

Ardian Resource Center

Draft 1 – Financial Topics

During your interviews at Ardian, you can expect to be tested on your knowledge of financial analysis and your comfort with various concepts. The interviewer will likely focus on your understanding of the fundamental mechanics of financial statements rather than delving deeply into specific accounting questions. Therefore, it is more beneficial to spend time understanding financial analysis and interpreting figures rather than memorizing accounting rules.

1. Financial Statement Basics

As you will all know by now, there are three financial statements for every company:

- › Balance sheet
- › Income statement (or Profit and Loss Statement – P&L)
- › Cash Flow Statement

Various online resources cover the explanation of what financial statements are and how they should be read (see PwC document – [basic understanding of a company's financial statements](#)).

That being said, in your preparation for the interviews, it is vital that you gain comfort with the structure of these documents, which ultimately are very similar from one company to another in their presentation.

Other relevant supporting information and examples:

- › Investopedia – [financial statements](#)
- › Harvard Business School – [how to read financial statements](#)

2. Financial Analysis and Question Examples

a) Profit & Loss Statement

A typical way for the interviewer to first gauge your comfort with financial statements is a simplified oral rundown of the Profit & Loss statement, from Revenue down to Net Income, intertwined with some basic questions.

- › Revenue
 - Questions: what drivers is revenue composed of, how do you break it down?

- › Deduct: Operating Costs
 - Questions: give me some examples of operating costs, for a manufacturing business for instance?
- › Equals: Operating Profit / Gross Profit
- › Deduct: Selling, General & Administrative Expenses (SG&A)
 - Questions: give me some examples of SG&A costs
- › Equals: EBITDA
- › Deduct: D&A
- › Equals: EBIT
- › Deduct: Interest Expenses
- › Equals EBT
- › Deduct: Taxes
- › Equals: Net Income

Follow-up questions:

- Explain to me what the differences are between Operating Costs and SG&A? How would you allocate costs between them? What are the advantages and drawbacks of businesses with high/low operating costs or SG&A costs?
- Which of Gross Profit, EBITDA, EBIT, EBT and Net Income do we focus on as investors, and why?
- Explain to me how a price increase flows through the P&L?
- Would you rather increase volume by 1% or increase your price by 1%?
- Why is EBITDA often used as the metric of reference in transactions as opposed to the other metrics?

Additional tip: Questions can be asked in general terms, or for specific industries/asking for illustrations in specific business models. Try having some usual examples illustrating your answers (retail businesses generally have lower margins and higher volumes, telecom businesses or utilities generally have higher margins, etc.)

b) Cash-Flow Statement

The cash-flow statement can be presented in different forms, but we generally focus on the operational cash flows, which themselves are relatively simple.

- › EBITDA
- › Deduct: the variation in Working Capital
 - What are the components of working capital? What are examples of a high/low working capital business models?
- › Deduct: Taxes
- › Equals: Operating Cash flow
- › Deduct: capital expenditure (Capex)

- What are the different natures of Capex (maintenance vs. expansion)?
 - Why is it important to understand the nature of incurred Capex?
 - Explain how capitalized R&D works and what its conditions are?
- › Equals: Free Cash flow

Follow-up questions:

Here the interviewer can try and ask you questions to see if you understand the links between the cash-flow statement and the P&L statement.

- If the depreciation accounting policy of a company is updated from 5 years to 10 years, what is the P&L and cash flow impact?
- Does increasing the payment terms to suppliers increase or decrease cash flow and why?
- What could be the drivers of a declining cash position assuming the P&L is stable and profitable?

Additional tip: Some questions may be designed to put you off or may not have self-evident answers, and the best thing to do is think out loud in these situations. By thinking out loud you give the opportunity to showcase your financial knowledge (even if it is adjacent to the question that is being asked) and give the interviewer queues to help you along the way. Similarly to P&L questions, try having some usual examples illustrating your answers (retail businesses generally have negative working capital structures, industrial businesses generally incur high capex for machinery, etc.).

c) Balance Sheet

This statement is usually the one on which the least amount of time is spent on during interviews, because it is relatively static, and from a financial analysis point of view, most topics are covered via the other financial statements (e.g. Capex and D&A vs. Fixed Assets, Working Capital variation vs. Working Capital computation in the Balance Sheet) or will be reset in the contemplated LBO transaction (e.g. existing indebtedness will be refinanced, equity value will be reset, as well as goodwill computation).

A few areas to keep in mind when looking at:

- › Provisions: for litigation, for pensions, environmental provisions, etc.
- › Working Capital breakdown:
 - Accounts receivables
 - Inventory
 - Accounts Payables

Existing indebtedness if not fully repaid as part of a transaction: especially to understand the burden on cashflows of mandatory repayments