**MiddWOW Mock Interview Question Guide**

**Sections**

- Introductory Questions

- Behavioral Questions (2-3)

- Technical: Accounting (2-3)

- Technical: Valuation (2-3)

***Start with:***

1. *Walk me through your resume/tell me about yourself.*
2. *Why IB/division?*
3. *TELL ME ABOUT A CHALLENGE YOU FACED*

***Behavioral Questions (pick 2-3)***

* *What do investment bankers do?*
* *Why would you be a good analyst?*
* *What is the role of an analyst?*
* *What are your 3 biggest strengths?*
* *What is your biggest weakness?*

***Technical Questions: Accounting (pick 2-3)***

* *What are the three main financial statements and what do they show?*

The income statement shows a company’s profitability over a period of time, the balance sheet is a snapshot of a company’s financial strength, and the cash flow statement shows changes in cash over a period of time.

* *How do the three financial statements connect?*
1. Net income flows from the bottom line of the income statement to the top of the cash flow statement and into retained earnings under shareholder’s equity on the balance sheet.
2. Non-cash expenses from the income statement adjust net income on the cash flow statement to give cash flow from operations.
3. Changes to the balance sheet appear as working capital changes on the cash flow statement
4. Cash and shareholder’s equity items from the balance sheet act as “plugs” with Cash flowing in from the final line on the cash flow statement.
* *Walk me through how $10 of Depreciation affects the three financial statements.*

**Income Statement:** Operating Income would decrease by $10. If we assume a 40% tax rate, Net Income would decrease by $6.

**Cash Flow Statement:** Net Income is down by $6, but the $10 of Depreciation gets added back because it is a non-cash expense. So overall, the Cash Flow from Operations (CFO) is up by $4. There are no changes to Cash Flow from Financing or Investing activities, so overall the net change in Cash is positive $4.

**Balance Sheet:** Plants, Property & Equipment (PP&E) decreases by $10 on the Assets side because that's what is being depreciated, but Cash is up by $4 from the Cash Flow Statement. So, Assets are down by $6. On the Liabilities & Shareholder's Equity side, Net Income flows into Retained Earnings which is down by $6, so both sides balance.

* *Walk me through the line items on the income statement.*

Revenue – COGS = Gross Margin – Operating Expenses = Operating Income (EBIT) – taxes and interest expense = Net Income

* *Walk me through the line items on the Cash Flow Statement.*

Start with beginning cash, then the CFS breaks into cash from operations beginning with net income and factoring in adjustments to net income and changes in operating assets and liabilities, then cash from investing which includes capital expenditures, then cash from financing, which includes the proceeds from debt or equity issuances and payments made, and you get to ending cash.

Beginning Cash

* **Cash from Operations**

Net Income

Adjustments to Net Income

Changes in operating A&L

* **Cash from Investing**

CapEx

* **Cash from Financing**

Proceeds from debt/equity issuances & payments

Ending Cash

***Technical Questions: Valuation (pick 2-3)***

* *What are the three forms of valuation and what are pros and cons of each?*
1. **DCF**

*Pros*: It’s theoretically the soundest if you’re confident in your projections and assumptions. (Why? Because it’s intrinsic valuation, looking at the actual cash flows directly). DCFs are also not heavily influenced by temporary market conditions.

*Cons*: It’s only as strong as its own assumptions, meaning different assumptions for different DCFs can yield wildly different valuations. Also, most of the value in a DCF comes from the terminal value, which, because it’s a projection into the future, is very subjective.

1. **Precedent Transactions**

*Pros*: It shows fair market value, willing buyer willing seller. This validates the transaction. And assuming that the transaction data is available and public, it’s an easier analysis to perform.

*Cons*: Deals are unique and include control premiums, synergy assumptions, and are impacted by the state of the markets at the time. These factors will affect the purchase price and shouldn’t be factored into your valuation.

1. **Comparable Companies**

*Pros*: Assuming the market is efficiently pricing other companies, it should yield a reasonable valuation. The comparables should reflect industry trends, business risk, market growth etc.

*Cons*: No two companies are perfectly alike, and their valuations shouldn’t be identical either. Finding a decent sample of comparable companies can be tricky.

* *What methodology yields the highest valuation?*

Precedent transactions are likely to give a higher valuation because transaction often include control premiums and synergies. A DCF will yield the next highest valuation because it is built on projections that tend to be optimistic.

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

Enterprise value represents the value of the operations of a company to all providers of capital. Equity Value is one of the components of enterprise value and only represents the portion of value attributed to shareholders.

* *Walk me through a DCF.*

Project out free cash flows into the future about 5-10 years, calculate a terminal value for the cash flows after this forecast period, then discount the cash flows to get their present value. The present value of the FCF and terminal value are summed to determine an enterprise value.

* *How do you calculate free cash flows?*

Start with tax-adjusted EBIT, add back non-cash expenses like depreciation and amortization, subtract CapEx, subtract Changes in NWC.

Earnings Before Interest and Taxes (EBIT)

Less: Taxes (@ marginal tax rate)

NOPAT – net operating profit after tax or Earnings Before Interest After Tax

Plus: non-cash expenses like D&A

Less: CapEx

Less: Change in NWC

FCF