Analyst Interview Exclusive Handpicked Questions and Answer for May 2022

Top 30 Amazing Handpicked Interview Questions and Answers Which You Must Need to Read and Practice

Q1. What does positive EBITDA mean?

Suggested Answer: If a company has a positive EBITDA, it means that it is profitable on an operating level: it sells its products for more money than it costs to manufacture them. If, on the other hand, EBITDA is negative, it indicates that the company is experiencing operational difficulties or that it is being poorly managed.

Read Question Source

Q2. Define FCFF. Differentiate the between FCFF and FCFE?

Suggested Answer: Free cash flow to the firm (FCFF) is the amount of cash flow from operations that can be distributed after depreciation costs, taxes, working capital, and investments are taken into account. FCFF is a way to figure out how profitable a company is after all of its expenses and new investments.

Free cash flow to firm (FCFF)

- All of a company's investors have access to the company's cash flow.
- The impact of leverage on unlevered cash flow is not considered.
- Calculates the enterprise value of a company.
- The capital structure takes into account the weighted average cost of capital.
- Companies with a high level of leverage prefer this option.

Free cash flow to Equity (FCFE)

- Equity shareholders are the only ones who have access to cash flow.
- The impact of leveraged cash flow is taken into consideration.
- This function computes the equity value.
- It is necessary to maintain consistency by using the cost of equity.
- Analysts prefer this option.

Read Question Source

Q3. Why is interest not deducted while calculating FCFF?

Suggested Answer: In order to arrive at FCFF, the after-tax interest expense must be added back to net income. As a result of the deduction of interest expense net of the related tax savings in the computation of net income, as well as the fact that interest is a cash flow available to one of the company's capital providers (i.e., one of the company's creditors), this step is required.

Read Question Source

Q4.What are the the techniques used in Capital Budgeting?

Suggested Answer: There is Five techniques use in capital budgeting.

Payback period method: In this technique, the entity determines the amount of time it will take to recoup the initial investment in a project or investment, as well as the amount of money it will need to do so. When choosing a project or investment, the one with the shortest duration is preferred.

Net Present value: It is possible to calculate the net present value of a transaction by calculating the difference between the present value of cash inflows and the present value of cash outflows over a given period of time. The investment that has a positive net present value (NPV) will be considered. In the event that there are multiple projects, the project with the highest net present value (NPV) is more likely to be chosen.

Accounting Rate of Return: To determine the most profitable investment, the total net income of an investment is divided by the initial or average investment, which results in the most profitable investment.

Internal Rate of Return (IRR): A discount rate is used to compute the net present value. The internal rate of return (IRR) is the rate at which the NPV becomes zero. Typically, the project with the highest internal rate of return (IRR) is chosen.

Profitability Index: The Profitability Index measures the relationship between the present value of future cash flows generated by a project and the amount of initial investment required to complete the project. Each technique has its own set of benefits and drawbacks that must be considered. When it comes to budgeting, an organization must employ the most effective technique available. It can also choose from a variety of techniques and compare the results in order to identify the most profitable projects to pursue.

Read Question Source

Q5.What is EBITDA? As an investor would you consider EBITDA or Net Profit for judging a potential investment?

Suggested Answer: EBITDA (earnings before interest, taxes, depreciation, and amortization) is a financial performance metric that can be used in place of other metrics such as revenue, earnings, or net income to assess a company's financial performance. It is calculated as earnings before interest, taxes, depreciation, and amortization divided by revenue. It is calculated as the difference between earnings before interest, taxes, depreciation, and amortization and the total amount of revenue. Despite the fact that it is frequently included on a profit and loss statement, it is not always included on the statement.

The EBITDA of a company is used to determine its profitability, whereas the net profit is used to calculate the company's earnings per share of common stock. The preferred method of measurement for many businesses is EBITDA, because it reduces the impact of factors that are beyond their control and focuses attention on factors that can be controlled.

Read Question Source

Q6. Explain the main difference between EV and EV multiples?

Suggested Answer: In business valuation, enterprise value is the value of the company's core business operations, which are available to all investors (i.e. debt, equity, preferred, etc.) All assets (i.e., all assets) that are available to common equity investors are represented by the equity value of the company. Equity value represents the value of both core and non-core operating assets.

Only denominators that are relevant to equity holders are used in the calculation of equity value multiples. Consequently, the relevant denominator must be computed after interest, preferred dividends, and minority interest expense have been deducted from the total.

Read Question Source

Q7. What is the PEG ratio, and how does it differ from the P/E?

Suggested Answer: The PEG ratio is the price-to-earnings ratio of a company divided by the rate at which its earnings are growing over a period of time (typically the next 1-3 years). The PEG ratio is a method of adjusting the traditional price-to-earnings ratio by taking into account the expected growth rate in earnings per share in the future. In the case of companies with a high growth rate and an elevated price-earnings ratio, this can aid in the "adjustment."

The price-to-earnings ratio (P/E ratio) is widely used and simple to calculate, but it has some drawbacks that investors should be aware of when using it to determine the value of a stock. In contrast to the P/E ratio, which does not take into account future earnings growth, the PEG ratio provides more information about the value of a stock.

Read Question Source

Q8. Tell me why we use EBITDA multiple instead of EBIT multiple?

Suggested Answer: EBIT reveals the results of operations on an accrual basis, whereas EBITDA is a rough approximation of the cash flows generated by operations on a cash basis. Because acquisition-related company valuations are typically based on cash flows, EBITDA is more likely to be used in the development of a company valuation for acquisition purposes.

Read Question Source

Q9. 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.

Read Question Source

Q10.Tell me the main difference between Fundamental Analysis and Technical Analysis and which one you prefer?

Suggested Answer: The main difference between

Fundamental Analysis: Fundamental analysis is concerned with determining the intrinsic or true value of a stock in order to determine if it is overvalued or undervalued in the marketplace. This is accomplished by taking into account a variety of indicators, such as the profit generated by the company, its business model, the growth of its industry, and others, before making a determination. Essentially, the goal is to take into consideration every significant externality that could have an impact on the stock's price. Analysts who use this approach study and analyze a stock using complex ratios and metrics, which are difficult to understand.

Technical Analysis: This method of analysis attempts to predict the price movement of a stock by only taking into account the price action patterns and returns generated by it, as opposed to other methods of analysis. There is a fundamental concept at work here: patterns frequently repeat themselves and exist on a continuum. As a result, investors who use this method frequently rely on momentum-based indicators in conjunction with support and resistance levels in order to analyze the price of the stock.

Fundamental analysis is my preferred method of investing because I intend to hold onto a company for the long haul.

Read Question Source

Q11.Suppose oil price change 20% down how it will affect economy?

Suggested Answer: Low oil prices have a negative impact on the oil and gas industry, but have a positive impact on the auto and plastics industries, among other industries. When it comes to the overall economy, one offsets the other, but the regional effects are magnified in the "oil patch," as it is commonly referred to.

Read Question Source

Q12.Tell me which are the most common valuation ratios used to analyze any stock?

Suggested Answer: Most common is valuation ratios used to analyze any stock

- Enterprise Value (EV)/EBITDA
- EV/Sales
- EV/EBIT
- Price to Earnings (P/E)
- Price to Book Value (P/BV)

Read Question Source

Q13.Explain me which are the most common multiples we use in valuation?

Suggested Answer: Most common multiples use in valuation are

- EV/Sales
- EV/EBITDA
- EV/EBIT
- PE ratio
- PEG Ratio
- P/CF ratio
- P/BV ratio
- EV/Assets

Read Question Source

Q14.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).

Read Question Source

Q15.What are some reasons that two companies would desire to merge?

Suggested Answer: The primary reason for a merger between two companies would be the synergies that would be created as a result of combining their respective operations. Aside from that, there are several other reasons for outsourcing, such as establishing a new market presence, consolidating operations, gaining brand recognition and expanding in size, or acquiring rights to some property (physical or intellectual) that they could not obtain as quickly if they built or created it themselves.

Read Question Source

Q16. What effect would an increase of $10 in depreciation expense have on the three financial statements?

Suggested Answer: Income Statement Depreciation expense of $10 will reduce net income by a ten times (1-T). According to an assumption of a 40% tax rate, this will result in a $6 reduction in net income.

After that, the money will flow to cash from operations, where net income will be reduced by $6 while depreciation is increased by $10, resulting in an increase in end-of-year cash of $4.

The cash is then transferred to the balance sheet. Where cash increases by $4, PP&E decreases by $10, and retained earnings decreases by $6, resulting in a net cash increase of $4 and a net cash decrease of $6.

Read Question Source

Q17. What important ratios are required for historical income statement results?

Suggested Answer:

- Revenue growth
- Gross Margin: (Revenue - COGS)/Revenue
- SG&A Margin: SG&A/Revenue
- Operating Margin: Operating Income/Revenue
- EBITDA Margin: (Operating Income + D&A)/Revenue
- Depreciation as a % of Gross PPE
- Effective Tax Rate: Income Tax/Pre-Tax Income
- Other income/expense - to see if there is a trend.

Read Question Source

Q18- What exactly are Balance Sheet Projections?

Suggested Answer:

- **Cash:** It is linked from the cash flow statement
- **Account Receivables:** 30/360 X Revenue Projection
- **Accounts Payable & Inventory :** 30/360 X COGS Projection (*COGS = Cost of Good Sold)
- **Other Assets:** could be hard keyed or tied as a % of revenue
- **Goodwill:** is not amortized - if there unless there is an impairment.

- **Amortization:** financing fees from acquisitions can be amortized but not investment banking fees.
- **Gross PPE (Property Plant and Equipment):** Beginning balance + Capex - Asset sales (*Capex = Capital Expenditure)
- **Capex Projection:** historical capex as % of revenue
- **Asset Sales Projections:** discern trends, read notes. Often you need project 0.
- **Accrued liabilities and other:** discern trends, express either as absolute hard keyed value, or as % of COGS.
- **Retained Earning Projection:** Beginning Balance + Net Income (after dividends)

Read Question Source

Q19. What exactly are Cash Flow Projections?

Suggested Answer:

- **Operating cash flow:** Sum of Net Income + Depreciation & Amortization + Changes in Working Capital + Changes in other Assets/Liabilities
- **Investing cash flow:** Capital Expenditures, Acquisitions, Sale of assets
- **Financing activities:** Debt, Interest Expense, Interest Income, Increase in Debt or Equity is a Cash inflow
- **Ending cash balance:** Beginning cash balance + Cash flow during period.
- All non-cash items on the income statement must be subtracted from the operating cash flow to arrive at the net income.

Read Question Source

Q20. Suppose there is companies and both companies have equal growth rates and profit margins. Which multiple will be higher?

Suggested Answer: Since a company's value is determined by its cash flow, cash flow growth rate, and discount rate, it is most likely that EV/EBITDA multiples will be correlated with EBITDA growth rates. Some correlation between revenue growth rate and EV/EBITDA multiples may exist, but the correlation between revenue growth rate and EV/Revenue multiples will be stronger.

Read Question Source

Q21. Why do two companies with the same growth and capital costs sell at different P/E multiples?

Suggested Answer: Growth and the cost of capital are not the only factors that influence the value of a company. Another important factor to consider is the return on invested capital. Assuming everything else is equal, if one of the companies has a higher return on equity, you would anticipate its PE ratio to be higher as well. Other possible reasons include relative mispricing or inconsistent earnings per share calculations as a result of nonrecurring items and different accounting assumptions, among other things.

Read Question Source

Q22.Should two companies that are equal but have different leverage rates trade at different P/E multiples?

Suggested Answer: PE multiples for otherwise identical companies can differ significantly due to the difference in leverage levels.

Assuming everything else is equal, as a company borrows money, its earnings per share (EPS) will decline due to the increased interest expense.

As a result of debt remaining unused and generating no return, the stock price will either decline (+PE ratio) or grow. If debt is used to efficiently invest and grow the business, the stock price will increase (+PE ratio).

Q23.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.

Read Question Source

Q24. Why do capital expenditures (Property Plant &Equipment) increase assets, yet other cash outflows, such as paying salaries, taxes, and so on, do not produce any assets and instead create a cost on the income statement that diminishes equity via retained earnings?

Suggested Answer: Even though they are all considered cash outflows, Capital Expenditures are considered investments in the company's future: fixing or purchasing new assets that will generate additional value in the future, and not just in the current tax year. In contrast, salaries and taxes are only accounted for in the current fiscal year in which they were required to keep the business running. As a result, they are classified as expenses because they do not inherently result in the creation of future assets for the company (with the exception of Prepaid Income Taxes, which are taxes that have already been paid despite having not yet been incurred). Their value is reflected as an asset on the balance sheet.

Q25. 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.

Read Question Source

Q26.What are the benefits and disadvantages of using EV/EBITDA vs. EV/EBIT vs. P/E as a valuation multiple?

Suggested Answer: First and foremost, it is important to note that when valuing companies, you never look at just one multiple. You should consider the big picture when valuing a company, and you should evaluate the company using a variety of multiples and methodologies. However, because the interviewer is likely to be irritated and press you on this point, you can say that when comparing EV / EBITDA to EV / EBIT, EV / EBITDA is preferable in cases where you want to completely exclude the company's capital expenditures, depreciation, and capital structure from consideration.

When you want to exclude capital structure but partially factor in CapEx and Depreciation, EV / EBIT is a better measure to use. Industry sectors such as manufacturing, where those items are critical value drivers for businesses, are accustomed to this practise.

Because it is affected by various factors such as tax rates, capital structures, non-core business activities, and other factors, the P / E multiple is not particularly useful in most cases. Instead, it is used primarily to be "complete" and ensure that you have covered all of the commonly used multiples. Furthermore, it is sometimes more relevant and important in certain industries, such as commercial banks and insurance companies, where it is necessary to take into account interest income and expense when determining profitability.

Read Question Source

Q27. What is Calendarization and how you will use in valuation

Suggested Answer: Calendarization refers to the fact that different companies have different fiscal years. For example, some businesses' fiscal years may run from January 1 to December 31; however, others may have fiscal years that run from April 1 to March 31, or from July 1 to June 30, depending on their industry.

It becomes difficult to compare all of these periods because you always have to look at the same calendar period when creating a set of Public Comps, which makes it difficult to compare all of them at the same time.

As a result, you must adjust all fiscal years by adding and subtracting "partial" periods from the total.

You almost always adjust the fiscal years of other companies to match the fiscal year of the company you're valuing.

Consider the scenario in which you need to change a fiscal year that runs from July 1 to June 30 to one that ends on December 31.

The financials from the July 1 - June 30 period would be added to those from the June 30 - December 31 period this year, and the financials from the June 30 - December 31 period the previous year would be subtracted from those of the July 1 - June 30 period.

Read Question Source

Q28.Take a look at how businesses performed during the financial crisis. Is there an increase or decrease in WACC?

Suggested Answer: Consider the individual components of WACC: the cost of equity, the cost of debt, the cost of preferred, and the percentages associated with each of these components. After that, consider the individual components of the Cost of Equity: the Risk-Free Rate, the Equity Risk Premium, and the Beta factor. In order to stimulate spending, governments around the world will lower interest rates. However, the equity risk premium will rise significantly as investors demand higher returns before investing in stocks. Because of all of the volatility, the beta would also rise.

As a result, we can anticipate that the Cost of Equity will rise, as the latter two increases will more than offset the decline in the Risk-Free Rate, as previously stated. What this means for the WACC is that:

The cost of debt and the cost of preferred stock would both rise as it becomes more difficult for businesses to borrow money.

The debt-to-equity ratio would almost certainly rise as a result of falling stock prices, resulting in a decrease in equity value for the majority of companies while debt remained unchanged...

As a result, debt and preferred stock would likely account for a greater proportion of a company's capital structure on a proportional basis. But keep in mind that the Cost of Debt and the Cost of Preferred both rise, so the shift isn't that significant.

As a result, the WACC is almost certain to increase because almost all of these variables are pushing it upward - the only variable that is pushing it downward is the reduced Risk-Free Rate. In addition, there is a more straightforward way to think about it: given all other factors being equal, did companies become more or less valuable during the financial crisis? Because the market discounted their future cash flows at higher rates, they were deemed less valuable. As a result, the WACC must have increased.

[Read Question Source]

Q29.What's the difference between a levered and an unlevered fcf?

Suggested Answer: Expenses account for the difference between leveraged and unlevered free cash flow. Levered cash flow refers to the amount of money a company has left over after it has met its financial commitments. Unlevered free cash flow refers to the amount of money a company has left over after paying all of its financial obligations.

Read Question Source

Q30. 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 amortisation and is used in industries where fixed assets are less important and depreciation and amortisation is comparatively smaller (ex: internet companies)

Read Question Source

Want to get exclusive Interview Question PDF file Every Month on your Email

Yes I Want to Subscribe

Click Here

If you have any query, suggestion, complaint, ideas etc. Please drop us email on info@analystinterview.com

If you want to support us please share www.analystinterview.com with your friends, family, colleague, and those people who want to learn interview questions for free. Also you can support on buy me a coffee

Buy me a coffee

Disclaimer

The information contained in this Document and Website is for general information education purposes only. The information is provided by Analyst Interview and while we endeavor to keep the information up to date and correct, we make no representations or warranties of any kind, express or implied, about the completeness, accuracy, reliability, suitability or availability with respect to the website or the information, products, services, or related graphics contained on the website for any purpose. Any reliance you place on such information is therefore strictly at your own risk.

In no event will we be liable for any loss or damage including without limitation, indirect or consequential loss or damage, or any loss or damage whatsoever arising from loss of data or profits arising out of, or in connection with, the use of this document and website.

Through this site you are able to link to other websites which are not under the control of Analyst Interview. We have no control over the nature, content and availability of those sites. The inclusion of any links does not necessarily imply a recommendation or endorse the views expressed within them.

Every effort is made to keep the site up and running smoothly. However, Analyst Interview takes no responsibility for, and will not be liable for, loss and damage.