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

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

Q1- How would you present these DCF valuation methodologies to a company or its investors? and what do you use this for?

Suggested Answer: Typically, you'll use a "football field" chart to illustrate the valuation range implied by each method of estimation. You always use a range of numbers rather than a single specific number.

In the following situations, you could use a valuation: Pitch Books and Client Presentations - when you provide updates to clients and tell them what you believe they are worth Several other models, including defense analyses, merger models, LBO models, DCFs, and almost everything else in finance, will include elements of the asymmetric information model (AIM). In some way, there is a monetary value to something. Opinions of fairness- just before a deal with a public seller is completed, the financial advisor of the public seller prepares an opinion of fairness that justifies the acquisition price and provides a direct estimate of the company's value.

Q2- Suppose there are 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.

Q3- What are the differences between Equity Value and Enterprise Value?

Suggested Answer: The value of a company's operations that can be attributed to all sources of capital is represented by the term Enterprise Value.

Equity Value is one of the components of Enterprise Value, and it only represents the portion of value that can be attributed to the shareholders' investments.

Q4- 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.

Q5- How would you go about choosing a set of comparable public companies to use in a valuation?

Suggested Answer: The 3 main criteria for selecting companies and transactions:

- Industry classification
- Financial criteria (Revenue, EBITDA, etc.)
- Geography

In the case of Precedent Transactions, you can also limit the set based on the date, with the majority of transactions occurring within the last 1-2 years being the most common. Companies and transactions are screened for based on the most important factor, which is industry. The remaining factors are optional and are used only if you want to be extremely specific about your search.

Q6- How do you choose between the different valuation methodologies?

Suggested Answer: Because each method has a distinct ability to provide useful information, you should not limit yourself to just one method. The most effective method of determining the value of a company is to employ a variety of valuation techniques in tandem. In the case of a precedent transaction valuation that you believe to be extremely accurate, you may decide to give that result greater weight. Alternatively, if you are extremely confident in the outcome of

your DCF analysis, you will place greater emphasis on it. The process of determining the worth of a company is both an art and a science.

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- Do you think free cash flow is a measure of profitability?

Suggested Answer: While earnings or net income are measures of profitability, free cash flow is a measure of profitability that excludes non-cash expenses from the income statement while including spending on equipment and assets from the balance sheet, along with changes in working capital.

Q9- Is it possible for a business to have a negative Enterprise Value?

Suggested Answer: Yes. It indicates that the company has a cash balance that is extraordinarily high or that its market capitalization is extremely low (or both). It happens frequently with businesses that are on the verge of going bankrupt, and it also occurs occasionally with businesses that have tremendous cash reserves.

Q10-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.

Q11-Two businesses with identical financial profiles (revenue, growth, and profits) are purchased by the same acquirer, but one's EBITDA multiple is double that of the other. What are the chances of this happening?

Suggested Answer: There are a variety of possible explanations, such as One process was more competitive than the other, with a significantly greater number of companies bidding on the target. One company had recently received bad news or had a depressed stock price, which resulted in its acquisition at a discount. They worked in industries with a range of median multiples between them.

Q12-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.

Q13-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.

Q14- 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)

Q15-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.

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- 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).

Q18- 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.

Q19- 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.

Q20- What factors may cause a company's present value to Increase or Decrease?

Suggested Answer: The Present Value of a company may increase if the following conditions are met:

The company's expected future cash flows are increasing.

Cash flows from operations should increase at a faster rate in the future.

Because we no longer have access to certain investments, our "opportunity cost," also known as the Discount Rate, decreases.

The Present Value of a company may decrease if any of the following conditions are met:

The company's expected future cash flows are decreasing.

Its future cash flows are expected to grow at a slower rate in the foreseeable future.

Our "opportunity cost," also known as the Discount Rate, rises as we gain access to more enticing investment opportunities.

Q21- If interest rates were to go upwards, which sectors do you think would benefit?

Suggested Answer: Some industries, in my opinion, will benefit from an increase in interest rates in the future. The financial industry is one of the sectors that tends to benefit the most from this trend. Because they can charge higher interest rates for lending, banks, brokerages, mortgage companies, and insurance companies often see an increase in their earnings when interest rates rise.

Q22- When analyzing any stock what parameter you use ?

Suggested Answer:

Quality Ratings

Financial Leverage

Company’s Liquidity

Positive Earnings Growth

Price to Earnings Ratio

Q23- 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.

Q24- What do you mean by EV/Sales multiple?

Suggested Answer: The enterprise value to sales ratio is a financial ratio that compares the total value of a company (as measured by enterprise value) to the total amount of money it generates in sales. Despite the fact that the ratio is expressed in years, it illustrates how many dollars of EV are generated by every dollar of yearly sales.

Q25- Define FCFF. Differentiate 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.

Q26- 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.

Q27- 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.

Q28-Tell me which method would you value a company?

Suggested Answer:

1. Asset Valuation: The assets of your company include both tangible and intangible items. Calculate the value of your company's assets based on the book or market value of those assets. When calculating the asset valuation for your company, make a list of all of the cash, equipment, inventory, real estate, stocks, options, patents, trademarks, and customer relationships that you have on hand.

2. Historical Earnings Valuation: The current value of a business is determined by the gross income generated, the ability to repay debt, and the capitalization of cash flow or earnings. If your company is having difficulty generating enough revenue to cover its expenses, its value will decline. On the other hand, paying off debt quickly and maintaining a positive cash flow

increase the value of your company. Make use of all of these considerations when determining the historical earnings valuation of your company.

3. Relative Valuation: The relative valuation method is used to determine how much a similar business would be worth if it were sold at the same time. It determines a reasonable asking price for your company's assets by comparing the value of your assets to the value of similar assets in the market.

4. Future Maintainable Earnings Valuation: In order to determine the value of your business today, you must first determine how profitable your business will be in the future. When profits are expected to remain stable, you can use the future maintainable earnings valuation method for business valuation. You should evaluate your company's sales, expenses, profits, and gross profits from the previous three years in order to determine its future maintainable earnings valuation.. These figures assist you in forecasting the future and providing a current market value for your company.

5. Discount Cash Flow Valuation: If profits are not expected to remain stable in the future, the discount cash flow method should be used to value the business. Future net cash flows from your company's operations are discounted to present day values using this method. With these figures, you can determine the discounted cash flow valuation of your company as well as the amount of money your business assets are expected to generate in the near future.

Q29- Why is CAPEX a negative number on the cash flow statement?

Suggested Answer: Because they are amounts that are being subtracted from your balance sheet, or because they represent a negative capital expenditure on your cash flow statements, capital expenditures are considered negative. Capital expenditures, also known as capital outlays, are used to purchase assets that will be used by your company for a period of more than a year after they are purchased.

Q30- 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.

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