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GOALS FOR THIS SECTION



- 1 - What is private equity?**
- 2 - What are the pros and cons for unsecured lenders?**
- 3 - How can credit managers mitigate the risk of dealing with private-equity owned companies?**

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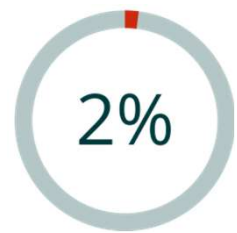
WHY SHOULD CREDIT MANAGERS CARE?

TEN-YEAR BANKRUPTCY RATE

2014-2024

PRIVATE EQUITY:

OTHER OWNERSHIP:



LBOs Make (More) Companies Go Bankrupt, Research Shows
<https://www.institutionalinvestor.com/article/2bawdyzrjhh0oc1n1lvk/comer-office/lbo-make-more-companies-go-bankrupt-research-shows>

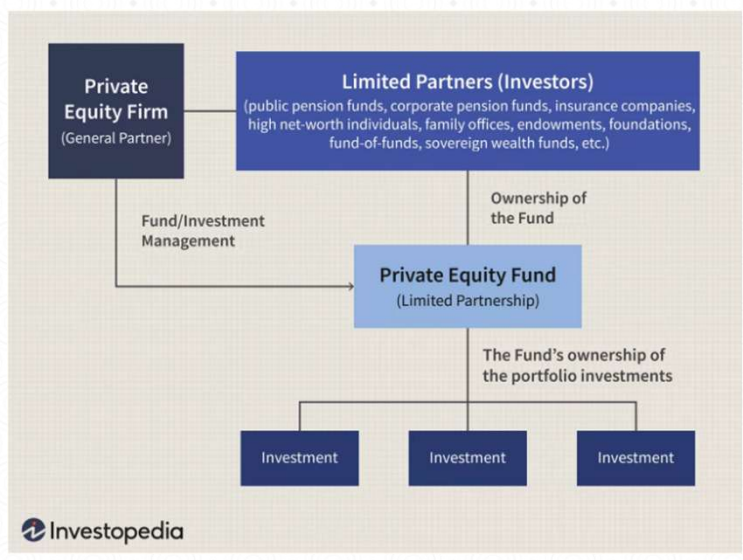
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WHAT IS PRIVATE EQUITY?

Private equity involves investing in non-public companies, actively managing them, and then exiting the investment.

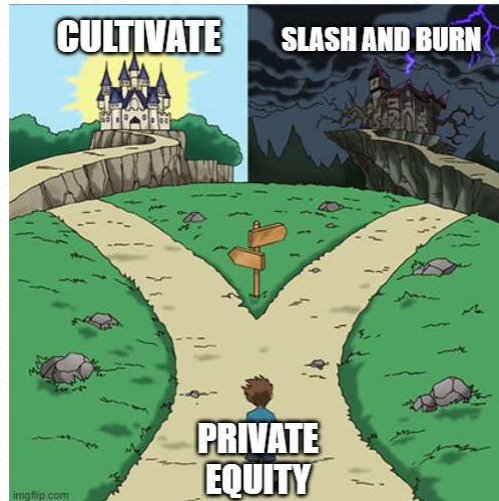
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HOW DOES IT WORK?



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TWO OUTCOMES



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PRIVATE EQUITY SUCCESS STORY: HUGO BOSS

Aimed to transform from wholesale supplier to a branded retailer, focusing on the core Hugo Boss brand.

Targeted growth in key Asian and US markets with significant investment.

PE backing fueled rapid store expansion (700+ in 6 years), brand refresh, online development, and operational improvements.

Reinvigorated management with the appointment of a former Dior CEO and strengthened the womenswear division.

Achieved substantial increases in retail stores (287 to 1000+), employees (9k to 12k+), revenue (49% growth to €2.4bn), and US/Asia sales (38%).

Private equity and venture capital success story
<https://www.investeurope.eu/about-private-equity/private-equity-and-venture-capital-success-stories/hugo-boss/>

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PRIVATE EQUITY NIGHTMARE STORY: JOANN FABRICS

- Leveraged buyout and management fees
- Management focused on cutting costs and services
- Questionable IPO
- Aggressive, expensive expansion without guaranteed returns
- Lost trust of trade creditors, leading to inventory shortages

<https://fortune.com/2025/03/29/joann-fabrics-transformation-retail-darling-bankruptcy-disaster/> §
<https://jasonmiller15.substack.com/p/how-will-retail-landlords-fare-if>

EXPLODING TREND: PRIVATE CREDIT





ADDITIONAL RISK FACTORS

- 

OPAQUE FINANCIAL POSITION

Target companies are privately held and rarely share financial information
- 

CASH FLOW RESTRICTIONS

Private-equity firms often place tight constraints on cash flow and payment terms
- 

OVERLEVERAGED

 - Dividend recapitalization
 - sale-leasebacks
 - Leveraged buyout (LBO)
 - Excessive Management fees
- 

INSULATED FROM LIABILITY

Private equity firms are not liable for the bankruptcy of their acquisitions

<https://www.abi.org/feed-item/private-equitys-abuse-of-limited-liability>

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HOW CAN YOU PROTECT YOUR COMPANY?



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EDUCATION AND RESEARCH



How do you know if they are private-equity owned?

What does the PE firm's portfolio composition?

- Portfolio Analysis
- Customer Alignment

What was the fate of previous investments?

- Analyze exit strategies
- Investigate problematic exits

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ASK THE RIGHT QUESTIONS



How has the PE firm invested in the target?

How was the acquisition structured?

**What is their credit revolver?
What bank do they use?**

What is the expectation for Div Recap?

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PREPARE YOUR TEAM



Talk to your sales managers about private equity risk before it is an issue

Make sure your credit team knows what to do

Involve all internal stakeholders as soon as possible