# Top 50 Investment Banking Questions.

**Easy Questions (10)**

1. **What are the three main financial statements?**
   - **Answer:** The income statement, balance sheet, and cash flow statement. The income statement shows profitability, the balance sheet provides a snapshot of assets/liabilities, and the cash flow statement tracks cash inflows/outflows.
2. **What is EBITDA?**
   - **Answer:** Earnings Before Interest, Taxes, Depreciation, and Amortization. It measures operating profitability before non-cash expenses and capital structure impacts.
3. **How do you calculate enterprise value (EV)?**
   - **Answer:** EV = Equity Value + Net Debt + Preferred Stock + Minority Interest. It represents the total value of a company's operations.
4. **What is the difference between a 10-K and a 10-Q?**
   - **Answer:** A 10-K is an annual report with audited financials, while a 10-Q is a quarterly report with unaudited financials and fewer details.
5. **What is net debt?**
   - **Answer:** Net Debt = Total Debt – Cash & Cash Equivalents. It shows how much debt remains after accounting for liquid assets.
6. **What is a leveraged buyout (LBO)?**
   - **Answer:** An acquisition where most of the purchase price is funded with debt, aiming to improve operations and exit at a higher valuation.
7. **What is the purpose of a cash flow statement?**
   - **Answer:** To track cash generated/used by operating, investing, and financing activities, revealing liquidity health.

8. **What is working capital?**
   - **Answer:** Current Assets – Current Liabilities. It measures short-term liquidity.
9. **What is a revolver?**
   - **Answer:** A revolving credit facility that acts like a corporate credit card for short-term funding needs.
10. **What is the difference between LIBOR and SOFR?**
    - **Answer:** LIBOR is the outgoing benchmark rate for loans, while SOFR (Secured Overnight Financing Rate) is its replacement, based on Treasury-backed transactions.

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**Medium Questions (20)**

11. **Walk me through the income statement.**
    - **Answer:** Start with revenue, subtract COGS to get gross profit, deduct operating expenses (SG&A, R&D) to get EBITDA, subtract D&A for EBIT, deduct interest and taxes to arrive at net income.
12. **How do you value a company using DCF?**
    - **Answer:** Project free cash flows, discount them to present value using WACC, and add terminal value (TV) to get enterprise value.
13. **What are synergies in M&A?**
    - **Answer:** Cost savings (e.g., layoffs) or revenue boosts (e.g., cross-selling) from combining two companies.
14. **Why add back D&A in EBITDA?**
    - **Answer:** D&A is a non-cash expense, so it’s added back to reflect true operating cash flow.
15. **What is the treasury stock method (TSM)?**

- **Answer:** A way to calculate diluted shares by assuming in-the-money options are exercised, and proceeds repurchase shares at the current price.

16. **How does depreciation affect the three financial statements?**
    - **Answer:** Reduces net income (IS), reduces PP&E (BS), and is added back in CFO (CFS) since it's non-cash.
17. **What is a covenant in debt agreements?**
    - **Answer:** A condition (e.g., leverage ratio) that borrowers must meet to avoid default.
18. **What is the difference between forward and backward integration?**
    - **Answer:** Forward integration moves closer to customers (e.g., acquiring a distributor), while backward integration moves toward suppliers (e.g., owning a factory).
19. **What is a material adverse clause (MAC)?**
    - **Answer:** A contract clause allowing a buyer to back out if the target suffers significant negative changes before closing.
20. **How do you calculate fully diluted shares?**
    - **Answer:** Basic shares + in-the-money options/warrants + convertible securities, adjusted via TSM.
21. **What is the difference between asset and stock sales?**
    - **Answer:** Asset sales transfer specific assets/liabilities (taxed twice), while stock sales transfer ownership (taxed once).
22. **What is a teaser in M&A?**
    - **Answer:** A brief marketing document to gauge buyer interest without revealing the target's name.
23. **What is the difference between senior and subordinated debt?**
    - **Answer:** Senior debt has priority in bankruptcy but lower interest; subordinated debt is riskier with higher yields.

24. **What is a CIM?**
    - **Answer:** Confidential Information Memorandum—a detailed document shared with potential buyers post-NDA.
25. **How do you project revenue growth?**
    - **Answer:** Use historical trends, industry reports, and management guidance, adjusting for market conditions.
26. **What is negative working capital?**
    - **Answer:** When current liabilities exceed current assets, common in industries like retail (e.g., Walmart).
27. **What is a dividend recapitalization?**
    - **Answer:** A PE firm raises debt to pay itself a dividend, increasing leverage without selling the company.
28. **What is the difference between FCFE and FCFF?**
    - **Answer:** FCFF is cash flow to all investors, while FCFE is to equity holders after debt payments.
29. **What is a PIK loan?**
    - **Answer:** Payment-in-kind debt where interest is paid with additional debt instead of cash.
30. **What is the difference between vertical and horizontal mergers?**
    - **Answer:** Vertical mergers combine companies in different supply chain stages, while horizontal mergers combine competitors.

**Difficult Questions (20)**

31. **How would you handle a circular reference in an LBO model?**
    - **Answer:** Use iterative calculations or a manual override (e.g., linking interest expense to average debt balances).
32. **Explain how to value a bank.**

- **Answer:** Use P/B or P/E multiples (not EV/EBITDA), as banks' capital structures are opaque and regulated.

33. **What is the intuition behind the IRR in an LBO?**
    - **Answer:** IRR measures the sponsor's annualized return, driven by leverage, EBITDA growth, and multiple expansion.
34. **How do you assess the quality of earnings in due diligence?**
    - **Answer:** Analyze non-recurring items, revenue recognition policies, and working capital trends.
35. **What is a 338(h)(10) election?**
    - **Answer:** A tax election treating a stock sale as an asset sale for tax purposes, allowing a step-up in basis.
36. **How do you model a revolver in a cash flow statement?**
    - **Answer:** Draws increase cash (financing inflow), repayments reduce cash (financing outflow), with interest in CFO.
37. **What is the difference between trading comps and transaction comps?**
    - **Answer:** Trading comps use public company multiples, while transaction comps use M&A deal multiples (includes control premium).
38. **How would you structure a leveraged recapitalization?**
    - **Answer:** Issue new debt to fund a dividend or share buyback, increasing leverage while keeping ownership.
39. **What is a stub period in an LBO model?**
    - **Answer:** A partial-year adjustment for deals closing mid-year, requiring prorated financials.
40. **How do you calculate terminal value in a DCF?**
    - **Answer:** Use the perpetuity growth method (FCF × (1+g)/(WACC–g)) or exit multiple method (EBITDA × multiple).
41. **What is the difference between cash interest and accrued interest?**

- **Answer:** Cash interest is paid in cash; accrued interest is recognized on the income statement but not yet paid.

42. **How do you model deferred revenue?**
    - **Answer:** Treat as a liability; recognize revenue as services are delivered, with cash flow impacts in CFO.
43. **What is a unitranche loan?**
    - **Answer:** A hybrid debt instrument combining senior and subordinated debt into one tranche with a blended rate.
44. **How do you assess a company's debt capacity?**
    - **Answer:** Analyze leverage ratios (Debt/EBITDA), interest coverage (EBITDA/Interest), and covenant thresholds.
45. **What is the difference between DAU and MAU?**
    - **Answer:** Daily Active Users (DAU) and Monthly Active Users (MAU) measure engagement; DAU/MAU shows "stickiness."
46. **How do you model synergies in an M&A model?**
    - **Answer:** Quantify cost savings (e.g., layoffs) and revenue synergies (e.g., cross-selling), then phase them in over time.
47. **What is a "covenant-lite" loan?**
    - **Answer:** Debt with fewer restrictions (e.g., no maintenance covenants), common in PE-sponsored deals.
48. **How do you calculate WACC?**
    - **Answer:** WACC = (E/V × Re) + (D/V × Rd × (1–T)), where E = equity, D = debt, V = total value, Re = cost of equity, Rd = cost of debt, T = tax rate.
49. **What is the difference between P/E and EV/EBITDA?**
    - **Answer:** P/E is equity value/net income (affected by leverage), while EV/EBITDA is enterprise value/operating profit (capital-structure neutral).

50. **How would you value a SaaS company?**

    - **Answer:** Use ARR-based multiples (EV/ARR), churn rates, and CAC/LTV metrics, as EBITDA is often negative early on.

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