BASIC TECHNICAL INVESTMENT BANKING PRACTICE TEST (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

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How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

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Questions

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1. Why would you not use a DCF for a bank or other financial institution?

A. Dividend Discount Model is more common for banks.

B. A DCF is still appropriate.

C. LBO model.

D. Sum of assets valuations.

2. Which statement best distinguishes Unlevered Free Cash Flow from Levered Free Cash Flow?

A. Unlevered FCF is derived from EBIT after tax, plus non-cash charges, minus CapEx and changes in working capital; Levered FCF starts from CFO and subtracts CapEx

B. Unlevered FCF includes interest expense

C. Levered FCF ignores taxes

D. They are calculated identically

3. In the mortgage analogy for an LBO, which does the 'Down Payment' correspond to?

A. Mortgage: Debt in LBO

B. Down Payment corresponds to Investor Equity in an LBO

C. Mortgage Interest Payments correspond to Debt Interest

D. Selling the House corresponds to Selling the Company

4. Provide a cost synergy example commonly cited in merger modeling.

A. Consolidating buildings and administrative staff and laying off redundant employees.

B. Cross-selling to new customers.

C. Expanding into new geographies.

D. Licensing IP to others.

5. Why would an industry-specific multiple like EV per unique visitor use Enterprise Value rather than Equity Value?

A. Because it is always higher

B. Because it excludes debt from the metric

C. Because those metrics are available to all investors (both debt and equity)

D. Because it discounts cash flows

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6. Which valuation method relies on projecting free cash flows and discounting them to present value?

A. Asset-based valuation.

B. Comparable Companies.

C. Discounted Cash Flow Analysis.

D. Precedent Transactions.

7. In valuing a private company, why are public company comparables typically discounted while precedent transaction multiples are not?

A. Because with precedent transactions you acquire the whole company, so the shares become illiquid; public shares remain liquid, so you discount public comps.

B. Because public company multiples already reflect liquidity, while precedent transactions ignore liquidity.

C. Because private companies have different accounting standards.

D. Because liquidity differences are irrelevant to valuation.

8. If a company has 100 shares outstanding at $10 and 10 in-the-money options with $5 exercise price, what is the fully diluted equity value?

A. $1,000

B. $1,100

C. $1,050

D. $1,500

9. Which industry-specific multiple is commonly used for Real Estate Investment Trusts (REITs)?

A. Price / AFFO

B. EV / EBITDAR

C. Price / FFO

D. P / MCFE

10. Which formula represents Cost of Equity WITHOUT using CAPM?

A. Dividends per Share / Share Price + Growth Rate of Dividends

B. Risk-Free Rate + Market Risk Premium

C. Net Income / Equity

D. Dividends per Share * Share Price

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Answers

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1. A
2. A
3. B
4. A
5. C
6. C
7. A
8. C
9. C
10. A

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Explanations

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1. Why would you not use a DCF for a bank or other financial institution?

A. Dividend Discount Model is more common for banks.

B. A DCF is still appropriate.

C. LBO model.

D. Sum of assets valuations.

Banks are valued more by the streams of cash they can reliably return to shareholders through dividends, rather than by traditional free cash flow patterns. A DCF aims to estimate the present value of a firm's future free cash flows, but for banks those cash flows are heavily influenced by interest rates, funding costs, and regulatory capital requirements, making FCFF/FCFE projections unstable and less meaningful. The dividend discount model aligns with how investors actually receive returns from banks—the dividends—so it's a more natural and stable way to value a financial institution. Other approaches, like LBO models or asset-based sums, don't capture the ongoing, policy-driven dividend return as directly as the dividend discount framework.

2. Which statement best distinguishes Unlevered Free Cash Flow from Levered Free Cash Flow?

A. Unlevered FCF is derived from EBIT after tax, plus non-cash charges, minus CapEx and changes in working capital; Levered FCF starts from CFO and subtracts CapEx

B. Unlevered FCF includes interest expense

C. Levered FCF ignores taxes

D. They are calculated identically

The difference comes down to what cash flow you're measuring: cash flow available to all capital providers (debt and equity) versus cash flow available to equity after debt payments. Unlevered Free Cash Flow uses EBIT after tax (NOPAT) as the starting point, adds back non-cash charges, and then subtracts capital expenditures and changes in working capital. This shows the cash generated by the firm's assets before any financing decisions, i.e., before interest and debt. It represents the cash that would be available to all providers of capital. Levered Free Cash Flow starts from cash flow from operations (CFO) and then subtracts capital expenditures. CFO already reflects taxes and interest and other operating items, so after subtracting CapEx you get the cash flow that remains for equity holders after debt service. This is cash flow to equity, not to all capital providers. That's why the stated approach is correct: UFCF = EBIT after tax + non-cash charges − CapEx − ΔWC; LFCF = CFO − CapEx. The other statements misstate whether interest or taxes are included or imply identical calculations, which they are not.

3. In the mortgage analogy for an LBO, which does the 'Down Payment' correspond to?

A. Mortgage: Debt in LBO

B. Down Payment corresponds to Investor Equity in an LBO

C. Mortgage Interest Payments correspond to Debt Interest

D. Selling the House corresponds to Selling the Company

Think of the house purchase: you pay a portion of the price with your own cash up front, and you borrow the rest. In an LBO, the deal is funded with a mix of debt and equity, with the equity investors putting up cash at the start and the debt financing the remainder. That upfront cash from the sponsors is the equity contribution in the LBO, which is exactly what the down payment represents. It shows the amount of the purchase funded by the buyers' own money and signals their stake and risk in the deal. The mortgage payments and interest are about servicing the borrowed funds, and selling the house is like selling the company at exit. So the down payment lines up with investor equity in an LBO.

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4. Provide a cost synergy example commonly cited in merger modeling.

A. Consolidating buildings and administrative staff and laying off redundant employees.

B. Cross-selling to new customers.

C. Expanding into new geographies.

D. Licensing IP to others.

In merger modeling, cost synergies come from actions that reduce operating costs after combining the businesses. A classic example is consolidating buildings and administrative staff and laying off redundant employees. When two firms merge, they often have overlapping offices and back-office roles; eliminating these duplicates lowers rent and facilities costs as well as payroll, improving the combined company's cost structure. This is exactly what people mean by a cost synergy: direct, observable reductions in ongoing expenses. Cross-selling to new customers centers on increasing revenue by selling more to the merged customer base, so it's a revenue synergy rather than a cost cut. Expanding into new geographies is growth-oriented and also tied to revenue expansion. Licensing IP to others can create new revenue streams or monetization opportunities, not the straightforward cost reductions typical of cost synergies.

5. Why would an industry-specific multiple like EV per unique visitor use Enterprise Value rather than Equity Value?

A. Because it is always higher

B. Because it excludes debt from the metric

C. Because those metrics are available to all investors (both debt and equity)

D. Because it discounts cash flows

The main idea being tested is using a value metric that reflects the entire business, including its financing, rather than just the equity portion. For an industry-specific multiple like EV per unique visitor, you want to measure what the company as an operating entity is worth, not just what shareholders own. Enterprise Value represents the total value of the business's operating assets and obligations: it's what a buyer would essentially pay to acquire the company, taking on debt and using cash offsets. This makes the comparison across different firms more apples-to-apples when you're looking at how efficiently they monetize their user base. If you used Equity Value, you'd be focusing only on what shareholders own, which can be distorted by leverage or cash piles and wouldn't reflect the cost of the company's debt or the relief from cash. That's why the correct reasoning is that those metrics are available to all investors (both debt and equity). EV is a measure that both creditor and equity holders consider as the basis for valuing the whole business, making it the appropriate numerator for an industry-specific multiple that aims to compare operating value per user across firms with different capital structures. The other options don't fit: the multiple isn't inherently higher, EV includes debt rather than excludes it, and discounting cash flows isn't what this multiple is doing.

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6. Which valuation method relies on projecting free cash flows and discounting them to present value?

A. Asset-based valuation.

B. Comparable Companies.

C. Discounted Cash Flow Analysis.

D. Precedent Transactions.

Discounting projected free cash flows to present value is discounted cash flow analysis. This method estimates a company's intrinsic value based on its ability to generate cash over time, rather than on current assets or market prices of peers. You forecast annual free cash flows, pick a discount rate that reflects risk and the cost of capital (typically the weighted average cost of capital), and estimate a terminal value to represent all cash flows beyond the forecast window. Discount those amounts back to today and sum them to get the enterprise value, then adjust for debt and cash to derive equity value if needed. Free cash flow represents the cash a business can generate after essential expenditures, available to all providers of capital. Other approaches—asset-based valuations or relative valuations using peers or past deals—rely on asset values or market multiples rather than explicit long-term cash-flow projections.

7. In valuing a private company, why are public company comparables typically discounted while precedent transaction multiples are not?

A. Because with precedent transactions you acquire the whole company, so the shares become illiquid; public shares remain liquid, so you discount public comps.

B. Because public company multiples already reflect liquidity, while precedent transactions ignore liquidity.

C. Because private companies have different accounting standards.

D. Because liquidity differences are irrelevant to valuation.

The main idea is that liquidity and control are treated differently when you value a private company using comps. Public company multiples come from liquid, freely tradeable shares. To apply those multiples to a private target, you have to adjust for the private company's lack of liquidity and marketability, so you apply a liquidity discount to the public comparables. Precedent transactions, on the other hand, involve buying the entire company. The price paid in those deals already reflects both the control premium and the illiquidity baked into a private acquisition. Since you're valuing the whole business, there isn't an additional liquidity discount to apply—the deal price has already priced in the liquidity risk of owning a private company. So, public comps require a liquidity adjustment to translate to private-company value, while precedent transactions do not because their prices inherently incorporate that liquidity and control risk. The other options misstate how liquidity is embedded in deal prices or deny its relevance.

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8. If a company has 100 shares outstanding at $10 and 10 in-the-money options with $5 exercise price, what is the fully diluted equity value?

A. $1,000

B. $1,100

C. $1,050

D. $1,500

The concept here is how in-the-money stock options influence fully diluted equity value. Start with the value of the existing equity: 100 shares priced at 10 each gives 1,000. Now consider the options. They have an exercise price of 5 and are in the money, so each option has intrinsic value of 10 − 5 = 5. With 10 options, the total intrinsic value added to equity is 10 × 5 = 50. Add that to the current equity value: 1,000 + 50 = 1,050. This reflects the additional value created if the options are exercised, before adjusting for any price impact from dilution. Note that another way some analyses handle fully diluted value is to assume all options are exercised and shares issued, which would yield 110 shares worth 10 each, or 1,100. The question's approach uses the intrinsic value add method, giving 1,050.

9. Which industry-specific multiple is commonly used for Real Estate Investment Trusts (REITs)?

A. Price / AFFO

B. EV / EBITDAR

C. Price / FFO

D. P / MCFE

When valuing REITs, cash-flow-based measures trump net income because real estate depreciation is a non-cash expense that can distort earnings. Funds From Operations (FFO) fixes this by adding back real estate depreciation and excluding gains or losses on property sales, giving a clearer view of ongoing cash flow from operations. Analysts typically use Price to FFO, i.e., price per share divided by FFO per share, as the standard industry multiple for REITs to compare valuations across companies. AFFO refines FFO further by adjusting for normalized recurring capex and other items, but the broad, widely used benchmark remains Price to FFO. Other multiples like EV/EBITDAR or Price to AFFO exist, but they're not as universally applied for REIT valuation, and Price to MCFE isn't a standard measure in this context.

10. Which formula represents Cost of Equity WITHOUT using CAPM?

A. Dividends per Share / Share Price + Growth Rate of Dividends

B. Risk-Free Rate + Market Risk Premium

C. Net Income / Equity

D. Dividends per Share * Share Price

Cost of equity can be estimated without using CAPM by applying the Gordon Growth Model, which assumes dividends grow at a constant rate and investors require a return equal to the dividend yield plus that growth. The formula ke = D1 / P0 + g captures this, where D1 is the next year's expected dividend, P0 is the current price, and g is the constant growth rate of dividends. In the option given, Dividends per Share divided by Share Price plus Growth Rate of Dividends matches ke = D1 / P0 + g. This directly reflects the dividend-based approach to cost of equity, not CAPM. Why the other ideas don't fit: using risk-free rate plus market risk premium is the CAPM method, which the question aims to avoid. Net income divided by equity is return on equity, not cost of equity, and Dividends per Share times Share Price isn't a standard measure for cost of equity.

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Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

https://basictechinvestmentbanking.examzify.com

We wish you the very best on your exam journey. You've got this!

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