🔥Analyst Interview Exclusive Handpicked Questions And Answer For July 2022🔥

Top 25 Amazing Handpicked Interview Questions And Answers Which You Must Need To Read And Practice

Q1- When Does when EPS Become Negative?

Suggested Answer: It is possible for a firm to have negative earnings per share if its income is negative. This indicates that the company is either losing money or spending more than it is generating at the moment. Even if a stock has a negative EPS, this does not always indicate that the stock should be sold.

Q2- A company trades at a 10x EV/EBITDA value ratio (based on its Current Enterprise Value). What exactly does that indicate?

Suggested Answer: This number has no significance whatsoever when taken by itself. It only has significance in connection to other companies and the multiples of those companies. For instance, if other companies in the same industry that are seeing growth rates that are comparable to those of this company are trading at multiples of 10x EV/EBITDA, then this company may be overvalued.

Q3- Which operational metric is most likely to have the closest correlation with EV/EBITDA multiples?

Suggested Answer: The EV/EBITDA multiples are most likely to be connected with the EBITDA growth rates because the value of a firm is dependent on its CF, CF growth rate, and Discount Rate.

The increase of EBITDA is still closer to the growth of CF than the growth of sales is.

The association between revenue growth and EV/Revenue multiples is expected to be stronger than the correlation between revenue growth and EV/EBITDA multiples. However, there may be some correlation between the two.

Q4- What method would you use to forecast revenue?

Suggested Answer:

- The availability of Resources
- The availability of Resources - The Significance of the Forecast (how important is it that it is extremely accurate)
- The availability of historical data - The availability of historical data; - The length of time covered by the forecast; - The ability to explain the forecast

Q5- Which of two identical companies, one with debt and the other without, will have the greater WACC?

Suggested Answer: Due to the fact that debt is "cheaper" than equity, the entity that does not have any debt will have a WACC that is higher up to a certain point. Why? Deductions can be made for interest paid on debt. The ranking of debt is above that of equity. In most cases, the cost of debt has a lower interest rate than the cost of equity.

Q6- To arrive at Enterprise Value, why do we add Preferred Stock?

Suggested Answer: A predetermined dividend is distributed to holders of preferred stock, who also have a greater priority claim to a portion of a company's assets than investors in common stock have. As a consequence of this, it is more analogous to debt than it is to common stock. Additionally, in the case of a purchase, Preferred Stock, just like Debt, is normally expected to be repaid.

Q7- Which two of the three primary financial statements would you choose if you had to choose just two, and why?

Suggested Answer: In order to recreate the cash flow statement, I would require a copy of the income statement as well as the beginning and ending balance sheets. - The cash flow statement begins with net income and adjusts for non-cash operating expenses, primarily D&A, which are derived from the income statement.

After that, it subtracts the change in working capital, which is taken from each balance sheet. If you take the year over year change in PP&E from the Balance Sheet and add Depreciation Expense to that, you get CAPEX. If you take away any cash inflows from the sale of capital assets, you get CAPEX-free cash. Repayments of debt on the Cash Flow from Financing section of the Cash Flow Statement can be inferred from changes in short-term and long-term debt balances over time, while also adjusting for any debt capital raised. - Repurchases of equity on the Balance Sheet, dividends paid to equity investors, and equity capital raised on the Balance Sheet would all be reflected on the Balance Sheet as well.

Q8 - For the Discount Rate, what do you generally use?

Suggested Answer: The WACC (Weighted Average Cost of Capital) is used in an unlevered DCF analysis, and it represents the "Cost" of all three types of capital: equity, debt, and preferred stock. In a Levered DCF analysis, the cost of equity is used instead of the cost of debt.

Q9- If FCF is negative, what happens to the DCF? Is it possible that EBIT will be negative?

Suggested Answer: Nothing "happens" because you can continue to run the analysis in the background. If one or both of these become negative, the Company's value will almost certainly decrease as a result of the reduction in the present value of Free Cash Flow that will result.

Even if free Cash Flow is negative, the analysis is not necessarily invalid - if it becomes positive after a certain point, the analysis may still be valid.

If your company never achieves positive cash flow, you may want to forego the DCF calculation.

Q10- Why would you calculate the terminal value using the GGM rather than the Multiples Method?

Suggested Answer: In banking, the Multiples Method is almost always used to calculate the Terminal Value in a DCF. This is because it is more accurate. Because they are based on comparable companies, it is easier to obtain appropriate data for exit multiples; however, determining a long-term growth rate requires more guesswork. However, if you do not have any good Comparable Companies or if you believe that multiples will change significantly in the industry several years down the road, you may want to consider Gordon Growth as an option. Example: If an industry is cyclical (such as chemicals or semiconductors), you might be better off using long-term growth rates rather than exit multiples when analyzing the industry.

Q11- Tell me the difference between PE ,EV/EBIT and EV/EBITDA?

Suggested Answer: P/E is affected by the company's capital structure, whereas EV/EBIT and EV/EBITDA are not affected by the company's capital structure. In industries where interest payments and expenses are critical, this is a useful tool (ex: banks)

You're more likely to use EV/EBIT in industries where D&A is significant and capital expenditures are significant, as opposed to just about any other ratio (ex: manufacturing)

EV/EBITDA excludes depreciation and amortization and is used in industries where fixed assets are less important and depreciation and amortization is comparatively smaller (ex: internet companies)

Q12-Tell me it is possible EV/EBITDA ever be higher than EV/EBIT?

Suggested Answer: No. EBITDA, by definition, must be greater than or equal to EBIT because it is calculated by taking EBIT and adding Depreciation & Amortization, neither of which can be negative (they could, however, be zero, at the very least theoretically). The ratio of EV to EBITDA for a single company must always be less than or equal to the ratio of EV to EV for that company because EBITDA is always greater than or equal to EBIT.

Q13-Why does D&A have a positive impact on the Statement of Cash Flows?

Suggested Answer: Operating cash flow is calculated by beginning with net income and then adding depreciation or amortization, net change in operating working capital, and other operating cash flow adjustments to arrive at the final figure. As a result, the amount of cash on the cash flow statement increases because depreciation is re-adjusted to reflect the increase in operating cash flow.

Q14- What are the types of inventory method and explain me in detail?

Suggested Answer:

Specific Identification: Inventories are tracked using the inventory cost flow method, in which a company physically tracks both its remaining inventory and the inventory that has been sold to customers. Although it is technically not an assumption because the companies that chose this method are aware of the products that are being sold. Automobiles, for example, have unique identification tags attached to them. This method is used for expensive and one-of-a-kind items, rather than for identical items, as the name implies. Maintaining meticulous records.

First-In, First-Out (FIFO): According to Inventory Cost Flow, the oldest costs are transferred first from inventory to cost of goods sold, with the most recent costs remaining in ending inventory until the oldest costs are transferred to cost of goods sold. The assumption that selling the oldest items first will more closely reflect reality (because you don't want inventory to lose its freshness) Rarely is the identity of the actual item sold revealed. It is not always the oldest item that is sold, but rather the oldest cost that is reclassified as COGS that is the first to sell. A thorough investigation is not conducted to determine which specific item was purchased. Income that has been reported to be higher

Last-In, First-Out (LIFO): According to the inventory cost flow assumption, costs are transferred from ending inventory to cost of goods sold in the order in which they were incurred, with the oldest costs remaining in the ending inventory. Because a cost that is relatively current is shown as COGS rather than a figure that is out-of-date, it is more consistent with the matching principle. By matching current costs to current sales, it is possible to obtain a more accurate picture of income. It is popular in the United States because it helps to reduce the amount of income taxes that many businesses must pay. The International Financial Reporting Standards (IFRS) do not permit the use of this method.

Average Method: In this scenario, the average cost is transferred from ending inventory to cost of goods sold while the same average cost remains in beginning inventory, as described above. Out of all the methods, this one is the most logical. Although it is less appealing than other methods due to the lack of breaks, it is still an option.

Q15- Why do we consider both the Enterprise and Equity Values?

Suggested Answer: In contrast to Equity Value, which only represents the portion of the company's value that is available to shareholders, Enterprise Value represents all of the company's value that is attributable to all investors (equity investors). You consider both because Equity Value is the number that the general public sees while Enterprise Value represents its true value, i.e. how much it would really cost to acquire the company.

Q16- Should two companies that are equal but have different leverage rates trade at different EV/EBITDA multiples?

Suggested Answer: Enterprise value and earnings before interest, taxes, depreciation, and amortization (EV/EBITDA) multiples should be similar because they measure a company's value and profits INDEPENDENT of its capital structure.

They will not be exactly equal because EV is dependent on the cost of capital, so there will be a slight difference in the two figures.

Q17- Explain me about difference between the unlevered DCF and levered DCF

Suggested Answer: Enterprise value is calculated by discounting unlevered DCF by unlevered Free Cash Flows in order to arrive at a direct estimate of enterprise value. In order to arrive at a present value, first add any non-operating assets such as cash and subtract any financing-related liabilities such as debt until you arrive at a net present value. This will increase the value of your equity. The weighted average cost of capital is the appropriate discount rate for the unlevered DCF because the rate should REFLECT THE RISK TO BOTH DEBT AND EQUITY Capital provider.

Leveraged DCF results in an immediate increase in equity value. It is through forecasting and discounting the leveraged FCFs that you arrive at the equity value. Then you can subtract net debt from total enterprise value to arrive at total enterprise value. The cost of equity should be used to determine the appropriate discount rate for levered free cash flow's because these cash flows belong solely to equity owners and should therefore reflect the cost of equity capital.

As a result, both leveraged and unlevered DCF methods should theoretically result in the same final enterprise and equity values (hard to though). The most frequently encountered is unlevered.

Q18-Why do you use EBIT and EBITDA in valuation multiples instead of CFO or FCF if cash flow is the most important metric?

Suggested Answer: The majority of the time, it's for convenience and comparability. CFO and FCF are more accurate ways of measuring a company's cash flows, but they also require more time to calculate because they require a full or partial Cash Flow Statement to be completed.

Aside from that, the individual items within CFO and FCF differ significantly between companies, and the vastly different figures for Deferred Taxes, Stock-Based Compensation, and the Change in Working Capital make it difficult to make meaningful comparisons.

Q19- What is working capital? How is it used?

Suggested Answer: Working Capital = Current Assets - Current Liabilities.

If the result is positive, it indicates that a company has the ability to pay off its short-term liabilities with its short-term assets. It is frequently presented as a financial metric, and the magnitude and sign (positive or negative) of the metric tell you whether or not the organization is "sound."

The term "operating working capital" is used more frequently by bankers in models, and it is defined as (Current Assets - Cash & Cash Equivalents) - (Current Liabilities - Debt).

Q20- When calculating the terminal value, what is a suitable growth rate to use?

Suggested Answer: Typically, you would use the country's long-term GDP growth rate, inflation rate, or something similarly conservative. A long-term growth rate of more than 5% would be quite aggressive for companies in developed countries.

Q21- Could you explain how you go from revenue to free cash flow in your projections?

Suggested Answer: To calculate operating income, subtract cost of goods sold and operating expenses from total revenue (EBIT). Afterwards, multiply the result by (1 - Tax Rate), subtract Depreciation and other non-cash charges, and subtract Capital Expenditures and the change in Working Capital from the total.

As a result, you have Unlevered Free Cash Flow, rather than EBIT, because you have switched from EBT to EBIT. Maybe you should double-check with the interviewer that this is what they're looking for.

💡 **Hint:** As a result, you have Unlevered Free Cash Flow, rather than EBIT, because you have switched from EBT to EBIT. Maybe you should double-check with the interviewer that this is what they're looking for.

Q22- Tell me about the most frequently used valuation multiples. And what exactly do they mean?

Suggested Answer:

Enterprise Value / Revenue: When measured in terms of total sales, a company's worth is determined.

Enterprise Value / EBITDA: How valuable a company is in relation to its estimated cash flow is determined.

Enterprise Value / EBIT: a measure of how valuable a company is in relation to the pre-tax profit it generates from its primary business operations

Price Per Share / Earnings Per Share (P / E): a measure of a company's worth in relation to its after-tax profits, which include interest income and expense as well as non-core business activities

Q23- Why Depreciation & Amortization is included in EV/EBIT, but not in EV/EBITDA.

Suggested Answer: In contrast to EV / EBITDA, which excludes Depreciation and Amortization, EV / EBIT includes both. You're more likely to use EV / EBIT in industries where D&A is significant and where Capital Expenditures and fixed assets are important (e.g. manufacturing), and EV / EBITDA in industries where fixed assets are less important and where D&A and capital expenditures are relatively small (e.g. Internet companies).

Q24- Why do you take the median of the Beta of the peer group ?

Suggested Answer: Because The Peer data section lets you figure out the Unlevered Betas of your peers and use the average or median to figure out the Unlevered Beta of the industry. It's important to know the Levered Betas, tax rates, and leverage of other companies.

Q25- What factors are taken into consideration while selecting comparable companies?

Suggested Answer:

Select a Peer : Choose a group of competitors or similar businesses that operate in similar industries and have similar fundamental characteristics.

Calculate Market Capitalization: Share price × Number of Shares Outstanding.

Calculate Enterprise Value: Market Capitalization + Debt + Preferred Stock + Minority Interest (less common) – Cash.

Historical & Projected Financials: Make use of historical financial information from filings as well as projections from management, sell-side equity analysts, and other sources.

Spread Multiples: Spread (i.e., calculate) EV/EBITDA and P/E multiples based on the company's market capitalization, enterprise value, and historical/projected financial data.

Value Target Company: Select the most appropriate benchmark valuation multiple for the peer group and use that multiple to determine the value of the target company. In most cases, an average or median is used instead.

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