

PRIVATE EQUITY INTERVIEW PRACTICE TEST (SAMPLE)

STUDY GUIDE



**SAMPLE STUDY GUIDE
WITH LIMITED QUESTIONS**

**VISIT US ONLINE FOR
THE FULL VERSION STUDY GUIDE**

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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.

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

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- 1. Which signals a need for deeper due diligence on management incentives?**
 - A. Strategic clarity
 - B. Incentive structures
 - C. Track record
 - D. Governance

- 2. Which of the following statements correctly describes how items on the income statement and balance sheet are connected?**
 - A. Net income from the income statement (after dividends) is added to retained earnings; debt on the balance sheet is used to calculate interest expense on the income statement; PPE is used to calculate depreciation expense.
 - B. Net income increases cash on the balance sheet; debt has no effect on interest expense.
 - C. Retained earnings are decreased by net income; depreciation affects the balance sheet directly but not the income statement.
 - D. Interest expense on the income statement is determined by equity, not debt.

- 3. Accumulated Other Comprehensive Income (OCI) can include which of the following?**
 - A. Foreign currency translation adjustments
 - B. Cash and cash equivalents
 - C. Accounts payable
 - D. Debt repayments

- 4. What are the typical value creation levers and risk factors for a healthcare services target, and how could regulation impact returns?**
 - A. Levers include efficiency, payer mix optimization, access programs, and admission optimization. Risks include reimbursement changes, regulatory compliance costs, and licensing requirements; regulation can alter margins or growth prospects.
 - B. Levers are limited to marketing spend; risk factors are negligible.
 - C. Regulation always increases returns.
 - D. Value levers are irrelevant in healthcare.

- 5. Which formula correctly determines ending retained earnings?**
- A. Old retained earnings balance + this year's net income - dividends issued this year
 - B. Ending cash balance + net income
 - C. Net income + dividends
 - D. Old APIC + SBC
- 6. With \$10 of interest expense and a 20% tax rate, what is the effect on net income?**
- A. Net income decreases by \$8
 - B. Net income decreases by \$10
 - C. Net income increases by \$2
 - D. Net income is unchanged
- 7. In healthy companies, which is typically larger?**
- A. Equity value.
 - B. Shareholders' equity.
 - C. They are typically equal.
 - D. There is no typical relationship.
- 8. Why is bank debt maturity shorter than subordinated debt maturity?**
- A. Bank debt is cheaper because of its seniority and aligns with shorter bank deposits
 - B. Subordinated debt always has shorter maturity
 - C. Banks prefer long-term debt
 - D. There is no reason; maturities are random
- 9. In Porter's Five Forces, which condition indicates strong supplier power?**
- A. Suppliers can command a price premium because there are no easy substitutes, a diverse customer base, an important need for your product, and credible forward integration risk.
 - B. Buyers have low negotiating power due to few substitutes.
 - C. The industry has easy entry for new players.
 - D. There is a credible threat of backward integration by buyers.

10. What is the enterprise value (EV) implied by a comps-based TEV calculation when a company has \$100 million EBITDA, comps trade at 10x, next year requires \$80 million in additional working capital and incurs \$20 million in cash litigation expense?

- A. \$1,200 million
- B. \$1,100 million
- C. \$1,300 million
- D. \$1,000 million

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Answers

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

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Explanations

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1. Which signals a need for deeper due diligence on management incentives?

- A. Strategic clarity
- B. Incentive structures**
- C. Track record
- D. Governance

Incentive structures reveal how rewards are aligned with long-term value creation. If compensation plans tie meaningful upside to durable performance and equity ownership, they encourage management to act in the investors' interests. Conversely, patterns like guaranteed pay, short-term bonuses without clear, long-horizon metrics, or weak or absent equity/carried interest provisions can push behavior toward near-term wins rather than sustainable value growth. Signals such as easy-to-achieve targets, lack of clawbacks or meaningful vesting, and insufficient alignment between management incentives and fund economics all warrant deeper due diligence to understand potential misalignment and risk of pursuing actions that don't boost long-term value. Since how managers are rewarded directly influences their decisions, scrutinizing incentive structures helps determine whether management will align with the investment thesis over the life of the deal. Strategic clarity, track record, and governance matter, but they don't probe the incentive design as directly as the compensation framework itself.

2. Which of the following statements correctly describes how items on the income statement and balance sheet are connected?

- A. Net income from the income statement (after dividends) is added to retained earnings; debt on the balance sheet is used to calculate interest expense on the income statement; PPE is used to calculate depreciation expense.**
- B. Net income increases cash on the balance sheet; debt has no effect on interest expense.
- C. Retained earnings are decreased by net income; depreciation affects the balance sheet directly but not the income statement.
- D. Interest expense on the income statement is determined by equity, not debt.

When you connect the statements, profits become part of the balance sheet through retained earnings. Net income increases retained earnings in shareholders' equity, while dividends reduce retained earnings since they are distributions of accumulated profits. The amount of interest expense on the income statement comes from the company's debt on the balance sheet—the more debt (and the higher the interest rate), the higher the interest expense. Long-lived assets shown as property, plant, and equipment on the balance sheet drive depreciation expense on the income statement, and depreciation also lowers the asset's book value on the balance sheet through accumulated depreciation. These links—net income to retained earnings, debt to interest expense, and PPE to depreciation—explain how items on the income statement and balance sheet are connected.

3. Accumulated Other Comprehensive Income (OCI) can include which of the following?

A. Foreign currency translation adjustments

B. Cash and cash equivalents

C. Accounts payable

D. Debt repayments

You're looking at items that flow directly into equity rather than through net income. Accumulated Other Comprehensive Income captures those kinds of adjustments that reflect changes in value but don't hit the income statement. A classic example is foreign currency translation adjustments. When a company has foreign subsidiaries, the amounts reported in their local currencies must be translated into the parent's reporting currency. The resulting translation differences are recorded in OCI and accumulate over time, only affecting net income later if/when they are recycled through earnings (for example, upon disposal of the subsidiary). The other options live on the balance sheet or cash flow statements and affect reported assets, liabilities, or cash flows, not OCI. Cash and cash equivalents sit as assets, accounts payable as a liability, and debt repayments alter the financing activities and debt balances, not accumulated OCI.

4. What are the typical value creation levers and risk factors for a healthcare services target, and how could regulation impact returns?

A. Levers include efficiency, payer mix optimization, access programs, and admission optimization. Risks include reimbursement changes, regulatory compliance costs, and licensing requirements; regulation can alter margins or growth prospects.

B. Levers are limited to marketing spend; risk factors are negligible.

C. Regulation always increases returns.

D. Value levers are irrelevant in healthcare.

In healthcare services, creating value comes from improving how care is delivered and paid for while managing the costs and regulatory environment. The best choice identifies levers that regularly move both margins and growth: increasing operational efficiency to reduce waste, optimizing the payer mix to favor higher-reimbursement sources, offering access programs to attract and retain patients, and fine-tuning admission practices to improve patient flow and utilization. These levers directly impact how much value a target can extract from its current operations and pricing structure. On the risk side, reimbursement changes from payers or government programs can squeeze revenue or shift it in unpredictable ways, regulatory compliance costs add ongoing operating expense, and licensing requirements can constrain expansion or add capital and administrative burdens. Regulation can influence returns by altering margins or growth prospects—through price dynamics, access conditions, or the cost of staying compliant. Some other options miss these dynamics: focusing only on marketing spend ignores how much revenue comes from payer arrangements and regulatory constraints; treating regulation as a universal boost to returns oversimplifies the reality that it often adds cost and risk; and claiming value levers aren't relevant overlooks the central ways healthcare players control profitability and scale.

5. Which formula correctly determines ending retained earnings?

- A. Old retained earnings balance + this year's net income - dividends issued this year
- B. Ending cash balance + net income
- C. Net income + dividends
- D. Old APIC + SBC

Ending retained earnings represent the cumulative profits the company has kept rather than paid out. The value at the end of the period equals what you started with in retained earnings, plus the net income earned this period, minus any dividends paid to shareholders. That gives the standard formula: Ending Retained Earnings = Beginning Retained Earnings + Net Income - Dividends. The option matches this exactly by using the old retained earnings balance, adding this year's net income, and subtracting the dividends issued this year. Other choices mix in items that don't affect retained earnings in the same way: ending cash is a liquidity measure, not a calculation of retained earnings; net income plus dividends ignores the starting retained earnings balance; and items like APIC (additional paid-in capital) or SBC (stock-based compensation) are components of equity but don't determine the running total of retained earnings.

6. With \$10 of interest expense and a 20% tax rate, what is the effect on net income?

- A. Net income decreases by \$8
- B. Net income decreases by \$10
- C. Net income increases by \$2
- D. Net income is unchanged

The effect comes from the tax shield created by a deductible expense. An interest expense of 10 reduces pretax income by 10, so taxes fall by 20% of that amount, which is 2. The net income change is the after tax impact: $-10 + 2 = -8$. So net income decreases by 8. The other options ignore the tax shield or misstate the direction of the effect.

7. In healthy companies, which is typically larger?

- A. Equity value.
- B. Shareholders' equity.
- C. They are typically equal.
- D. There is no typical relationship.

The main idea is that equity value and shareholders' equity measure different concepts. Equity value is the market's valuation of all outstanding shares, reflecting how investors value the company's future cash flows, growth prospects, and even intangible assets like brand and technology. Shareholders' equity is the accounting book value on the balance sheet, built from historic cost and retained earnings, and it often omits those forward-looking and intangible factors. Because investors typically pay for future potential rather than just historical assets, the market value of the equity is usually larger than the book value of shareholders' equity in healthy companies. This gap—the market value being higher than the accounting equity value—is common, though it can vary with growth prospects, debt levels, and accounting adjustments.

8. Why is bank debt maturity shorter than subordinated debt maturity?

- A. Bank debt is cheaper because of its seniority and aligns with shorter bank deposits
- B. Subordinated debt always has shorter maturity
- C. Banks prefer long-term debt
- D. There is no reason; maturities are random

Debt maturity patterns reflect both risk and funding sources. Bank debt is senior to subordinated debt, so lenders face far lower default risk and require a lower return to lend to the bank. That reduced risk translates into cheaper funding. Banks fund a large share of their liabilities with deposits and other short-term sources, so it makes sense to issue debt with shorter maturities to match this liquidity profile and maintain a robust balance sheet. Subordinated debt, being lower in the repayment priority, carries more risk for investors, who demand higher yields. To attract investors, issuers often use longer maturities and structure the debt to match long-term capital needs. So the combination of seniority and alignment with short-term deposits explains why bank debt maturities tend to be shorter.

9. In Porter's Five Forces, which condition indicates strong supplier power?

- A. Suppliers can command a price premium because there are no easy substitutes, a diverse customer base, an important need for your product, and credible forward integration risk.
- B. Buyers have low negotiating power due to few substitutes.
- C. The industry has easy entry for new players.
- D. There is a credible threat of backward integration by buyers.

The main idea here is that supplier power is strong when suppliers can push costs up because their inputs are essential, there are few substitutes, and they have credible ways to exert leverage over buyers. When an input is indispensable to buyers' operations and substitutes are scarce, buyers become heavily dependent on the supplier. Add in a credible threat of forward integration by the supplier—where the supplier could start producing the buyer's product themselves—and the supplier gains even more bargaining power. The fact that the supplier can command a price premium confirms this leverage in practice. So this option captures the key signals of strong supplier power: no easy substitutes, the input is critically needed, and a credible forward integration risk that supports higher pricing. The other choices describe situations that either shift power toward buyers or indicate easier entry or rivalry, which don't reflect strong supplier power.

10. What is the enterprise value (EV) implied by a comps-based TEV calculation when a company has \$100 million EBITDA, comps trade at 10x, next year requires \$80 million in additional working capital and incurs \$20 million in cash litigation expense?

A. \$1,200 million

B. \$1,100 million

C. \$1,300 million

D. \$1,000 million

When valuing with comps, you start with the operating performance and apply the trading multiple to get the baseline enterprise value for the business, then adjust for near-term cash needs the buyer would have to fund. Here, EBITDA is 100 million and the comps trade at 10x, so the baseline enterprise value is 1,000 million. Next year, the business will require 80 million of additional working capital and will incur 20 million in cash litigation expense. A buyer paying to acquire the company would need to provide that cash at closing, effectively increasing the price. Add these cash needs to the baseline EV: $1,000 + 80 + 20 = 1,100$ million. So the implied enterprise value is 1,100 million.

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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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