The Interview Bible

100 investment banking technical questions, with answers.

Investment Banking Bible
@investmentbankingbible

Before you start

These are the questions that keep coming up in investment banking and private equity interviews. Each answer is short enough to say in about 30 seconds.

Cover the answer, say yours out loud, then compare. Interviewers change the numbers, so learn the reasoning and not the wording. Each part opens with the handful of rules that most of its questions come back to, then the basics, then the harder questions that separate candidates.

1. Accounting	1 to 18
2. Enterprise value and equity value	19 to 30
3. Valuation	31 to 43
4. Discounted cash flow	44 to 59
5. Mergers and acquisitions	60 to 76
6. Leveraged buyouts	77 to 92
7. Fit and market awareness	93 to 100

1. Accounting

Know these before the questions

- Assets = Liabilities + Equity. Every answer has to end with both sides balancing.
- Walk through in the same order every time: income statement, cash flow statement, balance sheet.
- An expense of X lowers net income by X × (1 − tax rate). If it is non-cash, add the full X back on the cash flow statement.
- An asset going up uses cash. A liability going up provides cash.
- Net income feeds retained earnings and the top of the cash flow statement. Ending cash feeds the balance sheet.

The basics

1. **Walk me through the three financial statements.**

   The income statement shows revenue, expenses and net income over a period. The balance sheet shows assets, liabilities and equity at a point in time, and assets must equal liabilities plus equity. The cash flow statement starts with net income, adjusts for non-cash items and working capital, then shows investing and financing flows to arrive at the change in cash.

2. **How do the three statements link together?**

   Net income from the income statement is the first line of the cash flow statement and also flows into retained earnings on the balance sheet. The cash flow statement explains the change in cash, which becomes the cash balance on the balance sheet. Balance sheet items such as PP&E, debt and working capital change through the investing, financing and operating sections.

3. **Depreciation goes up by $10. Walk me through the statements at a 25% tax rate.**

   Pre-tax income falls by $10 and net income falls by $7.50. On the cash flow statement net income is down $7.50 but you add back the $10 of depreciation, so cash is up $2.50. On the balance sheet cash is up $2.50 and PP&E is down $10, so assets fall $7.50, matched by retained earnings falling $7.50.

4. **If depreciation is a non-cash expense, why does it affect the cash balance?**

   Because it is tax-deductible. Depreciation lowers taxable income, so the company pays less tax, and tax is a cash cost. That tax saving is the only cash effect.

5. **If you could only have two statements to assess a company, which would you pick?**

   The income statement and the balance sheet, because with both (and the prior period balance sheet) you can build the cash flow statement yourself.

6. **Accrued compensation goes up by $10. Walk me through the statements at a 25% tax rate.**

   The company has recorded a wage expense it has not yet paid. Pre-tax income falls $10 and net income falls $7.50. On the cash flow statement, net income is down $7.50 and the increase in the accrued liability adds back $10, so cash is up $2.50. On the balance sheet, cash is up $2.50 on the asset side; liabilities are up $10 and retained earnings are down $7.50, so the other side is also up $2.50.

7. **Inventory goes up by $10, paid for in cash. What happens?**

   Nothing on the income statement, because inventory is only expensed when it is sold. On the cash flow statement, cash from operations falls by $10. On the balance sheet, inventory is up $10 and cash is down $10, so it still balances.

8. **What is working capital?**

   Current assets minus current liabilities. In practice bankers use operating (net) working capital, which excludes cash and debt: mainly receivables plus inventory minus payables and accrued expenses. It measures how much cash is tied up in running the business day to day.

9. **What does negative working capital mean? Is it bad?**

   Not necessarily. Businesses that collect cash from customers before paying suppliers, such as supermarkets or subscription companies, run negative working capital and are effectively financed by their suppliers and customers. It is a warning sign only if it comes from a company struggling to pay its bills.

10. **What is the difference between accounts receivable and deferred revenue?**

    Accounts receivable is revenue you have earned but not yet collected in cash, so it is an asset. Deferred revenue is cash you have collected for a product or service you have not yet delivered, so it is a liability until you earn it.

11. **What is the difference between capitalising and expensing a cost?**

    An expensed cost hits the income statement in full immediately. A capitalised cost is recorded as an asset and then depreciated or amortised over its useful life. You capitalise when the spending provides benefit beyond one year, such as a factory or acquired software.

12. **A company has positive EBITDA but goes bankrupt. How?**

EBITDA ignores several real cash costs. The company could have heavy capital expenditure, large interest payments, a big working capital build, one-off cash charges such as litigation, or a debt maturity it cannot refinance.

Harder questions

13. **A company buys $100 of equipment with debt. Walk me through the purchase, then one year later. Assume 10% interest, ten-year straight-line depreciation and a 25% tax rate.**

At purchase: nothing on the income statement. Investing shows a $100 outflow and financing a $100 inflow, so cash is unchanged. PP&E and debt are both up $100. After one year: depreciation is $10 and interest is $10, so pre-tax income falls $20 and net income falls $15. On the cash flow statement you add back the $10 of depreciation, so cash is down $5. On the balance sheet, cash is down $5 and PP&E is down $10, so assets fall $15, matched by retained earnings falling $15.

14. **The company from question 7 now sells that $10 of inventory for $20. What happens?**

Revenue is up $20 and cost of goods sold is up $10, so pre-tax income rises $10 and net income rises $7.50. On the cash flow statement, net income is up $7.50 and inventory falls by $10, which adds $10, so cash is up $17.50. On the balance sheet, cash is up $17.50 and inventory is down $10, so assets rise $7.50, matched by retained earnings.

15. **What happens when goodwill is impaired by $100? Assume a 25% tax rate and that it is deductible.**

Pre-tax income falls $100 and net income falls $75. On the cash flow statement you add back the $100 non-cash charge, so cash is up $25. On the balance sheet, goodwill is down $100 and cash is up $25, so assets fall $75, matching the fall in retained earnings. In reality, impairments are often not tax-deductible, in which case there is no cash impact.

16. **What are deferred tax liabilities and deferred tax assets?**

They come from timing differences between the accounts shown to investors and the accounts filed with the tax authority. A deferred tax liability means the company has paid less cash tax than its income statement shows and will pay more later, often because of faster depreciation for tax purposes. A deferred tax asset means it has paid more, or has losses it can use, and will pay less later.

17. **What is a net operating loss and how does it affect the statements?**

When a company makes a loss for tax purposes, it can usually carry that loss forward and set it against future taxable profits. The benefit is recorded as a deferred tax asset. When the company later earns profits, it uses the loss to reduce the cash tax it pays, and the deferred tax asset falls.

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18. **Stock-based compensation is $10. Walk me through the statements at a 25% tax rate.**

It is an expense, so pre-tax income falls $10 and net income falls $7.50. It is non-cash, so you add back $10 on the cash flow statement and cash is up $2.50. On the balance sheet, cash is up $2.50. In equity, retained earnings are down $7.50 and additional paid-in capital is up $10, a net increase of $2.50, so it balances. The real cost is the dilution of existing shareholders.

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2. Enterprise value and equity value

Know these before the questions

- Equity value = diluted shares × share price.
- Enterprise value = equity value + debt + preferred stock + non-controlling interests − cash.
- Revenue, EBITDA and EBIT go with enterprise value. Net income and EPS go with equity value.
- Raising debt, issuing shares, buybacks and dividends do not change enterprise value on their own. Changes to the operating business do.
- Treasury stock method: net new shares = options × (1 − strike price ÷ share price), counted only if the options are in the money.

The basics

19. **What is the difference between enterprise value and equity value?**

    Equity value is the value of the business to its shareholders. Enterprise value is the value of the core operations to all capital providers: shareholders, lenders, preferred holders and minority interests. Enterprise value does not depend on how the company is financed.

20. **How do you calculate enterprise value?**

    Equity value plus debt, plus preferred stock, plus non-controlling interests, minus cash and cash equivalents. More complete versions also add items such as finance leases and unfunded pension obligations.

21. **Why do you subtract cash?**

    Cash is a non-operating asset, and a buyer effectively gets it on acquiring the company, which reduces the net price paid. Enterprise value is meant to capture only the core operating business.

22. **Why do you add non-controlling interests?**

    When a company owns more than 50% of a subsidiary, it consolidates 100% of that subsidiary's revenue and EBITDA. To keep the numerator consistent with the metrics in the denominator, you add the value of the part it does not own.

23. **Explain the treasury stock method.**

It assumes in-the-money options are exercised and the company uses the cash proceeds to buy back shares at the current price. The net new shares equal the options minus the shares repurchased. For example, 10 options with a $5 strike at a $10 share price bring in $50, which buys back 5 shares, so net dilution is 5 shares.

24. **Can a company have negative enterprise value?**

Yes. It happens when cash exceeds the market value of equity plus debt, typically in companies burning cash quickly that the market expects to run out, or in some distressed or very cash-rich small caps.

25. **Which multiples go with enterprise value and which with equity value?**

Match the numerator to who the metric belongs to. Metrics before interest, such as revenue, EBITDA and EBIT, pair with enterprise value. Metrics after interest, such as net income and earnings per share, pair with equity value, giving P/E.

26. **Why would you use EV/EBITDA instead of P/E?**

EV/EBITDA is independent of capital structure and less affected by differences in depreciation policy and tax, so it compares operating businesses more cleanly. P/E is affected by leverage and non-cash charges, though it is useful for banks and for a quick shareholder view.

Harder questions

27. **A company issues $100 of debt and keeps the cash. What happens to enterprise value?**

Nothing. Debt rises by $100 and cash rises by $100, so they cancel. Equity value is also unchanged in theory.

28. **A company uses $100 of cash to pay a dividend. What happens to equity value and enterprise value?**

Equity value falls by $100 because that cash has left the company to shareholders. Enterprise value stays the same: equity value is down $100 and cash is down $100.

29. **What is the difference between equity value and shareholders' equity?**

Equity value is the market value of the shares: share price times diluted shares. Shareholders' equity is the book value on the balance sheet: assets minus liabilities, built up from capital raised and retained earnings. Market value reflects expected future profits, so for a healthy company it is usually well above book value. Book equity can be negative. Market equity value cannot.

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30. **How do you treat convertible bonds when calculating enterprise value?**

It depends on whether they are in the money. If the share price is above the conversion price, assume they convert: add the new shares to the diluted share count and do not count the bond as debt. If they are out of the money, count them as debt at face value. Never count the same instrument in both places.

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3. Valuation

Know these before the questions

- Three core methods: comparable companies, precedent transactions, DCF. An LBO analysis is used as a floor.
- Usual order from low to high: LBO, trading comparables, precedent transactions. A DCF can land anywhere.
- A higher multiple needs a reason: faster growth, better margins and returns, or lower risk.
- Standard multiples: EV/EBITDA, EV/EBIT, EV/Revenue and P/E. Banks are valued on P/E and price to book.
- Control premiums for public targets are commonly 20% to 40%.

The basics

31. **What are the main ways to value a company?**

    Comparable company analysis, which uses trading multiples of similar public companies. Precedent transactions, which uses multiples paid in past acquisitions. And discounted cash flow analysis, which values the company on its projected cash flows. An LBO analysis is often added as a floor that shows what a financial buyer could pay.

32. **Which method usually gives the highest valuation?**

    Precedent transactions tend to come out above trading comparables because they include a control premium. A DCF can be the highest or the lowest of all, since it depends entirely on the assumptions. An LBO usually gives the lowest because a sponsor needs to hit a return hurdle.

33. **How do you select comparable companies?**

    Look for the same industry and business model first, then similar size, geography, growth and margin profile. In practice you start with a broad set and narrow it, and you explain why any outliers are excluded.

34. **How do you select precedent transactions?**

    Same industry, similar size and geography, and recent enough that market conditions are comparable, usually the last three to five years. You also note whether the buyer was strategic or financial and whether the deal was contested.

35. **When would you not use a DCF?**

When cash flows are unstable or unpredictable, such as an early-stage company, or when debt and working capital play a different role, as with banks and insurers. For those you rely more on multiples, or on dividend discount and residual income models for financial institutions.

36. **Why might two companies in the same industry trade at different multiples?**

Higher expected growth, higher margins and returns on capital, lower risk, better management, or a stronger competitive position all justify a higher multiple. One-off factors such as takeover speculation can also move it.

37. **What is the difference between LTM and NTM multiples?**

LTM uses the last twelve months of actual results and NTM uses the next twelve months of forecasts. Forward multiples are usually lower for growing companies and are often preferred because valuation is about the future, but they depend on estimates.

38. **What are the weaknesses of comparable companies and precedent transactions?**

With comparables, no two companies are truly alike, and the whole market can be mispriced at a given moment, especially for thinly traded stocks. With precedents, data is often incomplete, every deal has its own circumstances and synergies, and prices reflect the market conditions at the time, which may not apply today.

39. **Give some examples of industry-specific multiples.**

Banks and insurers: price to book and P/E, because debt is a raw material for them. Airlines and retailers with heavy leases: EV/EBITDAR. Oil and gas: EV to reserves or EV to daily production. Real estate: price to funds from operations. Early-stage technology: EV/Revenue or EV per user.

Harder questions

40. **How do you value a private company?**

With the same methods as a public one, with adjustments. You cannot use a share price, so you estimate the value from comparables, precedents and a DCF. You usually apply a discount of roughly 10% to 30% to multiples from public comparables because the shares cannot easily be sold, and you may raise the discount rate for size and concentration risk. Beta comes from public comparables, relevered at the target's capital structure.

41. **How would you value a company with negative earnings?**

Use multiples further up the income statement, such as EV/Revenue, or industry-specific metrics like users or subscribers. You can also run a DCF with a longer projection period that reaches profitability, while being clear about how sensitive it is.

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42. **What is a sum-of-the-parts valuation and when is it used?**

You value each business segment separately with the method and multiple that fits it, then add them up and subtract net debt. It is used for conglomerates, and it is the core argument in breakup theses when the parts are worth more than the market value of the whole.

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43. **How would you value an apple tree?**

The same two ways you value a company. Relative value: what comparable apple trees have sold for. Intrinsic value: the present value of the cash it will generate from apples over its remaining life, less the cost of maintaining it, plus whatever the wood is worth at the end. The interviewer is checking that you understand the idea behind valuation and can explain it simply.

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4. Discounted cash flow

Know these before the questions

- Unlevered free cash flow = EBIT × (1 − tax rate) + D&A − CapEx − increase in net working capital.
- WACC = E/(D+E) × cost of equity + D/(D+E) × cost of debt × (1 − tax rate).
- Cost of equity = risk-free rate + beta × equity risk premium.
- Terminal value = final-year cash flow × (1 + g) ÷ (WACC − g), or final-year EBITDA × exit multiple.
- Enterprise value = present value of the cash flows + present value of the terminal value. Subtract net debt for equity value.
- Unlevered beta = levered beta ÷ (1 + (1 − tax rate) × debt/equity).

The basics

44. **Walk me through a DCF.**

    Project unlevered free cash flow for five to ten years. Calculate a terminal value at the end of that period using a perpetuity growth rate or an exit multiple. Discount the cash flows and the terminal value to today at the weighted average cost of capital. The sum is enterprise value. Subtract net debt and other claims to get equity value, and divide by diluted shares for a value per share.

45. **How do you calculate unlevered free cash flow?**

    EBIT times one minus the tax rate, plus depreciation and amortisation, minus capital expenditure, minus the increase in net working capital. It is the cash available to all capital providers before any financing costs.

46. **What is the difference between unlevered and levered free cash flow?**

    Unlevered free cash flow is before interest and debt repayments and belongs to all investors, so it is discounted at WACC to give enterprise value. Levered free cash flow is after interest and mandatory debt repayments, belongs to equity holders, and is discounted at the cost of equity to give equity value.

47. **What is WACC and how do you calculate it?**

    The weighted average cost of capital is the blended return required by all capital providers. It equals the cost of equity times the equity weight, plus the after-tax cost of debt times the debt weight, using market values for the weights.

48. **How do you calculate the cost of equity?**

With the capital asset pricing model: the risk-free rate plus beta times the equity risk premium. Some add a size or country premium for small or emerging-market companies.

49. **Why do you unlever and relever beta?**

Observed betas of comparable companies reflect each company's own leverage. You unlever them to isolate business risk, take the median, then relever at the target company's capital structure so the beta reflects its financial risk.

50. **Is debt or equity cheaper, and why?**

Debt is cheaper. Lenders rank ahead of shareholders and often have security, so they accept a lower return, and interest is tax-deductible. Equity holders bear the residual risk and demand more.

51. **How do you calculate terminal value?**

Two ways. The perpetuity growth method takes the final year cash flow, grows it by the long-term growth rate and divides by WACC minus that growth rate. The exit multiple method applies a multiple, usually EV/EBITDA, to the final year metric. You normally cross-check one against the other.

52. **What is an appropriate long-term growth rate?**

Something at or below the long-run growth of the economy, typically 2% to 3% in developed markets. A higher rate would imply the company eventually becomes larger than the economy itself.

53. **What happens to a DCF value if WACC increases?**

The value falls, because future cash flows are discounted more heavily. The effect is strongest on the terminal value.

Harder questions

54. **Which has a bigger impact on a DCF: a 1% change in revenue or a 1% change in the discount rate?**

The discount rate, almost always. It affects every cash flow and the terminal value, whereas a 1% revenue change flows through to a much smaller change in cash flow.

55. **What is the mid-year convention?**

It assumes cash flows arrive evenly through the year instead of all at year end, so you discount each year's cash flow by half a period less. It gives a slightly higher and more realistic value.

56. **What share of a DCF value typically comes from terminal value?**

Often 60% to 80%. That is why the terminal assumptions deserve the most scrutiny, and why a longer explicit forecast can be useful for fast-growing companies.

57. **Two companies are identical, except one has debt and the other has none. Which has the higher WACC?**

Usually the one with no debt. Debt is cheaper than equity and its interest is tax-deductible, so adding some debt lowers the blended cost of capital. That holds only up to a point. As leverage rises, the risk of distress pushes up both the cost of debt and the cost of equity, and WACC starts to rise again. Note that the levered company's cost of equity is higher, even though its WACC is lower.

58. **How do you choose an exit multiple for terminal value, and how do you check it?**

Start from the multiples at which comparable companies trade today, usually the median EV/EBITDA, and consider a slightly lower one because growth should have slowed by the terminal year. Then check it by calculating the perpetual growth rate it implies. If the implied growth is above long-run economic growth, the multiple is too high.

59. **If debt is cheaper, why not finance a company entirely with debt?**

More debt raises the risk of financial distress, which increases both the cost of debt and the cost of equity. Past a certain point WACC starts rising again. Covenants and reduced flexibility are real costs too.

5. Mergers and acquisitions

Know these before the questions

- All-stock deal: accretive if the acquirer's P/E is higher than the target's P/E at the purchase price.
- Cash or debt deal: accretive if the target's earnings yield (net income ÷ purchase price) is higher than the after-tax cost of the cash or debt.
- Cost of consideration, cheapest first: cash, then debt, then stock.
- Pro forma EPS = (acquirer net income + target net income + after-tax synergies − after-tax financing costs − new amortisation) ÷ (acquirer shares + new shares issued).
- Goodwill = purchase price − fair value of the identifiable net assets acquired.

The basics

60. **Why would one company buy another?**

    To grow faster than it can organically, to gain products, technology, customers or geographies, to achieve cost or revenue synergies, to remove a competitor, or because the target is undervalued. Sometimes it is defensive, to stop a rival getting the asset.

61. **Walk me through a merger model.**

    Decide the purchase price and the mix of cash, debt and stock. Combine the two income statements. Adjust for synergies, interest on new debt, lost interest on cash used, new shares issued, and amortisation of acquired intangibles. Then compare pro forma earnings per share with the acquirer's standalone figure to see whether the deal is accretive or dilutive.

62. **Why would an acquisition be dilutive?**

    Because the extra net income the target brings is not enough to cover the cost of buying it. That cost is the interest on new debt, the interest lost on cash used and the earnings spread over the new shares issued, plus amortisation of acquired intangibles. It happens most often when the acquirer pays a high price for a low-earning target.

63. **What is the quick rule of thumb for an all-stock deal?**

    If the acquirer's P/E is higher than the target's P/E at the purchase price, the deal is accretive. If it is lower, the deal is dilutive. This ignores synergies and purchase accounting.

64. **How do you judge accretion in an all-cash or all-debt deal?**

Compare the target's earnings yield, which is net income divided by the purchase price, with the after-tax cost of the cash or debt used. If the earnings yield is higher than the after-tax cost of financing, the deal is accretive.

65. **Which is usually the cheapest form of consideration: cash, debt or stock?**

Cash is usually cheapest because the interest lost on it is low, debt is next because interest is tax-deductible, and stock is usually the most expensive. The exception is when the acquirer trades at a very high multiple, which can make its stock cheap currency.

66. **What are synergies?**

The extra value created by combining two companies. Cost synergies come from removing duplicated functions, facilities and procurement spend. Revenue synergies come from cross-selling, pricing power or new markets. Cost synergies are more reliable and are given far more credit by investors.

67. **Why would an acquirer pay with stock instead of cash?**

It may not have the cash or debt capacity, it may believe its own shares are highly valued, or it wants target shareholders to share in the risk and upside of the combined company. Sellers may also prefer stock for tax reasons.

68. **What is purchase price allocation?**

After an acquisition, the buyer allocates the purchase price to the target's assets and liabilities at fair value, including newly identified intangibles such as customer relationships and brands. Whatever is left over is recorded as goodwill.

69. **What is the difference between a strategic buyer and a financial buyer?**

A strategic buyer is an operating company that can realise synergies and usually holds for the long term. A financial buyer, such as a private equity firm, buys with significant debt, has no synergies unless it owns a similar business, and aims to exit in a few years. Strategic buyers can often pay more.

70. **How do you decide what price to pay for a target?**

Use the same valuation methods as always: comparables, precedent transactions and a DCF, with synergies valued separately. For a public target, also look at the premium to the unaffected share price against premiums paid in similar deals. The ceiling is the standalone value plus the synergies the buyer can realise. A disciplined buyer keeps part of those synergies for its own shareholders.

Harder questions

71. **A company with a P/E of 25 buys a company with a P/E of 10, paying entirely in stock. Is it accretive? What if half is funded with debt at 6% and the tax rate is 25%?**

In stock, the cost of the acquirer's shares is its earnings yield, 1 ÷ 25 = 4%. The target's earnings yield is 1 ÷ 10 = 10%. The acquirer is paying 4% to buy 10%, so the deal is accretive. With half debt, the after-tax cost of debt is 6% × (1 − 25%) = 4.5%. The blended cost is half of 4% plus half of 4.5%, which is 4.25%, still well below 10%, so it remains accretive.

72. **What is an exchange ratio, and what is the difference between fixed and floating?**

The exchange ratio is the number of acquirer shares given for each target share. With a fixed ratio the share count is set at signing, so the value the seller receives moves with the acquirer's share price until closing. With a floating ratio the value is fixed and the number of shares adjusts, so the acquirer bears the risk of its own share price falling. Collars are used to limit either side's exposure.

73. **What is the difference between a stock purchase and an asset purchase?**

In a stock purchase the buyer acquires the shares and with them every asset and liability of the company. In an asset purchase the buyer picks specific assets and liabilities, and can usually step up the tax basis of the assets. Buyers tend to prefer asset deals and sellers stock deals.

74. **What is an earn-out and why would you use one?**

Part of the purchase price is paid later and only if the target hits agreed targets, such as revenue or EBITDA over the next two or three years. It bridges a gap between a seller who believes in strong growth and a buyer who is not willing to pay for it up front. It is most common with private companies and founder-led businesses.

75. **What is a hostile takeover and how can a board defend against one?**

It is a bid made directly to shareholders without the board's support, through a tender offer or a proxy fight. Defences include a poison pill, a staggered board, finding a white knight, a leveraged recapitalisation, or selling prized assets.

76. **What are Revlon duties?**

A principle from the Delaware Supreme Court's Revlon decision in the 1985 Perelman takeover. Once the sale or breakup of a company has become inevitable, the board's role changes from defending the company to getting the best price reasonably available for shareholders.

6. Leveraged buyouts

Know these before the questions

- Returns come from three places: EBITDA growth, debt paydown and multiple expansion.
- Exit equity = exit enterprise value − net debt at exit. Multiple of money = exit equity ÷ equity invested.
- IRR shortcuts: 2x in 3 years ≈ 26%. 2x in 5 years ≈ 15%. 2.5x in 5 years ≈ 20%. 3x in 5 years ≈ 25%. 3x in 3 years ≈ 44%.
- Debt is typically 50% to 70% of the purchase price.
- A good candidate has stable cash flow, low capital needs and something the new owner can improve.

The basics

77. **What is a leveraged buyout?**

The acquisition of a company by a financial sponsor using a large amount of debt, typically 50% to 70% of the price, with the rest in equity. The company's own cash flows service and repay the debt, and the sponsor sells after roughly three to seven years.

78. **Walk me through an LBO model.**

Set the purchase price and build the sources and uses table. Adjust the balance sheet for the new debt and equity. Project the income statement and cash flows, and use free cash flow to pay down debt each year. Assume an exit, usually at a multiple of EBITDA, subtract the remaining net debt to get the sponsor's equity, and calculate the internal rate of return and the multiple of money.

79. **What makes a good LBO candidate?**

Stable and predictable cash flows, low capital expenditure and working capital needs, a strong market position, room to improve margins, a clean balance sheet with debt capacity, assets that can be sold, and a clear route to exit.

80. **How do private equity firms create returns?**

Three ways. Growing earnings through revenue growth and margin improvement. Paying down debt with the company's cash flow, which shifts value to equity. And selling at a higher multiple than they paid, known as multiple expansion.

81. **Why does leverage increase returns?**

Because the sponsor puts in less equity for the same asset. If the business value grows or debt is repaid, all of that gain accrues to a smaller equity cheque. Leverage amplifies losses in the same way.

82. **What is a sources and uses table?**

Uses show where the money goes: the purchase of equity, refinancing existing debt, and fees. Sources show where it comes from: the different tranches of debt, sponsor equity, any management rollover and cash on the balance sheet. The two sides must be equal.

83. **What is the difference between bank debt and high-yield debt?**

Bank debt is secured, has a lower floating interest rate, amortises and comes with maintenance covenants. High-yield bonds are usually unsecured, pay a higher fixed coupon, are repaid in one amount at maturity and have looser incurrence covenants.

84. **What is IRR, and what is a multiple of invested capital?**

The internal rate of return is the annualised return on the equity invested, taking time into account. The multiple of invested capital is simply the equity received at exit divided by the equity put in. Sponsors usually target an IRR of about 20% to 25%.

85. **What is a dividend recapitalisation?**

The company raises new debt and uses the proceeds to pay a dividend to the sponsor. It lets the sponsor take cash out before an exit, which raises IRR, at the cost of a more leveraged company.

86. **How can a sponsor exit an investment?**

A sale to a strategic buyer, a sale to another private equity firm (a secondary buyout), an initial public offering, or a transfer to a continuation fund managed by the same sponsor. Dividend recapitalisations return cash without a full exit.

Harder questions

87. **Do a simple paper LBO: buy at 10x EBITDA of $100, 60% debt, EBITDA grows to $150 in five years, exit at 10x, $200 of debt repaid.**

Purchase price is $1,000, funded with $600 of debt and $400 of equity. Exit value is $1,500. Remaining debt is $400, so exit equity is $1,100. That is a 2.75x multiple, and an IRR of roughly 22% over five years.

88. **What IRR do you get if you double your money in five years? And triple it?**

Doubling in five years is roughly 15%. Tripling in five years is roughly 25%. Doubling in three years is about 26%. These are worth memorising.

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89. **EBITDA is $100 today and you expect $150 in five years. You plan to exit at 8x with $300 of net debt remaining. Lenders will provide $500 at entry. What is the most you can pay for a 25% IRR?**

Work backwards. Exit enterprise value is 8 × $150 = $1,200. Subtract $300 of net debt and exit equity is $900. A 25% IRR over five years is roughly a 3x multiple, so the most equity you can invest is $300. Add the $500 of debt and the maximum purchase price is $800, which is 8x today's EBITDA.

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90. **How do you choose the purchase and exit multiples in an LBO model?**

The purchase multiple comes from what comparable companies trade at and what recent deals in the sector were done at, plus a premium for a public target. For the exit, the conservative convention is to assume the same multiple as at entry, or lower. Then you show a sensitivity table of returns across a range of both, because the answer depends heavily on them.

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91. **How is the balance sheet adjusted in an LBO?**

The old shareholders' equity is wiped out and replaced with the sponsor's new equity. Existing debt is usually refinanced and the new debt tranches are added. Assets are written up to fair value, new intangibles are recognised, and goodwill is created for the rest of the price above book value. Cash falls by whatever is used in the deal and for fees.

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92. **What is PIK debt and why would a sponsor use it?**

Payment-in-kind debt pays its interest by adding it to the principal instead of in cash. It is expensive, but it puts no strain on cash flow in the early years, so a sponsor uses it to add leverage beyond what the company could service in cash. The balance grows every year, so it has to be repaid from the exit proceeds.

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7. Fit and market awareness

Know these before the questions

- Your story in 90 seconds, with each step leading to the next and ending at this interview.
- Two recent deals you can discuss in detail, including your own opinion.
- Today's numbers: the main equity index, the central bank rate and the ten-year government yield.
- Two or three questions of your own for the interviewer.

93. **Walk me through your CV.**

Keep it to about ninety seconds. Start with where you are from or what you studied, move through each experience in order with one result from each, explain what drew you to finance along the way, and finish with why you are sitting in this interview today. Every step should lead logically to the next.

94. **Why investment banking?**

Give two or three concrete reasons tied to your own experience: the steep learning curve in valuation and deal work, exposure to senior decision-makers and important transactions early, and a specific moment that sparked the interest, such as a deal you followed or an internship. Avoid mentioning pay or exit opportunities.

95. **Why our firm?**

Name something specific: a recent deal the group advised on, its strength in a sector you care about, the size of its deal teams, or what people you have spoken to at the firm told you. Mention those conversations by name where you can.

96. **Tell me about a deal you have followed recently.**

Prepare two. For each, know the buyer, the target, the price and the multiple paid, how it was financed, the strategic rationale, the advisers, and your own view on whether it was a good deal and why.

97. **What is your greatest weakness?**

Choose something real but not fatal for an analyst, describe a specific time it caused a problem, and explain what you now do differently. Do not use a disguised strength.

98. **Tell me about a time you worked in a team under pressure.**

Use a simple structure: the situation, what you were responsible for, the actions you personally took, and the result, ideally with a number. Then add one line on what you learned.

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99. **What is happening in the markets at the moment?**

Before any interview, know the level and recent direction of the main equity indices, central bank interest rates and the ten-year government bond yield, the oil price, and one or two themes driving M&A or financing activity. Have a view on what that means for deal flow.

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100. **Do you have any questions for me?**

Always have two or three. Ask about the interviewer's own experience, such as the most interesting deal they have worked on, how analysts are staffed, or what separates the best analysts in the group. Do not ask about hours or pay.

Practise the numbers

The free LBO, DCF and accretion / dilution calculators let you change the inputs and see what moves: titansoftakeover.com/tools

Every other Sunday, The Sunday Brief takes one deal, banker or concept and turns it into something you can use in an interview or on the desk.

Model answers for interview preparation. Conventions differ between firms and regions, and tax and accounting rules change, so check anything firm-specific. Not investment advice. © 2026 Investment Banking Bible.