

Differences between Investment Banking and Private Equity culture

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A large majority of private equity professionals have an investment banking background, and many investment bankers are thinking of making a switch to private equity one day. However, there are some major differences in skillset and culture between those two professions. Often, private equity firms would like to hire bankers "early," i.e. after one or two years' experience at an investment banks. The reason is that those firms are sometimes afraid that a potential recruit who has spent too much time in investment banking will acquire a "banker mindset". Below are some of the key differences between those two jobs.

Private equity involves using your brain a lot more

A lot of investment bankers tend to be deal-driven. The "hunger" to close many large deals is actually a weakness in private equity because it's not about generating fees anymore. Private equity professionals need to do good deals and be ready to step back even after months of hard work if the deal will not generate sufficient returns. What does this mean in practice? This means that you will spend a lot of time analysing the industry in much greater detail compared to banking, assessing management team's ability to meet the targets, think about exit strategy, incentives, deal structure, all possible or potential downside risks, and countless other issues that could make the deal good or bad. Private equity is not gambling or even venture capital investing in which you would typically expect a few losses. Private equity is about generating consistent high returns with minimum risk.

Private equity is a long-term game (5+ years)

While the pay might be a little bit higher or lower in PE (depending on the fund size), the money is made from the “carry”, i.e. the share of the profits when companies are sold. This carry is earned over time, so it doesn't make sense to jump from one place to another anymore. A bad year in banking might prompt you to change your employer, but a bad year in private equity will just be a fact of life and you need to take a more long-term view. In addition, the few partners who run the firm will make the decisions about carry allocation, so building long-term relationships with them will be very important to your financial success.

You think you are good at modelling? Think again

While many bankers are very good at modelling, private equity modelling tends to be much more detailed and focus on completely different issues. Modelling in private equity often depends on designing the optimal capital structures (debt/equity) and also the incentive structures (preference shares, bonuses, management equity, etc.). The modeling tends to be much more complex and detailed, so assumptions in your operating model will be challenged by the team and due diligence advisors. In addition, the pressure is much more intense because the deal team will rely on your model to make investment decisions, so millions will be at stake.

Showing an entrepreneurial mindset is key

Being creative and entrepreneurial are very desirable characteristics for most PE funds. Finding deals, networking, formulating new ideas, and considering all kinds of risks and opportunities around deals and companies can make a substantial difference to the profitability of the firm. Also, private equity professionals need to understand the in-depth aspects of overseeing companies; therefore professionals with some start-up or entrepreneurial experience are valued because they understand all of those important details.

Working hours may not be shorter!

If you work for a very large firm - hours will be banking hours. Even if you go to a smaller firm, you will still work a good 60+ hours per week and your schedule will remain somewhat unpredictable due to due diligence meetings, management meetings, and other deal-related, last-minute requests. While the lifestyle is better, you're still working in a deal-driven environment.

The pay

The base salary and bonus structure might not differ that much from that in banking, but the money in private equity is made when a fund closes and when exits are made. Don't be expecting a steady bonus and promotions every few years. What matters most now is the fund performance, not your own individual achievement. You may have built the best models and worked on the biggest deals, but if the returns are not there, you won't get paid.

The grunt work

The amount of grunt work definitely decreases in private equity. There are fewer administrative tasks, printing of books, and many people-intensive tasks can be outsourced to banks and advisors. But essentially, what you do is the same as in banking: analysing companies, building operating and LBO models, dealing with all the legal documentations (i.e. reviewing NDAs, term sheets) and making presentations to the investment committee.

Finding deals

Finding deals is something completely new for investment bankers. While you will not be expected to bring deals immediately, eventually the team members will expect you to be able to build relationships with bankers and screen through the deals to find some that are appealing, and also to cold call or approach companies directly. This is a key aspect of becoming a private equity professional; many junior bankers find the transition difficult as they have been handed out deals to work on in their banking days.

Social life

Social life in investment banking can actually be quite exciting. You're working in firms with thousands of employees; there are many peers to discuss and to share your war stories with, junior bankers are usually all below 30 and there is a work hard/play hard mentality. Also, the turnover is quite high in banks; new analyst and associate classes arrive every year, so it can be a very stimulating environment. Private equity is completely different. Teams are small (maybe 10 to 30 people), many of the partners and senior investors are much older, and people don't really move upward or downward. Considering that the typical profiles of private equity professionals tend to be quite "standard" (i.e. top school, investment banking/strategy consulting background, etc.), therefore social life tends to be less fun. Choosing the right firm with the right culture fit is very important and you need to make sure that you will get along with your interviewers.

Communication skills are extremely important

Communication skills and personal skills are extremely important in private equity. You can be a top modeller and be extremely hardworking. However, to convince the investment committee, get people in the firm to support you, get the management team to work with you, and find out the best deals from the intermediaries, you will need for people to like you. Most of the senior private equity professionals are charismatic individuals (at least when they need to be), and there is little space for professionals who are either too shy or arrogant.

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