Private Equity Interview Practice Test (Sample)

Study Guide

Everything you need from our exam experts!

Table of Contents

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.

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!

Questions

1. **You have $100 in cash. Which metric should you measure to determine the best use of the cash?**

   A. Return on capital

   B. Net present value

   C. Internal rate of return

   D. Payback period

2. **With an enterprise value of $1,100 million and annual interest expense of $20 million financed at a 10% cost of debt, what is the implied equity value, assuming no cash?**

   A. $900 million

   B. $1,100 million

   C. $1,200 million

   D. $800 million

3. **When a liability is written down by $100, which statement best describes the income statement effect?**

   A. There is a gain on the income statement of $100, increasing PTI; NI up $80 after tax

   B. There is a loss on the income statement of $100

   C. No effect on the income statement

   D. The write-down reduces revenue

4. **Which type of comps provides a better indication of value in present time?**

   A. Public comps

   B. Acquisition comps

   C. Both are equally good

   D. Neither is useful

5. **What are common mistakes when projecting exit multiples in PE modeling?**

   A. Assuming debt capacity is irrelevant

   B. Always underestimating exit multiples

   C. Assuming perpetually high exit multiples; ignoring market cycles; not aligning to debt capacity

   D. Not considering any debt capacity issues

6. Which of the following is listed as a method to value a company?

A. Precedent transactions

B. Debt refinancing

C. Tax credits

D. Patent filings

7. MOIC to IRR conversion: Doubling your money in 3 years corresponds to which approximate IRR?

A. 25%

B. 20%

C. 15%

D. 10%

8. Which item is among the recommended elements to review for management quality?

A. Track record

B. Customer loyalty

C. Brand advertising

D. Social media presence

9. What is PIK interest, and what are the implications of PIK debt on cash flow, leverage, and equity returns?

A. PIK interest is paid in cash; reduces leverage.

B. PIK interest accrues as cash interest; reduces cash flow now.

C. PIK interest accrues as accrued debt rather than cash interest, increases leverage over time; can relieve near-term cash flow but increases future debt service and risk; tax and accounting considerations apply.

D. PIK converts debt to equity.

10. How does a typical private equity waterfall work, including preferred return, catch-up, and carried interest, and how do you model it in a financial forecast?

A. LPs receive preferred return first; after hurdle, catch-up to GP; then carried interest (usually 20%); model by tracking cumulative distributions to LPs and GP against hurdle and catch-up.

B. GP receives all profits first, then LPs; no catch-up.

C. There is no hurdle; all profits are split 50/50.

D. Carried interest is 50% with no catch-up.

Answers

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

Explanations

1. You have $100 in cash. Which metric should you measure to determine the best use of the cash?

A. Return on capital

B. Net present value

C. Internal rate of return

D. Payback period

When you have a fixed amount of cash to deploy, the best use is the option that turns into the most profit per dollar invested. Return on capital (return on invested capital) measures exactly that: how efficiently each dollar of capital is converted into earnings. It normalizes for different cash requirements across opportunities, so you can compare options on a level playing field. Net present value looks at total value created in today's dollars but can favor larger or longer projects simply because they have bigger absolute cash flows, even if they're less efficient per dollar. Internal rate of return can be misleading when comparing projects of different sizes or lifetimes, since a higher IRR doesn't always mean greater value created. Payback period ignores any profits earned after the initial recovery and also ignores the time value of money. So, to judge the best use of the cash, you focus on the option with the highest return on capital.

2. With an enterprise value of $1,100 million and annual interest expense of $20 million financed at a 10% cost of debt, what is the implied equity value, assuming no cash?

A. $900 million

B. $1,100 million

C. $1,200 million

D. $800 million

The key idea is that enterprise value represents the total value to all providers of capital, while equity value is what remains after paying off net debt. With no cash on hand, net debt equals the total debt. From the given interest expense and cost of debt, the debt amount is 20 million divided by 0.10, which equals 200 million. Subtracting this debt from the enterprise value gives the equity value: 1,100 million minus 200 million equals 900 million. So the implied equity value is 900 million dollars. If cash were present, net debt would be debt minus cash, which could change the result, but with zero cash the calculation is straightforward.

3. When a liability is written down by $100, which statement best describes the income statement effect?

A. There is a gain on the income statement of $100, increasing PTI; NI up $80 after tax

B. There is a loss on the income statement of $100

C. No effect on the income statement

D. The write-down reduces revenue

This scenario tests how reducing a liability affects the income statement. When you write down a liability by 100, you're relieving an obligation, which is recorded as a gain on the income statement. So pretax income increases by 100. The tax effect then reduces net income by the tax amount on that gain. With a 20% tax rate, tax on the 100 gain is 20, leaving net income up by 80. So the income statement shows a 100 gain before tax and an 80 increase in net income after tax. It's not a loss, not no effect, and not a change to revenue—the impact is a gain from reducing the liability.

4. Which type of comps provides a better indication of value in present time?

A. Public comps

B. Acquisition comps

C. Both are equally good

D. Neither is useful

Public comps provide a better indication of value today because they're based on current market pricing. The stock prices of publicly traded peers move in real time to reflect prevailing demand, supply, liquidity, and investor sentiment, so the valuation multiples (like EV/EBITDA or P/E) represent how the market values similar businesses right now. Acquisition comps, on the other hand, reflect prices paid in past deals. Those prices include control premiums, strategic synergies, and deal-specific terms that may not be present today, and they can be dated or not fully comparable due to timing and market conditions. So while they offer historical context, they don't as reliably reflect present market value.

5. What are common mistakes when projecting exit multiples in PE modeling?

A. Assuming debt capacity is irrelevant

B. Always underestimating exit multiples

C. Assuming perpetually high exit multiples; ignoring market cycles; not aligning to debt capacity

D. Not considering any debt capacity issues

In PE modeling, the big idea is that exit values should reflect real-world constraints, not wishful thinking. The most common mistakes come from treating exit multiples as if they could stay forever high and ignoring the forces that actually shape how buyers decide prices. Multiples tend to cycle with market conditions, so assuming they stay perpetually elevated ignores mean reversion and the ups-and-downs of liquidity, demand, and sentiment. If you also don't align the exit multiple with debt capacity, you run into a second reality: buyers finance exits with debt, and their ability to pay a high multiple depends on how much leverage the target can support and still service debt. If you project a very high exit multiple without checking whether the buyer's debt capacity and the company's cash flows could realistically support that, you end up with inflated equity value and overstated returns. So the best answer captures all three critical pitfalls: assuming multiples stay perpetually high, ignoring market cycles, and not tying the exit multiple to what debt capacity can actually support. In practice, you'd model exits using scenarios that reflect cycle-driven ranges of multiples, calibrate to comparable transactions in the current market, and ensure the implied exit value is financeable given debt capacity, leverage covenants, and future cash flows. This keeps projections grounded in how PE deals actually unwind, rather than on optimistic assumptions that can't be financed or sustained.

6. Which of the following is listed as a method to value a company?

A. Precedent transactions

B. Debt refinancing

C. Tax credits

D. Patent filings

Precedent transactions involves valuing a company by looking at prices paid in similar, recent M&A deals. The idea is to answer what a buyer would have paid for a business like this, based on actual market transactions. You gather a set of comparable deals, pull the transaction multiples they implied (such as enterprise value to EBITDA or enterprise value to sales), and then apply those multiples to the target's metrics to estimate its value. This approach captures the price buyers have been willing to pay, including any control premium and strategic value, and it reflects real market demand at the time. It works best when there are enough relevant, recent deals and the target closely resembles those comparables; it becomes less reliable if there aren't good matches or if one or two deals skew the multiples. Debt refinancing, on the other hand, is a financing move that reshapes how a company is funded rather than providing a market-based price for the whole business. Tax credits affect cash flows and after-tax profits but don't by themselves establish a company's value. Patent filings relate to protecting an idea or technology and can influence value only insofar as they affect future cash flows or risk, not as a standalone valuation method.

7. MOIC to IRR conversion: Doubling your money in 3 years corresponds to which approximate IRR?

A. 25%

B. 20%

C. 15%

D. 10%

IRR is the annualized return that turns your initial investment into the final value over the investment period. If you double your money in three years, you're solving for IRR in the equation (1 + IRR)^3 = 2. The cube root of 2 is about 1.26, so IRR ≈ 1.26 − 1 = 0.26, i.e., roughly 26%. Among the given options, the closest is around 25%. Checking quick estimates: 25% annual returns for three years give about 1.25^3 ≈ 1.95, just under 2; 20% gives about 1.2^3 = 1.728; 15% gives about 1.15^3 ≈ 1.52; 10% gives about 1.1^3 ≈ 1.331. So doubling in three years corresponds to about 26% IRR, with 25% being the closest choice.

8. Which item is among the recommended elements to review for management quality?

A. Track record

B. Customer loyalty

C. Brand advertising

D. Social media presence

Evaluating management quality hinges on evidence of past performance. A strong track record is the best signal because it shows how leaders have actually created value across cycles and different situations—how they execute strategic plans, improve margins, allocate capital, integrate acquisitions, and deliver returns to investors. It also reflects consistency and resilience, not just a single win. Customer loyalty, brand advertising, and social media presence are important for market strength and brand value, but they measure external factors and marketing effectiveness rather than how the management team has produced results or guided the company over time. Therefore, track record stands out as the most direct, predictive indicator of management quality.

9. What is PIK interest, and what are the implications of PIK debt on cash flow, leverage, and equity returns?

A. PIK interest is paid in cash; reduces leverage.

B. PIK interest accrues as cash interest; reduces cash flow now.

C. PIK interest accrues as accrued debt rather than cash interest, increases leverage over time; can relieve near-term cash flow but increases future debt service and risk; tax and accounting considerations apply.

D. PIK converts debt to equity.

PIK interest stands for payment-in-kind interest. It isn't paid in cash when due; instead, the interest is added to the loan balance, so the debt grows over time. This means the company preserves cash in the near term, but the amount of debt you owe increases each period as interest compounds. That dynamic makes PIK debt more levered over time. The leverage on the balance sheet rises because the principal (the amount owed) climbs even though no cash was paid yet. The trade-off is lower near-term cash outflow coupled with higher future debt service and greater risk if the business doesn't generate enough cash to eventually service the larger debt. Equity returns become more sensitive to exit timing and the eventual debt burden: if the business performs well and you exit after the debt has grown significantly, equity returns can be higher due to a stronger payout, but the downside risk is also larger because more value must be generated to cover the bigger debt stack. Tax and accounting considerations matter here. PIK interest is typically recognized as an expense for accounting purposes and increases the outstanding debt for balance-sheet purposes, which affects leverage ratios and covenants. Tax treatment can vary, but the interest expense still interacts with taxable income over time, and the timing of deductions versus cash payments can differ from cash-interest scenarios. The other options don't fit because PIK is not paid in cash, so it does not reduce cash flow now; and it is not a conversion of debt into equity.

10. How does a typical private equity waterfall work, including preferred return, catch-up, and carried interest, and how do you model it in a financial forecast?

A. LPs receive preferred return first; after hurdle, catch-up to GP; then carried interest (usually 20%); model by tracking cumulative distributions to LPs and GP against hurdle and catch-up.

B. GP receives all profits first, then LPs; no catch-up.

C. There is no hurdle; all profits are split 50/50.

D. Carried interest is 50% with no catch-up.

The main idea being tested is how a private equity waterfall allocates profits between limited partners and the general partner across a deal's life, and how to mirror that in a forecast. In practice, investors (LPs) get their invested capital back plus a preferred return before the GP starts taking any carry. That preferred return is often framed as a hurdle rate—an annualized return the LPs must receive on contributed capital before upside is shared with the GP. Once the LPs have earned the hurdle, the next phase is a catch-up. This step is designed so the GP can "catch up" to the intended carried ownership. In most structures, the catch-up allocates a large portion of subsequent profits to the GP (sometimes effectively 100% to the GP for a period) until the GP's cumulative share equals the target carried interest on the overall profits (commonly 20%). After the catch-up is satisfied, the remaining profits are split according to the carried interest arrangement (e.g., 20% to the GP and 80% to the LPs). Modeling this in a financial forecast means tracking distributions to LPs and the GP in sequence: - First, allocate cash flows back to LPs to return their contributed capital plus the accrued preferred return. - Then apply the catch-up so that the GP reaches the target carried percentage on total profits. - Finally, distribute any remaining profits according to the carried interest split. Keep in mind there are variations (different hurdle rates, compounding versus simple, and different catch-up formulas), but the described sequence—preferred return to LPs, catch-up to align the GP, then carried interest on the residual—is the standard framework and is what this question is testing.

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!