PRIVATE EQUITY INTERVIEW 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. Can enterprise value be negative?

A. Yes, if the company has an extremely large cash balance or an extremely low market cap, or both.

B. No, enterprise value can never be negative.

C. Only if the company is bankrupt.

D. Only financial institutions can have negative enterprise value.

2. What is the difference between accounts receivable and deferred revenue?

A. Accounts receivable has not yet been collected in cash from customers, whereas deferred revenue has been.

B. Accounts receivable is recorded as a liability, and deferred revenue is recorded as an asset.

C. Both are assets; accounts receivable is cash-based while deferred revenue is revenue-based.

D. Accounts receivable represents revenue recognized; deferred revenue is revenue not yet earned.

3. Why do we look at both equity value and enterprise value?

A. Equity value is the portion that belongs to equity shareholders; EV captures the true value of the whole company (all investors)

B. EV equals market capitalization only

C. Equity value includes debt, while EV excludes debt

D. EV excludes cash and seeks only enterprise-level assets

4. What are the four 'C's in the framework?

A. Consumer / Customer, Company, Competitors, Collaborators.

B. Capital, Cost, Customers, Channels.

C. Customers, Competitors, Corporate, Compliance.

D. Create, Capture, Convey, Convert.

5. What does equity value describe?

A. The market value of the company's equity.

B. The book value of the company's equity.

C. The enterprise value of the company.

D. The net debt of the company.

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6. What is a management rollover equity, and what are its advantages and risks in PE transactions?

A. Management rollover equity is existing management equity rolled into the new cap structure; advantages include alignment of incentives and retention; risks include potential misalignment on exit timing and dilution if vesting or performance hurdles are not met.

B. Management rollover equity is new equity issued to management.

C. It reduces alignment and retention.

D. It means management borrows money to fund the deal.

7. In an LBO valuation, why might the value be lower than a DCF with the same assumptions?

A. Because you value only terminal value and ignore near-term cash flows

B. Because DCF ignores terminal value

C. Because LBO uses fewer debt instruments

D. Because LBO gives more weight to early cash flows

8. Which items should you adjust when converting EBITDA to sustainable free cash flow in private equity modeling?

A. Non-recurring items

B. Owner-run expenses

C. One-time costs

D. All of the above

9. Which external factors should be considered as mitigating factors in an investment assessment?

A. Government regulation, technology, litigation and public perception.

B. Internal process optimization.

C. Employee morale surveys.

D. Seasonal demand patterns.

10. Which would be considered a red flag prompting further scrutiny?

A. Misaligned incentives

B. High turnover

C. Opaque reporting

D. Undisclosed related-party transactions

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Answers

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

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Explanations

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1. Can enterprise value be negative?

A. Yes, if the company has an extremely large cash balance or an extremely low market cap, or both.

B. No, enterprise value can never be negative.

C. Only if the company is bankrupt.

D. Only financial institutions can have negative enterprise value.

Enterprise value can be negative when the cash on hand overwhelms the other components that make up the EV calculation. EV represents what it would cost to acquire the company, taking into account debt and other claims, but subtracting cash because you'd receive that cash back after the deal. The standard formula is EV = equity value + debt + minority interest + preferred equity − cash and cash equivalents. Because cash reduces the net amount you'd actually pay, a very large cash balance relative to the market value of the company (and any debt or other claims) can push EV below zero. For example, if a company has an equity value of 100 million, little to no debt, and cash of 250 million, the EV would be 100 + 0 + 0 + 0 − 250 = −150 million. This shows why the enterprise value can be negative: the cash effectively exceeds the cost of the other components. This can happen even when the company isn't bankrupt or just for financial institutions; it's a mathematical outcome of the EV formula when cash is exceptionally large compared to the other values. Therefore, the correct takeaway is that negative enterprise value is possible under the described conditions.

2. What is the difference between accounts receivable and deferred revenue?

A. Accounts receivable has not yet been collected in cash from customers, whereas deferred revenue has been.

B. Accounts receivable is recorded as a liability, and deferred revenue is recorded as an asset.

C. Both are assets; accounts receivable is cash-based while deferred revenue is revenue-based.

D. Accounts receivable represents revenue recognized; deferred revenue is revenue not yet earned.

The difference hinges on when cash changes hands and when the company has earned the revenue. Accounts receivable is an asset because it represents money customers owe you for goods or services already provided and for which revenue has been recognized, but the cash hasn't been collected yet. Deferred revenue is a liability because you've already received cash in advance, but you haven't yet earned that revenue by delivering the goods or services. So, the statement that best captures this is that accounts receivable has not yet been collected in cash from customers, whereas deferred revenue has been. For example, selling on credit creates accounts receivable until the customer pays; collecting cash up front creates deferred revenue that is later recognized as revenue as you fulfill the obligation. The other descriptions mix up these classifications or the timing. One mislabels accounts receivable as a liability and deferred revenue as an asset. Another treats both as assets, ignoring that deferred revenue is a liability. And another implies accounts receivable is revenue itself, which it is not—the asset represents amounts due, while revenue is the income recognized when earned.

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3. Why do we look at both equity value and enterprise value?

A. Equity value is the portion that belongs to equity shareholders; EV captures the true value of the whole company (all investors)

B. EV equals market capitalization only

C. Equity value includes debt, while EV excludes debt

D. EV excludes cash and seeks only enterprise-level assets

The main idea here is understanding how a company's value is viewed from two angles: what shareholders own and what the entire business is worth to all investors. Equity value shows the portion that belongs to equity holders—the value you'd attribute to the stock. Enterprise value, on the other hand, represents the value of the whole business to all providers of capital (debt, preferred equity, minority interests) and is the figure you'd consider if you were buying the company outright. This distinction matters because buying the company typically involves assuming its debt and offsetting that with any cash on hand. That's why enterprise value includes debt and subtracts cash, giving a single number that reflects the total cost to acquire the business and its obligations, irrespective of how it's financed. It also lets you compare companies with different capital structures on a like-for-like basis. So the best explanation is that equity value is the claim for shareholders, while enterprise value captures the true total value of the company to all investors, guiding acquisition pricing and cross-company comparisons.

4. What are the four 'C's in the framework?

A. Consumer / Customer, Company, Competitors, Collaborators.

B. Capital, Cost, Customers, Channels.

C. Customers, Competitors, Corporate, Compliance.

D. Create, Capture, Convey, Convert.

The four Cs framework focuses on four key dimensions that shape strategy: customers, company, competitors, and collaborators. This lens ensures you consider demand (who buys and what they value), internal capability (what the business can do well), the competitive landscape (what others are doing to win customers), and partnerships or ecosystem dynamics (how suppliers, distributors, and allies affect execution). This combination gives a balanced view of external and internal factors and their interactions, which is essential for evaluating investments, markets, or strategic options. The other options don't fit as a cohesive framework: one mixs financial terms with channels and customers but lacks a unified strategic lens; another adds compliance and corporate elements that aren't part of the standard four-C framework; and the last option describes a process rather than a strategic viewpoint.

5. What does equity value describe?

A. The market value of the company's equity.

B. The book value of the company's equity.

C. The enterprise value of the company.

D. The net debt of the company.

Equity value is the market value of the company's equity—the amount investors would pay to own all the equity in the business. It's usually calculated as share price times the number of shares outstanding, reflecting current market sentiment and liquidity. This differs from book value, which is the accounting value of equity on the balance sheet and can diverge from what the market is willing to pay. It also isn't the same as enterprise value, which represents the total value of the company to all capital providers (debt, equity, and other obligations) and includes debt while adjusting for cash. Net debt is a separate measure of leverage, equal to debt minus cash. So the market value of the company's equity best describes what equity value captures.

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6. What is a management rollover equity, and what are its advantages and risks in PE transactions?

A. Management rollover equity is existing management equity rolled into the new cap structure; advantages include alignment of incentives and retention; risks include potential misalignment on exit timing and dilution if vesting or performance hurdles are not met.

B. Management rollover equity is new equity issued to management.

C. It reduces alignment and retention.

D. It means management borrows money to fund the deal.

Management rollover equity means that the current management team keeps a stake in the business by rolling over their existing equity into the new capitalization structure created when a PE sponsor buys the company. They don't cash out entirely; instead they stay as owners and participate in future upside alongside the sponsor. The main benefit is alignment and retention. When managers have a meaningful ownership stake in the post-transaction company, their incentives are tied to long term value creation, which helps them push for growth and strategic progress. This continuity also aids retention during the transition, since part of their compensation and potential upside remains tied to the company's performance. However, there are notable risks. Exit timing can become a tension point if management's liquidity needs or risk preferences differ from the sponsor's, potentially complicating decisions about when to monetize the investment. There's also dilution risk if new equity is issued to fund the deal, satisfy vesting or performance hurdles, or bring in additional investors, which can erode management's percentage ownership and dilute their upside if targets aren't met. In short, rolling over existing equity preserves ownership and incentivizes performance, but it introduces potential dilution and exit timing tensions that need to be managed through careful structuring and milestones.

7. In an LBO valuation, why might the value be lower than a DCF with the same assumptions?

A. Because you value only terminal value and ignore near-term cash flows

B. Because DCF ignores terminal value

C. Because LBO uses fewer debt instruments

D. Because LBO gives more weight to early cash flows

In an LBO, the value the investor looks to capture is the equity value at exit, after the debt used to finance the purchase has been paid down. A large portion of the operating cash flow in the early years is typically dedicated to servicing debt rather than building up equity value today. If you model the scenario by focusing on the terminal exit value and treat near-term cash flows as not contributing to the current equity value, you end up with a lower present value compared with a DCF that discounts the entire stream of cash flows, including near-term ones. In other words, the LBO framework often sacrifices early cash flows to debt service and emphasizes the exit, which can produce a lower value than a full DCF that incorporates those near-term cash flows.

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8. Which items should you adjust when converting EBITDA to sustainable free cash flow in private equity modeling?

A. Non-recurring items

B. Owner-run expenses

C. One-time costs

D. All of the above

When modeling, you want cash flow that reflects what the business can generate on a repeatable, ongoing basis under new ownership. That means stripping out items that distort normal operations. Non-recurring items distort ongoing performance because they're not expected to recur. They can be unusual gains or unusual losses, but either way they don't reflect what the business will generate year after year, so they're removed to show a stable baseline. Owner-run expenses distort true operating costs. If the current owner pays themselves above-market compensation or incurs owners' perks that wouldn't continue after a transition, these costs should be normalized to what a new owner would reasonably incur. One-time costs distort cash flow because they're isolated events not tied to the ongoing business model, such as restructurings, unusual legal settlements, or one-off project costs. Excluding or normalizing these helps capture the ongoing cash-generating capacity. All of these adjustments are applied to convert EBITDA into sustainable free cash flow, giving a clearer picture of the cash a business can reliably produce.

9. Which external factors should be considered as mitigating factors in an investment assessment?

A. Government regulation, technology, litigation and public perception.

B. Internal process optimization.

C. Employee morale surveys.

D. Seasonal demand patterns.

External factors that can mitigate investment risk are those outside the company's control that shape the downside and upside of returns. Government regulation matters because clarity and stability in policy reduce policy and compliance risk, improving forecastability of cash flows. Technology trajectories matter because a favorable or advancing tech position can create a durable competitive edge, lowering disruption risk and sustaining margins. Litigation risk affects potential liabilities and settlements; lower exposure or clearer precedents lessen downside. Public perception influences demand, brand strength, and access to capital, with positive sentiment reducing downside risk and widening multiple expansion opportunities. Together, these external elements help an investor gauge resilience and upside potential beyond internal operations. Internal process optimization and employee morale surveys focus on factors inside the company, not external conditions, so they're not considered external mitigating factors. Seasonal demand patterns relate to market timing and cyclicality rather than external protections; they inform risk but don't inherently mitigate it.

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10. Which would be considered a red flag prompting further scrutiny?

A. Misaligned incentives

B. High turnover

C. Opaque reporting

D. Undisclosed related-party transactions

Red flags in due diligence often tie to transparency and conflicts of interest. When related-party transactions are undisclosed, it directly signals self-dealing and governance weaknesses. Investors can't assess whether pricing, terms, or fees are fair, which makes it easy to siphon value to insiders or obscure costs from true performance. This kind of hidden deal can mask distortions in cash flows or valuations, threatening overall integrity of the investment. Other issues like misaligned incentives, high turnover, or opaque reporting are serious governance signals, but they don't inherently reveal hidden deals that benefit insiders. The lack of disclosure around related-party transactions is a more concrete warning that warrants immediate deeper scrutiny.

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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://privateequityinterview.examzify.com

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

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