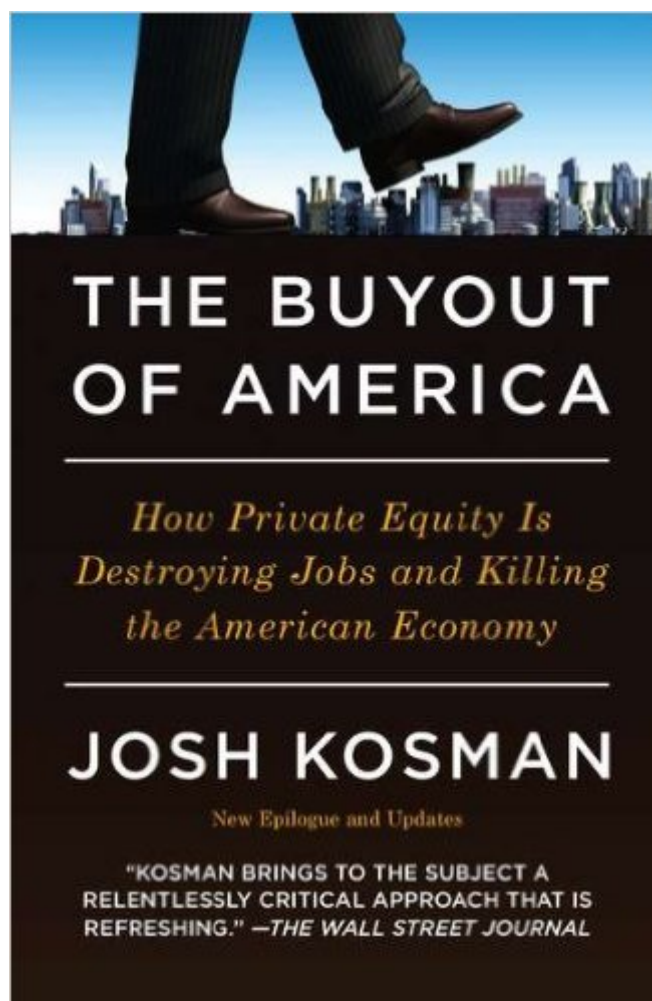


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The Buyout Of America: How Private Equity Is Destroying Jobs And Killing The American Economy



Synopsis

An authoritative exposé of the mysterious and potentially dangerous world of private equity. Marquee private equity firms such as Blackstone Group, Carlyle Group, and Kohlberg Kravis Roberts have grown bigger and more powerful than ever. They have also become the nation's largest employers through the businesses they own. Journalist Josh Kosman explores private equity's explosive growth and shows how its barons wring profits at the expense of the long-term health of their companies. He argues that excessive debt and mismanagement will likely trigger another economic meltdown within the next five years, wiping out up to two million jobs. He also explores the links between the private equity elite and Washington power players, who have helped them escape government scrutiny. The result is a timely book with an important warning for us all.

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Customer Reviews

In the Introduction, Josh Kosman offers what he calls a "little primer" on how private equity firms operate, explaining that they "buy businesses the way that homebuyers acquire houses. They make a down payment and finance the rest. The financings are structured like balloon mortgages, with big payments due at some point in the future. The critical difference, however, is that while homeowners pay the mortgages on their houses, PE firms have the businesses they buy take out the loans, making THEM responsible for repayment. They typically try to resell the company or take it public before the loans come due." It soon gets even more interesting. "As long as the PE firms could refinance, or turn around and sell off their holdings before the biggest loan payments came due, spectacular flameout bankruptcies could be avoided...PE firms would like to have us all think the

reason they try so hard to raise earnings in their businesses [by `starving companies of operating and human capital'] is so that companies can use these profits to pay down the money they borrowed to finance their own acquisitions. But the records show that during the 2003-7 buyout rush, that wasn't generally the case. Instead, they used the profits as a basis to borrow more money. The new loans, which were piled in top of the original debt taken on to finance the LBO, were used to issue dividends" to the (you guessed it) PE firms. What if all, most, or even only some of the companies collapse? No problem. The PE firms have incurred no debt while receiving dividends as well as substantial management fees. "Despite the credit crisis in 2009," Kosman notes, "PE firms are sitting on roughly \$450 billion in unspent capital and itching for more deals." Of course they are. Given their circumstances, would wouldn't?

Josh Kosman writes as a journalist experienced in coverage of Wall Street and other large financial deals. He brings his extensive journalistic background of about 10 years data gathering to bear in this sweeping indictment of Private Equity (PE) firms. Kosman has a mountain of data and stories to tell which clarify the dangers PE firms impose on our economy. It's not just the 10% of American workers that are either terminated or extremely overworked being affected. The investors marshaled by the PE management also often come up short - losing money in pension funds, investment bank loans and other macro-economic areas that further hurt the economy. The author provides names and extensive details making his book a strong opening salvo for the discussion he wants to bring the American people (and others) into. He has a web site listed in the book that is also for this purpose. Kosman predicts that defaults on PE investment loans between 2012-15 will lead to the next credit crisis and it is about the same size as the mortgage crisis we are in now. The same easy lending policies that allowed subprime loans for houses also funded massive leverage buyouts via PE financiers. The PE financiers are so greedy in Kosman's account that it is incredible, yet he backs it up pretty convincingly. The lavish lifestyle and cavalier attitude towards society of LBO kings is pretty well known anyway, but this book details the savage business practices that leave a wake of destruction where only the PE interests are assured of walking away whole. It is amazing how much these PE financial wizards get away with in Kosman's accounts and that leads to what I think is the books' primary weakness.

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