Evercore Liability Management & Restructuring (RX) Practice Test (Sample)

Study Guide

BY EXAMZIFY

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Questions

1. **Which of the following is an example of a charge that does not impact EBIT but requires analysis?**
   - A. Restructuring charges
   - B. Changes in accounting policies
   - C. Product sales returns
   - D. Depreciation expenses

2. **Why might a company be forced to file for Chapter 11 even if it seeks to sell itself or restructure?**
   - A. Aggressive creditors may accelerate debt payments
   - B. The company has achieved a high share price
   - C. The market conditions are highly favorable
   - D. There are no existing debts to restructure

3. **Why might a company choose to file for bankruptcy?**
   - A. To voluntarily reduce its assets
   - B. To negotiate better terms with lenders
   - C. To improve shareholder value without restructuring
   - D. To avoid any form of creditor engagement

4. **What is the first step in using comps and precedent transactions for valuation?**
   - A. Calculate financial metrics of the target
   - B. Select comparable companies or transactions
   - C. Determine the maximum value possible
   - D. Apply metrics to all industry companies

5. **What is a common multiple used in the retail industry?**
   - A. EV/EBITDA
   - B. EV/EBITDAR
   - C. EV/subscribers
   - D. EV/revenue growth

6. Which of the following is a common strategy used in liability management?

A. Enhanced product development

B. Debt refinancing

C. Market expansion

D. Employee training programs

7. What does the term "debtholder" refer to in liability management?

A. An employee responsible for managing finances

B. An individual or institution holding debt securities

C. A shareholder with voting rights

D. A creditor in bankruptcy proceedings

8. In the context of valuation, what does 'EV' stand for?

A. Expected Value

B. Equity Value

C. Enterprise Value

D. Excess Value

9. What usually serves as collateral for revolving credit?

A. Stocks and bonds

B. Accounts receivable and inventory

C. Intellectual property

D. Real estate assets

10. What is meant by "rescue financing"?

A. Funds for marketing and expansion efforts

B. Capital provided to stabilize a distressed company

C. Investment in new product development

D. Funding for executive compensation packages

Answers

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

Explanations

1. Which of the following is an example of a charge that does not impact EBIT but requires analysis?

A. Restructuring charges

B. Changes in accounting policies

C. Product sales returns

D. Depreciation expenses

Changes in accounting policies are indeed an example of a charge that does not impact EBIT, yet still requires thorough analysis. When a company changes its accounting policies, it may affect how various items are recognized or reported in financial statements without directly altering the operating performance measured by Earnings Before Interest and Taxes (EBIT). Such changes often relate to the timing of revenue recognition, valuation of inventory, or asset capitalization. While these adjustments might lead to significant differences in reported metrics, they do not necessarily reflect the underlying operational performance or cash flow of the company. Therefore, analysts must carefully evaluate the implications of these accounting changes to understand their effects on financial ratios and overall business strategy. In contrast, restructuring charges directly impact EBIT, as they represent one-time costs associated with organizational changes aimed at improving efficiency. Product sales returns can lead to a reduction in revenue recognized, hence directly impacting EBIT as well. Depreciation expenses are operational costs that reduce taxable income and EBIT, reflecting the allocation of asset costs over time. Each of these items influences EBIT, while changes in accounting policy require a careful examination without impacting the operational performance metrics directly.

2. Why might a company be forced to file for Chapter 11 even if it seeks to sell itself or restructure?

A. Aggressive creditors may accelerate debt payments

B. The company has achieved a high share price

C. The market conditions are highly favorable

D. There are no existing debts to restructure

A company might be compelled to file for Chapter 11 even when it aims to sell itself or restructure primarily due to the actions of aggressive creditors who may accelerate debt payments. When creditors act aggressively, particularly in the face of financial distress, they may issue demands for immediate payment on outstanding debts, which can create a liquidity crisis for the company. If the company cannot meet these sudden demands, it can find itself unable to operate effectively or negotiate potential restructuring or sale deals. Chapter 11 provides a legal framework that helps the company to stay in business while it attempts to reorganize its debts and negotiate with creditors, thereby providing the time and protection needed to navigate its financial challenges. The other options reflect situations that do not directly contribute to the need for a Chapter 11 filing. A high share price suggests strong market confidence in the company, which would typically make it less likely to seek bankruptcy protection. Favorable market conditions could lead to better opportunities for negotiation and securing financing, lessening the need for filing. Lastly, if there are no existing debts to restructure, the need for Chapter 11 would be largely moot, as the company would not face the same pressures leading to involuntary bankruptcy.

3. Why might a company choose to file for bankruptcy?

A. To voluntarily reduce its assets

B. To negotiate better terms with lenders

C. To improve shareholder value without restructuring

D. To avoid any form of creditor engagement

A company often chooses to file for bankruptcy as a strategic move to negotiate better terms with its lenders. This process allows the company to restructure its debt and obligations, facilitating negotiations that might have been more challenging outside of bankruptcy protection. By filing, a company can gain an automatic stay, which temporarily halts all creditor actions against it, allowing the management to focus on restructuring efforts without the immediate pressure of creditor demands. This protective environment is crucial for the company to explore various options, such as reducing debt burdens, extending payment terms, or even renegotiating interest rates. Negotiating from a position of bankruptcy can lead to more favorable outcomes for the company, as it typically provides leverage against creditors who are often willing to accept modified terms in order to recover at least some of their investment. This strategic restructuring can make the company more viable in the long term, ultimately benefiting not just the company itself but also its shareholders and employees.

4. What is the first step in using comps and precedent transactions for valuation?

A. Calculate financial metrics of the target

B. Select comparable companies or transactions

C. Determine the maximum value possible

D. Apply metrics to all industry companies

Selecting comparable companies or transactions is indeed the first step in using comps and precedent transactions for valuation. This initial step involves identifying the most relevant peers in the market or past transactions that closely resemble the target company. The idea is to find examples that share similar characteristics or metrics, such as industry, size, growth rate, and geographical focus, which allows for a more accurate comparison. Once suitable comparables are identified, analysts can move on to the next steps, like calculating financial metrics or applying valuation multiples. However, if the comparables are not appropriately chosen, any subsequent analysis may lead to misleading conclusions. Thus, the selection of comparable companies or transactions lays the foundation for a reliable valuation process, making it crucial for accurate assessments in the context of comparables and precedent transactions. The other steps mentioned, such as calculating financial metrics and determining maximum value, are dependent on the selection of comparables. Without that initial foundation, these actions would not be meaningful or effective.

5. What is a common multiple used in the retail industry?

A. EV/EBITDA

B. EV/EBITDAR

C. EV/subscribers

D. EV/revenue growth

The use of EV/EBITDAR as a common multiple in the retail industry is particularly relevant due to the unique characteristics of retail businesses. This multiple stands for Enterprise Value over Earnings Before Interest, Taxes, Depreciation, Amortization, and Rent. Retailers often have significant lease obligations for their stores, and by excluding rent from the earnings calculation, EBITDAR provides a clearer picture of the company's operational performance, allowing for better comparisons across companies regardless of their leasing structures. In the retail industry, EBITDAR is preferred because it helps analysts and investors assess the profitability of companies that may have differing levels of rent expenses. Therefore, this multiple is especially useful in evaluating firms that operate on various lease terms, enabling a more accurate comparison of performance and value among competitors. In contrast, other multiples listed, while they may have applications in specific contexts or industries, do not capture the nuances of retail operations as effectively as EBITDAR. For instance, while EV/EBITDA is a widely used metric, it does not account for rent, which can be a significant expense for retailers. The EV/subscribers multiple is particularly relevant to subscription-based businesses rather than retail. EV/revenue growth measures a company's growth relative to its market value, which may not

6. Which of the following is a common strategy used in liability management?

A. Enhanced product development

B. Debt refinancing

C. Market expansion

D. Employee training programs

Debt refinancing is a common strategy used in liability management because it allows a company to manage its existing debt more effectively. This process typically involves replacing an existing debt obligation with a new one, often at more favorable terms, such as a lower interest rate or extended maturity. By refinancing, companies can reduce their debt service costs, improve their cash flow, and better align their debt structure with their operational needs or market conditions. In the context of financial distress or restructuring, debt refinancing can also provide a way to negotiate with creditors and potentially avoid bankruptcy, making it a critical tool for companies looking to improve their financial health and sustainability. Other strategic choices such as enhanced product development, market expansion, and employee training programs typically focus on growth and operational efficiency rather than directly addressing the management of liabilities.

7. What does the term "debtholder" refer to in liability management?

- A. An employee responsible for managing finances
- B. An individual or institution holding debt securities
- C. A shareholder with voting rights
- D. A creditor in bankruptcy proceedings

The term "debtholder" specifically refers to an individual or institution that holds debt securities, such as bonds or notes. These entities are essentially lenders, having provided capital to a company or government in exchange for the obligation to be paid back with interest over time. This definition encompasses a broad range of participants in the debt market, including corporations, mutual funds, pension funds, and institutional investors. Debtholders play a critical role in liability management as they represent the creditors of an organization. Their rights, interests, and claims on the entity's assets in the event of bankruptcy or restructuring are significant considerations in financial decision-making. Understanding the position of debtholders helps organizations navigate issues like refinancing, restructuring, or negotiating terms of debt. In contrast, other choices do not accurately reflect the definition of a debtholder. For example, an employee managing finances is concerned with the overall financial health of the organization but does not hold debt securities themselves. A shareholder with voting rights relates to equity ownership, which is distinctly different from the position and function of a debtholder. Additionally, while a creditor in bankruptcy proceedings can overlap with the concept of a debtholder, the term "debtholder" is more specific and refers to those holding the debt

8. In the context of valuation, what does 'EV' stand for?

- A. Expected Value
- B. Equity Value
- C. Enterprise Value
- D. Excess Value

In the context of valuation, 'EV' stands for Enterprise Value. This term is crucial in financial analysis and valuation, as it represents the total value of a company as it is perceived by the market. Enterprise Value includes not just the value of the company's equity, which is what shareholders own, but also its debt, minus any cash and cash equivalents. This comprehensive metric provides a clearer picture of a company's overall worth than just equity value alone, as it accounts for the capital structure of the business. Investors often use Enterprise Value in mergers and acquisitions to assess the true cost of acquiring a company, since it reflects what a buyer would be obliged to pay to purchase all outstanding shares and settle any debts the company has. Understanding Enterprise Value is fundamental for anyone involved in financial analysis, as it serves as a basis for various valuation multiples and ratios, such as EV/EBITDA or EV/Sales, which help in comparing companies within the same industry or sector.

9. What usually serves as collateral for revolving credit?

A. Stocks and bonds

B. Accounts receivable and inventory

C. Intellectual property

D. Real estate assets

Revolving credit facilities, such as lines of credit, are often secured using current assets that can be easily converted into cash to support repayment. Accounts receivable represent money owed to the business from customers, and inventory consists of goods ready for sale. These types of assets are considered liquid and allow lenders to quickly assess their value. If a borrower defaults on a revolving credit agreement, lenders can quickly realize value by liquidating these assets, providing a higher level of security. In contrast, stocks and bonds, while they can also be types of collateral, are not the typical choice for revolving credit arrangements due to their market volatility and less direct connection to a company's operational cash flow needs. Intellectual property, although valuable, often has a less predictable value and is not as readily liquidated. Real estate assets, while they can indeed serve as collateral for other types of loans, are generally considered less desirable for revolving credit because they involve longer liquidation processes. Thus, accounts receivable and inventory are the most commonly accepted forms of collateral for revolving credit, reflecting their immediate liquidity and relevance to the business's ongoing operations.

10. What is meant by "rescue financing"?

A. Funds for marketing and expansion efforts

B. Capital provided to stabilize a distressed company

C. Investment in new product development

D. Funding for executive compensation packages

"Rescue financing" refers specifically to the capital that is provided to stabilize a distressed company, typically during a financial crisis or when the company is facing severe operational challenges. This type of financing is crucial as it helps to ensure that the company can continue its operations, pay its creditors, and potentially navigate through its difficulties to reach a more stable state. The focus of rescue financing is on immediate support to address liquidity issues, sustain operations, and ultimately restore the company's financial health, which is pivotal in situations where a company is on the brink of insolvency. Other options, such as funds for marketing and expansion efforts, investment in new product development, or funding for executive compensation packages, are not aligned with the purpose of rescue financing. Such initiatives typically focus on growth and advancement rather than addressing urgent financial distress situations, thus lacking the immediate necessity and urgency of rescue financing.