Private equity (PE) is a sector of finance dedicated to investing in private companies, or occasionally public companies that are taken private, with the aim of improving their financial performance and eventually selling them for a profit. The funds used in private equity investments are raised from institutional investors, such as pension funds, endowments, and wealthy individuals. These investors are known as Limited Partners (LPs), and they contribute the capital. On the other hand, General Partners (GPs) are the private equity professionals responsible for managing the fund, sourcing deals, executing investments, and ultimately generating returns.

Private equity attracts a specific type of professional, typically those with a strong background in investment banking, management consulting, or corporate finance. Many also enter after obtaining an MBA from a top-tier business school, where PE firms often recruit heavily. The industry values analytical skills, deal-making expertise, and the ability to identify and execute on growth opportunities within portfolio companies. Breaking into private equity can be highly competitive. For pre-MBA candidates, joining as an analyst or associate often requires experience in investment banking or consulting, along with networking and demonstrating an understanding of PE fundamentals. Post-MBA candidates usually join at a higher level and are expected to bring leadership experience and strategic thinking to the table.

Private equity is broadly divided into categories based on fund size and the type of companies targeted. "Middle market" funds focus on investing in small to mid-sized companies, typically with annual revenues between $10 million and $1 billion. These companies often require operational improvements or financial restructuring. "Mega funds," by contrast, target much larger companies and often involve billions of dollars in capital. Mega funds are known for their ability to execute high-profile leveraged buyouts (LBOs), where the acquisition is primarily funded through debt.

A crucial metric in private equity is the Internal Rate of Return (IRR), which measures the annualized return on an investment over time. A high IRR indicates successful investments and is a key benchmark used by GPs to attract LPs. Alongside IRR, the concept of a "revolver" is important in private equity. A revolver is a type of credit line that portfolio companies can use for working capital needs. It provides flexibility and ensures companies can cover short-term financial obligations without raising additional equity.

Private equity firms operate across a wide range of industries, including technology, healthcare, industrials, consumer goods, and energy. Each industry offers unique opportunities and challenges, influencing the strategies firms use to unlock value. Companies in these sectors are typically held for 3 to 7 years, during which GPs work to improve profitability, streamline operations, and position the company for a lucrative exit. Exits usually occur through a sale to another private equity firm (secondary buyout), a strategic buyer (e.g., a corporation), or an initial public offering (IPO).

The private equity space features a mix of notable players across different fund sizes. Among the largest firms are Blackstone, KKR, and Carlyle Group, which manage hundreds of billions in assets and execute massive deals globally. In the middle market, firms like Thoma Bravo, Vista Equity Partners, and Audax Group specialize in niche markets and smaller companies, often leveraging industry-specific expertise. The landscape also includes regional firms and industry-focused funds that concentrate on specific geographies or sectors.

A career in private equity is both lucrative and demanding. Compensation is typically among the highest in finance, with base salaries and bonuses often exceeding those in investment banking at similar levels. Additionally, professionals in PE may earn carried interest, a share of the fund's profits, which can be highly lucrative over time. However, the lifestyle in private equity can vary widely depending on the firm and fund size. While it is often less intense than investment banking, PE professionals still face long hours, particularly during deal execution or portfolio company management phases. Exit opportunities are another significant draw of a PE career. Professionals often move on to senior roles in corporate strategy, venture capital, or even entrepreneurship, leveraging their deal-making and operational experience.

A unique characteristic of private equity is the use of leverage, which amplifies potential returns but also increases risk. By combining equity with debt, private equity firms can acquire companies without committing excessive capital, thus enhancing returns for LPs if the investment performs well. However, this approach can backfire if the portfolio company struggles to meet debt obligations.

In summary, private equity is a dynamic and diverse industry that plays a significant role in shaping the corporate landscape. From middle-market growth stories to headline-grabbing mega deals, private equity firms create value by combining financial acumen, operational improvements, and strategic planning. With notable firms, intricate deal structures, competitive career opportunities, and varying investment horizons, private equity remains a cornerstone of global finance.