Deal Walkthrough Follow-Ups

* *Reacting to my overview of client’s market position* – Who was the #1 market share leader in the market?
* What were the growth drivers in the market?
* How did you think about valuation vs. comps/precedents?
* How did you ultimately justify the purchase price?
* Walk me through EBITDA – FCF.
* How did you build / project revenues?
* What were some items that came up during diligence and how did it affect the deal?
* Walk me through the sources & uses for the transaction.
* How did you finance the transaction and why?

Technicals

1. What effect does a dividend recap have on IRR and MOIC?
2. You have a company with $150mm TEV, $75mm 1st lien debt, $50mm 2nd lien debt. What does the 2nd lien debt trade at? Ask any questions. (*After saying I have no idea how to approach what the debt trades at, interviewer said think about if the company sells for $100mm…not sure why this wasn’t given in the first place…*)
3. In an LBO, which do you prefer: a dollar increase in EBITDA or a dollar increase in debt pay down?
4. You have a company with $100mm Revenue, 50% Gross Margin, and 80% Variable COGS – what is the effect on $ EBITDA in each of the following scenarios?
   1. Price increases 10%
   2. Volume increases 10%
   3. SG&A decreased by $8mm
5. Explain the concept of levered beta.
6. What makes a company a good LBO candidate?
7. When is a good time for a company to go private?
8. What makes an investment’s equity value grow?
9. What are some advantages that strategic buyers have over financial buyers in buying companies?
10. Would a financial buyer be concerned with a company having high goodwill amortization on their books?
11. If I’m buying a company at 10x forward EBITDA, what is a good debt multiple to have?
12. If you run a DCF and an LBO model with the exact same assumptions, should you arrive at the same value?
13. Would you characterize PE professionals as ibankers or money managers, why?
14. What do you think is the best method of valuation? Why?
15. Why is bank debt maturity shorter than sub debt maturity?
16. Talk about in times of recession, what happens to working capital?
17. Assume you’re looking at Poland Springs. It’s a $1bn transaction; they have $100mm in cash flow.
    1. How do you decide if it’s a good investment? What sort of due diligence do you run?
    2. Company’s revenues are growing; what drivers are there?
    3. What sort of costs do you assume? Fixed vs. variable? What sort of economies of scale can you expect?
18. We are looking at a large performance coating business. This company sells paint to body shops in order repair car dings. How would you think about this business?
    1. How is the product differentiated?
    2. How would you value the brand of this company?
    3. How would you determine whether or not customers are willing to pay a premium for this paint?
    4. Assume that margins in the United States for this performance coatings company are 29% but in the United Kingdom, they are 14% due to lower prices. What could explain this difference in price across countries?
    5. How would you think about doing a revenue build for this company?
19. You are evaluating a company that has net income of $100 million and a PE multiple of 15x. The company is considering raising $200 million in debt in order to pay a one-time special cash dividend to shareholders. Do you think this is a good idea?
20. What is the beta of a lottery ticket? If the beta of a lottery ticket is zero, then what sort of risk does a lottery ticket entail?
21. You are looking at a purified water distributor. What do you think of this business? Assume you increase prices by 10% for a bottle of water, what do you think will happen to volume? Was the increase in price worthwhile?
22. How would you go about sizing the market for cataract surgeries performed in the United States each year? Assume that everyone cataracts only affect people that are 65+ years old, everyone must have the surgery, and everyone has the surgery only once.
23. Walk me through how you would think about the days sales outstanding for Walmart, a law firm, and a cable company.
24. We are thinking about a franchise business. This business sells the license run a tax accounting store. It provides all the necessary intangible information (ie the blueprint for how to run this business). It has a strong brand name, provides an operating template, and it has a relationship with a bank that allows customers to receive cash tax refunds immediately rather than waiting for a few months. How would you think about this business?
25. Assume a company has ROA of 10% and a 50/50 debt to equity capital structure. Cost of debt is 5%. What is the ROE? Repeat this exercise for one of the deals on your resume.
26. Let’s say you are thinking about opening a casino in Queens. What things would you think about?
    1. Who do you think our target customers are?
    2. Do you think that we should open up a hotel in our casino?
    3. How would you think about a revenue build for a casino?
    4. How would you estimate potential revenue for this casino given no information at all?
    5. What are the different costs we should think about?
    6. How do operating leases affect the three financial statements?
    7. How do capital leases affect the three financial statements?
    8. Given run rate revenue of $100, EBITDA of $20, and $10 million of capex, how would you evaluate this investment opportunity? Assume there are no capital expenditures, changes in NWC, debt or taxes. Investment period of five years.
    9. What multiple would you pay for this business? What is your potential return?
27. Let’s say you have a lemonade stand in the middle of Times Square. You cannot ask for any assumptions.
    1. Estimate your annual free cash flow
    2. What valuation would you put on the business?
28. Say you’re working at a hedge fund and your PM asked you about a stock. You have 1 week to present your thesis. What would be your research process? What is the most important metric you would look at?
29. You are looking to acquire a company that manufactures and markets high-end water filters that can be installed in homes.
    1. What do you think about this investment opportunity?
    2. Given revenue and EBITDA, what additional information would you need in order to evaluate this information?
       1. Revenue = $500mm in year one
       2. EBITDA = $100mm in year one
    3. Let’s say you debt trading at 80 with a 5% coupon and three years until maturity. What is the YTM?
    4. Your EBITDA drops to $50 in year two. At entry, you have three turns of first lien debt (@ 5% interest) and two turns of second lien debt (@ 10% interest). Your second lien debt is trading at 80. What information would you need in order to determine whether or not we should invest in the second lien tranche of debt?

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