
Private Equity Recruiting Overview

Private equity recruiting can be a grueling process and takes months of preparation and practice before you can land a job. This guide is meant to give you the tools in a structured way so you can tackle the interviews and give yourself the best shot of landing an offer. While there are several other topics we can discuss, the purpose of this summary guide is to give you a comprehensive list of questions that you will get asked in a private equity interview.

The Process

On-cycle: Only a decade ago private equity on-cycle recruiting began 1 year into your investment banking job. In the last few years, on-cycle recruiting has been getting pushed earlier and earlier, with private equity funds hungry for top banking talent. In 2019, recruiting for 2021 PE Associate roles began in Sept'19 (2 months into the job) and in 2021 (after the pandemic affected year) recruiting for 2023 roles again began in September.

If you are doing on-cycle recruiting, you need to be well prepared early on to give yourself any shot at getting an offer. By that I mean you need to have spoken to headhunters in the 1-2 months you've been on the job and be decent at building a 3-statement model from scratch. On-cycle interviewing is typically done by the large PE firms aka mega funds like KKR, Blackstone, Bain Capital etc. (although in recent years smaller firms are also trying to get in on the action). The on-cycle interview window only lasts a week to a few weeks, and the process with one firm can last from a few hours to a handful of days. For example, you could go for an interview with KKR in the morning at 9am and have an offer to start two years later by 8pm on the same day. In those 6-12 hours, you'll have back-to-back interviews, including a modeling test / case study and will end with reference checks if you are close to getting an offer.

Pros: The process is very quick compared to the off-cycle interview process, where an interview with one firm lasts at least a few weeks. You'll find out pretty quickly if you got the job or not.

Cons: You need to have your sh*t together as soon as the process kicks off, it can be extremely overwhelming with headhunters calling you left and right and trying to dash to interviews. Offers are also exploding, in most cases you won't get more than a few hours to respond.

Off-cycle: Off-cycle recruiting is recruiting on a rolling basis. It doesn't really matter whether you are a first-year analyst or a third-year analyst, and it happens all year round. Off-cycle interview processes are much longer and can stretch 1-3 months based on the recruiting needs of the firm. In off-cycle recruiting, firms are typically only looking for 1-2 candidates so the vetting process is more intense. A typical process starts with interviews with Associates, then 1 or 2 modeling tests / case studies. If you do well, you are invited to a super day, where you speak to pretty much everyone in the firm. Some firms also have a dinner or cocktail hour before the super day with 5-6 candidates that have made it to the final round. After the super day you should hear back the firm's decision shortly.

Pros: Get more time to decide what you like and don't like. While headhunters control your destiny for the most part in PE recruiting, you can reach out to firms you like yourself too and try to network your way into a first round interview (where my non-target homies at). If the firms have more time to vet you, then you also have more time to vet them. In most off-cycle interviews you will likely meet the entire firm before they extend you an offer. While all PE firms want you to decide as soon as possible when they extend you an offer, in off-cycle recruiting you are less rushed and are typically given more time (a few days) to make your decision.

Cons: The biggest con here is the length of the process, which means that you will get a lot of questions and curve balls thrown at you. From deal questions to technical questions to 4-hour modeling case studies. If you don't get an offer after two months of recruiting it can also be slightly demoralizing.

Conclusion/Takeaway: If private equity is something you definitely want to do and you are well prepared, then on-cycle recruiting might make more sense for you. However, if you are letting peer pressure of the bullpen get you into private equity then you might want to take some time to think about what you want to do next, and go with the off-cycle route. Recruiting off-cycle gives you more time to prepare, build up the deals on your resume and a chance to explore firms and investing stages (e.g., growth vs buyout) that you would be interested in.

There are also many mega funds out there that recruit off-cycle based on hiring needs. So, if you missed the on-cycle recruiting process, don't think your chance to work at a mega fund is gone. With funds being raised left and right (hella dry powder), and the growing churn among Associates, there will only be more spots opening during the year at these mega funds.

The Interview Questions

Whatever you decide to do (on-cycle or off-cycle), the interview questions are the same. There are 5 main buckets of questions in all private equity interview processes:

1. Behavioral / Fit
2. Deal-related
3. Technical
4. Modeling
5. Industry / Portfolio-related

Let's dive into each bucket in detail:

1. Behavioral / Fit Questions

These are questions you get asked in every interview with the most important ones being your (1) Your story? (2) Why Private Equity? (3) Why the specific firm you are interviewing for? Let's dive into these three questions into more detail:

- **Your Story: Tell me about yourself / Walk me through your resume?**

- Divide the answer into three parts:
 - 1) *Background:* Where you grew up, the college you went to and why, what you studied & why
 - 2) *How you got interested in private equity and what you did for that interest:* Talk about how you first became interested in private equity e.g., read about a notable PE deal or met a successful alumnus in college. Then walk through the steps you took to be sitting in front of the interviewer today. E.g., after you became interested in private equity, you realized investment banking was the most natural path to getting a PE. You joined IB [X] because they were good at [X]. You summer-ed there, got a return offer etc. In the last few months in IB, you have had a chance to work on your modeling, valuation, and analytical skills and have gained a solid work ethic.
 - 3) *What you want to do next:* Say something like: As I think about next steps for myself, I am interested in pursuing my goal of being an investor at a private equity firm. Then walk through a couple of reasons why you want to do private equity. End the answer with: I am excited to

be here today at [X] firm and happy to walk you through reasons why.

- **Why do you want to work at [firm name]?**

- After you answer the previous question in the recommended way, the natural next question is why you want to work at our firm. To answer this question, you'll need to do some research on the firm. Don't say generic stuff like you have a flexible investing strategy and invest across the capital structure (literally every PE fund does these days). Generic answers show a lack of interest in the firm. Be specific to the firm and talk about something unique you read on their website, e.g., talk about a portfolio company or case study you read on their website and how you want to be involved with a similar transaction in a similar industry. If you've spoken to someone from the firm beforehand, definitely mention that, it shows that you went out of your way to find out more about the firm. It's also likely that this person told you a few reasons why this fund is such a great place to work at. Try to have at least 2-3 solid reasons why you want to join that specific firm.

- **Why do you want to move to private equity? / Why do you want to work in private equity over investment banking?**

- This is more of a check the box question. Don't trash talk investment banking here. The goal is to show that you learned a lot in IB but private equity is something you have dreamed of doing ever since you were released from your mom's womb. See below for some reasons you can use:
 - Banking has given you a chance to analyze a wide range of businesses, and instead of recommending these businesses to companies, you want make investment decisions
 - You are excited to make investments with the goal of creating value over the long-term and work closely with management to improve operations and grow the business
 - See [here](#) for a good article with even more reasons

The other behavioral / fit questions will look similar to other interviews you've done in the past. See below for a list of sample questions:

- Where do you see yourself in 5 years?
- Where else are you interviewing and how do you differentiate between firms?
- What do you like and what don't you like about investment banking?
- What was your last review like? What were the positives and negatives?
- What do you do outside work for fun? / What are your hobbies?
- What is the most creative solution you have made?
- How would your friends describe you? How would your coworkers describe you?
- What is the biggest risk you've taken in your life?
- What are you most proud of in your life to date?
- In thirty seconds, convince me that you are the best person for this job?
- Tell me about something interesting you've read recently?
- Tell me about a time you were in a tough situation at work and how did you resolve it?

2. Deal-related Questions

If you are on-cycle recruiting, you probably don't have much deal experience from your full-time role but might have some deals from your summer internship. Whatever deals you have on your resume, make sure you know them well. If a deal is on your resume, any question on the deal is fair game. Generally, off-cycle interviews are more focused on your deals since you likely have more ~real~ deal experience by then.

Typically, an interviewer will say something like: *Pick any deal on your resume and walk me through it?*

It's important to answer this question in a structured way and not ramble on for 5 minutes. Private equity interviewers are trying to gauge your ability to think like an investor, so even if you were completely brain dead while doing the deal, it is important to form an opinion on the deal as an investment. Here is a [good article](#) on how to structure your response. In general, the answer should be split into 5 parts and should be no longer than 2 minutes.

1. Deal Background
2. Your Role
3. Business Description & Financial Parameters
4. Your Perspectives (Put your investor hat on)
5. Deal Outcome

Example:

Deal background: *On this transaction, Perella Weinberg served as a financial advisor to the Special Committee of Rue21 on its \$1.1 billion sale to Apax Partners.*

Your Role: *As the sole Analyst on the team, I built the detailed bottom-up 3-statement model, put together our CIM, and was actively involved throughout the diligence process.*

Business Description & Financial Parameters: *Just a little background on the business, Rue21 is a publicly traded apparel retailer with a focus on small to medium communities rather than urban cities. It has \$900 million in revenue, growing at about 18% with \$100 million in EBITDA so an 11% margin business.*

Your perspectives / Investor hat: *From an investment perspective, I think this was a great investment for Apax because of its differentiated market position, highly attractive store-level economics & large whitespace opportunity.*

Deal outcome: *Over the next 5 years, I think Apax can triple its investment and earn about 25% IRR.*

Of course, when you do your own write-ups, the structure can vary slightly depending on what you are more comfortable talking about but it's important to be concise. I know y'all can get very excited to talk about a deal on your resume but the less you say the better. If the interviewer has any follow-up questions, they will ask you.

In your deal preparation, you should also know numbers (revenue / EBITDA etc.) for your deals. Be prepared to walk from revenue down to free cash flow for any of the deals. **See Appendix A for a deal template that you can use to prepare for your deals.**

Below is a list of deal-related questions. It is rare for interviewers to go into too much detail about a deal than the typical "Tell me about this deal" question. In any case, you never know when you run into that hardo Associate who starts grilling you on a deal they probably know about too, so better to be safe than sorry.

- What was the strategic rationale?
- Discuss the industry outlook and trends?
- What were the comps? How did you choose them? What were they trading at?
- How did you value it?

- Was it a good deal? Why?
- If you worked for a PE firm, would you recommend acquiring the target? Why or why not? How did the investment/deal perform?
- What were the sources and uses of funds and the interest rates on the debt tranches?
- Were there any synergies? How did you calculate them?
- What were the credit stats?
- What were the acquisition multiples and premium (if a public company)?
- What were the projected returns?
- Would another financial or strategic buyer have paid more?
- Why was it an auction/limited auction/private sale/etc.?
- Why didn't the deal go through?
- Walk me through the model?
- Talk about three to five positive aspects of the deal?
- Talk about three to five negative aspects of the deal?
- What was your role in this deal?
- What were the drivers of growth?
- What were the margins? What is the growth rate of revenue? Where is the revenue growth coming from, overall industry growth or increased market share?
- What is the growth rate of EBITDA?
- Who is the customer base? What is their market share? Who are the suppliers?
- What are the fixed versus variable costs?
- How much maintenance versus growth capex is there?
- What other companies could the acquirer have bought?
- What did you learn from the deal?

3. Technical Questions

Technical questions in PE interviews for the most part resemble investment banking interview questions e.g., you should know how the 3 statements are linked or what happens to the 3 statements when D&A goes up by \$10 and the basic valuation questions. (If you don't have a banking background, [here](#) is a list of 400 investment banking technical questions). See below for a list of technical questions more focused on private equity interviews.

- **Walk me down from Net Income to unlevered free cash flow. Pick any of the deals on your resume and walk me down from Revenue to Levered Free Cash flow?**
 - Net Income
 - Plus: D&A
 - Plus: Interest Expense
 - Less: Tax shield on Interest Expense (Interest x Tax Rate)
 - Less: Capital Expenditures
 - Less: Net Working Capital
- **What are the three ways to earn a desired IRR?**
 - EBITDA growth (through revenue growth or margin expansion or combination)
 - Leverage and corresponding shrinking of equity check
 - Multiple expansion
- **How does an increase of \$10 in PIK affect the three statements?**

- Income Statement:
 - Interest expense increased by \$10
 - More interest expense results in an income tax shield of 4 dollars assuming a 40% tax rate. This results in a tax expense that is lower by \$4
 - Net Income is down by \$6
- Statement of Cash Flows
 - Net Income is down by \$6 from the income statement
 - PIK interest is then added back as it is not a cash expense (paid out in the form of additional debt)
 - Net Cash is up by \$4
- Balance Sheet
 - Assets up by \$4 due to increase in cash
 - Liabilities up by \$10 due to increase in debt
 - Shareholder's Equity is down by \$6 flowing in from net income
- **Why would a PE firm use convertible preferred equity?**
 - Convertible preferred equity adds downside protection in case the company underperforms and allows conversion to equity and get more of the upside when the company performs well
- **How do PE companies protect against downside risk?**
 - Structure: Finance the transaction with preferred equity/convertible debt
 - Earnout: Place money in an escrow account
- **What is a dividend recap? Why would a PE company do a dividend recap?**
 - Dividend recapitalization is when a private equity firm issues new debt on a portfolio company to pay a special dividend to investors
 - A dividend recapitalization is often undertaken as a way to free up money for the PE firm to give back to its investors (aka juice the returns), without exiting the investment
- **Pitch me a good LBO candidate in 60 seconds?**
 - Try to have 1-2 pitches in your back pocket. Bonus points if you can pitch a candidate in the industry of the firm you are interviewing with. Try to find candidates which fit at least some of the following criteria:
 - Has a lot of stable and predictable free cash flow to pay down the debt taken on
 - Could benefit from a strategic overhaul which would be difficult to execute as a public company
 - Is having significant operational difficulties which would require a lot of time, patience, and capital to address
 - Has a bad management team or governance structure which a PE firm could improve
 - Has a lot of room to grow either organically or via acquisition if backed with enough patient long-term capital
- **How would you gauge how attractive an industry is? / Which industry would you invest in and why?**
 - The three most important measures of an industry's attractiveness are its growth rate, stability, and profitability. The most attractive industries are predictable/stable, high growth, and high profitability. If an industry is already high-growth and profitable, the valuations of acquisition targets are also likely sky high. Investing is about buying undervalued assets rather than simply

good assets. If you identify a bad/mediocre industry which is about to improve, you could probably find a lot of undervalued acquisition targets in it. Therefore, look for industries which are experiencing some of the following:

- *Acceleration in long-term growth*: Driven by new technology, an inflection point in adoption, changing consumer preferences, etc.
- *A shift in competitive rivalry*: E.g., competitors are beginning to compete on brand, quality, service, technology, etc. instead of price. E.g., a major competitor is exiting the industry.
- *A shift in supply chain dynamics*: E.g., the industry is consolidating. This could lead to both add-on acquisition opportunities as well as better bargaining power relative to suppliers and customers.
- *Barriers to entry increasing*: E.g., patents, proprietary technology, brand, minimum efficient scale, etc. are becoming more important
- *Threat from substitutes declining*: E.g., the products and services the industry provides are becoming more unique and essential to customers.

- **What's the most complicated model you have built?**

- Doesn't have to be super complicated just talk about something you know well

- **What is the best business you've seen?**

- Whatever you decide to answer give 3-4 good reasons why

- **Why does valuation differ among companies? / Pick a business and tell me why it is valued differently from its peers? / What might cause two companies with identical financial statements to be valued differently?**

- The financial statements do a good job of describing a company's historical performance, but they do not necessarily tell us everything we need to know about a company's future performance. Since the value of a company depends primarily on its expected future performance, the financial statements are insufficient. Some important things financial statements don't tell us include, but are not limited to:
 - The future growth of the company's industry
 - The company's competitive position including share, relationships, patents, etc.
 - The reputation and capabilities of the company's management team
 - The quality of the company's future strategy

- **Two deals guaranteed to generate exactly 20% IRR, but you can only choose one in your investment committee. What are some questions you would have to determine which investment to choose?**

- Time horizon of investments / cash multiple; longer investments with same IRR = more cash
- Price of investment relative to comparable companies and transactions
- Asset intensiveness of business; sponsor may not be willing to invest major spend
- Industry/sector of investments; some sponsors prefer certain industries which will have different competitive forces
- Management team: sponsors may prefer working with a given management team
- Existing leverage and PF leverage for transaction; can affect risk and cash flow profile of business
- Club deal? Some sponsors prefer to control the investment and not have others in

charge

- **Suppose a company generates \$100MM in free cash flow every year no matter what the sales growth, capital expenditures, etc. Without relying on leverage or multiple expansion, is it possible to invest in this asset and achieve a 20% IRR?**
 - Yes, depending on the price this could be a financially successful investment e.g., \$400MM price would mean you get 2.25x $[(\$400\text{MM exit} + \$500\text{MM of FCF}) / (\$400\text{MM price})]$ cash multiple over 5 years = ~20% IRR
- **Why does PE use leverage? Or how does leverage increase PE returns?**
 - The short answer is that PE returns are calculated based on return on their invested equity. Using leverage to do deals allows you to use less equity which means the ultimate returns are larger in comparison to the amount of equity initially invested. Another way to look at it is that the cost of leverage (debt) is lower than the cost of equity because equity is priced to an IRR of 20%+, whereas the annual interest expense on debt is usually below 10%. Yet another way to look at it is that using a lot of debt makes the return on equity much more volatile and much riskier because the debt must be repaid before the equity gets any return. The high returns on PE equity may be seen as the fair return associated with the extra risk associated with high leverage.
- **What are some of the due diligence questions that you would ask if buying a company?**
 - You might start off with industry questions to determine if it is an industry that the sponsor would want to be in, and then determine how well positioned the company is within that industry. Ask about market rivalry, whether the industry is growing, what the company's and its competitors' respective market shares are, what the primary strategy for product competition (brand, quality, price?) is. Ask whether there are barriers to entry or economies of scale, supplier and buyer power, threat of substitutes, etc. Then move onto questions about the company's own operating performance. Zero in on growth, what is projected, how much is attributed to growth of the industry versus market share gains. See below for a list of sample diligence questions:
 - What is the resilience of this company to downturns?
 - What demographics is the revenue focused in, and how will these demographics change?
 - What is the cost structure, how efficient are the supply and distribution chains?
 - How are the products priced? What's the proportion of fixed to variable costs?
 - Capital expenditures, growth versus maintenance. How is working capital managed?
 - How well do you collect on account receivables or manage accounts payable?
 - What are the projected financials?
 - Are there non-core or unprofitable assets or business lines?
 - Is there opportunity for improvement or rationalization?
 - How long has management been in their positions, what are their backgrounds? Is the sponsor able to replace them, if needed?
 - What are the legal and regulatory risks? Are there any HR issues, like union or labor problems?
 - What's our exit strategy here? Is the industry consolidating so that a sale might be made easier?
- **If I handed you an offering memorandum, what are some of the things you'd think about?**
 - You would think about how you would value the company; whether it was a good LBO candidate (aka make an LBO model). You'd try to understand the business as much as possible, especially

in operational points like capex, working capital needs, margins, customers, etc. You'd examine the industry, look for growth opportunities and question whether the sponsor and/or management could capitalize on those opportunities. You would wonder what an appropriate capital structure would be, and whether it is achievable in the current markets. You'd also think about all the potential risks.

- **How would you gauge a company's competitive position?**

- Market share
- Profit margins
- Brand perception
- Product breadth and quality
- Management team quality
- Other signs of competitive strength:
 - Lowest-cost product / service delivery model
 - Strong intellectual property (IP) such as patents
 - Low levels of customer churn (customers rarely stop being customers)
 - Excellent physical locations (important for retail companies)
 - Diversified customer and supplier base
 - Diversified revenue sources
 - High levels of recurring revenue

- **Paper LBO: Most PE interview processes include a paper LBO where the interviewer will give you a few metrics such as revenue, EBITDA margin, capex etc. and ask to calculate the MOIC and IRR.**

- See a step-by-step example [here](#).

4. Modeling Questions

Modeling tests come in many shapes and sizes. The simplest version is where you have an excel template and will have to add formulas (~1 hour). In the more challenging ones, you'll have to create a 3-statement model in a blank excel from a CIM and a write-up for your recommendation (2-5 hours).

So, what is the best way to prepare for modeling tests? Practice building an LBO from a blank excel (aka scratch modeling) for any public company. Open a 10-K and make some simple assumptions for entry multiple, leverage levels etc. Once you get the hang of the components of the model, try increasing your speed. If you can build an LBO from scratch in ~1 hour, you are probably well prepared for most modeling tests.

Important Note: Modeling is very simple and probably the easiest part of the interview process if you are well prepared. I would advise you not to spend money on modeling courses, which contain a large amount of irrelevant information. The companies that sell these courses show modeling as this big, complicated thing because they are trying to make money off you. If you are really terrible at building a 3-statement projection, there are a number of videos on YouTube ([example](#)) that can teach you this in less than two hours. One you are good at building a 3-statement model, an LBO or DCF is just a few additional rows of excel.

If you have never seen a scratch model in your life email me on: press@shortsqueez.co and I'll send you an example.

5. Industry / Portfolio-related Questions

If you are interviewing for a fund in a specific sector e.g., healthcare, you might get asked questions about why you want to work in that sector. Most industry specific PE funds don't require you to have prior knowledge of the sector, but it can help separate yourself from the pack. If you don't have any prior knowledge of the sector, I recommend you read 1-2 initiating coverage reports in the sector. This will give you a good sense of what public companies are in the industry, sector trends, margins, products etc.

More important than knowing the fund's industry is knowing about the industry that you cover in your day job or have spent a lot of your time in. If it happens to be the same industry as the fund you are interviewing for, great, you can kill two birds with one stone in your preparation. Let's say you work in M&A and did a media deal, which also happens to be 80% of your time spent in banking, be prepared to get questions on the media industry. Even if you think you are an industry guru, it is always helpful to review the industry slides in your deck and read a couple of initiating coverage reports before you go for your interview.

Questions on the PE's portfolio companies are fair game as well. Before your interview, review the PE fund's portfolio in detail. Go through all the companies and try to do a little more research for 2-3 in case you get questions on them. Also try to gauge if there are any trends in recent investments (e.g., a PE's last 3 investments are HR tech and the 5 before that were insurance tech), which could make for interesting talking points or questions you can ask in an interview. Mentioning portfolio companies in other questions also shows the interviewer that you have done your research and makes a good impression.

See below for a list of industry/portfolio related questions:

- Why do you want to do work in [healthcare]?
- What do you know about the [healthcare] sector?
- Tell me a few trends/things happening in the [healthcare] sector that interest you?
- Tell me a bit about an industry you are covering?
- What's an industry you like and tell me why you like it?
- Which company do you like in our portfolio and which company do you dislike? Why?
- What should we invest in?

Go crush your interview now. If this guide is helpful in securing you an offer, reach out and let me know. If you have any feedback or are stuck on any question, feel free to email me at: press@shortsqueez.co.

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Appendix A: Deal Preparation Worksheet

1. Investment Thesis
2. Model drivers
 - a. Revenue drivers
 - i. Volumes:
 - ii. Price per unit:
 - b. Revenue #s, % growth
 - i. Historical:
 - ii. Projected:
 - c. Cost drivers
 - i. Raw materials:
 - ii. Other:
 - d. Gross Profit #s, % margin
 - i. Historical:
 - ii. Projected:
 - e. EBITDA #s, % margin
 - i. Historical:
 - ii. Projected:
 - f. Free Cash Flow #s
 - i. EBITDA:
 - ii. Capex:
 - iii. Change in NWC:
 - iv. Cash interest:
3. Factors affecting company value
 - a. Competitive landscape/Company advantages:
 - i. Growth and profitability vs. peers
 - ii. Industry-specific data (subscribers, etc.)
 - b. Sector outlook B2B high growth
 - c. Specific #s:
 - i. EV:
 - ii. EV/EBITDA:
 - iii. EV/EBITDA (comps):
 - iv. EV/Industry-specific fundamental data:
4. Capital structure:
 - a. Pre-transaction / Post-transaction:
 - b. Where I would invest / why
 - c. Intercreditor issues
 - d. Negotiating position (strengths and weaknesses) of various creditor constituencies
5. Equity ownership situation:
 - a. Pre-transaction / Post-transaction
6. Situation-specific nuances (legal, etc.)