RECRUITING PRIMER

Technical Interview Primer

The accounting, valuation and deal questions asked in finance interviews, with short model answers and the paper LBO worked by hand.

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HOW TO USE THIS PRIMER

Study Primers 1 to 3 first; this primer turns them into interview answers. Practice each answer out loud and keep it short: the answer first, then the reason, then stop. Use the companion Behavioral Interview Primer for the rest of the interview.

Technical questions test whether you understand how a business is measured, valued and financed. They are not a memory contest. Interviewers want to hear you reason clearly, and they respect a candidate who says what they know, admits what they don't, and works toward an answer out loud.

1. What We Are Looking For

1.1 Interest first, not expertise

> **If you are applying to ETA at IU:** we are looking for genuine interest in the topic, not someone who already knows everything. No applicant will know every question in these primers, and we do not expect you to. If you are curious and willing to learn, you have a strong chance of joining the club.

The primers go into a lot of depth so that members have a reference to grow into. For an interview with us, a basic understanding of the main ideas is enough: what EBITDA is and why buyers use it, how a company is valued with a multiple, and why debt raises returns and risk. Bring questions about what you don't understand yet; that is a good sign, not a bad one.

1.2 What finance interviewers are listening for

Signal	How it shows up
Clear structure	You give the answer first, then the explanation
Real understanding	You can explain *why*, not only recite a definition
Honesty	When you don't know, you say so and reason toward an answer
Composure with numbers	You round sensibly, say your steps and sanity-check the result

2. Common Technical Questions

2.1 How to answer any technical question

Say the answer first, then explain it, then stop. If you are unsure, say what you know and reason through the rest out loud; interviewers value clear reasoning more than a memorized line. Below are the most common questions, grouped by topic, with short model answers. The full explanations are in the primers noted.

2.2 Accounting (Primer 1)

QUESTIONS AND MODEL ANSWERS

Walk me through the three financial statements.

The income statement shows revenue, expenses and profit over a period. The balance sheet shows assets, liabilities and equity at a point in time, and assets equal liabilities plus equity. The cash flow statement starts with net income, adjusts for non-cash items and working capital, then adds investing and financing activity to explain the change in cash.

How do the statements link?

Net income flows to the top of the cash flow statement and into retained earnings. Non-cash items and working capital changes adjust it to operating cash flow. Capital spending increases PP&E. Ending cash from the cash flow statement becomes cash on the balance sheet.

Depreciation rises by $10. Walk me through the statements (25% tax rate).

Net income falls by $7.50. On the cash flow statement, add back the $10, so cash rises by $2.50. On the balance sheet, cash is up $2.50 and PP&E down $10, so assets fall $7.50; retained earnings fall $7.50, so it balances.

What is EBITDA, and why is it used?

Earnings before interest, taxes, depreciation and amortization. It measures operating earnings independent of financing, taxes and non-cash charges, so companies can be compared and valued with EV/EBITDA multiples. It is not cash flow: it ignores capital spending and working capital.

2.3 Valuation (Primer 3)

QUESTIONS AND MODEL ANSWERS

What are the main ways to value a company?

Comparable companies (multiples of similar public companies), precedent transactions (multiples paid in similar acquisitions) and discounted cash flow (the present value of projected cash flows). For a leveraged buyer, an LBO analysis also shows what price still meets a target return.

What is the difference between enterprise value and equity value?

Enterprise value is the value of the whole operating business to all funders. Equity value is what belongs to shareholders. Equity value = enterprise value − debt + cash.

Walk me through a DCF.

Project free cash flow for five to ten years, calculate a terminal value with a perpetual growth rate or an exit multiple, discount everything to today at the cost of capital, and sum it to get enterprise value. Subtract net debt for equity value.

Which usually gives a higher value: precedent transactions or trading comparables? Why?

Precedent transactions, because acquirers pay a control premium for the right to run the company and capture synergies.

2.4 Quality of earnings and diligence (Primer 2)

QUESTIONS AND MODEL ANSWERS

What is a quality of earnings report?

An outside review of a company's claimed earnings that tests each adjustment and asks whether the earnings are real and will repeat under a new owner. It is different from an audit, which checks that statements follow accounting rules.

What is an add-back, and when is it valid?

An expense the seller says to ignore. It is valid only if it is truly one-time, not needed to run the business, or the owner's personal cost, and it is documented.

Diligence finds $100,000 less EBITDA than the seller claimed. The deal was priced at 4.0x. What happens?

At the same multiple, the price should fall by $400,000. The buyer can reprice, move part of the price into a seller note or earnout, or walk away.

2.5 Deals, financing and LBOs (Primer 3)

QUESTIONS AND MODEL ANSWERS

Walk me through a basic LBO.

A buyer acquires a company with mostly debt and some equity. The company's cash flow pays interest and repays debt. At exit the company is sold, the remaining debt is repaid and the rest goes to equity. Returns come from debt paydown, EBITDA growth and multiple expansion, measured with MOIC and IRR.

What makes a good LBO candidate?

Stable, predictable cash flow; low capital spending needs; a strong market position; room for operational improvement; and a clear exit.

What is DSCR and why do lenders care?

Debt service coverage ratio: cash flow available for debt service divided by annual principal and interest. It shows how much cushion the borrower has; SBA lenders generally require at least 1.25x.

Why would a seller accept a seller note or an earnout?

To get a deal financed or to reach a higher total price. A seller note helps the buyer meet equity requirements; an earnout pays more only if the seller's forecast comes true. Both shift some risk to the seller.

3. Paper LBOs and Mental Math

3.1 The paper LBO

A paper LBO is a leveraged buyout worked by hand in a few minutes, without Excel. It tests whether you understand how debt, growth and exit value combine into a return.

FIVE STEPS

Entry → Sources → Cash flow → Exit → Returns

1. Entry: price = EBITDA × entry multiple. 2. Sources: debt = price × leverage; equity = price − debt. 3. Cash flow: add up the debt repaid over the holding period. 4. Exit: exit EV = exit EBITDA × exit multiple; equity at exit = exit EV − remaining debt. 5. Returns: MOIC = exit equity ÷ entry equity; IRR from the table below.

WORKED EXAMPLE

A company has $20M of EBITDA, bought at 10.0x with 60% debt. EBITDA grows to $26M over five years. The company repays $50M of debt. Exit at 10.0x.

Entry: $20M × 10.0 = $200M. **Sources:** debt = $120M; equity = $80M.

Exit: $26M × 10.0 = $260M. Remaining debt = $120M − $50M = $70M. Exit equity = $260M − $70M = $190M.

Returns: MOIC = $190M ÷ $80M = 2.4x. IRR ≈ 19% ($2.4^{0.2} - 1 = 19.1\%$).

Where the return came from: EBITDA growth added $60M of value ($6M × 10.0) and debt paydown added $50M; there was no multiple expansion. Being able to split the return this way is a common follow-up.

Illustrative.

3.2 IRR shortcuts to memorize

MOIC	3 years	5 years
1.5x	≈ 14%	≈ 8%
2.0x	≈ 26%	≈ 15%
2.5x	≈ 36%	≈ 20%
3.0x	≈ 44%	≈ 25%
4.0x	≈ 59%	≈ 32%

The **rule of 72** gives a quick check: money doubles in about 72 ÷ (annual rate) years. At 15%, 72 ÷ 15 ≈ 4.8 years, which matches the 2.0x-in-five-years row.

3.3 Mental math habits

Habit	Example
Round first, then adjust	$26M × 9.5 = $26M × 10 − $26M × 0.5 = $260M − $13M = $247M
Work in millions, not dollars	Say “120,” not “120,000,000”
Say your steps out loud	The interviewer can follow, and can correct a small slip before it ruins the answer
Sanity-check the result	A 2.4x over five years should be near 20%, not 40%

PRACTICE QUESTIONS

You buy a company for $100M with $60M of debt. Five years later you sell it for $150M with $30M of debt left. What are the MOIC and IRR?

Entry equity = $40M. Exit equity = $150M − $30M = $120M. MOIC = 3.0x. IRR ≈ 25%.

Same deal, but you could only borrow $40M. What happens to returns, and why?

Entry equity = $60M. Assuming the same $30M of debt repaid, $10M remains at exit, so exit equity = $140M. MOIC ≈ 2.3x and IRR ≈ 18%. Less leverage means more equity in, so the same gain is spread over more equity: lower returns, but lower risk.

KEY TAKEAWAYS

1. Interest and clear reasoning matter more than knowing every answer. For ETA at IU, a basic understanding of the concepts is enough.

2. Answer first, explain second, then stop. Reason out loud when unsure.

3. Know the three statements and how they link, EBITDA, enterprise value versus equity value, the main valuation methods and a basic LBO.

4. Be able to do a paper LBO and the IRR shortcuts without a calculator.

Sources

1. Primers 1–3 of the ETA at IU Primer Series (technical content and worked examples)
2. Model answers and the paper LBO are illustrative teaching material based on standard finance concepts, not tied to a single source.

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