

Ultimate Behavioral and Technical Interview Guide

CAREERS IN BUSINESS

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This is just one of three fantastic investment banking guides offered by the Careers in Business Team. For additional Resources please see:

1. Finance Recruiting Playbook for 1st and 2nd Years
2. What is Investment Banking?

These can be found on the home page of the [Finance Recruiting Resources](#) SharePoint under “General Finance Recruiting Resources”

Behavioral questions:

While some behavioral questions are common, a significant portion of your behavioral interview will focus on the unique experiences presented on your resume. The most important aspect of the behavioral interview is your ability to thoroughly communicate every experience on your resume while using those experiences to answer other behavioral questions that may be asked. In terms of importance, the most critical questions to have well thought out and solid answers for are the below three **BOLDED** questions:

1. **What is investment banking? Why do you want to work on the [industry coverage, debt capital markets, leveraged finance, equity capital markets, M&A] team?**
 - a. Can you tell me about the different product and industry groups at our bank?
2. **Why do you want to work for [Goldman Sachs, JPMorgan, Citi Bank, Bank of America, Deutsche Bank, etc.]?**
 - a. *Focus on the information and anecdotes that you have learned from networking with employees throughout the process. Avoid giving generic answers*
 - b. *Highlight some of the competitive advantages the firm has over its*
3. **Why is investment banking the right fit for you?**
4. Tell me about yourself / walk me through your resume
5. “Tell me about a time when . . .
 - a. . . . you had convince a teammate or boss of your point of view”
 - b. . . . had multiple projects with the same deadline”
 - c. . . . rally an underperforming teammate”
 - d. . . . had resources taken away”
 - e. **...you failed”** ← For many, this is a highly critical question. Banking can be intense, stressful, and difficult. No matter how good you are, you will encounter challenges. It is critical to show the interviewer that you know how to handle stress, difficult situations, and failure.
6. How do you feel about [New York, Chicago, San Francisco, Charlotte, etc.]
 - a. *You should develop a compelling reason for why you are very excited to live in a certain city. This is because often times, employers WANT to give you a return offer to work full time and they want to know that you will stay to work on their team for the longer-term. For example, Bank of America in Chicago does not want an intern to choose their office simply to leverage their experience to transfer to New York full-time. They want to know you are in it for the long-haul.*
7. If I gave you an offer right now on the spot would you take it?
 - a. *You should make this an immediate YES!!! “Where do I sign?”. If you seem non-committal you will never get an offer.*
8. I realize it’s still early in your career – you haven’t even graduated yet – but have you given any thought to your long-term plans? Do you think you’ll stick with investment banking?
 - a. *You don’t need to tell them that you want to work a 30+ year banking career, but you should convey that you would like to stay in banking longer than the standard ~2 years*
9. In your internship this past summer, what feedback did you receive? What were a few areas that your team said you should try to improve upon?
10. What are some of your weaknesses?

Technical questions:

This guide should not be relied upon as an exhaustive resource, however, it is a great roadmap for preparation.

For additional resources please see below:

- Question Guides
 - [Mergers and Inquisitions Guide](#)
 - [Mergers and Inquisitions' 400 investment banking interview questions & answers you need to know](#)
 - [Questions to Ask an Interviewer](#)
 - [Top 35 Investment Banking Interview Questions](#)
- Modelling practice and resources
 - [Wall Street Oasis](#) fantastic free resource with lots of downloadable practice models.
 - [A Simple Model](#) great resource and more structured. Costs <\$20/month
- Paid: If you would like something more instructional and structured:
 - [Wall Street Oasis](#)
 - [Financial Edge](#)
 - [Breaking Into Wall Street](#)
- Additional Training and Other resources
 - [LinkedIn Learning](#)
 - [Big Interview](#)
 - [Bloomberg Market Concepts](#) (use the following Class Code: VSTJCRN6H8)
 - [FactSet](#)
 - [Equity Research Reports](#)

Accounting

- If a company has \$10 (pretax) of increased depreciation expense, how does that affect the three financial statements? [Also commonly asked as a \$10 increase in inventory as well]
 - *Depreciation is a non-cash charge on the Income Statement, so an increase of \$10 causes Pre-Tax Income to drop by \$10 and Net Income to fall by \$6, assuming a 40% tax rate.*
 - *On the Cash Flow Statement, Net Income is down by \$6 but you add back the \$10 of Depreciation since it's a non-cash expense, so cash at the bottom is up by \$4.*
 - *On the Balance Sheet, cash is up by \$4 on the Assets side, but PP&E has declined by \$10 due to the added Depreciation, so the Assets side is down by \$6.*
 - *On the liabilities and equity side, Retained Earnings is down by \$6 because of the reduced Net Income on the Income Statement, so both sides of the Balance Sheet are down by \$6 and it remains in balance.*
- What is EBITDA?
 - *EBITDA is an acronym that stands for earnings before interest, taxes, depreciation and amortization. It is a measure of financial performance and helps determine a company's earning potential.*
- What is an EBITDA adjustment? What are some common examples?
 - *An EBITDA adjustment is a modification to a company's EBITDA (earnings before interest, taxes, depreciation, and amortization) that is made to remove one-time, irregular, or non-recurring items. The purpose of adjusting EBITDA is to get a normalized number that is not distorted by irregular gains, losses, or other items. It is frequently used in valuation by financial analysts, investment bankers, and other finance professionals.*

- Here are some of the reasons why EBITDA adjustments are made:
 - To remove the impact of non-recurring items that can distort the company's underlying profitability.
 - To make EBITDA figures more comparable between companies in the same industry.
 - To provide a more accurate measure of the company's ability to generate cash flow.
 - To simplify the valuation process.
- Some common EBITDA adjustments include:
 - Non-operating income or expenses
 - Unrealized gains or losses
 - Non-cash expenses
 - One-time gains or losses
 - Litigation expenses
 - Above-market owners' compensation (private companies)
 - Goodwill impairments
 - Asset write-downs
- When should a company issue debt instead of equity?
 - Since the cost of debt is generally cheaper than the cost of equity, there are quite a few situations where issuing debt makes more sense than issuing equity. Issuing debt instead of equity makes sense if:
 - The company can get tax shields from issuing debt.
 - The company has stable cash flows and can make interest payments.
 - It results in a lower WACC.
 - The company can get a better return on investments with more financial leverage.
- What is net working capital?
 - Net working capital (NWC) is essentially how much money a company has if it pays off all current short-term debts.
 - $NWC = \text{Current Assets} - \text{Current Liabilities}$
 - Current assets include items found on a balance sheet, such as accounts receivable, inventory, and prepaid expenses, while current liabilities are short-term debts like accrued expenses, deferred revenue, and accounts payable.
 - If a company has a positive NWC, it means the company is able to cover all short-term liabilities with its current assets. A negative NWC would mean the company cannot cover these liabilities, though, and indicates that the company either needs to increase cash reserves or seek more financing.

Valuation

- Please calculate the TEV of a company that has: current stock price of \$20, 100 shares outstanding, 10 options with a strike price of \$10, \$100 in cash, \$1,000 in debt, \$100 in preferred stock, \$50 in Non-controlling interest, and \$50 in underfunded pension obligations.
 - Answer:
 - To calculate the Fully Diluted Shares Outstanding, please visit the following page for a detailed explanation of the [Treasury Stock Method](#)

TEV Build	
Stock Price	\$20.0
Shares Outstanding	100.0
Diluted Shares	5.0
FDSO	105.0
Total Equity Value	\$2,100.0

Cash	(\$100.0)
Debt	\$1,000.0
Preferred Stock	\$100.0
Underfunded Pension	\$50.0
Non-controlling interest	\$50.0
Total Enterprise Value	\$3,200.0

Treasury Stock Method	
Options	10.0
Strike Price	\$10.0
Total Proceeds	\$100.0

New Shares Created	5
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*10 from options sales, 5 repurchased

- Which do you think would typically be higher? TEV/2023E EBITDA multiple or TEV/2024E EBITDA multiple?
 - *Companies and analysts typically forecast higher earnings for the following year. As the TEV figure in the numerator will stay the same in both metrics, while the denominators will be different, typically we would expect TEV/2023E EBITDA multiple to be higher than the TEV/2024E EBITDA multiple?*
- When do you use EV/EBITDA and P/E?
 - *We often use EV/EBITDA for an accurate comparison among businesses, since it puts firms with different capital structure, tax regime, and account treatment on equal footing. On the other hand P/E is simpler when we compare a firm to the S&P 500 average or firms in the same industry with similar capital structure.*
- Two companies are almost exactly the same in every way, except Company A is trading at 20x P/E and Company B is trading at 18x P/E. Which would you invest in?
 - *P/E is the price-to-earnings ratio, which demonstrates the cost per \$1 of earnings. In this situation, it's best to invest in Company B because a lower price/earnings ratio is a better investment — you are paying less for each \$1 of earnings.*
- What are the major valuation methodologies? And which typically gives the highest / lowest valuations?
 - *Trading comps (comparables), Precedent Transactions, DCF, and LBO*
 - *Generally Precedent Transactions give the highest valuation as they include a purchase premium baked into the Total Enterprise Value. Additionally, the multiples calculated are based on LTM EBITDA which is generally lower than forward EBITDA. (Think “larger numerator, smaller denominator”)*
 - *An LBO model is typically the lowest valuation as it is used to illustrate a base valuation/equity investment needed to achieve a predefined IRR and MOIC target*
 - *Trading comps and DCF valuation models will typically be in the middle, but could vary depending on industry focus and market conditions*
- When might an analyst use Sum of the Parts analysis?
 - *An analyst might use Sum of the Parts (SOTP) valuation analysis in situations where a company has multiple distinct business segments or assets with different financial characteristics. SOTP valuation is a method that involves valuing each segment or asset separately and then summing up the individual values to arrive at the total value of the company*
 - *Here are a few situations where an analyst might choose to use SOTP valuation analysis:*
 - ***Conglomerates or diversified companies:*** *When a company operates in multiple industries or has diverse business lines, it can be challenging to accurately value the entire company using traditional valuation methods. SOTP analysis allows the analyst to assess the value of each segment separately, considering industry-specific factors, growth rates, and market conditions.*
 - ***Spin-offs or divestitures:*** *When a company plans to separate or sell off a specific business segment or asset, SOTP analysis can help determine its standalone value. By estimating the value of the individual entity, the analyst can assess the potential impact on the parent company's overall value and make informed recommendations.*
 - ***Joint ventures or partnerships:*** *In cases where two or more companies collaborate on a specific project or venture, SOTP analysis can help determine the value attributable to each partner. By valuing each party's contribution separately, the analyst can ensure an equitable distribution of the project's overall value.*
 - ***Companies with non-core assets:*** *If a company holds non-core assets or investments that are not fully reflected in its stock price, SOTP analysis can help identify their value. By valuing these assets independently, the analyst can determine if they are undervalued or represent hidden value for shareholders.*
- Walk me through a DCF. When should you not use a DCF valuation model?
 - *(From WSO) To begin we would project the free cash flows of the company for about 5 years. Free cash flow is EBIT times 1 minus the tax rate, plus Depreciation and Amortization, minus CapEx, minus the Change in Net Working Capital. Then you must predict the free cash flows beyond 5 years which is done either using a terminal value multiple or the using the perpetuity method. To calculate the perpetuity, you must establish a terminal growth rate which is usually around the rate of inflation or GDP growth (low single digit percentage). Then multiply the year 5 cash flow by 1 plus the growth rate and divide it by your discount rate minus the growth rate. Now, in order to do this you must have*

established a discount rate. For a discounted cash flow you use WACC, which is the Weighted Average Cost of Capital as your discount rate, and discount all your cash flows back to year zero using that rate. The sum of the present values of all those cash flows is the value of the firm

- *You do not use a DCF if the company has unstable or unpredictable cash flows (tech or bio-tech startup) or when debt and working capital serve a fundamentally different role. For example, banks and financial institutions do not re-invest debt and working capital is a huge part of their Balance Sheets – so you wouldn't use a DCF for such companies.*
- What is WACC and how do you calculate it?
 - *WACC is the Weighted Average Cost of Capital, used as the discount rate in a DCF analysis to present value the company's cash flows and terminal value and reflect the risks of the company. It is calculated by taking the percentage of equity in the capital structure times the cost of equity (which is calculated using the Capital Assets Pricing Model) plus the percentage of debt in the capital structure times one minus the corporate tax rate times the cost of debt (which is the current yield on their outstanding debt) plus the percentage of preferred stock in their capital structure times the cost of preferred stock (if there is any preferred stock outstanding).*
 - $WACC = (E/V \times Re) + (D/V \times Rd \times (1-T))$
 - Equity (E) is the market value of the company's outstanding shares, so E/V is the percentage of the company's value that is equity
 - Debt (D) is the market value of the company's debt, so D/V is the percentage of the company's value that is debt
 - Value (V) is the value of the company's capital, or E+D.
 - Re is the cost of equity (You usually estimate the Cost of Equity with Risk-Free Rate + Equity Risk Premium * Levered Beta)
 - Rd is the cost of debt
 - Tax (T) is the corporate tax rate
- What is Beta, and why would you unlever it?
 - *Beta is an estimate of how volatile a security (or tradeable asset) is compared to the overall market (often the S&P 500). The baseline for beta is 1.0, so anything above 1.0 is more volatile and holds more inherent risk.*

It is best to use an unlevered beta when comparing a company that is not on the market yet. Additionally, because unlevered beta does not consider debt, it allows you to see the volatility of the company's equity alone as if the company had not taken on any debt.

- Which is more expensive: the cost of debt, or the cost of equity?
 - *The cost of equity is how much shareholders are expected to make from their investment in a company, while the cost of debt is the rate of return that bondholders expect from investing. So, the cost of equity is typically higher, since shareholders are not guaranteed fixed payments and they assume a higher risk when investing.*

Additionally, the cost of debt is lower because the interest expense when borrowing debt is tax-deductible.

- Walk me through an LBO
 - *Calculate the total acquisition price, including acquisition of the target's equity, repayment of any outstanding debt, and any transaction fees (such as the fees paid to investment banks and deal lawyers, accountants, consultants, etc.).*
 - *Determine how that total price will be paid including: equity from the PE sponsor, roll-over equity from existing owners or managers, debt, seller financing, etc.*
 - *Project the target's operating performance over ~5 years and determine how much of the debt principal used to acquire the target can be paid down using the target's FCF over that time.*
 - *Project how much the target could be sold for after ~5 years in light of its projected operating performance; Subtract any remaining net debt from this total to determine projected returns for equity holders.*
 - *Calculate the projected IRR and MOIC based on the amount of equity originally used to acquire the target and the projected equity returns upon exit.*

Market and Other

Many market related questions will be specific to the current time/conditions or related to the specific bank in consideration. It is recommended that you continually stay current on market related news and events to have a comprehensive and dynamic understanding of the current market.

- Tell me about a recent deal.
 - *Look Up 1 Deal [potentially one the bank has worked on recently] – Find something from the past ~6 months on the bank's website or via Google searches. Outline the background, deal rationale, 1-2 financial stats, and your opinion of it. This can be very short because you just need to show that you know something about the bank.*
- Pitch me a stock.
 - *Give the name and summarize what the company does.*
 - *Give a brief overview of its financials to indicate its size and how profitable it is.*
 - *State how it's undervalued or more attractive than its rivals, due to any competitive advantages it has.*
 - *Say how there is a long-term trend in its favor – it's not just looking good in the past month.*
 - *Talk about how the next 5-10 years will be really good for the company.*
- How do you see interest rates moving in the next 12 months and why?
 - *This question tests your understanding of economic indicators and their impact on the market. You should base your answer on current economic trends, monetary policy, inflation rates, and other relevant data.*
 - *Tip: Be sure to articulate your thoughts clearly and justify your predictions with sound reasoning. For instance, you might say, "Given the recent signals from the Federal Reserve and current inflation trends, I believe we might see a gradual increase in interest rates over the next 12 months."*
- What do you think about the current state of the stock market?
 - *For this question, interviewers are looking for your insights on market conditions, trends, and possible future developments. Keep up-to-date with market news and be ready to discuss recent events, such as shifts in market indices, sector performance, or major announcements from central banks.*
 - *Anecdote: You could share an experience where a stock market event had an impact on a project or investment you were working on. This shows that you can apply market knowledge in practical scenarios.*
- Can you explain how a change in the Federal Reserve's policy might impact our clients?
 - *Interviewers use this type of question to assess your understanding of monetary policy and its effects on businesses. Changes in Federal Reserve policy can affect interest rates, which in turn can impact a company's borrowing costs, capital structure decisions, and overall business strategy.*
 - *Tip: When answering, discuss both the direct impacts (e.g., changes to interest expenses for firms with debt) and the indirect effects (e.g., changes to consumer spending, which could affect a company's revenues).*
- How do recent economic events impact the M&A landscape?
 - *This question requires you to link macroeconomic factors to specific areas of investment banking, such as mergers and acquisitions. Economic events can influence M&A activity in several ways, such as changing the availability of financing, altering the valuation of potential targets, or impacting companies' strategic decisions.*
 - *Anecdote: An example could be discussing how an economic recession led to an increase in consolidation within a specific industry?*
- Can you discuss the factors that drive commodity prices and how they affect different industries?
 - **Supply and demand:** *The most fundamental factor that drives commodity prices is supply and demand. When supply is low and demand is high, prices tend to rise. Conversely, when supply is high and demand is low, prices tend to fall.*
 - **Inflation:** *Commodity price increases can lead to inflation, as businesses pass on higher costs to consumers.*
 - **Weather:** *Weather can have a significant impact on commodity prices, especially for agricultural commodities. For example, a drought can reduce crop yields and lead to higher prices for food commodities.*
 - **Government policies:** *Government policies can also affect commodity prices. For example, if a government imposes export restrictions on a commodity, it can lead to higher prices for that commodity.*

- **Economic growth:** Economic growth can also affect commodity prices. When economies are growing, demand for commodities tends to increase, which can lead to higher prices.
- **Speculative trading:** Speculative trading can also affect commodity prices. When investors speculate on commodities, they buy and sell commodities in the hope of making a profit. This can lead to volatility in commodity prices.
- What are some indicators that investors look at to help form their views on the direction the stock market will go?
 - GDP forecasts
 - Price Indexes (CPI)
 - Unemployment rates
 - Federal Reserve Interest Rate Announcements and Meeting Minutes
 - Treasury yields
 - Manufacturing and retail indexes
- How can a Company raise its stock price?
 - Stock buybacks
 - Produce higher earnings (EPS)
 - Announce major structural / strategic changes
 - Announce a major (accretive) acquisition
- I see on your resume that you will be working in private credit this summer, can you tell me how investors think differently about a credit investment vs an equity investment?
 - In general, a credit investor's (debt lender) primary concern is: can this Company comfortably cover all interest and principal repayments over the life of the loan. They do not care about significant growth prospects as their return is fixed at a specific interest rate or loan structure regardless of whether the Company triples in size. That being said, if the Company's performance is too poor, they may not be able to recoup their investment despite being first in the line of liquidity during a bankruptcy. A credit investor's primary concern is risk and will assess all of the possibilities that may cause a company to fail.
 - An equity investor (Private Equity, Hedge Funds, and other buy-side investors) are also concerned with risk as nobody wants to own a company that performs poorly, however, they are primarily concerned with return on investment (IRR and MOIC). They want to know that the asset they choose to purchase is the most efficient option to deploy capital and maximize returns. Therefore, Equity investors are highly focused on the Growth Prospects of the company along with maximizing efficient operations of the Company (increasing margins).
- What did the S&P 500 close at yesterday? What are the current Federal Reserve Interest Rates? Treasury Yields? How much is our Bank's stock trading for now?
- Monsters Inc released increased quarterly earnings yesterday but their stock price dropped. What are some reasons why this might have happened?
 - **Market expectations:** Stock prices are influenced not only by a company's financial performance but also by market expectations. If investors were anticipating even higher earnings or revenue growth, the actual results may have fallen short of their expectations, leading to a decline in the stock price.
 - **Forward-looking guidance:** Even if the company reported increased quarterly earnings, if its forward-looking guidance or outlook is less optimistic than what investors were anticipating, it can dampen market sentiment and result in a drop in the stock price.
 - **Analyst and investor reactions:** Analysts and investors might have focused on other aspects of the earnings report, such as declining margins, increased expenses, or slower revenue growth in specific segments. These factors could overshadow the positive earnings and prompt a negative market reaction.
 - **Macro-economic factors:** Broader economic conditions and market trends can influence investor sentiment towards a company's stock. Factors like interest rate changes, geopolitical events, industry-specific challenges, or shifts in consumer behavior can impact stock prices, even if a company's financial performance is strong.
 - **Profit-taking or market speculation:** Sometimes, investors may choose to sell stocks to lock in profits or to engage in short-term trading strategies based on market speculation or technical indicators. This selling pressure can cause a temporary drop in stock prices, even if the underlying company's financials are favorable.

- ***Liquidity concerns or balance sheet issues:*** *Investors may scrutinize a company's financial statements beyond just earnings. If concerns arise regarding the company's liquidity position, debt levels, or other balance sheet issues, it can negatively impact the stock price despite increased earnings.*