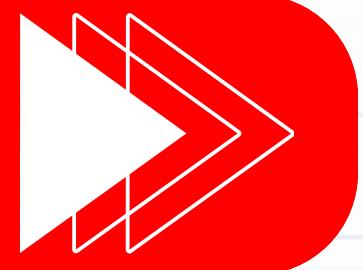


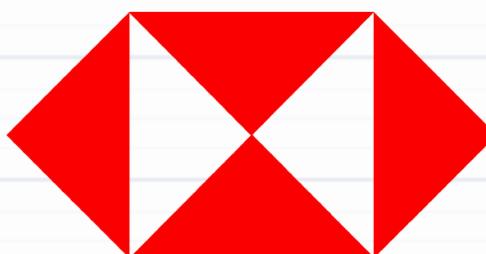
INVESTMENT BANKING FINANCIAL MODELING INTERVIEW GUIDE

180 Technical Interview
Questions



J.P.Morgan **Goldman**
Sachs

KROLL



HSBC



BANK OF AMERICA

Citi

Corporate Finance

What are the three key financial statements?

How does a company decide between issuing debt or equity to raise capital?

What are the main differences between operating leverage and financial leverage?

How do depreciation and tax rates affect each one of these?

What is accrued income and deferred revenue?

What is capital budgeting? Name the techniques used to evaluate investment projects?

Calculate the present value of an annuity of \$100, where the cost of capital is 10%.

In the choice between higher NPV or higher IRR, which is preferable?

As an investor would you consider EBITDA or net profit for judging a potential investment?

Corporate Finance

How would you assess the financial health of a company?

What happens to EPS when a company buys back its shares?

What happens if the company funds this buyback through debt?

Will acquiring fixed assets affect working capital?

What is negative working capital?

What are the industry specific financial ratios?

What are the key leverage ratios?

What is DuPont analysis?

How do share buybacks impact a company's financial position and valuation?

What are some common reasons companies might undertake a spin-off or carve-out?

Weighted Average Cost of Capital (WACC)

What is WACC?

How does an increase in debt impact WACC?

How would you calculate the WACC for a private firm?

Between two identical companies, one with zero debt and another with 50% debt, which will have the higher WACC?

Which asset carries a higher level of risk: one with a beta of -2.0 or one with a beta of 1.2? Why?

Can you provide an example of a sector or company with a negative beta?

While calculating a peer group beta, how would you deal with the capital structure of the peer group?

How would you find the cost of equity?

What is levered beta?

Valuation

What is enterprise value?

What is diluted market capitalization?

What are the different methods of valuation?

Explain the DCF valuation method. Why would you use mid-year conversion in DCF?

What are trading comparables & transaction comparables?

What factors are taken into consideration while selecting comparable companies?

How would you value a conglomerate? What is a conglomerate discount?

Why might Walmart, which has 2 times the revenue of Apple, have 1/6th of Apple's market capitalization?

Define free cash flow to the firm (FCFF).

Differentiate between FCFF and FCFE (free cash flow to equity)

Valuation

What are the examples of recurring and non-recurring expenses?

What is the difference between enterprise value and equity value?

How do changes in interest rates impact valuation multiples?

How would you value a high-growth technology company versus a mature industrial company?

Define excess cash. How does a company differentiate between normal cash & excess cash?

What are unfunded pension liabilities? Why do they form a part of debt?

Define minority interest or non controlling interest (NCI).

State the reason for inclusion of NCI in EV

How will you account for the profits received from joint ventures (JVs) or associate investments?

Mergers & Acquisitions

What is the difference between a merger and an acquisition?

Explain the main types of M&A transactions: horizontal, vertical, and conglomerate.

How do synergies play a role in M&A transactions?

What factors drive companies to pursue M&A transactions?

What considerations would you have in mind while evaluating a potential acquisition for the client?

What is a 'hostile takeover' and how can they be prevented?

What is the role of investment banks in M&A transactions?

Can you provide an example of a high-profile M&A transaction and analyze its outcomes?

What might be the reasons for a company to avoid a 100% cash payment when acquiring another company, even if it has the ability to do so?

Equity Capital Markets

What is the role of the Equity Capital Market (ECM) division in investment banking?

What is the primary purpose of equity offerings in ECM?

What are the main types of equity offerings?

What are the key differences between a direct listing and a traditional IPO?

How do underwriters stabilize share prices after an IPO?

What factors influence a company's decision to go public through an initial public offering (IPO)?

How do investment banks assist in pricing an IPO?

What is an underwriting syndicate in the context of an IPO?

What is bookbuilding?

What is an IPO roadshow?

Debt Capital Markets

How does a bond price respond to shifts in interest rates, and why?

What factors influence the yield curve shape, and what does it indicate about the market?

Differentiate between coupon rate, yield to maturity (YTM), and current yield of a bond.

How does a credit rating impact the yield and pricing of bonds?

What are the differences between government bonds, corporate bonds, and municipal bonds?

What is the significance of the duration of a bond?

Explain the concept of callable and non-callable bonds.

What is a bond's coupon frequency, and how does it affect the investor's return?

Can you elaborate on the risks associated with investing in high-yield or junk bonds?

Leveraged Buyout (LBO)

What is an LBO, and how does it work?

Explain the typical process of conducting an LBO

What makes a company an attractive LBO candidate?

What are the main benefits and risks associated with LBO transactions?

What are the common sources of financing for an LBO?

What factors influence the decision to use debt financing in an LBO?

Explain the role of equity and debt ratios in structuring an LBO deal.

What key financial metrics are used to evaluate the viability of an LBO?

How does an LBO exit strategy impact returns?

Provide an example of a successful LBO and the factors contributing to its success

Income Statement

- 1. How would you estimate revenue?**
- 2. Pick an industry of your choice and explain the levers you would consider.**
- 3. How will you determine those revenue growth rates?**
- 4. How would you build different scenarios for revenue?**
- 5. Would you assess different risks associated with different scenarios? How would you incorporate those in your model?**
- 6. For how many years would you project revenue?**
- 7. Which reports would you consider for revenue projection? Where can you find those reports?**
- 8. How would you project COGS?**
- 9. Is COGS relevant for every industry?**
- 10. How do you calculate gross margin? Would you assume it to be constant, increasing, or decreasing, why?**

Income Statement

- 11. Can increasing gross margins attract more competition? Would you factor that competition into your revenue estimates?**
- 12. What is SG&A? What kind of expenditure is included?**
- 13. How does scale impact SG&A margins?**
- 14. Is depreciation a part of SG&A?**
- 15. How would you estimate depreciation?**
- 16. How is depreciation different from other expenses?**
- 17. What is the role of capex in projecting depreciation?**
- 18. What is a non-recurring expense? How do you model it?**
- 19. How would you project interest expense? What is the starting point**
- 20. Would principal payments impact the income statement?**

Income Statement

- 21. Why is interest expense the last thing calculated in the model?**
- 22. How would you determine the interest rate?**
- 23. What is LIBOR?**
- 24. Which tax rate would you choose and why?**
- 25. What is terminal value? How would you calculate it?**
- 26. What is a terminal multiple?**
- 27. For benchmarking, how would you identify a peer set?
Which levers would you benchmark?**

Balance Sheet

- 28. What are cash and cash equivalents (CCE)?**
- 29. What is the difference between CCE and marketable securities?**
- 30. How do you estimate cash & cash equivalents?**
- 31. What is operating cash? Is it the same as CCE?**
- 32. How would you project inventory? 33. Is inventory relevant for every industry?**
- 34. How would you project accounts receivable and accounts payable? How does scale impact these two?**
- 35. What is operating working capital (OWC)?**
- 36. Why would some companies within the same industry have negative OWC while others have positive OWC?**
- 37. Why is negative OWC preferred?**
- 38. How would you project Plant Property & Equipment (PPE)? What are the key levers to consider?**

Balance Sheet

- 39. How does PPE impact cost and revenue estimates?**
- 40. Which levers should you consider to determine the optimal sources of funds?**
- 41. How would you calculate the maximum debt level?**
- 42. How would you determine the best approach for raising capital?**
- 43. How do you prepare a debt payment schedule? How does it impact the firm's credit rating?**
- 44. Which line items of the Income Statement have a direct impact on the Balance Sheet?**
- 45. How do dividend payment affect financial statements?**
- 46. What is a circular reference?**
- 47. Provide examples of circular references in modeling.**
- 48. What is excess cash? How do you calculate it?**
- 49. What is a revolver?**

Cash Flow Statement

- 50. What is the objective of creating a Cash Flow Statement (CFS)?**
- 51. What are the three key line items of the CFS?**
- 52. How is the CFS different from the cash account?**
- 53. What are the two most common methods to calculate cash generated from operating activities (CFO)?**
- 54. Why does an increase in current assets have a negative impact on CFO while an increase in current liabilities has a positive impact?**
- 55. Is it possible for a company to generate consistent profits year after year but struggle to pay employee salaries and meet other operating expenses?**

Financial Ratios

56. What are the key liquidity ratios?

57. Is lower the better in case of liquidity ratios?

58. What are the key asset management ratio?

59. What are the key industry-specific nuances in asset management ratios?

60. How does a high inventory turnover ratio impact return on equity and return on total assets?

61. What is the key debt management ratio?

62. Would you prefer a high ROE or a high net income margin?

63. How does a company improve its ROA?

64. How can ratios be used to assess a company's risk profile for potential investors or lenders?

65. Can financial ratios be used to predict future performance or upcoming trends for a company or industry?

Excel Formulas

- 66. Explain how you would use two-variable data tables to analyze the combined impact of changes in two variables on a financial model's output.**
- 67. Explain how you would use Goal Seek to find the input value needed to achieve a desired outcome.**
- 68. Describe a scenario where you would use Solver in Excel to optimize a financial model.**
- 69. How would you use VLOOKUP or INDEX/MATCH to find specific data points based on certain criteria?**
- 70. Explain the advantages and disadvantages of VLOOKUP, INDEX, and MATCH.**
- 71. How would you handle missing data points or inconsistencies in a dataset before using?**
- 72. You need to summarize complex financial data. How would you use data pivots and charts in Excel to create informative visuals for presentations or reports?**
- 73. How would you ensure your model is error free?**

Key Terminologies

74. What is NPV? What is XNPV?

75. What is IRR? What is XIRR?

76. What are mid-year adjustments?

77. What is FCF to firm (FCFF)?

78. What is FCF to equity (FCFE)?

79. How do you derive FCFE from FCFF?

80. When would you use FCFF vs. FCFE in a valuation?

DCF

The Secret Behind Stock Valuation

**D** Discounted **C** Cash **F** Flow

The smartest investors use DCF – the ultimate method to determine if a stock is overpriced or a hidden gem!

WHAT IS DCF?

DCF tells you how much a company is really worth today by estimating its future cash flows and adjusting for time & risk.

HOW DOES IT WORK?

1. Estimate future cash flows (profits a business will generate)
2. Apply a discount rate (to adjust for risk & inflation)
3. Sum up the discounted values = Intrinsic Value of the company

FORMULA

$$DCF = \frac{CF_1}{(1+r)^1} + \frac{CF_2}{(1+r)^2} + \dots + \frac{CF_n}{(1+r)^n}$$

WHY SHOULD YOU CARE?

Because stock prices can be misleading! A company with high profits today might NOT be a great investment if future growth is weak.

- If Reliance Industries' value is ₹2,200, it's...
- If Infosys trades at that's an underva...

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KEY STATISTICAL TERMS

SIMPLIFIED

Swipe ➤*FinBook by Yogesh Jangid***BETA**

Is your favorite stock a thrill ride or a steady cruise?

WHAT IS BETA?

Beta measures a stock's volatility relative to the overall market (Nifty 50, Sensex, etc.). Think of it like this:

- If Beta = 1 → The stock moves in sync with the market.
- If Beta > 1 → The stock is more volatile than the market. (High risk, high reward)
- If Beta < 1 → The stock is more stable than the market. (Lower risk, lower return)

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ENTERPRISE VALUE

in YOGESH JANGID

FinTerm of the Week

"Market Cap is just the tip of the iceberg. The real worth of a company lies beneath!"

When investors look at a company's market capitalization, they often think that's its total worth. But what if I told you that's an incomplete picture? Introducing Enterprise Value (EV) - a term that truly captures a company's real valuation.

WHAT IS ENTERPRISE VALUE?

EV is the total cost to buy a company, including its debt and cash. It gives a holistic view of a firm's actual worth.

A REAL-LIFE EXAMPLE:

Imagine you want to buy a business worth ₹10 crores (Market Cap). • But the business has ₹3 crores in loans.

• It also has ₹2 crores in cash reserves.

Would you just pay ₹10 crores? No! You'd factor in the debt and cash:

EV = ₹10 Cr + ₹3 Cr - ₹2 Cr = ₹11 Cr That's the actual price you'd be paying!

FORMULA

$$EV = \text{Market Cap} + \text{Total Debt} + \text{Preferred Stock} + \text{Minority Interest} - \text{Cash}$$

WHY IS EV BETTER THAN MARKET CAP?

- Market Cap considers only equity value (shares x price).
- EV includes debt (which a buyer must pay) and cash (which reduces the cost).

WHY DOES EV MATTER IN INVESTING?

EV is used in valuation metrics like EV/EBITDA (better than P/E ratio).

EV allows for better comparison between companies with different debt levels.

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