

What Is So Good About Private Equity?

Private Equity › Interview Preparation



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If you work in investment banking long enough, you'll often hear about private equity and meet bankers wanting to move to private equity. But why do people want to get into this field and why is it so competitive? A few answers below:

The job is considered more intellectually challenging than investment banking

In investment banking, you are merely advising companies on what to acquire and divest, or on ways to optimize their finances, while private equity professionals take the risks by directly investing money in companies. A private equity job not only involves crunching numbers and pitching ideas, it also requires finding attractive potential targets, understanding key dynamics in various industries, understanding how companies are run, and actually helping to organize the management of those companies. PE professionals must have the necessary personal and communication skills to get on with the management and create a solid network, and obviously, you need to understand M&A and financial modelling extremely well. Overall, private equity is thought of as a much more "well-rounded" job.

The lifestyle is better than investment banking

Private equity firms do not have clients, and in general don't have to prepare presentations at the last minute, so all-nighters are highly unlikely. They also outsource many of the more labour-intensive tasks: banks help them find targets while managing acquisition and sale processes, consulting firms help them with due diligence, and accountants help them with the financial side. This is not to say that private equity professionals do not work hard when they are on deals, and there will definitely be quite a lot of late nights during due diligence process, but on average the hours are significantly better. On the flip side though, while the pressure is not as constant as in investment banking, PE firms give a lot of responsibility to their juniors, so pressure to perform is actually much greater: you won't have an associate or VP to double-check your work before it goes to the partner, so you're on your own. Also, private equity is often considered to be a "solitary" job compared to investment banking: you don't have as many colleagues and the camaraderie is just not the same in private equity firms, compared with investment banks.

The long-term pay is better

If you work in private equity, one part of your long-term compensation will come in the form of "carry", which is essentially a percentage share of the gain that the fund makes when selling investments. This can be a substantial amount and equal to several millions over a few years if the fund is successful, hence the attractiveness of the private equity business model.

The "prestige" factor is greater

Private equity investors are on top of the financial food chain. They buy and sell large companies across sectors and countries, sit on management boards, coach and advise CEOs, and have top investment banks and consulting firms working for them. For example, firms such as the Carlyle Group manage over \000 billion and, through their investments, employ over 400,000 people globally. Current and former employees include George Bush Sr, George W Bush, John Major (former British PM), two former prime ministers of Thailand, the former President of the Philippines and the brother of French President Sarkozy. In addition, private equity jobs are highly competitive because those firms employ very few people, and those people tend to stay for many years or decades with the same firm. Therefore, they are able to be extremely picky about who they employ, and the lucky few to make it in the industry can pride themselves as being among the "cream of the crop".

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