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Interview Training Guide

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Interview Training Guide

(How to Break into and Succeed in Industry)

A Publication of The Corporate Finance Institute

About Corporate Finance Institute®

CFI is a world-leading provider of online financial analyst training programs. CFI's courses, programs, and certifications have been **delivered to tens of thousands of individuals** around the world to help them become world-class financial analysts.

The analyst certification program begins where business school ends to teach you job-based skills for corporate finance, investment banking, corporate development, treasury, financial planning and analysis (FP&A), and accounting.

CFI courses have been designed to make the complex simple by distilling large amounts of information into an easy to follow format. Our training will give you the practical skills, templates, and tools necessary to **advance your career and stand out from the competition**.

Our financial analyst training program is suitable for students of various professional backgrounds and is designed to teach you everything from the bottom up. By moving through the three levels of mastery, you can expect to be performing **industry-leading corporate finance analysis** upon successful completion of the courses.

About CFI's Interview Training Guide

The following eBook's purpose is to outline key strategies and talking points to succeed in a career in financial services. The multi-part guide will provide you with tips to succeed in interviews for positions in accounting, commercial banking, credit analysis, equity research, finance, FP&A, and investment banking. Produced after hours of research and planning by current and former professionals in financial services, you will become familiar with applicable knowledge that will allow you to stand out in today's job market.

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At various points in the manual a number of financial analysis issues are examined. The financial analysis implications for these issues, although relatively standard in treatment, remain an opinion of the authors of this manual. No responsibility is assumed for any action taken or inaction as a result of the financial analysis included in the manual.

Table of contents

PART 01

General Interview Prep

01

02

03

General Interview Prep

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Interview Tips – How to Interview Well

How to Interview Well

This guide will give you a list of the top 10 interview tips based on decades of firsthand experience from the CFI team interviewing hundreds of candidates. Whether you're in your early, mid, or late career, interviews can always be nerve-racking. Luckily, being well prepared is a great way to reduce stress on the big day and increase your chances of being hired. To make sure you're well prepared, follow these top 10 steps on how to interview well.

Top 10 Interview Tips

Tip #1 – Research the company in advance

This is at the top of our interview tips list for a reason. It's absolutely critical to do thorough research on the company and its people before walking into the interview. This can be one of the biggest differentiators of outstanding versus good interviewees.

The most important things to research are the company history, their business model, recent press releases, their management team, financial information (if public), competitors, reputation, and any mutual connections you might have.

Having all these areas researched well will mean you can have meaningful and insightful conversations in the interview, and you won't be nervous to ask questions about the company.

Tip #2 – Practice telling your story

The interviewer is extremely likely to ask you something along the lines of "walk me through your resume," or "why should we hire you," or "what makes you a good candidate for this role." All of these are versions of the same thing, which is to succinctly tell your story in a way that makes sense to the interviewer.

Instead of simply listing all the jobs you've had and what you did in past, think of a common theme that ties all your experience together. This theme will bring your story to life and make you really stand out from other candidates.

Tip #3 – Prepare a list of questions to ask

It's a good idea to have a list of questions for the interviews written down in advance. This not only shows you're well prepared but will also make you much more relaxed knowing that you have lots of things to talk about if you're put on the spot.

Try to prepare questions on a wide range of topics including the technical nature of the work, the culture of the company, and what's happening in the industry. Whenever someone asks us how to interview well, we insist they prepare a list of questions to ask the company!

Tip #4 – Practice answering questions with friends or family

Practice makes a huge difference, and it's important to rehearse as many times as possible before the big day. Answering questions in your head is not the same as answering them out loud to someone else, so be sure to practice with a friend or family member who can give you honest feedback. Ask them to tell you where you can improve on everything from content to tone and mannerisms.

This tip is very important to follow through on. Even though most people have an idea on their head of how to interview well, they don't end up delivering on the big day because they didn't put in the hard work of practicing. Make sure you practice with real people!

Tip #5 – Read the headlines on the day of the interview

This is one of our secret interview tips because not many people do it and it gives you a lot of opportunities to make small chat, and come across as well informed. The easiest way to break the ice or fill a silence is to comment on a recent news headline, especially if it's something from today.

Try to avoid having a very polarizing view or opinion on anything, but rather, show you're up to date on current events and offer a balanced opinion.

If you feel that you need to break an awkward silent situation, you can easily say something like, "Did you see that the Bitcoin was down over 10% again this morning?" as an easy conversation starter.

Tip #6 – Arrange your clothes and supplies in advance

This ritual can help you mentally prepare and is a great way to reduce stress on the day of the interview. You don't want to be rushing to iron your shirt when you're supposed to be heading out the door or discover that your shoes need shining when you're about to leave.

It's a good idea to dress one notch above the level you think the people interviewing you will be wearing. If you're not sure, it's better to be overdressed than underdressed.

Tip #7 – Arrive extra early but check in until it's time

Being late for an interview is one of the worst first impressions you can make. Given that it's totally avoidable with good preparation, make sure you plan your transportation the day before and aim to arrive earlier than think you need to.

While you should arrive at the building early, it's not a good idea to check in more than a few minutes before the scheduled interview time. Wait just outside the building until it's time to go up to avoid waiting in the lobby of the office for a long time. If there's one thing on this list of interview tips that you don't ever want to.

Tip #8 – Listen intently to everything everyone says to you

This is one of the most important interview tips that surprisingly few people focus on. It's really critical to be a good listener to everyone, from the receptionist to the people interviewing you. Focusing on your listening will do a few things. Firstly, it will take your mind off of thinking about what to say next, which will help you relax perform better. Secondly, it will do a better job of answering questions by paying attention to every word in the question that was asked of you.

It may seem obvious, but focusing really hard on being a good listener is very important and something that many people who are wondering how to interview well forget about. On interview day, make a reminder or note to yourself (consider putting on your list of questions) that says "Listen"!

Tip #9 – Take a few notes as necessary

During the formal portion of the interview, it can be a good idea to take some notes. This will help you remember important points and also show you're engaged and paying close attention.

It's not a good idea, however, to take copious notes and write down anything and everything. That can actually be a bit off-putting for the interviewers and means you will likely not be making any eye contact with them.

Find the right balance of note-taking to stay focused but not overdoing it.

Tip #10 – Be aware of your body language

This is a big interview tip. Body language says a lot about you, as we automatically pay a lot of attention to non-verbal communication. It's important to be aware of everything from facial expressions and eye contact to head nodding, arm movements, and posture.

Be sure to avoid slouching, crossing your arms, and too much/little eye contact. These three are arguably the biggest or most likely things to be noticed by the interviewers.

The goal is to project confidence, engage and build a rapport with the interviewer(s).

General Interview Questions

How to prepare for common interview questions

When it comes to answering interview questions, preparation makes all the difference and clearly separates good from bad candidates. This guide will help you prepare for an upcoming interview by placing you in the seat of the interviewer (hiring manager) and help you see things from their perspective.

After you've read all the questions and answers contained in this guide, write down your own answers and practice reading them around. Then, have friends and family ask you the questions so you can practice repeating the answers back to them.

If you want to take your preparation to the next level, consider recording yourself with a phone or webcam so you can see your body language and facial expressions as you answer the questions.

Good luck!

Top 10 General Interview Questions

Here is a list of the top 10 most important general interview questions (not considering any industry in particular).

#1 Please walk me through your resume

This is a very common first interview question. The key is to tell a story that explains how you got to where you are today and why it's a logical next step for you to take this role. It's important to explain your career in a way that's interesting, coherent, and shows progression. Avoid a long rambling story with too much detail, but don't just gloss over things either. It's important to strike the right balance. Depending on the type of role you're apply for you'll need to adjust the style and approach (i.e. administration vs management).

Hiring manager's view: Does it make sense for you to be in this role and how qualified are you?

#2 Why did you apply for this role? What excited you?

Some version of this question is almost guaranteed to be asked and it's one of the few interview questions that can immediately exclude you if not answered well. It's surprising how many people say something like "I just need a job" or "eventually I want to go back to school and be a lawyer but this job would be ok until then". While the honesty is probably appreciated, these types of answers will probably disqualify you. You need to show the interviewer that you understand what the job entails, and that certain aspects of it excite you and match your skills and experience.

Hiring manager's view: Do you know what the job entails and would you enjoy doing it?

#3 What are your responsibilities in your current position?

Now the interviewer is digging deeper into your professional experience and wants to know what you're good at and how well those skills translate to the job you're trying to get. Make good use of this opportunity to highlight your skill with specific examples. Instead of just saying you're good with people, give really specific examples that show how great you are at dealing with people.

Hiring manager's view: What do you actually do in your current job and does it translate to this one?

#4 What motivates you?

This one of the more open-ended interview questions as it doesn't really give you any clear guidance on what direction to go. The key to answering it well is knowing what personality traits the job requires and matching those to your own personal motivations. For example, saying you get satisfaction and energy from helping people would make a lot of sense in a customer service position.

Explaining that solving complex problems brings you joy is great for a software engineer or financial analyst.

Hiring manager's view: Do you have the right personality type for this job?

#5 What are your biggest strengths?

This is an easy question to answer, just make sure you mention strengths that are relevant. Also always, use specific examples like, "I'm great a troubleshooting IT problems, and last week I helped solve a ticket that no one else on our team could fix (and describe the actual solution)."

Hiring manager's view: Do you truly have the skills we need for this position?

#6 What is one of your biggest weaknesses?

This question, by contrast to the one above, is much harder to answer. You have to walk a fine line between just issuing yourself a complement (i.e. "I'm too much of a perfectionist") and saying something that's a total deal breaker (i.e. "I get mad at customers sometimes when they ask stupid questions"). In other CFI guides we've discussed the concept of a public speaking weakness as something that a very safe answer here.

Hiring manager's view: Can the candidate come up with something that's insightful while not being a major problem for us?

#7 What are your compensation expectations? Or How much do you currently make?

This is another one of the challenging interview questions for any position in any industry. If you're asked "how much do you currently make" you have less latitude and should always be truthful. If you're not happy with your current compensation state what you currently make but add that you believe that's below market based on your research. If you're asked what your expectations are, try to point to industry averages or other data points to justify your position.

Hiring manager's view: Do you want more than we can offer? How much do we have to pay you to make you happy?

#8 Why should we hire you?

This should be answered as a summary of the main points you've made so far. Restate what you believe the job requirements are, then provide evidence that you have the skills and the right personality. It's important to show enthusiasm and conviction that you really are the best candidate (even though you don't know who the other ones are).

Hiring manager's view: Can you convince me to hire you?

#9 What do you like to do outside of work?

This is a pure personality fit question. The interviewer is trying to see if you can bond with them by sharing something personal about yourself. There are no clear cut write or wrong answers (unless you say something "inappropriate", obviously) they key is to be honest and demonstrate that you're passionate about something other than work.

Hiring manager's view: Can I relate to you somehow?

#10 Do you have any questions about our company or the job?

This usually signals the end of the interviewer's questions and turns the table over to you. Don't ever say "no, I don't have any questions", unless you've already decided you don't want the job. Good examples of questions include: what are the next steps? Why do you like about working at this company? What challenges does the company face? Please describe the company culture in more detail. Why did you post this position / why are you hiring for this role? What career development opportunities are there? Etc.

Hiring manager's view: Are you curious, passionate and truly interested in this job?

Behavioral Interview Questions and Answers

Behavioral interview questions are very common for finance jobs, and yet applicants are often under-prepared for them.

With the right preparation, they can be easy to handle. The key is to have about **5-10** stories you can draw on as examples to use, depending on the type of question they ask you.

There are five types of behavioral questions:

1. Teamwork
2. Leadership
3. Conflict
4. Failure
5. Creativity

Pick at least two personal stories that relate to each of the five categories above and you will be able to shape those stories to almost any behavioral question that gets thrown your way! That's the secret to answering behavioral interview questions.

Teamwork Interview questions

- "Describe a situation in the past where you demonstrated strong team-work."
- "What is your management style?"
- "Tell me about a time you valued one of your team member's effort more than your own?"
- "What do you typically do if you disagree with someone's idea?"

Leadership Interview questions

- "What does leadership mean to you?"
- "Can you provide some examples of good and bad leadership?"
- "How do you show leadership in the face of adversity?"
- "How would you motivate a disengaged employee?"
- "What inspires you?"

Handling Conflict Interview questions

- "How do you deal with stress in your personal life?"
- "Tell me about a time when you did an effective job at managing a conflict?"
- "What is your conflict resolution style?"

Failure Interview questions

- "What is one of your biggest weaknesses and how do you deal with it?"
- "What are some good things about failure?"
- "Tell me about an investment you made that didn't go as planned."
- "What do you regret doing in your life?"

Creativity Interview questions

- "Tell me about a significant challenge you faced in your professional career and how you used creativity to come overcome it."
- "Which is more important in business – IQ or EQ?"
- "What are 5 things you could use an oven for if it were unable to generate heat ever again?"
- "Why do poor people spend more money on toilet paper than rich people?"
- "What is one thing you believe to be true, that most people disagree with you on?"

Behavioural Interview questions

The good thing and the bad thing about behavioral interview questions is, there are no right or wrong answers. Think about that for a minute. If you can't be definitively right or wrong, then the assessment must be very subjective.

The interviewer will grade you based on how well you expanded on your ideas.

The key for the interviewer is to determine the following:

- Do you demonstrate **maturity**
- Are you comfortable with **ambiguity**
- Can you work as a **team**
- Do you have **emotional intelligence (EQ)**
- Are you quick on your feet
- Can you think **creatively** (divergent thinking)
- Would you fit well in the company **culture**

Walk me through your resume

The dreaded "Walk me through your resume" question can make or break your interview. Variations of this question might be "Tell me about yourself?" or "Why should we hire you?" It is usually the first question asked and is easily the most common question asked in any industry. The main purpose of this question is for the interviewer to gauge your fit within the company and the breadth of experience you bring to the table. It also assesses how good your communication skills are and how organized your thoughts are.

If you respond to this question with an answer that is too long, you risk putting your interviewer to sleep. Respond with an answer that is too short and you may appear inexperienced or have a weak grasp on your personal story. Due to the open-ended nature of the question, you are unlimited to what you may respond. However, a question without limits may lead to answers with awkward and disorganized responses. Here are tips to properly respond to this question:

Clarify the length of the answer

You can never be exactly sure over how much time you have to work with to answer, but generally, err on the shorter side. Occasionally your interviewer may say specifically "Walk me through your resume in under 2 minutes" but do not always expect this guideline.

It is perfectly fine to clarify by asking the interviewer "Sure. Do you want the 2-minute story or a complete breakdown of all my past experiences?"

Alternatively, a more aggressive way to tackle this question is to specify the length of your response: "Sure. Here is the 2-minute breakdown of my experiences. Feel free to jump in if you have any questions." This is a more confident response and sets the outline for your answer. In either case, prepare answers for shorter and longer responses.

Generally, your responses will likely fall between a minimum of 2 minutes to a maximum of 5 minutes.

Do not mention unimportant details about your personal life

Keep your response lean. A recruiter at an investment bank does not care about how many siblings you have or that your dog recently turned 5 years old. Far too often, applicants are unprepared for this basic question and create very awkward, rambling responses that are completely unrelated to the task at hand. Resist any urge to talk about your personal life if it does not add any value to your experiences or how it will allow you to succeed in the job. If you believe that speaking about your personal life shows that you are personable and have a strong work-life balance then it may potentially be worth mentioning, but still precede with caution.

It is perfectly fine to mention extra-curricular activities if they can demonstrate personal growth and expertise. Maybe you competed on a varsity team for four years while maintaining a 4.0 GPA. Maybe you were the president of your undergraduate society, delegating over 3000 students and managing a budget worth tens-of-thousands of dollars. Maybe you have competed and won a lot of strategy consulting competitions or stock pitches.

If the experience demonstrates that you work well under pressure, in a team, or have amazing leadership skills, mention it!

Highlight experiences/skills that will add value to the firm

This is probably the most important part of the "Walk me through your resume" interview question. While this seems obvious, make sure you emphasize past experiences that pertain to the job at hand. Keep your response relevant. This is not limited to full-time positions, internships and co-op placements are highly relevant experience. Try to focus on tangible, real-world experiences if possible. It is unlikely you will be able to talk about every possible position you had ever held. Recruiters for investment banks care more about your summer internships in equity research than your cashier job at McDonalds.

Make sure to transition into what technical skills you have developed from your experiences. Strong financial analysis, experience in M&A modeling, being able to code in VBA are highly sought-after skills in financial services.

Also try to focus on experiences that you have held since starting your undergraduate degree. High school accomplishments and experiences are highly dilutive once you begin interviewing for professional careers. This may be limiting for students who are still early in their undergraduate program so the best advice to these interviewees is to limit references to high school experiences as much as possible.

Try to integrate the firm's culture into your response

Different firms have different cultures. Therefore, the soft skills that they require from applicants varies. A firm that focuses on innovation is going to be very interested in your involvement in a startup. A firm that focuses on leadership is going to be very interested in your involvement in student politics. Everybody's personal story will differ, so your response has to be genuine and relevant to you. Conclude your response by mentioning how your experiences relate to the firm where you are applying. Talk about how you will add value not just in terms of technical skills but also how you will fit in the firm's hierarchy. Doing this shows that you have done your research about the firm and will make the interviewer think critically about how you will integrate with the team. You must tailor responses for each employer!

A Bad Answer vs A Good Answer

The following are a good and bad sample answers to "Walk me through your resume". See if you can spot which is good and which is bad:

Response 1: "My name is John and I studied finance. I have 3 brothers and 3 sisters, and a cat named Catalie Portman. Every weekend I dedicate 3 hours a day to making and proofing homemade bread. I also play soccer on the weekends. My favorite rapper is Tupac and I have re-watched the entirety of The Office seven times. After watching The Big Short I realized that I wanted to be an investment banker. The money involved was extremely appealing and I like the idea of working on Wall Street. Last year I did a summer internship in equity research at RBC. It was a good experience. I think my internship will make me a good investment banking analyst because I know how to use Excel well. RBC Capital Markets is a great firm with an even better sounding name! I know investment banking is right for me and I would love to join your firm.

Response 2: I am a graduate from Michigan State University where I received a Bachelor of Commerce in Finance. I studied at MSU because of the school's strong reputation, breadth of resources, and the athletic opportunities available in their varsity program. Playing varsity basketball throughout my undergrad, I was able to maintain a stellar 4.0 GPA will juggling between academics and athletics. In studying, I realized the importance that financial markets play in the world. Investment banking plays a major role in corporate advancement and economic innovation. Since then, I have made strides to learn as much about finance as possible. During my internship in equity research at RBC Global Asset Management, I conducted qualitative and quantitative analysis on publicly traded stocks in the mining industry. Having built numerous valuation models and preparing detailed equity research reports, I helped drive RBC's investment strategies. Taking my experiences from MSU, my experience in high-performance sport, and my time at RBC, I am prepared for a highly demanding career in the field of investment banking at RBC Capital Markets.

Who would you hire?

Even though it was clear that response 2 was significantly better, let's break down some of the reasons why:

- The opening for response 1 rambles on and adds no value. You do not need to start your response by saying your name, names are sorted during introductions and handshakes. He does not mention what school he is from, just that he studied finance. The details about his family, television preferences, and music tastes are not valuable during an interview.

- His motivation for why he wanted the job was not communicated well. Never mention or joke about how important salary is during a job interview. Even if high wages are your underlying motivation for applying to a job, never explicitly say it!

- Both responses mentioned an internship in equity research. The problem with response 1 was that John never went into detail about what skills he learned and how they would apply to a career in investment banking.

Practice, Practice, Practice!

The only way to know your personal story well is to practice. Although you may produce rambling responses the first few attempts, you will gradually get better and realize what story telling methodologies work best for your personal brand. Great ways to practice telling your story is to practice in front of a mirror out loud, participate in mock interviews, and to record yourself to critique your responses. Try not to memorize your answer word-for-word; know the outline and continue to practice so that your respond sounds more organic.

What is Your Biggest Weakness?

How to answer "what is your biggest weakness"

Every interviewee who has ever sat down with an employer during an interview has been asked "what is your biggest weakness?", and many find it very frustrating. Why ask the question if the employer knows they are very likely to get a fake answer like, "I'm too much of perfectionist"? Well, believe it or not, your employer is actually paying more attention to how you answer the question than what your actual answer is. In this guide, we'll show you how having a public speaking weakness could be the best way to get around this challenging question.

Check out some of our interview guides to get a better understanding of how the way you respond could be more important than the actual answer itself.

Some mistakes people make

There are multiple techniques that individuals use to try and appeal to their employer when asked this question and truth is, it usually does not work. Here is a list of techniques you want to avoid:

- **Spin a negative into a positive** – Saying things like "sometimes I think I am too much of a perfectionist", is advised by a lot of interview guides to try and turn the biggest weakness of the individual into something that is desired by the employer. There are many things wrong with this technique. First off, it does not make you stand out because a lot of interviewees attempt this technique. Secondly, the employer is smarter than you think, they can see right through what you are trying to do and that usually does not bode well for the rest of the interview.

- **Deny having any weaknesses** – This is more uncommon among interviewees but there are still a substantial amount that use this technique. This answer is usually given when candidates get nervous during an interview and are afraid of saying something wrong. This answer also gives the impression that you are hiding something so it is best to avoid using this technique even though some interviewees believe it makes them seem like a perfect candidate. No one is perfect.
- Stating any weaknesses that raise red flags – It is important that you are honest during your interview. But sometimes, being too honest prevents you from landing that job you want. Candidates that walk into the interview and give an honest answer to this question saying something like "I think my biggest weakness is not being a consistent worker" are being completely honest. Yes, your employer will appreciate your honesty but you have now informed them that you lack in areas that may be important to the job.

Hopefully, by now, you are starting to sense why having a public speaking weakness could be what we're setting you up for here.

Why you should answer with: Public Speaking Weakness

The amount of public speaking that an individual is required to do is highly correlated to their position. If you were to be in a financial analyst position, there would be rarely any public speaking required of you, and hence it's fairly safe to say you have a public speaking weakness.

Conversely, if you're in a more senior position, public speaking is probably something you are required to do on much more regular basis. This brings us back to how you should answer the main question, "what is your biggest weakness?".

Depending on the position you are applying for, using the public speaking weakness response could be a strategically safe answer and there are multiple reasons for this. First, it is a relatively honest answer which does not include any of the mistakes mentioned earlier. Secondly, it may not even be a requirement for the particular position you are applying for which means you have answered the question safely and have not harmed yourself or your chances of landing the position. Again, keep in mind that this answer is dependent on the position you are applying for. You may want to avoid using this answer if you are applying for higher level positions.

10 Tips to Ace The Rest of The Interview

Now that you have aced the biggest question with ultimate public speaking weakness answer, here are some tips that can aid you in the rest of the interview:

1. Be confident – Make sure to give a strong, firm handshake accompanied by your best smile when you walk into the room and greet your employer.
2. Practice – Drafting some questions that you think your employer might ask you and practicing responses prior to your interview can really make a difference in how you perform in the interview.
3. Be calm – Although many candidates find it difficult to do so, just remember that an interview is basically a simple conversation between you and your employer. Your employer really only wants to know more about you. It is not an interrogation.
4. Show up early – A lot of interviewees find it helpful when they show up approximately 15 minutes prior to their interview time. This allows them to calm their nerves and clear their head while they wait which allows them to enter the interview feeling ready and worry free.
5. Dress to impress – The way you present yourself through answering interview questions is one half of the interview. The other half is how you present yourself through your choice of clothing. A clean suit and tie can really go a long way in letting your employer know that you have prepared for this interview.

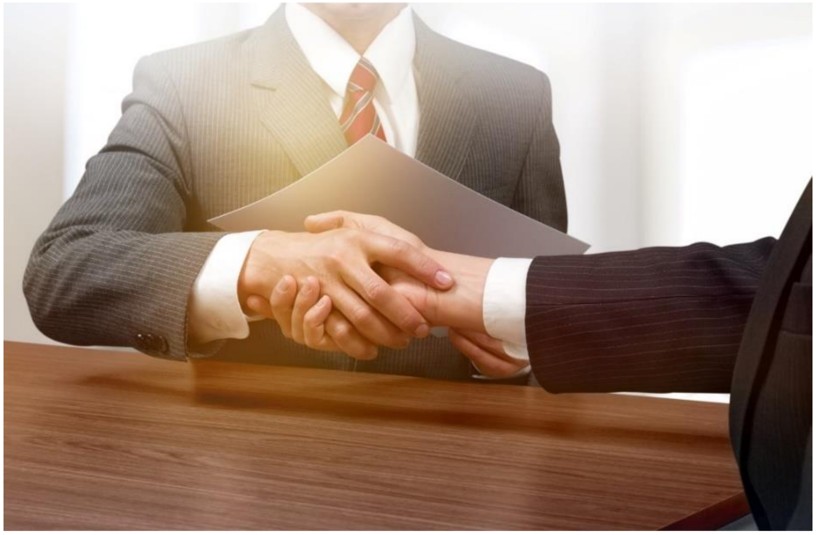
6. Do research on the company you're applying for – A lot of the times, candidates find themselves more confident when they do research into the company prior to the interview. This aids them in better understanding what it is they are applying for and gives them a leg up in the interview process because they become more comfortable with the company.
7. Body language – Do not slouch in your seat. This gives off the impression that you are not taking the interview seriously. Instead, sit up high and straight.
8. Bring a copy of your resume – Sometimes your employer may not have a copy of your resume on hand because it got lost. As a nice way of providing for your employer and also looking super prepared, make sure to bring an extra copy for them.
9. Speak loud and clear – The way you speak is very telling to your employer. If you are too quiet, your employer will think you are too shy and this could affect your chances of landing the position. Speaking out loud and clearly not only lets your employer know you are confident but it also ensures that there is no miscommunication during the interview process.
10. Ask insightful questions – Usually, at the end of the interview, your employer will ask you if you have any questions. This is the time to ask questions based on the research you did on the company to really demonstrate that you are enthusiastic about being a part of their team.

Practicing public speaking

If you want to get over your public speaking weakness, consider joining Toastmasters: https://www.toastmasters.org .

Toastmasters offers an easy, low-pressure environment to work on your public speaking skills and, most importantly, to learn from others.

Questions to ask the interviewer



What are good questions to ask the interviewer?

In an interview, it's important to be able to ask good questions in addition to providing good answers. Typically, at the end of an interview the interviewer will ask the candidate if they have any questions for them. It's important to capitalize on this opportunity and demonstrate that you're well prepared, curious, and can engage in good dialogue. This guide will look at examples of good questions to ask the interviewer.

Questions can be broken down into a few categories:

- The company
- The job
- The person interviewing you
- Current events
- Competitors and the business model

Company questions to ask interviewer

- What do you like best about working at the company?
- Are there any challenges to working at this company you think I should know about?
- Can you please describe the company culture in more detail?
- What is the dynamic like between the company's board of directors, shareholders, executives, and employees?

- Can you please share some information about the company's financial position and performance (if it's a private company; if it's a public company look this up in advance)
- What type of people typically succeed at this company?

Job-related questions to ask interviewer

- Why did this job opening come up?
- How will success be defined for this position?
- What do you think is most exciting about being in this position?
- What are the biggest challenges I would face in this role?
- How does this role interact with other departments in the company?

Person questions

- Why did you join this company?
- What has your personal career path at this company been like?
- What makes you want to keep working here?
- What has contributed to your success here?
- Do you have any advice for me?

Current events

This section allows you to demonstrate you're on top of what's going on and have done your research.

- How are recent political decisions impacting the company?
- How is regulation impacting your business?
- What are the biggest political, economic, social or technological forces impacting the company?
- How has the recent New York Times article on your company impacted business?

Competitors

This could be the section to show the deepest level of insight. If you can go beyond just the company itself and look at the competition that will be a huge advantage.

- Who are your biggest competitors (and list the ones you know)?
- How do you differentiate from the competition?
- What do you do better than the competition?
- What does the competition do better than you?
- What are the company's strategic objectives?
- Can you please talk more about the company's mission and vision?

Research and preparation

It's best to start preparing for your interview as soon as you know you've been selected for one. Start by reading the company's website, reading any news you can find in them, look into the completion, check their social media accounts, even consider purchasing some of their products or services if appropriate.

Being prepared will help you make the above questions more targeted and informed. If you don't have time to prep, these questions are designed to be generic enough that you could ask them at almost any company or job opportunity.

PART 02

Industry Specific Guides

01

02

03

Industry Specific Guides

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Accounting Interview Questions

"And do you swear that this quarterly sales report has no accounting tricks?"

List of commonly asked accounting interview questions:

#1 Walk me through the 3 financial statements.

The balance sheet shows a company's assets, its liabilities and shareholders' equity. The income statement outlines the company's revenues and expenses. The cash flow statement shows the cash flows from operating, investing and financing activities.

#2 If I had only 1 statement and wanted to review the overall health of a company, which statement would I use and why?

Cash is king. The cash flow statement gives a true picture of how much cash the company is generating. That being said, it's important to highly that all three statements truly are required to get a full picture of the health of a company. Learn more about how the three financial statements are linked.

#3 What happens on the income statement if inventory goes up by $10?

Nothing. This is a trick question. The only impact will be on the balance sheet and cash flow statement.

#4 What is working capital?

Working capital is typically defined as current assets less current liabilities. In banking, working capital is normally defined more narrowly as current assets (excluding cash) less current liabilities (excluding interest-bearing debt).

#5 What does having negative working capital mean?

Negative working capital is common in some industries such as grocery retail and the restaurant business. For a grocery store, customers pay upfront, inventory moves relatively quickly but suppliers often give 30 days (or more) credit. This means that the company receives cash from customers before it needs the cash to pay suppliers. Negative working capital is a sign of efficiency in businesses with low inventory and accounts receivable. In other industries, negative working capital may signal a company is facing financial trouble.

#6 If cash collected from customers is not yet recorded as revenue, what happens to it?

It usually goes into “Deferred Revenue” on the balance sheet as a liability if the revenue has not been earned yet.

#7 What’s the difference between deferred revenue and accounts receivable?

Deferred revenue represents cash received customers for services or goods not yet provided. Accounts receivable represents cash owing from customers for goods/services already provided.

#8 When do you capitalize rather than expense a purchase?

If the purchase will be used in the business for more than one year, it is capitalized and depreciated.

#9 Under what circumstances does goodwill increase?

When a company buys another business for more than the fair value of its tangible and intangible assets, goodwill is created.

#10 How do you record PPE and why is this important?

There are essentially 4 areas to consider when accounting for PP&E on the balance sheet: initial purchase, depreciation, additions (capital expenditures), and dispositions. In addition to these four, you may also have to consider revaluation. For many businesses, PP&E is the main capital asset that generates revenue, profitability and cash flow.

#11 How does an inventory write-down affect the three statements?

On the balance sheet the asset account of Inventory is reduced by the amount of the write-down, and so is shareholders' equity. The income statement is hit with an expense in either COGS or a separate line item for the amount of the write-down, reducing net income. On the cash flow statement, the write-down is added back to CFO as it's a non-cash expense but must not be double counted in the changes of non-cash working capital.

#12 What are three examples of common budgeting methods?

Examples of common budgeting methods include zero-based budgeting, incremental budgeting, and value-based budgeting. Learn more about the various types, in CFI's budgeting and forecasting course.

#13 Please explain the Revenue Recognition and Matching principles

The revenue recognition principle dictates the process and timing of which revenue is recorded and recognized an item in the financial statements based on certain criteria (i.e. transfer of ownership). The matching principle dictates that the timing of expenses be matched to the period in which they are incurred, as opposed to when they are actually paid.

#14 If you were CFO of our company, what would keep you up at night?

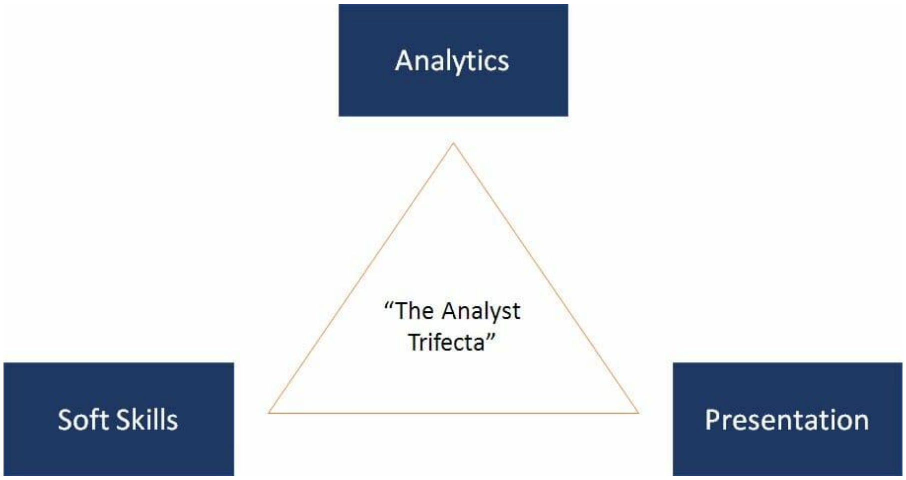
Step back and give a high-level overview of the company's current financial position, or companies in that industry in general. Highlight something on each of the three statements. Income statement: growth, margins, profitability. Balance sheet: liquidity, capital assets, credit metrics, liquidity ratios. Cash flow statement: short-term and long-term cash flow profile, any need to raise money or return capital to shareholders.

General Finance Interview Questions

What are the most common finance interview questions?

We've compiled a list of the most common and frequently asked finance interview questions. If you want to ace your finance interview then make sure you master the answers to these challenging questions below. This guide is perfect for anyone interviewing for a financial analyst job and it's based on real questions asked at global banks to make hiring decisions.

In conjunction with this comprehensive guide to finance interview questions (and answers), you may also want to read our guide on how to be a great financial analyst, where we outline "The Analyst Trifecta".



General Interview Tips

There are two main categories of finance interview questions you will face:

1. Behavioral/fit questions
2. Technical questions

#1 Behavioral and fit questions relate more to soft skills such as your ability to work with a team, leadership, commitment, creative thinking, and your overall personality type. Being prepared for these types of questions is critical and the best strategy is to pick 5-7 examples of specific situations from your resume that you can use as examples of: leadership, teamwork, a weakness, hard work, problem-solving, etc. To help you tackle this aspect of the interview we've created a sperate guide to behavioral interview questions.

#2 Technical questions are related to specific accounting and finance topics. This guide focuses exclusively on technical finance interview questions.

General best-practices for finance interview questions include:

- Take a couple of seconds to plan your answer and repeat the question back to the interviewer out lout (you buy some time by repeating part of the question back at the start of your answer)
- Use a structured approach to answering each question, this typically means having points 1, 2 and 3 (for example)
- If you don't know the exact answer, state the things you do know that are relevant (and don't be afraid to say "I don't know exactly" which is much better than guessing or making stuff up)
- Demonstrate your line of reasoning (show that you have a logical thought process and can solve problems, even if you don't know the exact answer)

Finance Interview Questions (and answers):

Walk me through the 3 financial statements.

The balance sheet shows a company's assets, its liabilities and shareholders' equity. The income statement outlines the company's revenues and expenses. The cash flow statement shows the cash flows from operating, investing and financing activities.

If I could use only 1 statement to review the overall health of a company, which statement would I use and why?

Cash is king. The cash flow statement gives a true picture of how much cash the company is generating. Ironically, it often gets the least attention. You can probably pick a different answer for this question, but you have to have a good justification (i.e. the balance sheet because assets are the true driver of cash flow etc etc.).

If it were up to you, what would the budgeting process look like?

This is somewhat subjective. In my opinion, a good budget is one that has buy-in from all departments in the company, is realistic yet strives for achievement, has been risk-adjusted to allow for a margin of error, and is tied to the company's overall strategic plan. In order to achieve this, the budget needs to be an iterative process that includes all departments. It can be zero-based (starting from scratch each time), or building off the previous year, but it depends what type of business you're running as to which is better. It's important to have a good budgeting/planning calendar that everyone can follow. This is an important part of how to be a world-class financial analyst.

When should a company consider issuing debt instead of equity?

A company should always optimize its capital structure. If it has taxable income it can benefit from the tax shield of issuing debt. If the firm has immediately steady cash flows and is able to make their interest payments it may make sense to issue debt if it lowers the WACC.

How do you calculate the WACC?

WACC (weighted average cost of capital) is calculated by taking the percentage of debt to total capital, multiplied by the debt interest rate, multiplied by one minus the effective tax rate, plus the percentage of equity to capital, multiplied by the required return on equity.

Which is cheaper, debt or equity?

Debt is cheaper because: it is paid before equity and has collateral backing it. Debt ranks ahead of equity on liquidation of the business. Learn more about the cost of debt and cost of capital.

There are pros and cons to financing with debt vs equity that business needs to consider… it is not automatically better use debt finance simply because it's cheaper. A good answer to the question may highlight the tradeoffs, if there is any followup required.

A company has learned that due to a new accounting rule, it can start capitalizing R&D costs instead of expensing them.

This question has four parts to it:

Part a) What is the impact on EBITDA?

Part b) What is the impact on Net Income?

Part c) What is the impact on cash flow?

Part d) What is the impact on valuation?

Answer:

Part a) EBITDA increases by amount capitalized;

Part b) Net Income increases, amount depends on depreciation and tax treatment;

Part c) Cash flow is almost constant – however, cash taxes may be different due to depreciation rate and therefore cash flow could be slightly different

Part d) Valuation is constant – except for cash taxes impact/timing on NPV

What in your opinion makes a good financial model?

It's important to have strong financial modeling fundamentals. Wherever possible model assumptions (inputs) should be in one place and distinctly colored (typically bank models use blue font for model inputs). Good Excel models also make it easy for users to understand how inputs are translated into outputs. Good Excel models also include error checks to ensure the model is working correctly (e.g. the balance sheet balances, the cash flow calculations are correct, etc.). They contain enough detail, but not too much, and they have a dashboard that clearly displays the key outputs with charts and graphs. For more, check out our complete guide to financial modeling.

© Corporate Finance Institute. All rights reserved.	Startup year 2016	2017	2018	2019	2020	2021	Terminal year 2022
Balance Sheet Check	*OK*	*OK*	*OK*	*OK*	*OK*	*OK*	*OK*
Balance Sheet							
ASSETS							
Current							
Cash	4,954,646	3,344,792	2,992,993	2,886,117	4,448,738	6,668,315	10,325,123
Accounts Receivable	52,529	75,985	121,007	189,380	262,356	367,719	436,532
Inventory	900,493	1,055,342	1,452,082	2,185,151	2,951,507	4,035,945	4,791,205
Total	5,907,668	4,476,119	4,566,082	5,260,647	7,662,601	11,071,979	15,552,860
Technology	240,000	220,000	190,000	510,000	370,000	1,040,000	800,000
Property & Equipment	160,000	160,000	150,000	130,000	220,000	230,000	550,000
Total Assets	**6,307,668**	**4,856,119**	**4,906,082**	**5,900,647**	**8,252,601**	**12,341,979**	**16,902,860**
LIABILITIES & SHAREHOLDER EQUITY							
Liabilities							
Current							
Revolver							
Accounts Payable	880,708	769,479	776,587	845,832	1,111,226	1,494,404	1,751,365
Total	880,708	769,479	776,587	845,832	1,111,226	1,494,404	1,751,365
Debt	0	0	0	0	0	0	0
Total Liabilities	**880,708**	**769,479**	**776,587**	**845,832**	**1,111,226**	**1,494,404**	**1,751,365**
Shareholder Equity							
Share Capital	8,000,000	8,000,000	8,000,000	8,000,000	8,000,000	8,000,000	8,000,000
Retained Earnings	(2,573,040)	(3,913,360)	(3,870,505)	(2,945,185)	(858,625)	2,847,575	7,151,495
Total Shareholder Equity	5,426,960	4,086,640	4,129,495	5,054,815	7,141,375	10,847,575	15,151,495
Total Liabilities & Shareholder Equity	**6,307,668**	**4,856,119**	**4,906,082**	**5,900,647**	**8,252,601**	**12,341,979**	**16,902,860**
Check	*0.000*	*0.000*	*0.000*	*0.000*	*0.000*	*0.000*	*0.000*
Cash Flow Statement							

What happens on the income statement if inventory goes up by $10?

Nothing. This is a trick question, only the balance sheet and cash flow statements are impacted.

What is working capital?

Working capital is typically defined as current assets less current liabilities. In banking, working capital is normally defined more narrowly as current assets (excluding cash) less current liabilities (excluding interest-bearing debt).

What does negative working capital mean?

Negative working capital is common in some industries such as grocery retail and the restaurant business. For a grocery store, customers pay upfront, inventory moves relatively quickly but suppliers often give 30 days (or more) credit. This means that the company receives cash from customers before it needs the cash to pay suppliers. Negative working capital is a sign of efficiency in businesses with low inventory and accounts receivable. In other industries, negative working capital may signal a company is facing financial trouble.

In this answer to this interview question, it's important to consider the company's normal working capital cycle.

When do you capitalize rather than expense a purchase?

If the purchase will be used in the business for more than one year, it is capitalized and depreciated.

How do you record PP&E and why is this important?

There are essentially 4 areas to consider when accounting for Property, Plant & Equipment (PP&E) on the balance sheet: initial purchase, depreciation, additions (capital expenditures), and dispositions. In addition to these four, you may also have to consider revaluation. For many businesses, PP&E is the main capital asset that generates revenue, profitability and cash flow.

How does an inventory write-down affect the three statements?

This is a classic finance interview question. On the balance sheet, the asset account of Inventory is reduced by the amount of the write-down, and so is shareholders' equity. The income statement is hit with an expense in either COGS or a separate line item for the amount of the write-down, reducing net income. On the cash flow statement, the write-down is added back to Cash From Operations (CFO) as it's a non-cash expense (but must not be double counted in the changes of non-cash working capital). Read more about an inventory write-down.

Why would two companies merge? What major factors drive mergers and acquisitions?

There are many reasons: to achieve synergies (cost savings), enter new markets, gain new technology, eliminate a competitor, and because it's "accretive" to financial metrics. Learn more about accretion in M&A.

[Note: Social reasons are important too, but you have to be careful about mentioning them depending on who you're interviewing with. These include: ego, empire building, and to justify higher executive compensation.]

If you were CFO of our company, what would keep you up at night?

This is one of the great finance interview questions. Step back and give a high-level overview of the company's current financial position, or companies in that industry in general. Highlight something on each of the three statements. Income statement: growth, margins, profitability. Balance sheet: liquidity, capital assets, credit metrics, liquidity ratios. Cash flow statement: short-term and long-term cash flow profile, any need to raise money or return capital to shareholders.

Commercial Banking Interview Questions

What are the most common commercial banking interview questions?

We've asked countless commercial banking account managers, relationship managers, and credit analysts what the most common commercial banking interview questions are. Based on their responses and feedback we've laid out the most likely questions to be asked in an interview by a hiring manager.

We've organized the interview questions into two categories:

Technical (finance and accounting)

Behavioral (personality and relationships)

In this guide, we've also provided what we believe are the best answers to these commercial banking interview questions. For other careers, please check out all our interview guides.

#1 Technical commercial banking questions:

How would you determine the creditworthiness of a company?

There are two main approaches: (1) assets, and (2) cash flow. A thorough approach involves a full financial analysis of the business based on its financial statements, market conditions, and the management team.

On the asset approach, it's important to understand how much the assets are truly worth, how liquid they are, and how much you think you could get for them. On the cash flow approach, the historical ability to generate cash flow (or net income, EBIT, EBITDA, etc.) will be relied on, in conjunction with a realistic forecast to asses how much debt they can service.

To learn more, see all of our financial analyst courses online.

If you were asked to analyze a set of financial statements, what would you do?

The first thing I would do is put them in a clean Excel workbook, or company template, in an organized format. Next I would calculate a variety of ratios based on: profitability, growth, margins, leverage, and liquidity (see question below for specific examples). Finally, I would analyse these ratios and identify trends (based on at least 3 years of historical information), which I would try to extrapolate into the future.

Learn more in our Financial Analysis Fundamentals Course.

Name three important credit metrics

There are a wide range of credit metrics. A few of the most common ones include:

Leverage: debt to equity, debt to capital, debt to EBITDA, interest coverage ratio (or fixed charge coverage ratio), and other variations of these ratios.

Liquidity: working capital, current ratio, quick ratio, cash ratio

Where do you think interest rates are headed?

You have to be careful on your answer to this interview question. Every bank has their own economist, and every economist has 3 different outlooks on interest rates (up, down, and flat). The key is to simply demonstrate that, (1) you know what current interest rates are, and (2) you can identify some intelligent scenarios that would cause them to either go up or down. Avoid making a precise prediction, but show you're informed.

For more on this, see our macroeconomic interview questions.

If you were given an income statement where revenue was going up and net income was going down, what would you think the problem is?

There could be many issues, the mostly likely explanation is that the company is fueling its revenue growth by, (1) increasing its marketing expenses (see: return on ad spend), (2) decreasing prices, (3) experiencing an increase in cost of goods sold, or (4) changing accounting policies, like no longer capitalizing an expense that used to be. The main point is, more investigation into the income statement is required, but it's often an indication that growth is being pursued in an uneconomic way (although that's not definitively the case).

#2 Behavioral commercial banking questions:

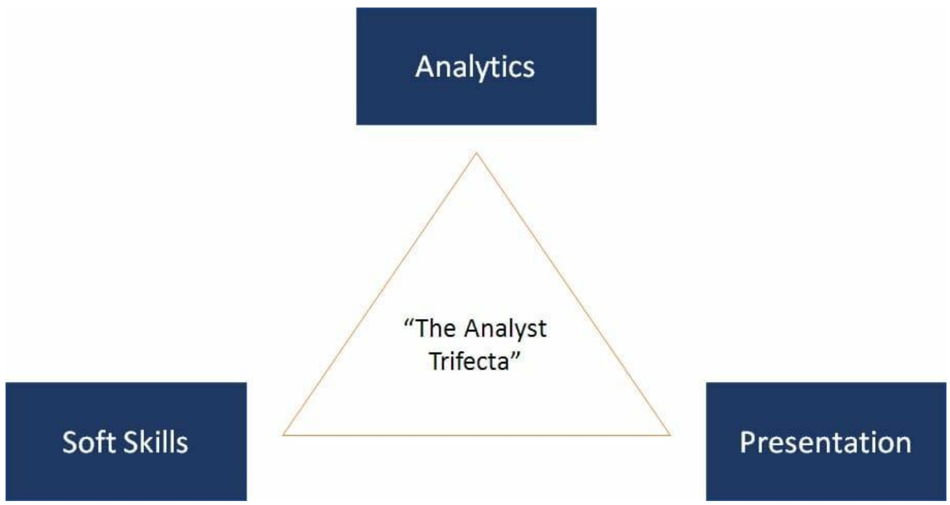
How do you manage risk in your personal life?

This is an opportunity to show you can think on your feet, and apply the principles of risk management in a different way. There is no right or wrong answer. They key is to point out that there are various ways to think about risk (risk of loss, the risk of missing out, risk vs reward, etc). You could talk about your finances, or you could even talk about personal activities.

What does it take to be a great commercial banker?

This is a wide open interview question. There are lots of ways to answer it; the key is to think about the skillset required in commercial banking and tie your response to that. The main two skills required are, (1) analytics, and (2) sales/relationship management.

More reading: how to be a good financial analyst.



Where do you see yourself in 5 years, if you're hired?

This is a sensitive topic. It's likely to be one of the commercial banking interview questions because so many people try to go into it as a stepping stone, trying to get into corporate finance or investment banking, so it's important not to make them think you want to leave in a few years. You want to come across as ambitious, but not too ambitious (i.e. don't say in 5 years I see myself in your job).

To manage a transition, check out our corporate finance courses.

Describe your approach to sales

You may or may not be asked a question along these lines, depending on what role you're going for in commercial banking. A lot of commercial banking is sales oriented, so it's important to be able to demonstrate you've got what it takes to thrive in a sales environment. There are many approaches to sales: relationship-based, need-based, value-based etc. There is lots of openness in this question.

Credit Analyst Interview Questions

What are the most common credit analyst interview questions?

This guide outlines the most common credit analyst interview questions and what CFI believes are the best answers to them!

In order to ace your next interview, you'll need to focus on being well rounded, which includes the following:

1. Technical skills (finance and accounting)
2. Social skills (communication, personality fit, etc)

This guide focuses solely on the technical skills that could be tested in a credit analyst interview.

Below are our top credit analyst interview questions

What is a reasonable Debt/Capital ratio?

It completely depends on the industry. Some industries can sustain very low debt to capital ratios, typically cyclical industries like commodities, or early stage companies like startups. So these would have 0-20% debt to capital. Other industries like banking and insurance can have up to 90% debt to capital ratios.

Many analysts also use the debt to equity ratio.

How would you decide if you can lend $100 million to a company?

Review all three financial statements for the past five years and perform a financial analysis. Determine what assets can be used as collateral, how much cash flow there is, and what the trends of the business are. Then look at metrics like debt to capital, debt to EBITDA, and interest coverage. If all of these metrics are within the bank's parameters it may be possible to lend the money, but will still depend on qualitative factors as well.

What do the credit rating agencies do?

Rating agencies are supposed to help provide trust and confidence in financial markets by rating borrowers on their creditworthiness of outstanding debt obligations. They can, however, run into conflicts of interest and cannot be blindly relied on for assessing a borrower's risk profile.

What is the current LIBOR rate?

Quote the current LIBOR rate and talk about the importance of LIBOR as it relates to spreads and pricing of other credit instruments.

What is Free Cash Flow?

Free cash flow is simply equal to cash from operations less capital expenditures (levered). There is also unlevered free cash flow used in financial modeling.

What methods do you use to compare the liquidity, profitability, and credit history of a company?

The Current Ratio, Return on Equity (ROE), Return on Assets (ROA), Debt/Capital, Debt/Equity, and Interest Coverage Ratio.

What is the interest coverage ratio?

This is commonly considered EBIT divided by interest expense. This is also referred to as "times interest earned". It indicates how easily a company can "cover" it's interest expense with operating earnings before interest and taxes.

What are the most common credit metrics banks look at?

The most common credit metrics include debt/equity, debt/capital, debt/EBITDA, interest coverage, fixed charge coverage, tangible net worth, to name the most common ones.

How do you value a company?

The most common methods are DCF valuation / financial modeling and relative valuation methods using comparable public companies ("Comps") and precedent transactions ("Precedents").

What do you use for the discount rate in a DCF valuation?

If you are forecasting free cash flows to the firm, you normally use the Weighted Average Cost of Capital (WACC) as the discount rate. If you are forecasting free cash flows to equity, you use the cost of equity.

How do you calculate the terminal value in a DCF valuation?

Terminal value is either use an exit multiple or the Gordon Growth (growing perpetuity) method.

What type of person makes a good credit analyst?

Someone who's detail-oriented, good with numbers, enjoys research and analysis, likes working independently and is good at financial modeling and financial analysis with strong Excel skills.

How do you manage risk in your personal life?

This is where you get to show some personality and demonstrate your ability to think about risk, plus be a good communicator. There is no right or wrong answer to this question, but you could say something about how you evaluate tradeoffs (upside vs downside), how you put hedges in place to reduce losses, purchase insurance, or a wide range of other examples.

Financial Planning & Analysis Interview Questions

What are the most common FP&A interview questions?

Based on extensive research and feedback from professionals in Financial Planning and Analysis, we've compiled the most likely interview questions to be asked by an FP&A hiring manager. In addition, we've also created what we think are the best answers to these FP&A interview questions.

Please read through all these questions carefully and notice the themes. While you are unlikely to be asked the exact questions listed here, understanding the line of reasoning and types of questions typically asked should help you prepare your own answers to these questions.

FP&A questions with answers:

Walk me through the 3 financial statements.

The balance sheet shows a company's assets, its liabilities, and shareholders' equity and is a snapshot in time. The income statement outlines the company's revenues and expenses over a period of time (quarter/year). The cash flow statement shows the cash flows from operating, investing and financing activities over a period of time. The three financial statements all fit together to show a picture of the company's health.

How does an inventory writedown affect the three statements?

This can be one of the more challenging FP&A interview questions. Here is the answer. On the balance sheet, the asset account of Inventory is reduced by the amount of the write-down, and so is shareholders' equity. The income statement is hit with an expense in either COGS or a separate line item for the amount of the writedown, reducing net income. On the cash flow statement, the writedown is added back to Cash from Operations as it's a non-cash expense but must not be double counted in the changes of non-cash working capital.

How do you record PP&E and why is this important?

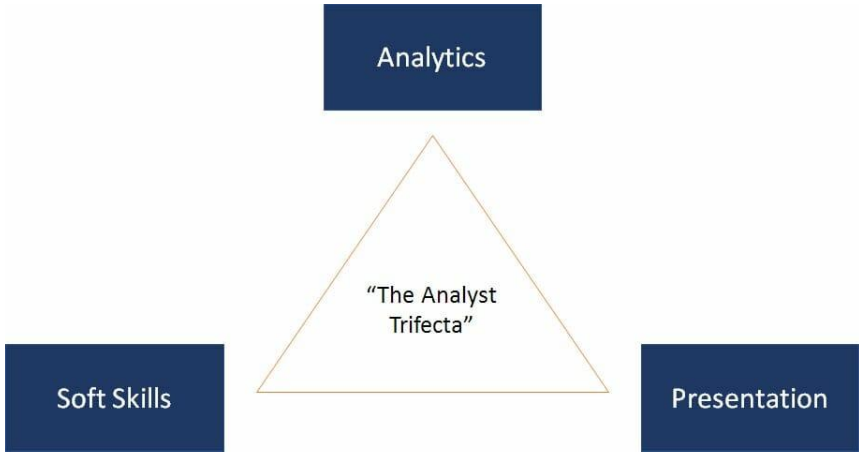
There are essentially 4 areas to consider when accounting for PP&E on the balance sheet: initial purchase, depreciation, additions (capital expenditures), and dispositions. In addition to these four, you may also have to consider revaluation. For many businesses, PP&E is the main capital asset that generates revenue, profitability and cash flow.

If you were CFO of our company, what would keep you up at night?

Step back and give a high-level overview of the company's current financial position, or companies in that industry in general. Highlight something on each of the three statements. Income statement: growth, margins, profitability. Balance sheet: liquidity, capital assets, credit metrics, liquidity ratios. Cash flow statement: short-term and long-term cash flow profile, any need to raise money or return capital to shareholders. Whatever your answer to this question, just remember, the main job of the CFO is managing the company's liquidity in an optimal way, and earning a rate of return in excess of the company's cost of capital (WACC).

What does it take to be a great FP&A analyst?

We believe there are 3 important qualities: analytics, presentation, and soft skills. Check out our guide on the Analyst Trifecta. for a detailed breakdown of these three skills so you can ace this question if it comes up in the interview.



Name three challenges facing our company.

Same as above question. If asked both, pick different points and add some high-level macro issues as well such as competition, interest rates, currency and foreign exchange, access to capital, etc. A well thought out answer will address both internal and external challenges.

What are the hallmarks of a good FP&A financial model?

First off, explain the main objectives of the FP&A department: measuring historical performance, evaluating future business needs, highlight issues and strengths in the business, clearly communicating the most relevant financial information to management, instilling confidence in the quality of information presented. A good financial model must address all of these and be simple enough for anyone to understand, yet complex enough to handle all of the necessary detail of the business.

What's the difference between budgeting and forecasting?

Budgeting is setting a plan for the future while forecasting is creating an estimate of what will actually happen. Budgeting is a collaborative process, typically set once per year, and is static (unless it's a rolling budget). A forecast is based on incoming data and sets the most probable expectation of what will transpire, and is typically updated once a quarter.

How do you create a rolling budget or forecast model?

If it's a monthly rolling forecast, you input the historical data that comes in each month at the front of the model and extend a forecast out beyond that. When you need to add a new month to the forecast, it should be at the end of the model. The model "rolls over" every month (or whatever time period is used) by extending the model out one column. The same approach can be applied to a quarterly forecast model.

How do you model revenues for a company?

This is one of the most common FP&A interview questions. There are three most common ways to forecast revenues: bottom up, top down, and year over year.

1. A **bottom-up** approach to financial modeling involves starting with individual products/services, estimating average prices/fees per product or service and then growth rates.
2. A **top-down** approach involves starting with the overall market size, estimating a company's market share, and then translating that into revenue.
3. A **year-over-year** approach involves taking last year's revenue and increase it or decreasing it by a certain percentage.

How do you model operating expenses for a company?

You can do a bottom-up build, however, typically operating expenses move in line with revenues. As a result, many models forecast operating expenses as a percent of revenues. It's important to separate fixed and variable costs and model them appropriately. Fixed costs should only change in steps (as required), whereas variable costs will be a direct function of revenue.

How do you model working capital for a company?

There are three core components of working capital – accounts receivable, inventories, and accounts payable. Typically these items are modeled to match what is happening with revenues and cost of sales by using "turns" or "days" ratios (e.g. inventory turns or inventory days). For example, you could look at the historic relationship between revenues and accounts receivable by calculating receivable days. Next, you would forecast receivable days – linking it to forecast revenues.

What are the hallmarks of a good Excel model?

It's important to have strong financial modeling fundamentals. Wherever possible model assumptions (inputs) should be in one place and distinctly colored (typically bank models use a blue font for model inputs). Good Excel models also make it easy for users to understand how inputs are translated into outputs. Good Excel models also include error checks to ensure the model is working correctly (e.g. the balance sheet balances, the cash flow calculations are correct, etc.).

What makes a "good" budget?

This is one of the somewhat subjective FP&A interview questions. In our opinion, a good budget is one that has buy-in from all departments in the company (if possible), is realistic yet strives for achievement, has been risk-adjusted to allow for a margin of error, is tied into the company's overall strategic plan.

Equity Research Interview Questions

What are the most common equity research interview questions?

Based on our first-hand experience, as well discussions with equity research professionals, we've compiled a list of the top questions to be asked by a research analyst when interviewing an associate. We've also added what we think are the best answers to these challenging interview questions. Here are the top equity research interview questions and answers…

J.P.Morgan CAZENOVE

Europe Equity Research
26 March 2014

Initiation
Overweight
ASOS.L, ASC LN
Price: 5,123p
Price Target: 6,600p

Asos

Frockin' all over the world: initiate at Overweight with Price Target of 6,600p

In 2014 Asos is pursuing two key initiatives which we expect to be game-changers for US growth: a US fulfillment operation and zonal pricing. This combination will elevate the US customer offering allowing it to become faster, more convenient, and with a wider range of third-party brands. With an enhanced offer, we expect Asos to invest more heavily in US marketing, resulting in a FY13-18E US sales CAGR of 40%. We initiate coverage with an OW recommendation and an Aug-15 DCF-based PT of 6,600p (30% potential upside). The recent share price fall, driven by unfavourable currency moves and higher investment guidance at Q214, provides a good entry point in our view.

- **Asos is more than just a clothing retailer.** In our view, it offers a unique combination of over 800 third-party brands, an own-label product that has been developed into a dynamic brand in its own right, and rich media content designed to promote its status as a fashion destination for its target audience. Combined with a leading-edge delivery proposition, this has driven rapid sales growth, enabling Asos to further invest in customer service and marketing and to secure incremental brands and drive further traffic. In our view, this "virtuous circle" of growth and reinvestment has allowed Asos to establish a unique position as a pure-play online fast-fashion retailer with genuinely global reach.
- **We believe that Asos can continue to deliver super-normal top-line growth** through gaining share in existing markets and expanding into new territories. The resulting medium-term sales and EPS growth (FY13-18E CAGR of 23% and 25% respectively) should support the current valuation (60x CY15 PE), with the faster earnings growth comfortably delivering share-price outperformance without any requirement for a re-rating.
- **Our blue-sky scenario offers 35% upside to our current forecasts.** Our scenario-based blue-sky analysis is for a 5-year sales CAGR of 31% (base-case 23%), highlighting the potential for a super-normal growth rate into the medium term. This drives a blue-sky FY18E EPS of 206p, 35% above our base-case forecast of 152p.

European General Retail
Georgina Johanan [AC]
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Bloomberg JPMA JOHANAN <GO>
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Sophie L Warrick
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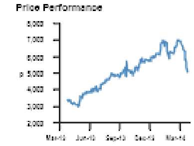
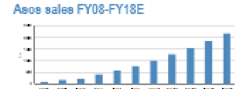
Price Performance



Asos sales FY08-FY18E



Source: Company reports, J.P. Morgan estimates

Asos plc (ASOS.L;ASC LN)

FYE Aug	2012A	2013A	2014E	2015E	2016E
Adj.EPS FY (p)	39.63	49.23	57.22	77.97	102.30
Revenue FY (£ mn)	553	769	1,001	1,254	1,545
EBITDA FY (£ mn)	56	68	81	106	140
EBIT FY (£ mn)	46	54	63	84	113
EBIT Margin FY	8.2%	7.1%	6.3%	6.7%	7.3%
Pre Tax Income FY (£ mn)	44	55	63	84	113
DPS FY (p)	-	-	-	-	-
Adj.P/E FY	129.3	104.1	89.5	65.7	50.1

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Price (p)	5,123
Date Of Price	25 Mar 14
Price Target (p)	6,600
Price Target End Date	31-Aug-15
52-week Range (p)	7,195-2,959
Market Cap (£ bn)	4.28
Shares O/S (mn)	84

See page 85 for analyst certification and important disclosures, including non-US analyst disclosures.

J.P. Morgan does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single

If you had $1 million to invest, what would you do with it?;

Tell me about a company you admire and what makes it attractive.;

Pitch me a stock (typically will be followed-up with a challenge – e.g. why has the market not priced this in? etc.)

These are all variants on one of the most common equity research interview questions – pitch me a stock. Be prepared to pitch 3 or 4 stocks. For example, a large cap stock, a small cap stock, and a stock that you would short. For any company you are going to pitch make sure that you have read a few analyst reports and know key information about the company. You must know basic valuation metrics (EV/EBITDA multiples, PE multiples, etc.), key operation statistics, and the names of key members of the management team (e.g. CEO). You also must have at least three key points to support your argument.

How do you value a stock?

The most common valuation methods are DCF valuation methods and relative valuation methods using comparable public companies (“Comps”) and precedent transactions (“Precedents”).

Why might a high tech company have a higher PE than a grocery retailer?

It can also be shown that the PE multiple is driven by

$$\frac{1-\frac{g}{ROE}}{r-g}$$

where r is the cost of equity, g is the growth rate, and ROE is return on equity. A high tech company may have a higher PE because growth expectations for the stock are higher.

What drives the PB multiple? Or, why may two companies in the same industry have very different PB multiples?

The PB multiple can be shown to be PE x ROE. It is therefore driven by return on equity and the drivers of the PE multiple. It can also be shown that the PE multiple is driven by

$$\frac{1-\frac{g}{ROE}}{r-g}$$

where r is the cost of equity, g is the growth rate, and ROE is return on equity.

Since the PB multiple is PE x ROE, this means the PB multiple is

$$\frac{ROE - g}{r - g}$$

If we assume a zero growth rate, the equation implies that the market value of equity should be equal to the book value of equity if ROE = r. The PB multiple will be higher than 1 if a company delivers ROE higher than the cost of equity (r).

Tell me when you would see a company with a high EV/EBITDA multiple but a low PE multiple.

This relationship implies a significant difference between the firm's enterprise value and its equity value. The difference between the two is "net debt". As a result, a company with a significant amount of net debt will likely have a higher EV/EBITDA multiple.

What is a beta?

Beta is a measure of market (systematic) risk. Beta is used in the capital asset pricing model (CAPM) to determine a cost of equity. Beta measures a stocks' volatility of returns, relative to an index. So a beta of 1 has the same volatility of returns as the index, and 1 is more volatile.

Why do you unlever beta?

When you look up beta on Bloomberg, it's levered to reflect the debt of each company. But each company's capital structure is different and we want to look at how "risky" a company is regardless of what percentage of debt or equity it has. To get that, we need to unlever beta each time. You look up the beta for a group of comparable companies, un-lever each one, take the median of the set and then lever it based on your company's capital structure. Then you use this Levered Beta in the Cost of Equity calculation. For your reference, the formulas for un-levering and re-levering Beta are below:

$$Un - Levered\ Beta = \frac{Levered\ Beta}{[1 + (1 - Tax\ Rate) \times \frac{Total\ Debt}{Equity}]}$$

$$Levered\ Beta = Un - Levered\ Beta\ \times [1 +\ (1 - Tax\ Rate)\ \times \frac{Total\ Debt}{Equity}]$$

What's the difference between enterprise value and equity value?

This question is commonly asked in banking, but could easily be one of the frequently asked equity research interview questions as well. Enterprise value is the value of the company that is attributable to all investors. Equity value only represents the portion of the company belonging to shareholders. Enterprise value incorporates the market value of the equity plus the market value of net debt (as well as other sources of funding if used such as preferred shares, minority interests, etc.).

Can a company have an equity value larger than its enterprise value?

Technically yes. Enterprise value is the sum of the market value of equity and net debt (gross debt less cash). If a company has no interest bearing debt but does have cash it will lead to a situation where the equity value is greater than the enterprise value.

What are the major valuation methodologies?

- DCF valuation methods
- Relative valuation methods – using comparable public companies and precedent transactions
- Break-up valuation methods – looking at the liquidation or break-up value of the business
- Real options valuation methods – rarer
- Here is an overview of all valuation methods

When would you not use a DCF valuation methodology?

You would not use a DCF valuation methodology when a company does not have forecastable cash flows. An example of this would be a start-up company.

What are the most common multiples used to value a company?

This is one of the most common equity research interview questions. Here are the main types of valuation multiples:

- EV/EBITDA
- EV/EBIT
- P/E
- P/B

Why does Warren Buffett prefer EBIT multiples to EBITDA multiples?

EBITDA excludes depreciation and amortization on the basis that they are "non-cash items." However, depreciation and amortization also are a measure of what the company is or needs to spend on capital expenditure. Warren Buffett is credited as having said "Does management think the tooth fairy pays for capital expenditures?" Here is an article on why Buffett does not like EBITDA.

Compare EBIT vs EBITDA.

How is valuing a resource company (i.e. oil and gas, a mining company, etc.) different from valuing a standard company?

First you need to project the prices of commodities and the company's reserves. Rather than a standard DCF, you use a Net Asset Value (NAV) model. The NAV model is similar but everything flows from the company's reserves rather than a simple revenue growth / EBITDA margin projection. You also look at industry specific multiples such as P / NAV in addition to the standard multiples. Here are more mining valuation methods.

Why do DCF projections typically go out between 5 and 10 years?

The forecast period is driven by the ability to reasonably predict the future. Less than 5 years is often too short to be useful. More than 10 years becomes difficult to forecast reliably.

What do you use for the discount rate in a DCF valuation?

If you are forecasting free cash flows to the firm, you normally use the Weighted Average Cost of Capital (WACC) as the discount rate. If you are forecasting free cash flows to equity, you use the cost of equity.

How do you calculate the terminal value in a DCF valuation?

One of the classic equity research interview questions. Terminal values either use an exit multiple or the Gordon Growth (terminal growth rate) method.

Explain why we would use the mid-year convention in a DCF valuation?

With standard DCF, there is an assumption that all cash flows occur at the end of the year. The mid-year convention adjusts for this distortion by making the assumption that all cash flows come mid-way through the year. Instead of using discount periods of 1 for the first year, 2 for the second year, etc. in the DCF formula, we use 0.5 for the first year, 1.5 for the second year, and so on. For training on financial modeling click here.

Investment Banking Interview Questions

Analyst/Associate Investment Banking Interview Questions

This is based on a real form used at bulge bracket for their investment banking interview questions in the hiring process.

Total Interview time: approx. 45 minutes.

Checklist for Interviewer:

- Welcome, introduce yourself & your position and thank interviewee for their time & interest.
- Clarify the time for the interview and explain that you may interrupt if necessary, etc.
- Provide an outline of what they should expect during the interview. Highlight areas to be covered.
- Mention you may take notes & give candidate permission for "thinking time".

Bank/Industry Overview (0-5 minutes):

Warm up by talking with the candidate about how great our bank is and brag about all our big transactions.

Employment History / Resume (5 minutes):

Opportunity for the interviewer to question candidate about the work experience that is noted on their resume.

i.e. **“Please walk me through your resume in 5 minutes or less.”**

Problem Solving Questions (5 minutes):

This section of the investment banking interview questions provides insight into the candidate’s critical thinking skills.

Question #1

“How many hairstylists or barbers do you estimate there are there in this city? Explain your logic/assumptions.”

Answer: Explain the logic based on the population of the city, average number of cuts people have per year, number of cuts one barber can do per year, and thus how many that implies there must be. (i.e. 2 million people, each get an average of 4 cuts per year, which results in 8 million cuts per year. Each barber works an average of 8 hours per day, times five days per week, times fifty weeks per year equals 2,000 hours of cutting time per year. Each haircut takes 1 hour. Thus, 8 million haircuts, equal 8 million hours, divided by 2,000 hours per barber requires 4,000 barbers in the city.)

Question #2

“In the middle of a pond is a single lily pad; the lily pad doubles in size every day and the pond is completely covered on the last day of the month (30 days). How long does it take for the pond to be half covered?”

Answer: 29 days because, if it doubles in size each day it also halves each day. Thus at 29 days is half full in order to be completely full in 30 days.

Question #3

"A windowless room contains three identical light bulbs. Each light is connected to one of three switches outside of the room. Each bulb is switched off at present. You are outside the room, and the door is closed. You have one, and only one, opportunity to flip any of the external switches. After this, you can go into the room and look at the lights, but you may not touch the switches again. How can you tell which switch goes to which light?"

Answer: Switch on switches 1 & 2, wait a moment and switch off number 2. Enter the room. Whichever bulb is on is wired to switch 1, whichever is off and hot is wired to switch number 2, and the third is wired to switch 3.

Technical Knowledge Questions (15 – 20 minutes):

This section of the investment banking interview questions provides insight into the candidate's technical knowledge of finance, accounting, valuation and financial modeling.

Question #1

"Please walk me through the three financial statements."

Answer: The balance sheet is a snapshot at a point in time. On the top half you have the company's Assets and on the bottom half its Liabilities and Shareholders' Equity (or Net Worth). The assets and liabilities are typically listed in order of liquidity and separated between current and non-current.

The income statement covers a period of time, quarter or year. It illustrates the profitability of the company from an accounting (accrual and matching) perspective. It starts with revenue line and after deducting expenses derives net income.

The cash flow statement has three sections: cash from operations, cash used in investing and cash from financing. It can be calculated using the direct approach or the reconciliation approach. It "undoes" all of the accounting principles and shows the cash flows of the business.

More info: CFI courses on financial statements

Question #2

"How would you value a company?"

Answer: There are three common valuation methods used in IB:

1) The multiples approach (also called "comps"), in which you multiply the earnings of a company by the P/E ratio of the industry in which it competes (and other ratios).

2) Transactions approach (also called "precedents"), where you compare the company to other companies that have recently sold/been acquired in that industry.

3) The Discounted Cash Flow approach, in which you discount the values of future cash flows back to the present.

Question #3

"You have the opportunity to purchase a series of future cash flows that are $200 in perpetuity. The total cost of capital is 10%, how much are you prepared to pay today?"

Answer: [Note: Value = Cash Flow / WACC].

$2,000, because: $200 / 10% = $2,000 (i.e. 10x)

Question #4

"When should a company consider issuing debt instead of equity?"

Answer: When the expected return on equity is higher than the expected return on debt. If it has taxable income and can benefit of tax shields. If the firm has immediately steady cash flows and is able to make their interest payments. This is the basis of the Capital Asset Pricing Model CAPM.

Question #5

"List the main components of WACC (i.e. Weighted Average Cost of Capital)."

Answer: Debt, Equity, Tax, Beta. See more on WACC here.

Question #6

"How do you calculate the WACC?"

Answer: This is calculated by taking the proportion of debt to total capital, times the debt rate, times one minus the effective tax rate, plus the proportion of equity to capital, times the required return on equity.

Question #7

"Which is cheaper debt or equity? Why?"

Answer: Debt because: It is paid before equity / may have security. Ranks ahead on liquidation

Question #8

"What is the average Price/Earnings PE ratio for the S&P 500 Index?"

Answer: About 15-20 times, the PE ratio varies by industry and period in the cycle.

Question #9

"A company has learned that due to a new accounting rule, it can start capitalizing R&D costs instead of expensing them."

Part a) What is the impact on EBITDA?

Part b) What is the impact on Net Income?

Part c) What is the impact on cash flow?

Part d) What is the impact on valuation?

Answer:

Part a) EBITDA increases by amount capitalized;

Part b) Net Income increases, amount depends on depreciation and tax treatment;

Part c) Cash flow is almost constant – however, cash taxes may be different due to depreciation rate

Part d) Valuation is constant – except for cash taxes impact/timing on NPV

Question #10

"What happens to Earnings Per Share (EPS) if a company decides to issue debt to buy back shares?"

Answer:

Issuance of debt increases after-tax interest expense which lowers EPS.

Repurchase of shares reduces the number of shares outstanding which increases EPS.

Whether it increases or decreases EPS depends on the net impact of the above two points.

Question #11

"What makes a good financial model?"

Answer:

Building a financial model takes a lot of practices to be really good at. The best financial models are clearly laid out, identify all the key drivers of the business, are accurate and precise yet not overly complicated, can handle dynamic scenarios, have built-in sensitivity analysis and error checking.

Behavioral Questions (10 minutes):

This section of the investment banking interview questions focuses on the candidate's soft skills and personality fit in the firm.

Pick three or four of the following questions:

"Why do you want to work in investment banking? Or at this bank?"

"How do you deal with risk in your personal life?"

"Give a time where you had multiple options and explain how you arrived at your decision."

"If you could live in any city in the world, and money was not an issue, where would you live and why?"

"What is one of your biggest weaknesses and how do you deal with it?"

"What is one thing you believe to be true, but that most people would disagree with you on?"

"Which is more important in business – IQ or EQ?"

"What does leadership mean to you? Can you provide some examples of good and bad leadership?"

"Are you smart?"

> Answers: Grade the interviewee based on how well they expand on their ideas. There are no right or wrong answers. The key is to determine the following: do they demonstrate maturity, are they comfortable with ambiguity, can they work as a team, do they have emotional intelligence, would they fit well in our culture, etc. See more behavioral interview questions.

Questions for Interviewer (5 minutes):

Ask the candidate, Do you have any questions for the interviewer? About IB, about the firm, about the process?

Next Steps:

This is the end of the investment banking interview questions.

Advise the candidate that HR will be in contact shortly with an update (within the next couple of hours/days)

Your Full Name

Street Number | City, State, Country | Phone Number | Email Address

EDUCATION

Ivy League School — **City, State**

Undergraduate Degree, Major — 20XX – 20XX

- Cumulative GPA: X.Y/4.0
- Varsity Sport – starter on the varsity sports team all four years; 20+ hours per week
- President, Student Club – responsible for managing all aspects of student run club
- Study Abroad – Exchange in foreign country

EXPERIENCE

Generic Capital Partners — **New York, NY**

Equity Research – Summer Intern — Summer 20XX

- Performed equity research of companies in the utility sector
- Utilized the DuPont formula to value companies based on ROE
- Made recommendation on which stocks to buy/sell as part of a long/short investment strategy
- Entered financial statements into Excel and performed historical analysis of key ratios
- Build a forecast based on input from consensus estimates and internal opinions of the businesses
- Used Bloomberg, Reuters, and Excel extensively

Synonymous Equity Partners — **New York, NY**

Sales & Trading – Summer Intern — Summer 20XX

- Performed equity research of companies in the utility sector
- Utilized the DuPont formula to value companies based on ROE
- Made recommendation on which stocks to buy/sell as part of a long/short investment strategy
- Entered financial statements into Excel and performed historical analysis of key ratios
- Build a forecast based on input from consensus estimates and internal opinions of the businesses
- Used Bloomberg, Reuters, and Excel extensively

Non-Finance Job — **New York, NY**

My First Job – Summer Intern — Summer 20XX

- Learned the value of hard work
- Demonstrated I'm responsible, reliable, and willing to do any type of work
- Earned money to pay for school
- Learned social skills that allow me to work in an office environment
- Show I'm a well-rounded person, not just really smart

ADDITIONAL INFORMATION

- Candidate for CFA Level 1
- Activities and hobbies –yoga, piano, travel, food and experimental cooking
- My idols – Ray Dalio, Charlie Munger, Michael Mauboussin
- Other interesting information

Provided courtesy of http://www.corporatefinanceinstitute.com/

Walk me through a DCF analysis interview question

If you're going for an investment banking interview you're almost guaranteed to get a question along the lines of… walk me through a DCF analysis, or, how would you build a DCF model?

The super fast answer is: build a 5-year forecast of unlevered free cash flow based on reasonable assumptions, calculate a terminal value with an exit multiple approach, and discount all those cash flows to their present value using the company's WACC.

Of course, it's also a bit more complicated than that…. To answer this interview question in more detail, we've broken it down into several basic steps below.

They key to answering this question well is a structured approach… and lots of direct experience building DCF models in Excel.

© Corporate Finance Institute®. All rights reserved.		Historical Results					Forecast Period				
FINANCIAL STATEMENTS		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Balance Sheet Check		OK	OK	OK	OK	OK	OK	OK	OK	OK	OK

DCF Model

Assumptions	
Tax Rate	25%
Discount Rate	12%
Perpetural Growth Rate	3%
EV/EBITDA Mulltiple	7.0x
Transaction Date	12/31/2017
Current Price	25.00
Shares Outstanding	20,000

Discounted Cash Flow	**Entry**	**2017**	**2018**	**2019**	**2020**	**2021**	**Exit**
Date	12/31/2017	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2021
EBT		46,314	49,595	55,361	58,193	62,539	
Interest		1,500	1,500	500	500	500	
EBIT		47,814	51,095	55,861	58,693	63,039	
Less: Cash Taxes		11,954	12,774	13,965	14,673	15,760	
Plus: D&A		15,008	15,005	15,003	15,002	15,001	
Less: Capex		15,000	15,000	15,000	15,000	15,000	
Less: Changes in NWC		375	611	398	511	272	
Unlevered FCF		35,495	37,715	41,501	43,511	47,008	
(Entry)/Exit	(290,450)						534,293
Net FCF	(290,450)	35,495	37,715	41,501	43,511	47,008	534,293

Terminal Value	
Perpetural Growth	522,309
EV/EBITDA	546,278
Average	534,293

Intrinsic Value	
Enterprise Value	502,526
Plus: Cash	239,550

Market Value	
Market Cap	500,000
Plus: Debt	30,000

Rate of Return	
Target Price Upside	42%
IRR	33%

DCF Step 1 – Build a 5-year forecast

The first step in the DCF model process is to build a forecast of the three financial statements, based on assumptions about how the business will perform in the future. On average, this forecast typically goes out about 5 years.

The forecast has to build up to unlevered free cash flow. We've published a detailed guide on how to calculate unlevered free cash flow, but the quick answer is to take EBIT, less taxes, less capital expenditures, plus depreciation and amortization, less any increases in non-cash working capital.

See our ultimate cash flow guide to learn more.

DCF Step 2 – Calculate the Terminal Value

We continue walking through the DCF model steps with calculating the terminal value. There are two approaches to calculating a terminal value: perpetual growth rate and exit multiple.

In the perpetual growth rate the business is assumed to grow it's unlevered free cash flow at a steady rate forever. This growth rate should be fairly moderate, as otherwise the company would become unrealistically big. This poses a challenge for valuing early stage, high growth businesses.

With the exit multiple approach, the business is assumed to be sold based on a valuation multiple, such as EV/EBITDA. This multiple is typically based on comparable company analysis. This method is more common in investment banking.

DCF Step 3 – Discount the cash flows to get the present value

In step 3 of this DCF walk through it's time to discount the forecast period (from step 1) and the terminal value (from step 2) back to the present value using a discount rate. The discount rate is almost always equal to the company's weighted average cost of capital (WACC).

See our guide to calculating WACC for more details on the subject, but the quick summary is that this represents the required rate of return investors expect from the company, and thus represents its opportunity cost.

The best way to calculate the present value in Excel is with the XNPV function, which can account for unevenly spaced out cash flows (which are very common).

Additional DCF Notes

At this point, we've arrived at the enterprise value for the business, since we used unlevered free cash flow. It's possible to derive equity value by subtracting any debt and adding any cash to the enterprise value. See our guide on equity value vs enterprise value.

At this point in the modeling process, an investment banking analyst will typically perform extensive sensitivity and scenario analysis to determine a reasonable range of values for the business, as opposed to arriving at a singular value for the company. By now you've really satisfied the question: walk me through a DCF analysis.

The "Why Investment Banking?" Interview Question

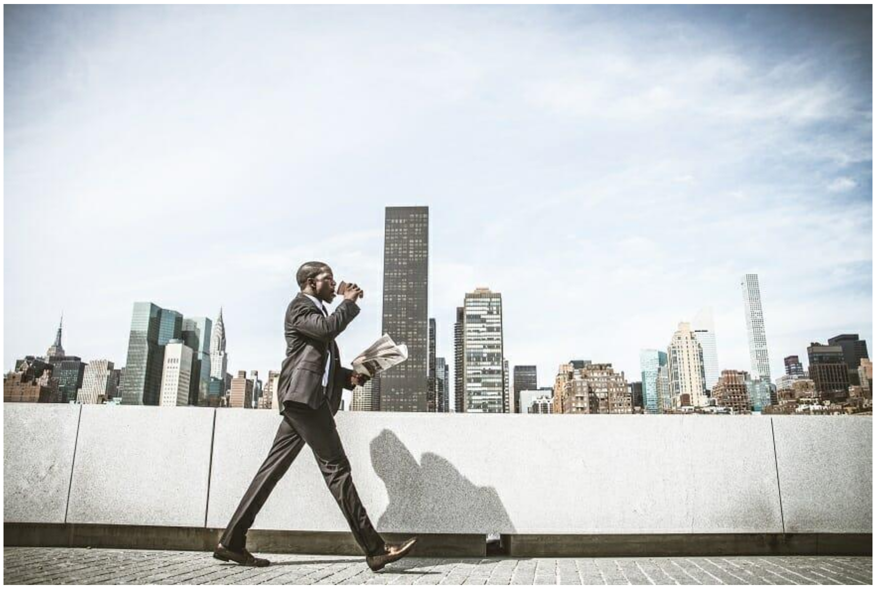
You're almost guaranteed to be asked this question in an investment banking interview. Of all the jobs you could have out of university, why investment banking?

The key is to quickly demonstrate that you understand what the job entails, and, having a full view of what's required, you still really want to do it!

At the end of the day, investment banks want Analysts/Associate who are:

- Smart enough to do good work,
- Can handle the hours,
- And won't quit.

This guide will show you how to demonstrate the above three qualities in a concise way.



An example answer to the Why Investment Banking? question

Here is an example of how to answer the question concisely:

> **I want to work in investment banking because it's the fastest way to learn financial modeling, valuation, Excel, and understand the nature of large corporate transactions. I'm aware that the job has a strict hierarchy and very long hours, but the opportunity to gain such valuable skills and be exposed to high profile transactions so early in my career is the most exciting opportunity I can think of.**

The strongpoints from this answer include:

- Awareness of the skills required for the job (lots of time spend in Excel, Word, and PowerPoint)
- Awareness of the hierarchy (senior bankers will lean hard on junior bankers and all work rolls downhill)
- Awareness of the long hours (80+ hours per week)
- Excitement about a steep learning curve and exposure to high profile deals

Positive reasons why you want to go into investment banking

Valuation & financial modeling work

Investment banking offers the opportunity to become an expert at building large, complex financial models at the earliest stage of your career. Why bankers aren't necessarily great investors, they do spend a lot of time on valuation work, and this can be an excellent way to start your career.

Exposure to high profile transactions

Most of what bankers work on is top secret until it's publicly announced, and when it is finally announced it's usually on the front page of the business section. If you say something to this effect it will stoke the ego and it's a pretty compelling reason to go into the industry.

An extreme challenge and steep learning curve

If you can call out the fact that IB requires extremely long hours and you're actually motivated by the challenge, that will go a long way. It's helpful to draw parallels to your personal life, like competing as an elite athlete, musician, or some extremely challenging event (like climbing Everest).

Negative reasons why you want to go into IB

Doing it for the money

Even though the money is most likely a huge motivation for you, it's not a good idea to say that you're motivated by how much money bankers make. It may be true, but most people find it distasteful, so avoid saying that.

Doing it as a stepping stone to something else

This any also be true, but you should avoid saying that you ultimately want to get into private equity or hedge funds and you think IB is a great way to get here.

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