Private Equity and Your Health

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We're starting to see private equity firms make short-term investments in companies all across the American business ecosystem. At best, they're looking to make a quick buck; at worst, they're looting the companies they 'invest' in and leaving others holding the bag. One recent example is the Red Lobster bankruptcy, which closed locations around the country and laid off 36,000 workers. A private equity company firm called Golden Gate Capital basically financed a takeover by selling the real estate under 500 of Red Lobster's restaurants for $1.5 billion, and the purchasing company then charged premium lease prices from the restaurants. By 2023, the rents totaled $200 million a year—amounting to 10% of total revenues.

You might have read that the 'endless shrimp' promotion was the cause of the bankruptcy, and it certainly didn't help. But a closer look reveals that this was part of the looting. A company called "Thai Union Group" bought the largest share stake in Red Lobster and then convinced the PE-installed CEO to make the endless shrimp a permanent menu item. This allowed Thai Union to dump its excess shrimp on the food chain—basically investing in the company in order to create a market for the excess inventory.

An academic report has looked into companies bought out and indebted by private equity and found that they go bankrupt 10 times more often than companies not purchased by these firms. You can bet that each of those bankruptcies enriched the 'investing' PE firms.

The private equity encroachment may actually be affecting our health. PE firms have become increasingly interested in for-profit hospitals, and the results of their efficiency measures (cutting staff and short-cutting procedures) are not encouraging. A Harvard Medical School researcher looked a data from 2009 to 2019 on 51 acquired hospitals vs. 259 hospitals that were not owned by private equity firms. The PE-acquired hospitals experienced a spike in infections, a 27% increase in patient falls, and a 38% rise in infections from IVs inserted to deliver drugs, fluids and other substances.

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At least 460 hospitals are now owned by private equity firms—accounting for 30% of all for-profit hospitals in the U.S. Many of these are not places you would want to be in for a significant procedure. Lifepoint Health, now owned by Apollo Global Management, has been cited for cutting staff and essential healthcare services, and selling off real estate for a quick buck. It ranks near the bottom of its peers in various measures of outcomes and health.

In addition, PE firms have purchased roughly 6,000 physician practices. And another study found that PE-owned nursing homes were associated with 20,000 additional deaths over a 12-year period. Until Congress or the regulators intervene, we can expect more of the same—but perhaps the outrage will start with healthcare.

Sources:

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