Goldman Sachs IBD Interview Questions & Answers

I. Behavioral Questions

1. Walk me through your resume.

Answer: This is your opportunity to tell your story and connect your experiences to the role. Structure your answer chronologically, starting with your earliest relevant experience and ending with your most recent. Highlight key achievements and explain how your skills and experiences make you a good fit for investment banking at Goldman Sachs. Keep it concise and under 2 minutes.

Example: “I started my journey at [University Name] where I majored in [Your Major]. My interest in finance began when I [mention a specific experience, e.g., joined a student investment club, took a specific course]. This led me to an internship at [Company Name], where I had the opportunity to [mention 1-2 key responsibilities and achievements, e.g., work on a live deal, build a financial model]. After that, I [mention your next experience] which further solidified my interest in [a specific area of IBD]. I am particularly drawn to Goldman Sachs because of its [mention a specific reason, e.g., strong reputation in M&A, collaborative culture]. I am confident that my analytical skills, attention to detail, and strong work ethic, which I have demonstrated through [mention a specific example], will allow me to contribute to your team.”

2. Why Goldman Sachs?

Answer: This question assesses your interest in the firm. Your answer should be specific and demonstrate that you have done your research. Mention specific deals, the firm’s culture, or people you have spoken to. Avoid generic answers like “it’s the best” or “it’s a top-tier firm.”

Example: “I am particularly drawn to Goldman Sachs for three main reasons. First, its unparalleled reputation in the M&A advisory space, evidenced by landmark deals such as [mention a recent, relevant deal]. Second, the firm’ s emphasis on a collaborative and team-oriented culture, which I have heard about from [mention a specific person you spoke to or a specific article you read]. Finally, I am impressed by the firm’ s commitment to [mention a specific initiative, e.g., sustainability, diversity], which aligns with my own personal values. I am eager to learn from the best in the industry and contribute to a firm with such a strong legacy and forward-looking vision.”

3. Why Investment Banking?

Answer: Your answer should demonstrate a genuine interest in investment banking and a clear understanding of the role. Mention the aspects of the job that appeal to you, such as the fast-paced environment, the opportunity to work on challenging transactions, and the steep learning curve.

Example: “I am drawn to investment banking because it offers a unique combination of my interests in finance, strategy, and problem-solving. I am excited by the prospect of working in a dynamic and challenging environment where I can contribute to transactions that have a significant impact on companies and the broader economy. The opportunity to work with and learn from incredibly smart and driven individuals is also a major draw for me. I am a highly motivated individual who thrives in a fast-paced setting, and I am confident that investment banking is the right career path for me.”

4. What are your strengths and weaknesses?

Answer: For your strengths, choose 2-3 qualities that are relevant to investment banking, such as analytical skills, attention to detail, and a strong work ethic. Provide specific examples to back up your claims. For your weaknesses, choose a real weakness but frame it in a positive light by explaining how you are working to improve it. Avoid clichés like “I’ m a perfectionist.”

Example: “One of my greatest strengths is my analytical ability. For example, in my previous internship, I was tasked with analyzing a large dataset to identify potential investment opportunities. I was able to identify a key trend that led to a successful investment recommendation. Another strength is my strong work ethic. I am not afraid of long hours and I am always willing to go the extra mile to get the job done.

As for my weaknesses, I have been working on my public speaking skills. While I am comfortable presenting in small groups, I used to be nervous in front of larger audiences. To address this, I joined a public speaking club and have been actively seeking out opportunities to present. I have seen a significant improvement in my confidence and delivery.”

5. Tell me about a time you worked in a team.

Answer: Choose an example that highlights your ability to collaborate, communicate, and contribute to a team’ s success. Use the STAR method (Situation, Task, Action, Result) to structure your answer.

Example: “(Situation) In my [Course Name] class, we were assigned a group project to analyze a company and present our findings. (Task) Our task was to create a comprehensive valuation of the company and make a buy/sell recommendation. (Action) I took the lead on the financial modeling portion of the project, building a DCF model from scratch. I also worked closely with my teammates to ensure that our analysis was consistent and our presentation was cohesive. We had some disagreements along the way, but we were able to resolve them through open communication and a focus on our common goal. (Result) As a result of our hard work and collaboration, we received the highest grade in the class and our professor praised our in-depth analysis and teamwork.”

6. Tell me about a time you failed.

Answer: Choose a real failure and be honest about it. The key is to show that you have learned from your mistakes and are resilient. Use the STAR method to structure your answer.

Example: “(Situation) In my first internship, I was responsible for creating a presentation for a client meeting. (Task) I was so focused on making the presentation perfect that I lost track of time and missed the deadline. (Action) I immediately apologized to my manager and explained what happened. I then worked overnight to finish the presentation and delivered it the next morning. (Result) Although I was disappointed in myself for missing the deadline, I learned a valuable lesson about time management and the importance of communicating proactively. I now use a project management tool to track my tasks and deadlines, and I make sure to communicate any potential delays as soon as they arise.”

7. Where do you see yourself in 5 years?

Answer: Your answer should show that you are ambitious and have a long-term interest in a career in finance. It is also an opportunity to show that you have realistic expectations about the industry.

Example: “In five years, I hope to have progressed to the Associate level within Goldman Sachs’ Investment Banking Division. I aim to have developed a strong expertise in a specific sector, such as Technology or Healthcare, and to be a trusted advisor to our clients. I am also eager to take on more responsibility in mentoring junior analysts and contributing to the firm’s recruiting efforts. Ultimately, I aspire to build a long and successful career at Goldman Sachs.”

8. What is your leadership style?

Answer: Even as a junior banker, you will be expected to demonstrate leadership qualities. Your answer should reflect your ability to take initiative, motivate others, and work effectively in a team. You can mention a specific leadership style (e.g., democratic, transformational) and provide an example of how you have applied it.

Example: “I would describe my leadership style as collaborative and results-oriented. I believe in empowering my team members and giving them the autonomy to take ownership of their work. I also believe in setting clear goals and holding everyone accountable for their contributions. For example, in a recent group project, I was the team leader. I started by facilitating a brainstorming session to get everyone’s input on our strategy. I then assigned specific tasks to each team member based on their strengths and interests. I checked in with everyone regularly to provide support and ensure we were on track. As a result, we were able to complete the project ahead of schedule and received positive feedback from our professor.”

9. How do you handle pressure?

Answer: Investment banking is a high-pressure environment. Your answer should demonstrate your ability to stay calm, focused, and productive under stress. Provide a specific example of a time you successfully managed a stressful situation.

Example: “I handle pressure by staying organized and prioritizing my tasks. I also make sure to take short breaks to clear my head and stay focused. For example, during my last internship, we were working on a tight deadline for a client presentation. I was responsible for a critical part of the analysis, and the pressure was on. I created a detailed to-do list and broke down the task into smaller, manageable steps. This helped me stay on track and avoid feeling overwhelmed. I also made sure to communicate with my team members to ensure we were all on the same page. We were able to deliver the presentation on time and the client was very pleased with our work."

10. Do you have any questions for me?

Answer: Always have a few thoughtful questions prepared. This shows your interest in the role and the firm. Avoid asking questions that can be easily answered with a Google search. Instead, ask questions about the team, the culture, or the interviewer's personal experience.

Example:

- "What is a typical day like for an analyst on your team?"
- "What are the biggest challenges and opportunities facing your group right now?"
- "What do you enjoy most about working at Goldman Sachs?"
- "What advice would you give to a new analyst joining your team?"

II. Technical Questions

Accounting

11. How do the three financial statements link together?

Answer:

- **Net Income** from the Income Statement flows to the top line of the Cash Flow Statement.
- **Net Income** also flows into Retained Earnings on the Balance Sheet.
- **Beginning Cash** on the Cash Flow Statement comes from the prior period's Balance Sheet.

- **Ending Cash** on the Cash Flow Statement flows to the current period’ s Balance Sheet.
- **Changes in working capital** on the Cash Flow Statement are reflected in the changes in current assets and current liabilities on the Balance Sheet.
- **Depreciation** on the Income Statement is added back to net income on the Cash Flow Statement and also reduces the value of Property, Plant & Equipment (PP&E) on the Balance Sheet.

12. What happens on the financial statements when there is a $10 increase in depreciation?

Answer:

- **Income Statement:** Depreciation is an expense, so it reduces pre-tax income by $10. Assuminga 208.$
- **Cash Flow Statement:** Net income is down by $8, butyouaddbackthe 10$ of depreciation (a non-cash expense). So, cash flow from operations increases by $2. Endingcashisupby 2.$
- **Balance Sheet:** On the assets side, cash is up by 2, but PP&E is down by 10, so total assets are down by $8. Ontheliabilitiesandequityside, retainedearningsaredownby 8$ (due to the decrease in net income). The balance sheet balances.

13. What is EBITDA?

Answer: EBITDA stands for Earnings Before Interest, Taxes, Depreciation, and Amortization. It is a measure of a company’ s operating performance and is often used as a proxy for cash flow. EBITDA is calculated as:

EBITDA = Net Income + Interest + Taxes + Depreciation + Amortization

Alternatively, you can calculate it as:

EBITDA = EBIT + Depreciation + Amortization

14. What is the difference between cash-based and accrual accounting?

Answer:

- **Cash-based accounting** recognizes revenue and expenses when cash is actually received or paid out.
- **Accrual accounting** recognizes revenue when it is earned and expenses when they are incurred, regardless of when cash is exchanged. Accrual accounting is the standard for publicly traded companies as it provides a more accurate picture of a company's financial health.

15. What is deferred revenue?

Answer: Deferred revenue is a liability on the balance sheet that represents cash received from customers for products or services that have not yet been delivered. Once the product or service is delivered, the deferred revenue is recognized as revenue on the income statement.

Valuation

16. What are the three main valuation methodologies?

Answer:

1. **Discounted Cash Flow (DCF) Analysis:** This is an intrinsic valuation method that values a company based on the present value of its future cash flows.
2. **Comparable Company Analysis (CCA):** This is a relative valuation method that compares a company's valuation multiples (e.g., P/E, EV/EBITDA) to those of its publicly traded peers.
3. **Precedent Transaction Analysis (PTA):** This is another relative valuation method that compares a company to other companies that have recently been sold or acquired in the same industry.

17. Walk me through a DCF analysis.

Answer:

1. **Forecast Free Cash Flow (FCF):** Project the company' s unlevered free cash flow for a period of 5-10 years. Unlevered FCF is calculated as EBIT * (1 - tax rate) + D&A - CapEx - Change in Net Working Capital.
2. **Calculate Terminal Value:** Estimate the value of the company' s cash flows beyond the forecast period. This can be done using either the Gordon Growth Model or the Exit Multiple Method.
3. **Discount FCF and Terminal Value:** Discount the forecasted FCF and terminal value back to the present using the Weighted Average Cost of Capital (WACC).
4. **Calculate Enterprise Value:** The sum of the present values of the FCF and terminal value is the company' s Enterprise Value.
5. **Calculate Equity Value:** Subtract net debt from Enterprise Value to arrive at Equity Value.
6. **Calculate Implied Share Price:** Divide Equity Value by the number of diluted shares outstanding to get the implied share price.

18. How do you calculate the Weighted Average Cost of Capital (WACC)?

Answer: WACC represents a company' s blended cost of capital across all sources, including equity and debt. The formula is:

WACC = (E / (E + D)) * Cost of Equity + (D / (E + D)) * Cost of Debt * (1 - Tax Rate)

Where:

- E = Market Value of Equity
- D = Market Value of Debt
- Cost of Equity is calculated using the Capital Asset Pricing Model (CAPM).
- Cost of Debt is the yield to maturity on the company' s long-term debt.
- Tax Rate is the company' s effective tax rate.

19. How do you calculate Free Cash Flow (FCF)?

Answer: There are two main types of free cash flow: Unlevered FCF (UFCF) and Levered FCF (LFCF).

- **Unlevered FCF (to the firm):** Represents the cash flow available to all capital providers (both debt and equity holders). It is calculated as: UFCF = EBIT * (1 - Tax Rate) + D&A - Capital Expenditures - Change in Net Working Capital
- **Levered FCF (to equity):** Represents the cash flow available to equity holders after debt obligations have been met. It is calculated as: LFCF = Net Income + D&A - Capital Expenditures - Change in Net Working Capital - Mandatory Debt Repayments

20. What is terminal value and how do you calculate it?

Answer: Terminal value represents the value of a company's cash flows beyond the explicit forecast period in a DCF analysis. There are two common methods for calculating terminal value:

1. **Gordon Growth Model (Perpetuity Growth Method):** Assumes the company's free cash flows will grow at a constant rate in perpetuity. The formula is: Terminal Value = (FCF * (1 + g)) / (WACC - g) Where 'g' is the perpetual growth rate, which is typically in line with long-term GDP growth.
2. **Exit Multiple Method:** Assumes the company is sold at the end of the forecast period at a valuation multiple (e.g., EV/EBITDA) based on comparable companies. The formula is: Terminal Value = Last Twelve Months EBITDA * Exit Multiple

21. What is a comparable company analysis?

Answer: A comparable company analysis (CCA) is a relative valuation method that compares a company's valuation multiples to those of its publicly traded peers. The steps are:

1. **Select a peer group:** Identify a group of publicly traded companies that are similar to the target company in terms of industry, size, and business model.
2. **Gather financial data:** Collect financial data for the peer group, including stock price, market capitalization, net debt, EBITDA, and earnings.
3. **Calculate valuation multiples:** Calculate key valuation multiples for the peer group, such as P/E, EV/EBITDA, and EV/Sales.
4. **Apply multiples to the target company:** Apply the median or average multiples of the peer group to the target company's corresponding financial metrics to

arrive at an implied valuation.

22. What are the pros and cons of a comparable company analysis?

Answer: Pros:

- It is based on public market data, which is readily available.
- It is a widely used and accepted valuation method.
- It provides a good sense of how the market is valuing similar companies.

Cons:

- It can be difficult to find a truly comparable peer group.
- It is sensitive to market fluctuations and can be influenced by short-term market sentiment.
- It may not be appropriate for companies with unique business models or in niche industries.

23. What is a precedent transaction analysis?

Answer: A precedent transaction analysis (PTA) is a relative valuation method that compares a company to other companies that have recently been sold or acquired in the same industry. The steps are similar to a CCA, but instead of looking at public market multiples, you look at the multiples paid in M&A transactions.

24. What are the pros and cons of a precedent transaction analysis?

Answer: Pros:

- It is based on actual transactions, which reflects the price that buyers have been willing to pay for similar companies.
- It can provide a more realistic valuation than a CCA, as it includes a control premium.

Cons:

- It can be difficult to find a sufficient number of comparable transactions.
- The data for private transactions can be difficult to obtain.

- It is sensitive to the timing of the transactions and may not reflect current market conditions.

M&A

25. Walk me through an M&A model.

Answer: An M&A model is used to analyze the financial impact of a merger or acquisition. The key steps are:

1. **Make assumptions:** Make assumptions about the purchase price, the form of consideration (cash, stock, or a mix), and any synergies.
2. **Project financial statements:** Project the income statements, balance sheets, and cash flow statements for both the acquirer and the target.
3. **Combine the financial statements:** Combine the financial statements of the acquirer and the target to create a pro forma financial model for the combined entity.
4. **Analyze the impact:** Analyze the impact of the transaction on the acquirer’s earnings per share (EPS), credit rating, and other key financial metrics.

26. What is accretion and dilution?

Answer:

- **Accretion** occurs when a transaction increases the acquirer’s earnings per share (EPS).
- **Dilution** occurs when a transaction decreases the acquirer’s EPS.

A quick way to determine if a deal is accretive or dilutive is to compare the acquirer’s P/E multiple to the target’s P/E multiple. If the acquirer’s P/E is higher than the target’s, the deal will be accretive, and vice versa.

27. What are synergies?

Answer: Synergies are the potential financial benefits of a merger or acquisition. There are two main types of synergies:

1. **Revenue synergies:** The ability of the combined company to generate more revenue than the two companies could on their own. Examples include cross-selling products, entering new markets, and increasing market share.
2. **Cost synergies:** The ability of the combined company to reduce costs. Examples include eliminating redundant employees, consolidating facilities, and increasing purchasing power.

28. What is the difference between a stock purchase and an asset purchase?

Answer:

- **Stock purchase:** The acquirer purchases the target company's stock and assumes all of its assets and liabilities.
- **Asset purchase:** The acquirer purchases only the target company's assets and does not assume its liabilities.

From a tax perspective, an asset purchase is generally more favorable for the acquirer as it allows for a step-up in the tax basis of the assets, which can result in tax savings from depreciation.

29. What is goodwill?

Answer: Goodwill is an intangible asset that is created when a company is acquired for a price that is higher than the fair market value of its net assets. It represents the value of the target company's brand, customer relationships, and other intangible assets. Goodwill is not amortized, but it is tested for impairment annually.

30. What is an LBO?

Answer: An LBO, or Leveraged Buyout, is a type of acquisition where a company is acquired using a significant amount of debt. The assets of the acquired company are often used as collateral for the loans. The goal of an LBO is to generate a high return on equity by using financial leverage to amplify the returns from the investment. Private equity firms are the primary users of LBOs.