contract with to manage the administrative, marketing and/or business sides of that dental practice.). This includes Aspen Dental (acquired by PE firm Leonard Green & Partners) which operates in more than 1,000 locations across the US. The largest DSO, Heartland Dental, backed by KKR, has consolidated thousands of dental care centres while retaining their original branding to maintain a "local" feel. These practices adversely affect customers. PE-owned dental care centres have been associated with increased costs to patients, as found by a systematic review. *(PubMed Central; Evaluating trends in private equity ownership and impacts on health outcomes, costs, and quality: systematic review).* Additionally, dentists employed by PE-owned practices often face pressure to meet financial targets, which can influence clinical decisions. *(Dr. Tyler Scott; The DSO Down-Low: How Private Equity Has Infiltrated Dentistry, May 10, 2024)*

The very essence of capitalism is powered by consumer choice. It is the sole reason for the existence of capitalism and current economics. Adam Smith's "invisible hand" thrives on this multiplicity, where the aggregation of individual choices facilitates innovation, efficiency and well-being. In a free market economy, the ability to choose among products and services is more than a practical concern; it is a manifestation of human agency. Limiting choice undermines the promise of capitalism, transforming consumers into passive participants in a market dominated by a few players.

4.4 Paradox of Competition Among Private Equity

The scenario of PE firms competing in the same sector leads to a race for scale and profitability, which can encourage innovation and increase consumer choice. However, businesses become over-leveraged or homogenized, leaving consumers with less distinctive choices. These dynamics highlight the paradox of PE-driven capitalism: while competition among firms should theoretically enhance choice, in practice, it often narrows the market to a handful of dominant players focused on financial extraction rather than diversity or innovation. This can be explained in an easier way using an example. In the fast-food and casual dining space, competition among PE-backed chains has been strong. Burger King (acquired by 3G Capital) and Wendy's (partially owned by Trian Partners) have engaged in expansion and marketing battles to capture greater returns and market share. Their PE investors pushed for cost reductions and streamlining of the supply chain to maximise profit. Moreover, a significant focus was also on advertising and brand establishment. Now, from a Top-bottom approach, this aligns with the spirit of capitalism as more competition would ultimately benefit consumer welfare. But when viewed from a bottom-up approach, this competitive dynamic pressured independent burger chains or regional businesses to leave the market or align with PE firms for survival. For consumers, the result has been fewer dining options and a landscape dominated by homogenized offerings made to mass appeal, leading to a decrease in diversity in the market.

Chapter 5: Proposed Model & Recommendations

In the context of the proposed model and recommendations, we will be focusing on ethics and sustainability. A general trend that we have seen across the performance and activities of PE, anti-competitive activities, consumer exploitation and back-breaking debt are the biggest issues.

5.1 The Transparency Contention

Much of this could be solved if there were measures to make these processes transparent. However, due to the very fact that these funds operate in the private sector, that becomes difficult as private markets are subject to less stringent regulations. There are also laws in multiple countries which further curb the need for transparency. For example, the Securities Act of 1933 in the U.S. exempts private securities offerings from registration requirements, provided they meet certain criteria. Moreover, PE firms operate on Limited Agreements which limit information sharing to only among the partners. Also, since the PE firm owes a fiduciary duty to the LPs and not the public, disclosures that could hamper their interest can't be made. Additionally, due to the fact that most PE funds contain high amounts of leverage, publicly disclosing details of such transactions might affect creditor negotiations or market perception, creating a legal incentive to maintain confidentiality. PE firms have to maintain secrecy to maintain their competitive advantage as well because of their original investment strategies. Therefore, due to all of the reasons mentioned above, the demand for transparency is not practical. But that does not mean that we can not target the issues listed above at all, there are other methods to do so.

5.2 Curbing Stealth-Consolidation

If all PE transactions were to undergo a mandatory review by anti-trust authorities, most of these problems could be solved, but that would require more government spending on such anti-trust authorities as the workload would increase. This would prevent stealth consolidation, the activity which leads to market domination by PE firms. Stealth consolidation occurs due to the fact that there are threshold limits and the transactions which are under these limits do not undergo scrutiny. Moreover, sector-specific rules for industries prone to stealth consolidation (healthcare, tech, agriculture) can be implemented. A redefinition of the term “anti-competitive” is also imperative to include not just large mergers but also patterns of serial acquisitions that cumulatively reduce market competition. AI can also be used to develop algorithms to track anti-competitive activities which can help regulators to assess the cumulative impact of multiple small acquisitions by a single entity within a sector over a defined period. A moratorium can be issued on acquisitions by certain PE firms when they reach a certain share of the market or a higher level of market domination. Implementation of these measures is definitely not easy or convenient and will take a lot of time, however, a step in the right direction is very much needed, very simply because PE is everywhere and has become an integral part of the world and the financial & business landscape.

5.3 How to Stop Consumer Exploitation by Private Equity

The very reason that consumer exploitation is practiced by PE-backed businesses is because of the fact that PE assumes control over operations while at the same time lacking operational expertise in specific industries. Therefore, increasing prices while not improving goods & services is their go-to strategy (as was explained in Chapter-3). However, anti-price gouging laws do exist which prevent price increases that are not justified by rising costs or supply chain disruptions. To get around these laws, PE firms integrate companies across the supply chain which allows them to indirectly influence pricing at different stages. Moreover, in the sectors in which PE is predominant, consumers have no choice but to pay higher prices without complaining due to no alternatives (healthcare, pharmaceuticals, housing etc.). Now, even if PE firms are required to submit detailed pricing policies to antitrust authorities, corruption and fabrication are also factors which are to be considered. A recommendation to create a public registry which documents price changes is also not a viable solution as the public has to be made aware of such an initiative and must also be able to understand such documentation at the same time, which is again a band-aid solution. The most comprehensive solution to deal with this problem would be to shift focus to improving product/service quality. If there is a balance of power and capacity between the influence of the PE firm and the management of the target company, sustainable business can be carried out. Greater investor engagement can also help to curb these practices as the major investors in PE are institutional investors like pension funds and sovereign wealth funds. Inclusion of employees of portfolio companies in decision-making processes, particularly during financial engineering, restructuring or layoffs is also a needed practice. Stronger enforcement of global mechanisms such as the UN Principles for Responsible Investment and Global Impact Investing Network for consistent ESG reporting are also useful in this context. Lastly, third-party audits to ensure ESG and CSR on the basis of standardized frameworks like the Global Reporting Initiative and Sustainability Accounting Standards Board is also a viable solution to implement.

Conclusion

This paper explores the evolution & impact of private equity on the financial and economic world, with an emphasis on leverage buy-outs. We have traced the history of private equity from its early roots in venture capital to its current activities of market dominance in many sectors. The themes of economic impact, changes in business landscape and sustainability have also been discussed. It has been carefully analysed that while private equity can contribute to job creation and economic growth, its reliance on high debt levels and aggressive cost-cutting measures can lead to instability and job losses. Moreover, in most cases, these firms engage in anti-competitive activities which ultimately lead to market domination and consumer exploitation. Nonetheless, it isn’t appropriate to assert that private equity is the root of all evil in the financial world, in fact a mechanism like this is also quite necessary. The concept isn’t flawed; the structure is. An in-depth analysis has revealed that although private equity is a creation and vector of capitalism, in practicality, it has contrasted with Adam Smith's invisible hand multiple times. A re-alignment of focus on improving the business' product/service quality, rather than severe cost cutting and financial engineering should be prioritised. **This will not only be beneficial for consumers, but also for the business itself because cost-cutting and price increasing are measures which can be taken only up to a certain extent and not beyond it, this is why many businesses acquired by private equity fail as they are unable to manage the debt along with scaling operations.** Additionally, certain reforms are also required for anti-trust laws and the authorities which handle enforcement of such laws to prevent market domination and anti-competitive activities.

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