Recommended Technicals for Review

**Accounting**

1. Walk me through the three financial statements. How do they connect?
2. Assuming a 20% tax rate, how do the following journal entries affect the three financial statements?
   a. $10 increase in depreciation
   b. $100 purchase of PPE
   c. $10 gain to accounts receivable
   d. What happens when a company prepays rent? What happens when the rent is recognized?
3. What is the difference between accrual and cash accounting?
4. What is net working capital (“NWC”)? What formula do we use to calculate NWC?
6. What are the three sections of the Statement of Cash Flows?
7. What are some examples of non-cash items on the Statement of Cash Flows?
8. Explain what EBITDA is and why it is relevant.
9. What is the most important financial statement?
10. How does goodwill change over time?

**Valuation & Enterprise Value / Equity Value**

1. What are the three main valuation methods?
2. Can you walk me through a DCF?
3. What is Beta?
4. Explain WACC.
5. Explain time value of money.
6. What is considered a cheap P/E ratio?
7. What is cheaper, debt or equity?
8. What is equity value?
9. What is enterprise value?
10. If you pick up $100 on the street how does it impact enterprise value and equity value?
11. When might EV/Sales be relevant?
12. Why would Price to EBITDA not be a relevant metric?
13. Pitch me a stock.

**Formulas to memorize AND understand**

\[
\text{WACC} = (\% \text{ Equity})(\text{cost of equity}) + (\% \text{ debt})(\text{cost of debt}) + (\% \text{ Preferred})(\text{Cost Preferred})
\]

Cost of Equity = \( \gamma_m \) + \( \beta_{\text{Levered}} (\gamma_m - \gamma_f) \)

FCF = EBIT(1-\( \tau_{\text{tax}} \)) + D&A – Increase in NWC – CapEx

Levered FCF = FCF – Mandatory Debt Repayments

\[
\beta_{\text{Unlevered}} = \frac{\beta_{\text{Levered}}}{(1 + \frac{\text{Debt}}{\text{Equity}})(1-\tau_{\text{tax}})} \quad \beta_{\text{Levered}} = \beta_{\text{Unlevered}} \left(1 + \frac{\text{Debt}}{\text{Equity}}\right) \left(1 - \tau_{\text{tax}}\right)
\]

Enterprise Value = Equity Value + Net Debt + Preferred Stock + Noncontrolling Interest

Equity Value = (PPS)(Fully Diluted Shares Outstanding(“FDSO”))

FDSO = Basic Shares Outstanding + “In the Money” Options, Warrants, and Convertibles Securities

\[\text{1 For comps: Unlever } \beta \text{ to compare target to comps set without concern for variance in capital structure across different comps. Calculate median or average of these comps’ unlevered } \beta \text{. Then, starting with the average or median unlevered } \beta, \text{ re-lever } \beta \text{ using target debt-to-equity ratio to estimate equity value w.r.t. target capital structure.}\]