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Private Equity Career Guide

2019–2020

Your Post-MBA Career Starts Now!

Whether you are entering business school this fall, writing your applications, or just starting to look at MBA programs, now is the time to start thinking about your long-term professional path.

Explore your options and learn about typical post-MBA fields—including consulting, investment banking, and private equity—by downloading our free **Career Guides**.

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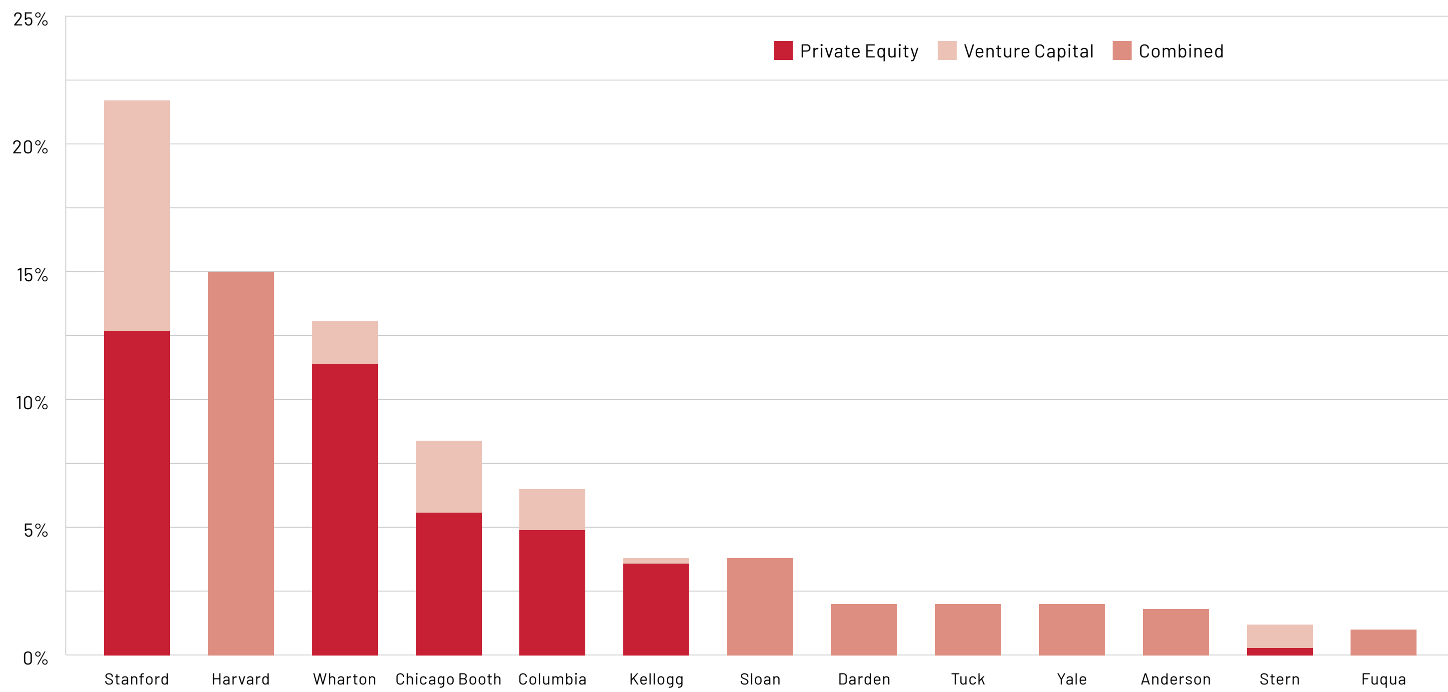
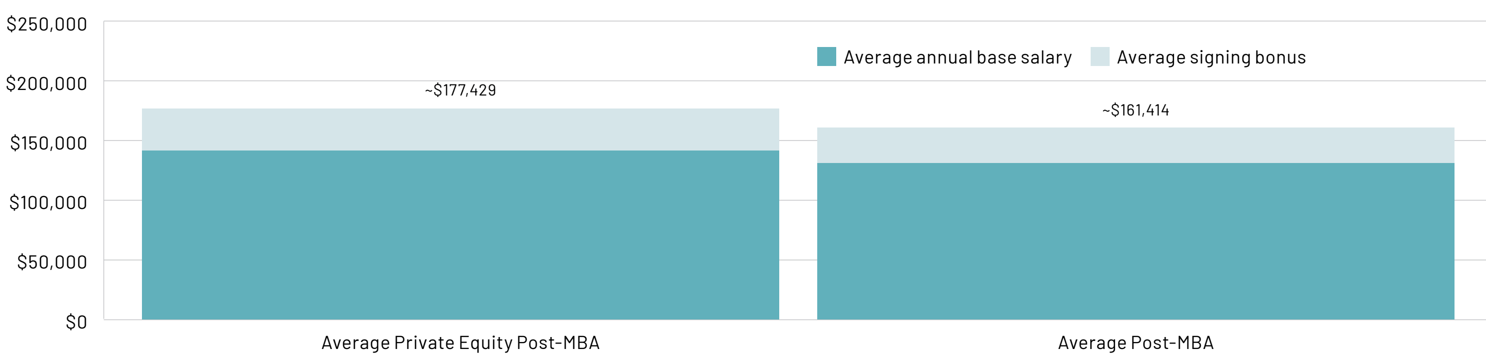
What do the data say about private equity recruiting?

Percentage of 2018 MBA Graduates Taking Jobs in Private Equity and Venture Capital



Source: School employment reports

Compensation at Private Equity Firms



Source: School employment reports

Undoubtedly one of the highest paying career areas for MBAs, private equity (PE) also offers excellent exit opportunities. PE is a demanding but rewarding career that pays more than nearly any other. The industry provides fantastic training, the excitement of constant opportunities for new deals, and exposure to a broad variety of business models and management teams.

The Org Chart

Although specific titles vary from firm to firm, PE professionals progress through four archetypal roles over the course of a career in the industry:

- Pre-MBA analyst
- Pre-MBA associate
- Post-MBA pre-partner
- Partner

Compensation in the industry typically consists of three components: a base salary, an annual bonus, and some portion of the firm's carried interest (or carry), which represents the portion of deal profits investors pay PE firms after a given fund's companies have been sold. The relative value of these components fluctuates over the arc of a career: pre-MBA analysts and associates receive little or no carry, while the value of most partners' carry tends to greatly exceed their cash compensation. Ordinarily, employees "vest" or earn an incremental fraction of their carry each year, creating what many view as a "golden handcuffs" situation in the industry: if you leave (or are fired) before a PE fund completes its life cycle by selling its assets, you will often forfeit 25%–75% of the carried interest compensation you would have been eligible to receive. In contrast, base salaries and cash bonuses are rarely tied to longevity.

Partner

Total compensation ranging from $1M–$10M+

Post-MBA Pre-Partner*

Total compensation ranging from $300K–$1.75M

Pre-MBA Associate

$100K–$150K with bonus ranging from $100K–$250K

Pre-MBA Analyst

$75K–$100K with bonus of 50%–100% of base

Salary range data is based on interviews with professionals in the private equity industry. Some variation may occur across firms.

**Post-MBA pre-partner roles begin at the senior associate or vice president level and advance to junior partner, principal, or director, hence the wide range of compensation at this career stage.*

Pre-MBA Analyst

Typically only present at very large and very small firms, the analyst resembles the entry-level investment banker (see our Investment Banking Guide). Pre-MBA analysts are usually culled from among the best performers in economics and finance at top universities (e.g., Wharton undergrad, Harvard, and Princeton) and work extremely long hours, focusing almost exclusively on quantitative work. Analysts are often expected to create and manage the "model," a comprehensive spreadsheet containing historical and projected financials for target and existing portfolio companies, and they rarely offer qualitative opinions on target valuations.

Pre-MBA Associate

Most often, pre-MBA associates are former investment bankers or junior consultants who have worked for two to three years after college. At firms without analysts, the pre-MBA associates tend to work extremely long hours (80 or more per week) because they usually must maintain the financial model *and* assist in qualitative analyses of prospective target companies. A typical day for an associate (given that one is often working simultaneously on several possible transactions) may include financial modeling; research phone calls with industry experts; investigative discussions with a target company's customers, suppliers, or even competitors; and, most important, the creation of investment committee memos, which vary in style from firm to firm, are almost always long and detailed, and outline the rationale for and risks involved in investing in a specific company. This role is challenging, but the compensation can be very significant, particularly considering that associates are often in their mid-20s.

Post-MBA Pre-Partner

The post-MBA pre-partner role demands the widest variety of skills. For example, someone in this position may spend a morning supervising an analyst's or associate's financial modeling and then spend the afternoon negotiating deal terms with an investment bank. Responsibilities in this role include seeking potential acquisitions through industry research; leading and managing teams as they assess potential acquisition opportunities; working with investment bankers, lawyers, and consultants to structure and codify deals (i.e., constructing the documents involved in the sale of a company); and, often most important, designing and directing the creation of internal investment committee memos that are primarily prepared by analysts and associates.

Partner

Becoming a partner at a PE firm represents the culmination of sometimes decades of long nights and the promise of stratospheric wealth. The life of a partner is much more manageable from a time perspective. The position revolves primarily around selling: convincing potential targets why they should sell their business to your firm; convincing investors why they should trust you to invest their money; and literally selling companies in the portfolio to new owners, who can range from strategic acquirers to public market investors (e.g., via an IPO [initial public offering]) to even another PE firm. This relationship-based job involves a fair amount of networking, corporate travel, and events (e.g., golf, dinners) that blend the personal and professional worlds.

Promotion from each rung on the ladder to the next is by no means guaranteed; promotion rates vary widely from firm to firm but average approximately 50%–75% at each phase. Unfortunately, for every 12–16 pre-MBA analysts or associates who begin working at a firm, only a few are likely to become partners.

What is the job?

PE firms buy large, established companies using a combination of investors' money and borrowed debt, improve those companies, and then typically sell them five to seven years later, ideally for a significant profit. PE investing is a demanding job requiring a mix of soft and hard skills, and the job can be exhausting, with investors spending significant time on the road, evaluating target firms. This evaluation process is known as "due diligence," and it includes both a quantitative component (developing financial models to forecast potential profits and cash flow) and a qualitative component (conducting rigorous research of the target company's competitive position and industry). As an acquisition becomes increasingly likely, PE associates may find themselves in multiweek "sprints" (all-nighters), racing to complete diligence before word of the deal leaks out, potentially scuttling an acquisition.

Further compounding the job's intensity is the fact that associates typically work on several potential deals simultaneously. With three or four live opportunities at all times, in addition to maintenance work on existing portfolio companies, the job is often characterized by one exhausting and high-pressure deal after another. Once a company has been acquired, investors work with the company's management—often on-site—to improve the organization's operations, grow profits, and pay down borrowed debt. After several years of working with a company in this way, investors typically assist and may lead the company's management with a sale process.

No, really, what is the job?

PE employees often find themselves working 100-hour weeks and going years without a vacation. Pre-MBA analysts and associates spend most of their time working on financials, post-MBA pre-partners focus on conducting substantial research on target acquisitions, and partners usually work with company management teams and meet with investment bankers regarding potential acquisitions. The only constants among the various roles are travel, frequent shifts between hard and soft skills (e.g., from financial analysis to motivating a company's CEO), and a high degree of intellectual rigor.

Acquiring multibillion-dollar businesses may sound glamorous, but this career is often grueling, and most work ends up being for naught because only a small fraction of deal processes actually result in a successful transaction. Once a deal has been completed, moreover, the pressure to achieve ambitious financial goals is intense. Seasoned PE associates shared some of their experiences with us:

> Right after we bought the company, revenues totally fell off a cliff. I moved to the company's headquarters in Florida and began working day-to-day with the CFO and heads of operations to begin finding ways to cut costs. We reorganized the menu and had to cut some staff. It wasn't pretty ... but in the end, we didn't go bankrupt.

> We just couldn't get to the bottom of the company's performance. We definitely knew the price [at which the company could be bought] was attractive, on an earnings multiple basis, but we weren't sure if recent revenue increases were sustainable or the result of a one-time benefit that wouldn't be replicated in future years. I must have pulled four all-nighters in the last week before final investment committee. And we ended up getting outbid by another firm, by 17%.

> My principal [post-MBA non-partner] asked me to look into 'route-based businesses,' which he deemed an attractive industry due to competitive benefits of local economies of scale. We did a bunch of first meetings with investment bankers and management teams in the uniform delivery and office products sectors but ultimately couldn't find anyone we wanted to buy.

> When we bought the company, we knew it was operating in an attractive, growth industry. We did not realize how much opportunity there was to increase prices, or how much benefit we'd get on the cost side as volumes grew. We grew margins, strongly increased volume, and ended up making six times our money on the deal. Honestly, our firm didn't really do much, though the private Gulfstream to Vegas and the parties there were pretty cool.

What is good about the job?

From analyst to partner, most employees in the PE world analyze vastly different firms each day. So, you might study a retail chain one day and a metal recycler the next. Compensation levels are quite high, and if you burn out, you can leverage the prestige of the industry (and a transferrable skill set) to find an attractive role outside it. For those interested in corporate careers, the industry offers incredible training and exposure to corporate strategic and financial management at the highest levels.

A job in PE offers significant benefits:

- Plentiful travel opportunities
- Exposure to and management of very senior corporate executives, very early in your career—excellent training for future roles within or outside the industry
- Excellent exit opportunities to corporate careers, as well as to investing roles at hedge funds or mutual funds for those seeking a more stable work life
- A clear, well-defined, high-likelihood promotion path, with the promise of stable cash flows later on
- The chance to develop an incredible contact network at relatively high levels

But surely the job has pain points, right?

One of the pain points of PE is merely breaking through, because the field is so selective. Once you are in, a PE career has material drawbacks:

- Consistently long and typically unpredictable hours
- High intellectual rigor/mental demands
- Substantial compensation variation based on deal performance
- Frequent travel
- Frustration from (often) hundreds of hours spent in pursuit of a deal, only to ultimately lose that deal
- Significant pressure on company performance post-acquisition due to high levels of interest on the large debt assumed during the acquisition (Any hiccup in company performance can lead to the threat of bankruptcy.)

PE is a phenomenal but challenging path out of business school, and promotions within the industry are by no means guaranteed. Most firms have a rigorous "up or out" promotion process where at each level, only 25%–50% of each "class" of hires is promoted. Although exit opportunities are quite strong, associates and post-MBA pre-partners rarely leave the industry voluntarily. Compensation accelerates materially over the course of one's career and can in certain top firms reach more than $10M annually—but only if you can navigate the complex performance, and sometimes political, hazards of the promotion cycle.

In a PE career, you must continually develop and master new skills, and completely dissimilar demands are made of the individuals at various ranks within a firm. This ongoing skill development, while beneficial for career transitions, can be frustrating, however, because as soon as you become very proficient at a given skill, it becomes nearly irrelevant when you are then promoted to the next level. So, personal growth and development are never-ending processes in this job, which can be both exciting and aggravating.

What is the secret to success?

No single formula exists for succeeding in PE. However, a common set of factors for success, along with a relentless commitment to improvement, usually distinguishes those who advance within the industry from those who leave for other (admittedly fairly greener) pastures. At early stages, strong analytical skills, an excellent work ethic, and an ability to build rapport with senior team members are traits that typically lead to promotion. At more advanced levels, the ability to quickly synthesize complex and often confusing facts and get the most out of junior employees within a tight time frame is the basis of promotion to the next level. In senior roles, the ability to "sell the firm" (e.g., to investors, prospective management team members, important new hires) differentiates partners who receive the highest compensation from their lower-paid peers.

Paradoxically, the skills most needed to succeed at any given level (and then be promoted) are rarely the same as those for the subsequent level. So, someone who is very adept at one level of the firm's hierarchy might not perform equally well at the next level. Unfortunately, as a result, some formerly successful individuals end up failing spectacularly after being promoted—exemplified by poor management leading to burned-out subordinates (at relatively junior levels), failure to win firm approval for potential deals (at more senior levels), and failed deals/inability to raise more capital (at the most senior levels).

Who are the big fish?

For roughly the past decade, the titans of the PE industry have been an elite group of asset management firms, now mostly publicly traded, founded largely by former investment bankers during the late 1970s and early 1980s. With the exception of a few outliers in New England; Washington, DC; Chicago; and California, the bulk of the group is located in New York City, primarily in Midtown. Top former investment bankers (largely) and consultants (rarely) flock to these firms for the prestige, compensation, and abundant exit opportunities. The next section of this guide discusses an important threat that middle market firms pose to the dominance of the larger firms in the late 2010s and early 2020s by compromising their ability to attract top employees and investment capital.

New York

APOLLO

A more recent but very well-respected entrant to the elite club, Apollo Management Group was founded in 1990 by former Drexel Burnham Lambert investment banker Leon Black. Apollo focuses on making both equity and debt investments, a tactic that (thanks to spectacular returns on 2008–2010 debt investments) enabled its financial crisis–era investments to perform better than those of many of its upper echelon peers. Characterized by long hours and an incredibly lean team, Apollo has a reputation for providing fantastic training and, ultimately, incredible wealth. Apollo has $323B in assets under management, spread across a variety of asset classes. Its notable recent investments include fast food restaurant chain Qdoba and OneMain Financial, a personal installment loan provider.

Blackstone

Managing $554B in assets, Blackstone has a reputation—built on deals such as the acquisition and ultimate sale of Hilton Hotels and Universal Studios theme parks—for completing some of the largest and most complicated transactions in the industry. Former investment bankers Peter Peterson and Stephen Schwarzman from Lehman Brothers founded Blackstone in 1985. A massive, publicly traded, diversified asset management firm and investment bank, Blackstone manages nine distinct pools of capital across a variety of asset classes, including corporate PE and real estate. Known for its aggressiveness and arrogance, and exemplified by the most formal office space in the industry, Blackstone has an unparalleled ability to launch a career both in the PE industry and at top hedge funds.

KKR

Kohlberg Kravis Roberts (KKR) was founded in 1976 by former Bear Stearns investment bankers Jerome Kohlberg and cousins Henry Kravis and George Roberts. KKR entered the popular consciousness through the battle for RJR Nabisco and the subsequent publication of the book *Barbarians at the Gate*, which detailed how Kravis ultimately prevailed in what was then (in 1988) the largest buyout in history. Since then, KKR has grown and bolstered its top-shelf reputation, known for executing very large takeovers of public companies. The firm is relatively thinly staffed and populated primarily by the cream of the crop from New York's top investment banks. KKR's approximately $209B in assets under management—large by industry standards but relatively meager compared with that of New York peers Blackstone and Apollo—reflect its more limited asset class focus.

Boston

BainCapital

Bain Capital's reputation should encompass more than the name of its founder, Mitt Romney, and the public's misperception that it readily fires people after it buys a company (it rarely does). The decades-old offshoot of top consultancy Bain & Company (the two firms have no formal relationship) defines itself largely in opposition to its public, aggressive, New York–based, business-formal competitors. Largely evocative of its location, Bain Capital takes a more academic approach, being known as the "nice guys" of the industry and for wearing Dockers to meetings with management teams. Featuring the industry's largest portfolio group, Bain Capital emphasizes portfolio company improvement (the firm consists of nearly all former consultants) over financial engineering. The firm's $105B in assets under management distinguish it from Boston's relatively small average firm size. Its notable successful deals include the turnaround of Burger King, the seed investment in Staples, and the successful conversion of Bombardier's (maker of Sea-Doo and Ski-Doo crafts, among others) recreational products arm into a stand-alone, independent company.

San Francisco

Founded in 1992 by the team responsible for managing the family office investing arm of the prosperous Bass family, this well-reputed firm is known as one of the most aggressive in the industry, often willing to pay the highest price in auctions and also widely recognized as one of the most lavish with regard to junior-level compensation. TPG Capital has more than $72B in assets under management. In recent years, the firm has diversified with growth equity and hedge fund groups, and it has a mixed track record, given that its large bets in casino operator Caesars Entertainment Corporation (a joint venture with Apollo) and Freescale Semiconductor have floundered.

Washington

Rounding out the traditional top six firms is Washington, DC–based The Carlyle Group, known primarily among industry associates for its strong investing performance and long hours. The firm has $222B in assets under management. With deep ties to government and former federal officials as senior advisors, the firm has a particular focus on defense. Carlyle's founders—two of whom are co-executive chairmen (William E. Conway, Jr., and David M. Rubenstein)—have completed many substantial PE deals and performed well over many boom-and-bust industry cycles. Its notable deals include consulting firm Booz Allen Hamilton, Dunkin' Donuts (a deal split with Bain Capital and Thomas H. Lee Partners), Getty Images, and Hertz.

Who are other notable players in this space?

What is going on beyond the top six?

The post-Lehman period (2008–present) has represented a time of upheaval in the industry, as traditional industry investors (e.g., endowments, pension funds, wealthy individuals) have been spooked by mediocre investment returns from a rash of overpriced deals between 2005 and 2007. Large firms, which saddled portfolio companies with the most onerous debt burdens during that period, have borne investors' brunt the hardest, experiencing declines in fund size of 50%–75% in some cases. In turn, investors and top recruits have increasingly chosen to forgo lucrative long-term bonuses at traditional powerhouses to work for a new breed of firms. These include middle-market firms that are moving up, such as Boston's Berkshire Partners, New York City's American Securities, and San Francisco's Hellman & Friedman, as well as European funds expanding into the United States, including CVC Capital Partners, Permira, and Apax Partners. Although some sector expertise is required, job seekers have often found success with vertically focused players such as First Reserve (oil and gas), Cressey & Company (health care), and L Catterton (consumer).

Traditional Large Cap (Corporate, Domestic Focused)

Apollo Global Management
Bain Capital
Blackstone
The Carlyle Group
Clayton Dubilier & Rice
KKR
Madison Dearborn Partners
Providence Equity Partners
Thomas H. Lee Partners
TPG Capital

Ascendant Middle Market → Large Cap

Advent International
American Securities
Berkshire Partners
General Atlantic
Hellman & Friedman
Lindsay Goldberg
Warburg Pincus

Euro Invasion

Apax Partners
CVC Capital Partners
Permira

Debt/Multi-Strategy

Cerberus Capital Management
Oaktree Capital Management

How do I get the job?

Despite taking very different approaches to investing and creating equity value, most PE firms look for similar traits when recruiting:

1. Very high IQ and demonstrated ability to quickly assess complex data
2. Willingness and ability to work well on teams as both a leader and a follower (On any given day, you will do both.)
3. Public speaking and communications skills, and the ability to quickly build rapport (Emotional intelligence definitely matters!)

Your path to the industry will likely require previous training in investment banking, consulting, or company operations (at a high level). Although you ideally would gain this experience before you earn your MBA, you could possibly work in one of these industries after graduating from business school and then transfer to PE after a few years. *Top firms very rarely hire someone with no previous investing experience*, so consider this when deciding the right time to apply to business school.

Although networking is an important component of any job search, recruiting in the PE industry typically occurs in the midst of pre-MBA tenure in consulting or investment banking, through a relatively confined and “clubby” group of headhunters in New York City and San Francisco. Certain firms will recruit on business school campuses for those with previous relevant experience, but the network search via top banks and consultancies is even more important in PE than in other top career paths, because the industry is small and recruits from only a few companies and roles.

Should you secure an interview, the questions you will receive will likely be both quantitative and qualitative, and you should expect to see accounting thrown into the mix. Although mid-level PE professionals rarely get quizzed on debits and credits, understanding the basic concepts of accounting and how financial statements (e.g., income statement, balance sheet, cash flows) interact with one another can be critical to the role. Some firms may use consulting-style case interviews, while others (even for post-MBA roles) may include modeling tests, and all will stress-test leadership and team experience.

If PE is your chosen industry for a summer internship or post-MBA position, get started now building your network, conducting informational interviews with classmates and friends at target firms, creating a PE-targeted resume, and preparing for case interviews. To learn more about how an MBA Career Coach can assist you in securing a PE position by guiding you effectively through each step of the recruitment process, schedule a free consultation with us at www.mbamission.com.

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