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Priced & Allocated

FREE GUIDE · EDITION 1.0

50 Capital Markets Interview Questions

With model answers, plus what interviewers are really testing

ECM

DCM

Leveraged Finance

Private Placements

Core IB Technicals

Deal Discussion

8 sections · 50 questions · model answers · interviewer tips

Important notice

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How to use this guide

Capital markets interviews test three things at once: whether you understand how companies raise money, whether you follow the markets that make those raises possible, and whether you can still handle the core technicals every banker learns first.

This guide gives you 50 of the questions that come up most in interviews for ECM, DCM, leveraged finance, private placement and broader capital-raising roles, along with the core IB technicals those teams still ask. It is written for undergraduates, MBA candidates and lateral hires.

1**Answer first, then read**

Cover the model answer and respond out loud. Then compare. You'll learn far more from the gaps.

2**Learn the structure, not the script**

Interviewers can tell when an answer is memorized. Keep the logic and put it in your own words.

3**Read the "testing" line**

Each question ends with what the interviewer is really probing, or a tip. That's what to nail.

4**Refresh market facts daily**

Market answers here are frameworks. Add today's facts yourself and quote only numbers you've verified.

All examples are **hypothetical**. Numbers are chosen to make the math clear, not to describe any real company, deal or market level.

Good luck. Go get the seat.

The Priced & Allocated team

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SECTION 01 · 6 QUESTIONS · Q1-Q6

Fit & "Why Capital Markets"

Every interview opens here. Strong fit answers are short, specific, and connect your story to what a capital markets desk actually does.

Q01 Walk me through your resume.

Aim for 60–90 seconds with a clear arc: where you started, the two or three experiences that built relevant skills, and why those experiences point you toward capital markets now. Lead with the through-line (for example, an interest in how companies fund themselves), not a chronological list. Spend the most time on the most recent and most relevant experience, and quantify your role only with facts you can defend. Close with a forward-looking line that hands the interviewer a natural next question, such as "...which is why I'm focused on ECM roles this cycle."

WHAT THEY'RE REALLY TESTING

Can you communicate concisely and tell a coherent story? Your resume walk-through is a preview of how you'd brief a senior banker.

Q02 Why capital markets rather than M&A or a coverage group?

Frame the answer around what you are drawn to, not what you want to avoid. Capital markets sits at the intersection of corporate finance and live markets: you see a high volume of transactions, outcomes are measured in real time (pricing, demand, aftermarket trading), and you build a view on what investors will pay for. Connect this to a specific experience, like following how a hypothetical company's bond was priced versus its peers or tracking an IPO from filing to first trade. Never disparage M&A; interviewers often sit near (or came from) those teams.

TIP

Have one sentence that names the specific product you want (ECM, DCM, LevFin) and why. "Capital markets" alone sounds generic.

Q03 What does a capital markets analyst actually do day to day?

Analysts sit between coverage bankers (who own the client relationship) and the syndicate and sales desks (who own investor relationships). Typical work includes monitoring markets and the new-issue calendar, maintaining comparable-transaction and pricing databases, building pitch pages on market conditions, issuance windows and pricing expectations, and supporting live execution: documentation checklists, roadshow logistics, investor feedback summaries and order-book analysis. After a deal, analysts often prepare post-deal recaps showing how the transaction priced and traded. The pace is driven by market hours, so mornings tend to be busy.

WHAT THEY'RE REALLY TESTING

Whether you understand the seat you're applying for, and aren't secretly hoping to do M&A modeling all day.

Q04 Which product interests you most: ECM, DCM, or leveraged finance? Why?

Pick one and give a reason tied to the product's mechanics. ECM is driven by equity valuation, investor sentiment and event-driven deals like IPOs and follow-ons. DCM (investment grade) is high-volume, spread-driven, and closely tied to rates and the issuer's credit profile. Leveraged finance blends credit analysis with deal structuring, often in support of sponsor-backed acquisitions, and sits close to the M&A process. It's fine to say you're open to placement, but show you know the differences and have a genuine reason for your first choice.

TIP

If you're interviewing for a combined or "capital markets & solutions" group, emphasize the common thread: helping clients choose the right security at the right time.

Q05 Why our firm?

Use a three-part framework: (1) something specific about the group's business, such as its product focus, client base or the types of deals it is known for, based on public information; (2) something you learned from people you spoke with, referenced by name only if you're confident it's appropriate; (3) how the role fits your goals. Avoid generic statements about "culture" or "deal flow" unless you can back them up with specifics. Do your homework on the firm's recent publicly announced deals in your target product, but describe them qualitatively if you aren't certain of the figures.

WHAT THEY'RE REALLY TESTING

Preparation and genuine interest. A specific, accurate answer signals you'd do the same diligence on a client.

Q06 Tell me about a time you had to deliver accurate work under a tight deadline.

Use the STAR structure (Situation, Task, Action, Result) and keep the "Action" portion the longest. Choose a story where accuracy *and* speed mattered, since capital markets work often means turning comments quickly on market-sensitive materials. Show how you prioritized, checked your own work, and communicated proactively when something might slip. End with the result and one lesson you still apply. Keep it to about two minutes.

WHAT THEY'RE REALLY TESTING

Reliability under time pressure. On a live deal, a fast answer with a wrong number is worse than no answer.

SECTION 02 · 5 QUESTIONS · Q7–Q11

Markets & Current-Events Framing

You will be asked what's happening in markets. This section teaches *how* to structure those answers. Fill in today's facts yourself, and only cite numbers you've verified that morning.

Q07 What's going on in the markets right now?

Use a three-layer structure. **Macro:** what central banks, inflation and growth data are doing and what the market expects next. **Markets:** direction of equities, credit spreads, rates and volatility, and the key driver behind the move. **Issuance:** which windows are open (IPOs, follow-ons, IG bonds, high yield, leveraged loans) and which sectors have been active. Finish by connecting it to the desk you're interviewing with, for example: "That backdrop matters for ECM because lower volatility tends to support IPO activity." Prepare a fresh version the morning of every interview.

TIP

Say "as of this morning" and quote a level only if you checked it. A confident framework beats a misremembered number.

Q08 How do interest rates affect capital markets activity?

Higher rates raise the cost of new debt, which can reduce refinancing and acquisition-financing activity and push issuers toward shorter tenors, floating-rate structures, or alternatives like convertibles (which carry lower coupons in exchange for equity upside). Rates also feed into equity valuations through the discount rate; long-duration growth stocks are typically more sensitive. On the investor side, higher all-in yields can attract more demand for fixed income. Falling rates generally work in the opposite direction and can trigger refinancing waves. The key is the *direction and stability* of rates, not just the level.

WHAT THEY'RE REALLY TESTING

Whether you can link a macro variable to issuer decisions and investor demand, which is the core of a capital markets conversation.

Q09 Pitch me a recent deal you followed.

Use a consistent structure: **who** (issuer and industry), **what** (security type, size, tenor or structure), **why** (use of proceeds and why this security now), **how it was received** (demand, pricing versus initial talk, how it traded), and **what it signals** about the market. Choose a deal you can discuss in depth from public sources such as press releases, prospectuses and financial press. If you're unsure of a precise figure, describe it qualitatively ("priced at the tight end of guidance"). Have one follow-up insight ready, such as why the issuer picked that tenor.

TIP

Prepare one ECM deal and one debt deal. Interviewers often follow with "and what's one more?"

Q10 What is the VIX, and why does an ECM desk care about it?

The VIX is an index of the market's expected 30-day volatility of the S&P 500, derived from S&P 500 index option prices. It's often called a "fear gauge" because it tends to rise when equities fall. ECM desks watch it because investors are less willing to buy new equity, especially IPOs and large marketed follow-ons, when volatility is elevated; pricing becomes harder and discounts widen. Stable, lower-volatility markets tend to support more issuance. Many desks also watch single-stock and sector volatility for specific deals.

WHAT THEY'RE REALLY TESTING

Market awareness and the link between sentiment and the issuance window.

Q11 What does the shape of the yield curve tell you, and why does a DCM banker care?

The yield curve plots government bond yields across maturities. A normal curve slopes upward (longer maturities yield more to compensate for duration and inflation risk); an inverted curve, where short-term yields exceed long-term yields, has historically been associated with expectations of slowing growth and future rate cuts. DCM bankers care because new bonds are typically priced as a spread over a benchmark government bond of similar maturity, so the curve shape drives the all-in cost of different tenors. It also shapes issuer decisions (lock in long-term funding vs. issue short), and investor demand varies across the curve.

TIP

If asked to predict rates, explain the drivers and the scenarios rather than naming a number. No one expects you to call the market.

SECTION 03 · 10 QUESTIONS · Q12–Q21

Equity Capital Markets (ECM)

IPOs, follow-ons, blocks, ATMs, converts and the mechanics that hold them together.

Q12 Walk me through the IPO process.

1. Organization: the company selects underwriters, lawyers and auditors, and holds an organizational meeting. **2. Due diligence and drafting:** the team prepares the registration statement (an S-1 for U.S. domestic issuers), which is often first submitted confidentially to the SEC. **3. SEC review:** comment letters are addressed through amendments while equity research and the equity story are refined. **4. Marketing:** after public filing and setting a price range, management goes on a roadshow while the bookrunners build the order book. **5. Pricing and allocation:** the deal is priced, typically after market close, shares are allocated, and trading begins the next morning. **6. Aftermarket:** stabilization (including the greenshoe), research coverage after the quiet period, and lock-up expiry.

WHAT THEY'RE REALLY TESTING

Whether you know the sequence and who does what. Being able to explain each step in one sentence is the bar.

Q13 How does bookbuilding work?

During marketing, institutional investors submit indications of interest to the bookrunners, specifying share quantity and, often, price sensitivity. Orders can be **strike** (any price in the range), **limit** (up to a specific price), or **step-downs** (larger quantities at lower prices). The syndicate desk tracks demand, investor quality and price sensitivity to gauge where the deal can clear. The book's depth and composition, such as long-only funds versus short-term holders, inform both the final price and allocations. Allocations are discretionary and aim to place shares with investors likely to support the stock after pricing.

WHAT THEY'RE REALLY TESTING

Understanding that the "book" is about investor *quality and price sensitivity*, not just the multiple of oversubscription.

Q14 What happens on an IPO roadshow?

The roadshow is the marketing period, often about one to two weeks, during which management presents the investment story to institutional investors through group meetings and one-on-ones, increasingly virtual or hybrid. Bankers prepare the presentation, coordinate the schedule and gather feedback after each meeting. Before or alongside the formal launch, issuers may use testing-the-waters meetings to gauge interest. Feedback on valuation, questions and order indications feeds directly into decisions on the range and final price.

TIP

Mention that feedback loops are the point: the roadshow is as much about *learning* investor appetite as *selling* the story.

Q15 How is an IPO priced, and why is it often priced at a discount?

Bankers build a valuation framework from comparable public companies and relevant valuation methods, then set a price range. The final price reflects the order book's demand and price sensitivity. IPOs are commonly priced at a discount to estimated fair value (an "IPO discount") to compensate investors for the risk of a new, unproven stock and information asymmetry, and to leave room for healthy aftermarket trading. A modest first-day gain helps establish the stock and supports future follow-on offerings, but too large a pop means the issuer left money on the table. Pricing is the balance between maximizing proceeds and setting up a stable aftermarket.

WHAT THEY'RE REALLY TESTING

Whether you can articulate the trade-off between issuer proceeds and aftermarket performance.

Q16 What is a greenshoe (overallotment option), and how does it work?

The greenshoe lets underwriters sell up to 15% more shares than the base deal, creating a short position, with an option to buy those extra shares from the issuer at the offering price, typically within 30 days. Hypothetically, on a 10 million share deal the underwriters sell 11.5 million. If the stock trades **below** the offer price, they buy shares in the open market to cover the short, which supports the price. If it trades **above**, they exercise the option and buy the extra 1.5 million shares from the issuer at the offering price, so they don't lose money covering. It's a price-stabilization tool that works in both scenarios.

WHAT THEY'RE REALLY TESTING

Can you explain both scenarios clearly? Interviewers often ask "what happens if the stock goes down?"

Q17 What is a lock-up agreement?

A lock-up is a contractual agreement under which the company, insiders and pre-IPO shareholders agree not to sell or issue shares for a set period after an offering, commonly around 180 days for IPOs, subject to negotiated exceptions and potential early releases. It reassures new investors that a wave of supply won't hit the stock immediately after the deal. Lock-up expirations are closely watched because the potential for added supply can weigh on the share price. Follow-on offerings often carry shorter lock-ups for the issuer and selling shareholders.

TIP

Know the purpose (protecting the aftermarket), not just the typical length.

Q18 What is a follow-on offering, and why might a stock fall when one is announced?

A follow-on (or secondary offering) is any equity offering after the IPO. It can be **primary** (new shares issued, proceeds go to the company and existing holders are diluted) or **secondary** (existing shareholders sell, proceeds go to them, no new shares). Follow-ons may be fully marketed over several days or executed overnight. Stocks often dip on announcement because of dilution (for primary), new supply, the discount needed to clear the deal, and signaling: investors may infer that management or insiders think the shares are fully valued.

WHAT THEY'RE REALLY TESTING

Primary vs. secondary is basic. The signaling point shows you think like an investor.

Q19 What is a block trade, and what risk does the bank take?

A block trade is the sale of a large block of shares, often by a sponsor, founder or other large holder, executed quickly, usually overnight, with limited or no marketing. In a **bought deal** (or risk block), the bank buys the shares from the seller at a fixed price and then resells them to investors, taking the risk that it can't resell above its purchase price. Alternatives include agented or "best efforts" blocks, where the bank simply places shares for a fee. Pricing is a discount to the last close that reflects the size relative to trading volume, stock volatility and investor demand. Speed limits the market's ability to trade against the deal.

WHAT THEY'RE REALLY TESTING

Understanding principal risk: in a bought deal the bank's own capital is on the line.

Q20 What is an at-the-market (ATM) offering?

An ATM program lets a public company sell newly issued shares gradually into the open market at prevailing prices through one or more sales agents, typically under an effective shelf registration statement and a sales (equity distribution) agreement. The company controls timing and amount and can use the program opportunistically. Advantages are low cost, minimal discount and little market disruption; the trade-off is that proceeds come in slowly and are limited by trading volume. ATMs are common among frequent equity issuers such as REITs, utilities and life-sciences companies.

TIP

Contrast it with a follow-on: ATM = slow, cheap and flexible; marketed follow-on = large, fast and discounted.

Q21 What is a convertible bond, and why would a company issue one?

A convertible bond is debt that can be converted into a fixed number of the issuer's shares. Converts carry a lower coupon than straight debt because investors receive an embedded equity call option. Key terms include the **conversion premium** and **conversion price**. Hypothetically, if the stock is \$40 and the premium is 30%, the conversion price is \$52, and a \$1,000 bond converts into about 19.2 shares. Issuers like the lower cash coupon and the fact that equity is effectively issued at a premium to today's price. Many convert buyers are hedge funds that short the stock to hedge, which is one reason the shares can fall on announcement; issuers sometimes buy capped calls to offset dilution.

WHAT THEY'RE REALLY TESTING

Can you explain the debt-plus-call-option intuition and do the conversion math quickly?

SECTION 04 · 7 QUESTIONS · Q22–Q28

Debt Capital Markets (DCM)

Investment-grade issuance, spreads, yields, ratings and the basics of how bonds are priced.

Q22 Walk me through a typical investment-grade bond deal.

Many IG deals are executed in a single day off an existing shelf registration (or under Rule 144A for some issuers). In the morning, the bookrunners announce the deal and release **initial price talk (IPTs)**, for example, a hypothetical 10-year at “T+130 bps area.” As orders build, the desk tightens to **guidance** (say T+110–115) and then **launches** with final size and spread, once the book’s strength is clear. The deal is **priced** that afternoon; the coupon is set near the yield so the bond prices close to par, and it is **allocated** and settles a few days later. Before execution, the issuer and bankers decide on size, tenor and timing based on market conditions and investor feedback.

WHAT THEY’RE REALLY TESTING

Fluency with the vocabulary (IPTs, guidance, launch, price) and the speed of IG execution.

Q23 What is a credit spread, and how is a new bond priced?

A credit spread is the extra yield a bond pays over a benchmark, typically a government bond of similar maturity, to compensate investors for credit risk, liquidity and other factors. To price a new issue, bankers look at where the issuer’s existing bonds trade (its secondary “curve”), interpolate to the new maturity, compare peers with similar ratings and sectors, and then add a new issue concession. All-in yield = benchmark yield + spread. Spreads widen when perceived risk rises and tighten when demand is strong.

TIP

Separate the two moving parts: rates (the benchmark) and credit (the spread). Issuers can’t control the first.

Q24 What’s the difference between coupon, yield and price?

The **coupon** is the fixed annual interest rate paid on the bond’s face (par) value, set at issuance. The **yield** (yield to maturity) is the total annualized return an investor earns if the bond is bought at today’s price and held to maturity, including coupons and any gain or loss to par. **Price** and yield move inversely: if market yields rise above the coupon, the price falls below par, and vice versa. At issuance, the coupon is set close to the clearing yield so the bond prices near par.

WHAT THEY’RE REALLY TESTING

The inverse price-yield relationship. Expect a follow-up like “rates go up 1%, what happens to the price of a long bond?” (falls, more for longer duration).

Q25 What is a new issue concession (NIC)?

The NIC is the extra spread a new bond offers over where the issuer's existing bonds imply "fair value" for the same maturity. Hypothetically, if the issuer's outstanding bonds suggest a new 10-year should trade at T+100 and the deal prices at T+105, the NIC is about 5 bps. Issuers pay it to compensate investors for taking new supply, for execution risk, and to encourage strong demand and good secondary performance. NICs tend to shrink in strong markets and grow in volatile ones or for less frequent issuers.

TIP

Explain how bankers estimate fair value (the secondary curve adjusted for maturity) to show you understand where the number comes from.

Q26 What are credit ratings, and why do they matter for bond issuance?

Credit ratings are agencies' opinions of an issuer's creditworthiness; the three major agencies are S&P, Moody's and Fitch. The investment-grade threshold is BBB- (S&P/Fitch) or Baa3 (Moody's); anything below is high yield. Ratings matter because many investors have mandates or capital rules tied to ratings, index eligibility often depends on them, and they drive spreads and market access. A downgrade from IG to HY ("fallen angel") can force some holders to sell. Issuers often manage leverage and capital allocation to protect a target rating.

WHAT THEY'RE REALLY TESTING

Knowing the IG/HY line and the practical consequences of ratings for demand, not just definitions.

Q27 How do covenants differ between investment-grade bonds, high-yield bonds and loans?

IG bonds have light covenants, such as negative pledge (limits on secured debt), sale-leaseback limits and merger restrictions, and often a change-of-control put at 101 that is triggered only if the bonds are also downgraded below IG. **High-yield bonds** use **incurrence covenants**: limits on additional debt, restricted payments (dividends and buybacks), liens, asset sales and affiliate transactions that are tested only when the company takes an action. **Bank loans** may include **maintenance covenants** tested periodically (for example, a maximum leverage ratio each quarter), although many institutional term loans are "covenant-lite." Weaker credits get tighter protections.

WHAT THEY'RE REALLY TESTING

The incurrence vs. maintenance distinction is a classic. Explain it in one sentence.

Q28 Why would a company issue debt instead of equity (or vice versa)?

Debt is usually cheaper than equity: interest is generally tax-deductible, lenders have priority claims and lower expected returns, and it avoids diluting existing shareholders. But debt adds fixed obligations, increases financial risk, and can pressure ratings and covenants. Equity is more expensive but adds flexibility and capacity, and it makes sense when leverage is already high, cash flows are volatile, or the stock is richly valued. In practice, the decision depends on the company's leverage targets and rating, use of proceeds, cash-flow stability, market conditions and investor appetite. Hybrids like converts and preferred sit in between.

TIP

Structure your answer as cost vs. flexibility/risk, then name the company-specific factors that tip the balance.

SECTION 05 · 6 QUESTIONS · Q29–Q34

Leveraged Finance

High yield, leveraged loans, syndication and flex: the mechanics of financing below investment grade.

Q29 What's the difference between high-yield bonds and leveraged loans?

Leveraged loans (for example, a term loan B) are typically senior secured, floating-rate (a benchmark rate such as SOFR plus a margin), prepayable with limited soft-call protection, often covenant-lite for institutional tranches, and held mainly by CLOs, loan funds and banks. **High-yield bonds** are usually fixed-rate, may be secured or unsecured, have longer non-call periods followed by declining call premiums, use incurrence covenants, and are bought by high-yield funds, insurers and other institutional investors, typically under Rule 144A. Bonds usually rank behind secured loans in the capital structure and carry higher coupons to match. Many leveraged buyouts use both.

WHAT THEY'RE REALLY TESTING

Can you compare along consistent dimensions: security, rate type, call protection, covenants and investor base?

Q30 What leverage and coverage ratios do LevFin bankers focus on?

The key ratios are **total leverage** (total debt ÷ EBITDA), **senior secured leverage** (secured debt ÷ EBITDA), **net leverage** (debt minus cash ÷ EBITDA) and **interest coverage** (EBITDA ÷ interest expense), plus fixed-charge coverage. Hypothetically, a company with \$100M of EBITDA and \$500M of debt is levered at 5.0x. Bankers also scrutinize *which* EBITDA is used: adjusted EBITDA with add-backs (synergies, one-time costs) can make leverage look lower, so investors push back on aggressive adjustments. The deleveraging path, meaning how quickly free cash flow can reduce debt, matters as much as the starting point.

TIP

Always ask "leverage on what EBITDA?" It shows credit judgment beyond the formula.

Q31 How does the syndication of a leveraged loan work?

In an acquisition financing, the arrangers often provide committed financing (under a commitment letter) so the buyer has certainty of funds, then aim to syndicate the debt to investors. The process: prepare marketing materials (a lender presentation or confidential information memorandum), obtain ratings, hold a lender meeting or call, set price talk (margin, OID, floor), collect commitments over a period of days, adjust terms based on demand, allocate, and then close and fund. The arrangers' goal is to sell down their exposure on terms the market accepts. If demand is weak, the banks may be left holding the risk.

WHAT THEY'RE REALLY TESTING

Understanding that underwritten commitments put the bank's balance sheet at risk until the deal is syndicated.

Q32 What is "flex" in a leveraged finance deal?

Market flex provisions, negotiated in the commitment papers, let arrangers change certain terms during syndication, within agreed limits, if needed to clear the market. **Pricing flex** can raise the margin, widen the OID or add a rate floor; **structural flex** can shift amounts between loans and bonds or between tranches, or tighten terms. If demand is strong, deals can **reverse flex**, lowering pricing in the issuer's favor. Flex protects the underwriting banks from being stuck with debt they can't sell at the original terms.

TIP

Pair flex with the commitment concept: banks commit early and flex is how they manage that risk.

Q33 Walk me through a typical leveraged buyout capital structure.

From most senior to most junior: a **revolving credit facility** (for liquidity, often undrawn at close), **senior secured term loans** (an amortizing term loan A held by banks and/or a term loan B with minimal amortization for institutional investors), **secured or unsecured high-yield notes**, possibly **subordinated debt or mezzanine**, and finally the **sponsor's equity contribution**. Seniority determines both claim priority in a default and cost: senior secured debt is cheapest and equity is most expensive. The mix depends on the company's cash flows, the amount of leverage the market will support and the sponsor's return targets. Private credit lenders may replace some or all of the syndicated debt with a single unitranche loan.

WHAT THEY'RE REALLY TESTING

Seniority, security and cost all ranked consistently, plus awareness of private credit as an alternative.

Q34 What makes a company a good candidate for leveraged financing?

Lenders look for **stable, predictable cash flows** (recurring revenue, non-cyclical demand), **strong margins and low capital expenditure needs** so free cash flow can service and repay debt, a **defensible market position**, and a credible **management team and sponsor**. Asset value or enterprise value coverage gives protection in a downside case. A clear deleveraging path through cash flow or growth helps. Highly cyclical businesses, heavy capex needs or concentrated customers usually support less debt.

TIP

These traits overlap with what makes a good LBO candidate. Say so, since it shows you see the whole deal.

SECTION 06 · 5 QUESTIONS · Q35–Q39

Private Placements & Private Capital Raising

Raising capital outside public markets: the structures, the process and the terms that matter.

Q35 What is a private placement, and why would a company choose one over a public offering?

A private placement is the sale of securities to a limited group of investors without public registration, relying on exemptions such as Section 4(a)(2) or Regulation D in the U.S. (Rule 144A and Regulation S govern related resale and offshore markets). Companies choose private placements for **speed, confidentiality, lower disclosure burden, flexibility of structure**, and access to capital when public markets are closed or the company is too small or private. The trade-offs are typically a higher cost of capital or a discount for illiquidity, a smaller investor base, and resale restrictions for investors. Both private companies and public companies (for example, through PIPEs) use them.

WHAT THEY'RE REALLY TESTING

Whether you can weigh the speed and confidentiality benefits against the illiquidity cost.

Q36 What is a PIPE?

A PIPE (private investment in public equity) is a sale of a public company's stock, or securities convertible into it, directly to selected investors in a private transaction, usually at a discount to the market price. PIPEs can be executed quickly and confidentially, which is useful when a company needs capital fast or wants a strategic or anchor investor. Investors typically receive registration rights so they can later resell the shares publicly. Because investors are brought "over the wall" before announcement, handling material non-public information and confidentiality is a key part of execution.

TIP

Mention the wall-crossing / MNPI point. It shows awareness of how these deals are run in practice.

Q37 What does a placement agent do, and how is that different from underwriting?

A placement agent acts on a **best-efforts** basis: it identifies and approaches suitable investors, helps prepare marketing materials (teaser, presentation, data room), runs the process (outreach, indications of interest, diligence, term-sheet negotiation) and helps close the deal, usually for a success fee. It does not buy the securities itself. In a **firm-commitment underwriting**, the bank purchases the securities from the issuer and resells them, taking the risk of not reselling. Private placements are usually agented; public offerings are typically underwritten.

WHAT THEY'RE REALLY TESTING

Clear distinction between agency (no principal risk) and principal (balance-sheet risk).

Q38 What is the U.S. private placement (USPP) debt market?

The USPP market is where companies sell debt, typically senior notes, directly to institutional investors (mainly insurance companies) in private transactions, generally without SEC registration and often without a public rating; investors usually rely on NAIC designations for regulatory purposes. Notes are commonly fixed-rate with longer tenors, can be issued in multiple currencies and tranches, and may offer delayed or forward funding. In exchange for flexibility, investors usually require financial maintenance covenants and make-whole prepayment provisions. It suits issuers seeking long-dated funding, smaller issue sizes or diversification from bank and public bond markets.

TIP

Position it as the "relationship" bond market: fewer, larger buy-and-hold investors and more tailored terms.

Q39 In a private equity raise, what terms matter beyond valuation?

Headline valuation is only part of the picture. Key terms include the **liquidation preference** (for example, 1x non-participating vs. participating), **seniority** relative to other classes, **dividends** (cash or PIK), **conversion terms**, **anti-dilution protection** (broad-based weighted average vs. full ratchet), **governance** (board seats, protective provisions and veto rights), and **redemption or exit rights**. Hypothetically, a higher valuation with a 2x participating preference can deliver less value to founders in a modest exit than a lower valuation with a standard 1x non-participating preference. Bankers help clients compare offers on a total-value, risk-adjusted basis.

WHAT THEY'RE REALLY TESTING

Whether you understand structure can matter more than price, a core skill in private capital advisory.

SECTION 07 · 7 QUESTIONS · Q40–Q46

Core Technicals Capital Markets Interviewers Still Ask

Capital markets interviews still test the fundamentals. Answer these cleanly and quickly.

Q40 Walk me through the three financial statements and how they connect.

The **income statement** shows revenue, expenses and net income over a period. The **balance sheet** shows assets, liabilities and equity at a point in time, and assets must equal liabilities plus equity. The **cash flow statement** reconciles net income to the change in cash: start with net income, adjust for non-cash items (like depreciation) and changes in working capital (operating), then add investing (capex, acquisitions) and financing (debt, equity, dividends) flows. Links: net income flows to the top of the cash flow statement and into retained earnings; the ending cash balance flows to the balance sheet; and items like capex, depreciation and debt changes connect all three.

WHAT THEY'RE REALLY TESTING

Structure and the linkages. Practice until you can deliver it in under a minute.

Q41 If depreciation increases by \$10, walk me through the impact on the three statements (assume a 25% tax rate).

Income statement: operating income falls by \$10; with a 25% tax rate, taxes fall by \$2.50, so net income falls by \$7.50. **Cash flow statement:** net income is down \$7.50, but depreciation is a non-cash expense added back (+\$10), so cash from operations rises by \$2.50; cash is up \$2.50 overall. **Balance sheet:** cash is up \$2.50 and net PP&E is down \$10, so assets fall by \$7.50; on the other side, retained earnings fall by \$7.50 (via net income). Both sides drop by \$7.50 and the balance sheet balances.

TIP

State the tax rate first and always finish with “and the balance sheet balances.” Interviewers listen for that check.

Q42 What's the difference between enterprise value and equity value?

Equity value (market capitalization for a public company) is the value of the business attributable to common shareholders: diluted shares $\times$ share price. **Enterprise value** is the value of the core operations attributable to all capital providers: equity value + debt + preferred stock + noncontrolling interests – cash (and, depending on convention, non-operating assets). Cash is subtracted because it's a non-operating asset; debt is added because an acquirer of the whole business must account for those claims. Use EV with metrics available to all capital providers (EV/EBITDA, EV/Revenue) and equity value with metrics after interest (P/E).

WHAT THEY'RE REALLY TESTING

Matching multiples to the right numerator. A classic follow-up is "why subtract cash?"

Q43 If a company raises \$100 of new debt (or equity) and holds the cash, how do enterprise value and equity value change?

Raising **debt**: debt rises by \$100 and cash rises by \$100, so enterprise value is unchanged (+100 debt – 100 cash) and equity value is unchanged, all else equal. Raising **equity**: equity value rises by \$100 (new shares at market price), cash rises by \$100 and EV is unchanged. The intuition is that raising capital and holding it as cash doesn't change the value of the operating business; it only changes how that business is financed. Value changes only when the capital is deployed (or if the market reacts to signaling, which these theoretical answers ignore).

WHAT THEY'RE REALLY TESTING

Highly relevant for capital markets: financing transactions alone don't create operating value.

Q44 How do you calculate diluted shares outstanding using the treasury stock method?

For in-the-money options and warrants, assume they are exercised and the company uses the exercise proceeds to buy back shares at the current price. Hypothetically: 100M basic shares, a \$50 share price and 10M options with a \$30 strike. Exercise creates 10M new shares and \$300M of proceeds; the \$300M buys back 6M shares at \$50, so net new shares = 4M and diluted shares = 104M. Diluted equity value = 104M $\times$ \$50 = \$5.2B. Out-of-the-money options are excluded; RSUs are usually added in full; and convertibles are included if in the money (using the if-converted method or the terms of the security).

TIP

Do the math out loud, step by step. Clean arithmetic under pressure is part of the test.

Q45 How do you tell quickly whether an acquisition is accretive or dilutive to EPS?

Compare the acquirer's cost of each funding source with the target's earnings yield (the inverse of the purchase P/E). The cost of **stock** is the acquirer's earnings yield ($1 \div \text{its P/E}$); the cost of **debt** is the after-tax interest rate; the cost of **cash** is the after-tax interest income forgone. Hypothetically, an acquirer at 20x P/E (5% earnings yield) buys a target at 15x (6.7% yield): an all-stock deal is accretive because the acquirer "pays" 5% to get 6.7%. Debt at 6% pre-tax with a 25% tax rate costs 4.5% after tax, which is also accretive here. This shortcut ignores synergies, transaction fees, financing fees and purchase-accounting adjustments, which a full model captures.

WHAT THEY'RE REALLY TESTING

The weighted-cost-of-acquisition shortcut, and knowing its limitations.

Q46 Walk me through how you calculate WACC.

$\text{WACC} = (E/V \times \text{cost of equity}) + (D/V \times \text{cost of debt} \times (1 - \text{tax rate}))$ [+ preferred, if any], using market-value weights, ideally reflecting a target capital structure. **Cost of equity** is usually estimated with CAPM: risk-free rate + beta $\times$ equity risk premium. **Cost of debt** reflects the company's current borrowing cost (for example, the yield on its bonds or a rating-based estimate), tax-effected because interest is generally deductible. Cost of equity exceeds cost of debt because equity holders are paid last and bear more risk. Adding debt initially lowers WACC through the cheaper, tax-advantaged debt, but too much raises the cost of both debt and equity due to higher financial risk.

TIP

Expect "what happens to WACC if the company adds leverage?" The answer is "it depends": it falls at first, then rises.

SECTION 08 · 4 QUESTIONS · Q47–Q50

Brain Teasers & Deal Discussion

Frameworks for open-ended questions and the quick math interviewers use to test composure.

Q47 Walk me through a deal you've worked on or followed.

Use a five-part framework. **1. Context:** the company, its situation and why it needed capital or a transaction. **2. Structure:** security type, size, tenor or key terms, and why that structure fit. **3. Process:** marketing approach, investor targeting and key decisions. **4. Outcome:** pricing versus initial expectations and how the security traded. **5. Takeaway:** what you learned or would do differently. Hypothetically: "A mid-cap industrial issued a 7-year senior unsecured bond to refinance a term loan, extending maturities and locking in fixed rates; it priced inside initial talk thanks to strong demand from IG funds." Use only public information or anonymized details your prior employer allows you to share.

TIP

Never disclose confidential client details. Interviewers notice discretion, and it reflects on your judgment.

Q48 A company needs to raise \$500 million. How would you advise it?

Start with clarifying questions: **use of proceeds** (refinancing, acquisition, growth capex), **timing and certainty** needs, **current leverage and rating**, **cash flow profile**, **share price and valuation**, and **public or private status**. Then walk through options: investment-grade or high-yield bonds or a term loan if leverage capacity exists; a follow-on, ATM or private placement if the balance sheet is stretched or the stock is strong; a convertible for a lower coupon at a premium to the share price; or private credit for speed and confidentiality. Recommend one or two options with the trade-offs, such as "a debt raise keeps us within our leverage target and avoids dilution, but if an acquisition pushes leverage higher, we'd pair it with equity to protect the rating."

WHAT THEY'RE REALLY TESTING

Structured thinking: ask before answering, lay out options, then commit to a recommendation.

Q49 What is the angle between the hour and minute hands of a clock at 3:15?

The minute hand at 15 minutes points at the 3, which is 90° from 12. The hour hand moves 30° per hour plus 0.5° per minute, so at 3:15 it is at $90^\circ + 7.5^\circ = 97.5^\circ$. The angle between them is $97.5^\circ - 90^\circ = 7.5^\circ$. The trap is assuming both hands sit exactly on the 3.

TIP

Think out loud. Interviewers care more about a logical process than speed.

Q50 Quick math: a 5-year bond with a 5% annual coupon is priced at 98. Roughly what's its yield?

Use the approximation: $\text{yield} \approx (\text{annual coupon} + \text{annualized discount}) \div \text{average of price and par}$. The annual coupon is \$5; the \$2 discount spread over 5 years adds \$0.40 per year, for \$5.40; the average of 98 and 100 is 99. $\$5.40 \div 99 \approx \mathbf{5.45\%}$, and the exact yield to maturity is about 5.47%. The key insight: a bond priced below par yields **more** than its coupon. The current yield ($5 \div 98 \approx 5.10\%$) ignores the pull to par.

WHAT THEY'RE REALLY TESTING

Price-yield intuition plus comfortable mental math. Getting the direction right (above 5%) matters most.

BEFORE YOUR INTERVIEW**Final-week checklist**

- ☐ Rehearse your resume walk-through and "why capital markets" out loud until each fits in 90 seconds.
- ☐ Prepare a fresh three-layer market update (macro, markets, issuance) the morning of each interview.
- ☐ Have two deals ready to pitch, one equity and one debt, using only public information.
- ☐ Drill the core technicals: three statements, the \$10 depreciation walk-through, EV vs. equity value, TSM and WACC.
- ☐ Be able to explain a greenshoe, a new issue concession and flex in one sentence each.
- ☐ Write down two thoughtful questions about the group's products and how the desk works with coverage.

NEXT STEPS

Ready to go beyond the first 50?

These questions cover the core. Final-round interviews go deeper: follow-ups, live market questions and full deal walk-throughs. If this guide helped, here's how to keep going.

Capital Markets Interview Guide

\$49

The full playbook: deeper ECM, DCM, LevFin and private placement coverage, market-update scripts, and a complete "walk me through a deal" toolkit.

pricedandallocated.com/#pricing

Capital Markets Question Bank

\$39

A much larger bank of technical and capital markets questions with answers, built for drilling. Study by topic and track what you've mastered.

pricedandallocated.com/#pricing

Capital Markets & IB Interview Masterclass

\$249

The self-paced course: video lessons, worked examples and quizzes that take you from fundamentals to deal discussion. Includes the guide and question bank.

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