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

Top 30 Amazing Handpicked Interview Questions And Answers Which You Must Need To Read And Practice

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Q1) Why do DCF projections typically go out between 5 and 10 years?

Suggested Answer: The ability to predict the future in a reasonable manner determines the length of the forecast period. A tenure of less than 5 years is frequently deemed insufficiently long. When the time horizon exceeds ten years, it becomes increasingly difficult to forecast accurately.

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Q2) What are five questions you'd ask the company management? What other criteria would you use to evaluate management?

Suggested Answer: I'll ask a few questions that are frequently asked.
What do you think the sales will look like in the next 12-24 months? What is the most beneficial use of the cash on the balance sheet of the company? Is the company planning to raise capital to fund future growth, and if so, what is the company's strategy for growth? Who are the primary competitors in your industry, and what strategies do you intend to use to defeat the company?

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Q3) Tell me the logic behind of valuing of cost of equity through CAPM ?

Suggested Answer: Calculating the cost of equity, or how much risk and profit an investment will bring, can be done with the CAPM, which is a formula. It helps people figure out how much it costs to own risky individual stocks or whole portfolios. Investors need to be compensated for risk and time value when they put money in the bank.

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Q4) How would you find the cost of Equity which is a unlisted company and a private company?

Suggested Answer: The Capital Asset Pricing Model (CAPM) is used to calculate the cost of equity (CAPM) The CAPM formula states that the return on a security is equal to the risk-free return plus a risk premium, which is based on the beta of the security in question. We calculate the beta of the company by taking the beta of the industry as a whole.

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Q5) Why you take 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.

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Q6) What factors are taken into consideration while selecting comparable companies

Suggested Answer:

1. **Select a Peer :** Choose a group of competitors or similar businesses that operate in similar industries and have similar fundamental characteristics.
2. **Calculate Market Capitalization:** Share price × Number of Shares Outstanding.
3. **Calculate Enterprise Value:** Market Capitalization + Debt + Preferred Stock + Minority Interest (less common) – Cash.
4. **Historical & Projected Financials:** Make use of historical financial information from filings as well as projections from management, sell-side equity analysts, and other sources.
5. **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.
6. **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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Q7) How do you calculate FCFF in different ways?

Suggested Answer: There is 3 ways to calculate FCFF

Free Cash Flow from Net Income

FCFF= Net Income + Depreciation & Amortization +Interest Expense (1 – Tax Rate) – Capital Expenditures – Net Change in Working capital

Free Cash Flow from Cash from Operations

FCFF = Cash Flow from Operations + Interest Expense (1-Tax Rate) – Capital Expenditures

Free Cash Flow EBIT

FCFF = EBIT(1 – Tax Rate) + Depreciation & Amortization – Δ Net Working Capital – Capital Expenditure*

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Q8) Tell me Is it better to invest in high P/E or low P/E stocks?

Suggested Answer: A lower price-to-earnings ratio indicates that the stock of a particular company is inexpensive, but this does not always imply that you should purchase the stock. A lower price-to-earnings ratio may be due to some negative news about the company, as a result of which investors are unwilling to pay more for the stock. The lower the price-to-earnings ratio of a company, the greater the return on your investment. In order to make purchasing decisions, it may be necessary to compare the price-to-earnings ratio (P/E) with competitors as well as with all of the peers on average. Investors' confidence in a company is reflected in its price-earnings ratio, which indicates that they are willing to pay a higher price for the stock when compared to the company's earnings.

A low price-to-earnings ratio isn't always a good or bad thing; however, it can be a sign that a stock is a relative bargain when compared to its competitors. This is due to the fact that you can theoretically purchase a share of the company's earnings for less money than it would cost to purchase a share of the same earnings from another company.

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Q9 What are the Pros and cons of using the Price-Earnings Ratio (P/E)?

Suggested Answer:

Pros:

- Appealing statistic that relates the amount paid to what was earned

- Easy to use and widely available
- A proxy for a variety of other firm characteristics, such as risk and growth.

Cons:

- Accounting earnings are used.
- Earnings are reported at different times throughout the business cycle.
- Does not take into account the firm's risk or growth

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Q10) Why use EBITDA instead of enterprise value in the valuation process?

Suggested Answer: EBITDA has no relationship with enterprise value. EBITDA (earnings before interest, taxes, depreciation, and amortization) is defined as earnings before interest, taxes, depreciation, and amortization. A company's true earning power cannot be determined by this metric, which is essentially meaningless. EV is market cap + debt - cash and cash equivalents.

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Q11) Suppose you analyze a listed company and you have to find deep detail of the company then what you question will be with yourself?

Suggested Answer:

- Is the management team delivering on their promises on a consistent basis?
- Is there a clear plan for the future in place from the top down at the company?
- Is the management team up to the task of dealing with the crisis?
- Is the management team putting together the best possible product mix?
- Is the management reliant on a small number of products and a small number of clients?
- Is the management spending enough money on research and development?
- Is there anything the management is doing to keep their best employees?
- Is the management team allocating their resources wisely to new products and business expansion?
- Is the management team prepared to accept the changes and challenges that lie ahead?
- Is the management team more concerned with the bottom line or the margins?
- Is the management team focusing on temporary solutions or on long-term solutions for a specific problem?

- Is their business module a long-term, financially viable component? Does the company's management distribute its profits to its stockholders? Is the company's management communicating with its stakeholders and providing them with reassurance if the company is struggling? Is the company's management open and transparent?

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Q12) Imagine you attend a earning call What questions you would ask a company management?

Suggested Answer: It all depends, but I'll ask some questions like, for example,
What is the most beneficial use of the cash on the balance sheet of the company?
Is there a plan in place for the company to raise capital in order to fund future growth?
When it comes to sales, where do you see them heading in the next 12 to 24 months?
When it comes to your industry, who are the up-and-coming competitors you should be looking out for.

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Q13) Tell me between EBIT and EBITDA, which is better?

Suggested Answer: Because depreciation and amortization are non-cash expenses, they are excluded from EBITDA calculations. Alternatively, the cost of debt and its tax consequences. As a result, EBIT is superior.

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Q14) Could you explain how you use public comps and precedent transactions?

Suggested Answer: Initial selection of companies and transactions is based on industry, size, and geographic location of the companies and transactions (and time for the transactions).
Afterwards, you determine the appropriate metrics and multiples for each set of companies and transactions - such as sales revenue, sales growth, earnings before interest and taxes (EBITDA), EBITDA margins, and revenue and EBITDA multiples - and calculate them for all of the companies and transactions in the set.

The next step is to calculate for each valuation multiple in the set the minimum, the 25th percentile, the median, the 75th percentile, and the maximum.
You then apply these figures to the financial metrics of the company under consideration in order to derive an estimate of the company's Implied Value.
When a company has $100 million in LTM EBITDA and the median LTM EV/EBITDA multiple in a set of comparable companies is 7x, the implied Enterprise Value is $700 million for the company in question.
In order to obtain a range of possible values, you must first calculate its Implied Value for all the other multiples.
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Q15) Why can't you use Equity Value/EBITDA instead of Enterprise Value/EBITDA as a multiple?

Suggested Answer: The Equity Value metric is used when the metric includes interest income and expense; the Enterprise Value metric is used when the metric excludes them (or is "before" them).
It is not only common shareholders who have access to EBITDA; all investors in the company have access to it as well. Additionally, Enterprise Value is available to all investors because it includes both equity and debt, and you can pair them together to create a total return.
The ratio of equity value to earnings before interest and taxes (EBITDA) is misleading, however, because equity value does not represent the company's entire capital structure - only that which is available to common shareholders.
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Q16) P/E, EV/EBITDA, and EV/EBIT multiples all measure a company profitability. What's the difference between the two, and when should you use each? Why

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. Consequently, P / E is used for banks, insurance companies, and other businesses where interest is critical and capital structures are typically similar.
You're more likely to use EV / EBIT in industries where Depreciation and Amortization (D&A) is significant and where capital expenditures and fixed assets

are significant (e.g. manufacturing), whereas EV / EBITDA is more likely to be used in industries where fixed assets are less significant and where D&A is comparatively smaller (e.g. service industries) (e.g. Internet companies).

Please keep in mind that many bankers have this logic backwards and believe that EV / EBITDA is better when both CapEx and Depreciation are high... which is not correct, if you stop and think about it. Just give in and agree with what they have to say if they start arguing about it during an interview.

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Q17) What would you put a value on a company that makes no money and generates no revenue?

Suggested Answer: You could still use a relative valuation approach based on comparable and precedent transactions - but because you don't have any revenue or profits, you won't be able to use common multiples such as EV to Revenue, EV to EBITDA, or P/E because you don't have any revenue or profits.

Using a pre-revenue internet company, you could look at metrics such as the number of users, or the number of unique website visitors, the number of page views, and other out-of-box multiples. You go one level above revenue and compare companies based on the metrics you've gathered so far.

Instead of a DCF, you could project out further (perhaps 15-20 years) and until a point in the future when the company does generate revenue and profit, after which you would discount the cash flows back to the present. But the problem with doing so is that the further out you go with your projections, the more uncertainty there is, making it impractical in many situations.

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Q18) What is the Asset Approach, and why are we using it?

Suggested Answer: A business is viewed as a collection of assets and liabilities that are used as building blocks to construct a picture of the business's value according to the asset approach. The asset approach is based on the so-called economic principle of substitution, which is intended to answer the following question:

What will it take to start a new business similar to this one that will provide the same economic benefits to its founders and investors?

With assets and liabilities being a part of every operating business, determining the value of these assets and liabilities seems like a logical first step in answering this question. The difference is measured in terms of business value.

While this may appear to be straightforward, the difficulty lies in the specifics: determining which assets and liabilities should be included in the valuation, selecting a standard by which to measure their value, and then actually determining how much each asset and liability is worth.

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Q19) What exactly is the Market Approach approach, and why are we using it?

Suggested Answer: The market approach, as the name implies, is based on signs found in the real world market place to determine the value of a company's assets. In this case, the so-called economic principle of competition comes into play:

What are the values of other businesses that are similar to my own business?

There is no such thing as a business that operates in isolation. If what you do is truly exceptional, there is a good chance that others are engaged in the same or similar activities. If you are considering purchasing a business, you must first determine the type of business you are interested in purchasing and then research the "going rate" for businesses of that type in the local area.

Whenever you are planning to sell your business, you will research the market to see what other businesses in your industry are selling for.

On the surface, it seems logical to assume that the "market" will eventually settle on some notion of business price equilibrium - something that both buyers and sellers will be willing to pay and accept. That is what is referred to as the "fair market value" of the asset:

The amount of money that a willing buyer is willing to pay and a willing seller is willing to accept in exchange for the business. Both parties are presumed to be acting in good faith and with full knowledge of all relevant facts, with neither party being under any obligation to complete the transaction.

In this case, the market approach to business valuation is an excellent way to determine the fair market value of the company - the amount of money that would be exchanged in an arms-length transaction where both the buyer and the seller act in their own best interests.

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Q20) What is the Income Approach, and why do we use it?

Suggested Answer: With the income approach, you're looking at the most important reason for owning a business: making money. In this case, the so-called economic principle of expectation comes into play:

What economic benefits will I receive if I invest my time, money, and effort into business ownership, and when will these benefits be realized?

Take note of the phrase "future expectation of economic benefit" in the sentence above. Due to the fact that the money has not yet been deposited in a bank, there is some risk of not receiving all or a portion of it when you expect it. As a result, in addition to determining how much money the business is likely to generate, the income valuation approach also takes into account the risk involved.

Due to the fact that the business value must be established in the present, the expected income and risk must be converted to today's dollars. The income approach employs two methods for performing this translation:

Capitalization Discounting Direct capitalization is a method of determining the value of a business.

In its most basic form, the capitalization method is simply a division of the expected earnings of a business by a rate known as the "capitalization rate." The idea is that the business value is defined by the business earnings, and that the capitalization rate is used to connect the two figures together.

Consider this scenario: if the capitalization rate is 33 percent, then the company is worth approximately three times its annual earnings. A capitalization factor, which is used to multiply the income, is an alternative option to consider. In either case, the outcome is what determines the current business value.

Discounting cash flows is used to determine the value of a business. It is a little different in that you project the business income stream over a period of time in the future, usually measured in years, before applying the discounting method to it. Following that, you calculate the discount rate, which reflects the likelihood of receiving this income on time.

Finally, you must determine how much the company will be worth at the end of the projection period. The residual or terminal business value is what is referred to as in this case. Finally, the discounting calculation provides you with the so-called present value of the business, which is the amount of money the company is currently worth.

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Q21) How would you analyze a value of company that has no profit and no revenue?

Suggested Answer: Instead of using EV/Revenue or EV/EBITDA, you could use Comparable Companies and Precedent Transactions and look at more "creative" multiples such as EV/Unique Visitors and EV/Pageviews (for internet start-ups) instead of EV/Revenue or EV/EBITDA.
A "far in the future" DCF can be used to project a company's financial results out until the company actually generates revenue and profits.
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Q22) 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.
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Q23) Why do you use enterprise value for unlevered free cash flow multiples but equity value for Levered free cash flow multiples?

Suggested Answer: These two measures of cash flow are similar, but Unlevered Free Cash Flow (Free Cash Flow to Firm) excludes interest income and interest expense (as well as mandatory debt repayments), whereas Levered Free Cash Flow includes interest income and interest expense (as well as mandatory debt repayments), implying that only Equity Investors are entitled to that cash flow in the first instance. As a result, you calculate Levered Free Cash Flow using Equity Value and Unlevered Free Cash Flow using Enterprise Value.
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Q24) 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.
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Q25) When calculating terminal value, how did you select the suitable exit multiple?

Suggested Answer: Normally, you would look at the Public Comps and choose the set's median or something close to it. Rather than displaying a single number, you always show a range of exit multiples and what the Terminal Value looks like across that range. So, if the set's median EBITDA multiple was 8x, you could show a range of values ranging from 6x to 10x.
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Q26) 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.
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Q27) The EV/EBITDA multiple for this company is 15x, whereas the median EV/EBITDA for comparable companies is 10x. What is the MOST LIKELY reason?

Suggested Answer: The most likely explanation is that the market anticipates the company's cash flows to grow at a faster rate than those of its competitors. For example, while other companies might be expected to grow at a rate of 5 percent, this company might be expected to grow at a rate of 10 percent.
Because these companies are all roughly the same size and operate in the same industry, the Discount Rate is unlikely to differ by a significant amount. As a result, the risk should be similar for all of them.
It is possible that non-financial factors have an impact on the multiple; for example, recent positive news about the company's strategy, product, executives, intellectual property, or competitive performance may explain why this company trades at a higher multiple than the others.
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Q28) The P/E multiples of two companies are the same, but the EV/EBITDA multiples are not. How can you know who has the most debt?

Suggested Answer: Suppose two companies have P / E multiples of 15x, but one has Net Income of $10 and the other has Net Income of $100. The company with Net Income of $100 is more likely to have debt than the company with Net Income of $10, even though the latter's enterprise value to earnings (EV / EBITDA) multiple is lower.
It is possible to "sort of" answer this question if you assume that both companies have the same Net Income and the same EBITDA for the year. The Equity Values of the two companies are equal in this case, and as a result, the company with the higher EV/EBITDA multiple must also have a greater Enterprise Value. The majority of the time, this indicates that it has accumulated more debt.
HOWEVER, it's important to keep in mind that there are other factors to consider. Possibly, both companies have the same amount of debt, but the company with

the higher enterprise value to earnings ratio has less cash on hand. If a company's Unfunded Pension or Preferred Stock balance is higher than the market average, the company with the higher multiple wins.

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Q29) 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.

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Q30) Is it more likely that an LBO or DCF will result in a better valuation?

Suggested Answer:

- Technically, it could go either way, but in the vast majority of cases, the LBO will result in a lower valuation for your business.
- For the sake of simplicity, consider the following: with an LBO, you do not receive any value from a company's cash flows between the first and final year — you are only valuing it based on its terminal value.
- As opposed to this, when using a DCF, you are considering both the company's cash flows in between and its terminal value, which results in a higher overall valuation for the company.
- Note that, in contrast to a DCF, an LBO model does not provide a specific valuation on its own. Instead, you set a target internal rate of return (IRR) and use that to determine how much you could pay for the company (its valuation).

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