

40 Finance & Valuation Interview Terms

Clean, interview-friendly cheat sheet • Definitions • Formulas • Quick examples

1. WACC (Weighted Average Cost of Capital)

Simple explanation: The average rate a company effectively pays to finance itself through debt and equity.

Formula / key idea: $WACC = (E/V \times \text{Cost of Equity}) + (D/V \times \text{Cost of Debt} \times (1 - \text{Tax Rate}))$

Interview takeaway: WACC is commonly used as the discount rate in a DCF.

2. EBITDA

Simple explanation: Earnings before interest, taxes, depreciation and amortization; a common measure of operating performance.

Formula / key idea: $EBITDA = EBIT + \text{Depreciation} + \text{Amortization}$

Interview takeaway: It focuses on operating performance before financing, tax and non-cash D&A.;

3. Cash Flow vs Profit

Simple explanation: Profit is an accounting measure; cash flow tracks actual movement of cash.

Formula / key idea: $\text{Cash flow} \neq \text{profit}$

Interview takeaway: A profitable company can still face cash problems.

4. Working Capital

Simple explanation: The short-term funds tied up in day-to-day operations.

Formula / key idea: $\text{Working Capital} = \text{Current Assets} - \text{Current Liabilities}$

Interview takeaway: Changes in working capital affect operating cash flow.

5. DCF Valuation

Simple explanation: A valuation method that estimates value from future cash flows discounted to present value.

Formula / key idea: $\text{Enterprise Value} = \text{PV of forecast FCF} + \text{PV of Terminal Value}$

Interview takeaway: DCF is highly sensitive to assumptions such as growth and discount rate.

6. Terminal Value

Simple explanation: The estimated value of a business after the explicit forecast period.

Formula / key idea: Perpetuity Growth: $TV = \text{FCF}_{\text{Year } n} / (WACC - g)$

Interview takeaway: Terminal value can represent a large share of DCF value.

7. Beta

Simple explanation: Measures a stock's sensitivity to movements in the overall market.

Formula / key idea: $\text{Beta} = \text{Covariance}(\text{Stock}, \text{Market}) / \text{Variance}(\text{Market})$

Interview takeaway: Beta above 1 generally indicates greater market sensitivity.

8. Revenue

Simple explanation: The income generated from selling products or services before expenses.

Formula / key idea: $\text{Revenue} = \text{Price} \times \text{Quantity}$, for a simple single-product case

Interview takeaway: Revenue is the top line of the income statement.

9. COGS

Simple explanation: Direct costs associated with producing goods or delivering services.

Formula / key idea: $\text{Gross Profit} = \text{Revenue} - \text{COGS}$

Interview takeaway: COGS helps determine gross profitability.

10. Gross Profit

Simple explanation: Revenue remaining after deducting cost of goods sold.

Formula / key idea: $\text{Gross Profit} = \text{Revenue} - \text{COGS}$

Interview takeaway: It shows profitability before operating expenses.

11. Gross Margin

Simple explanation: Gross profit expressed as a percentage of revenue.

Formula / key idea: $\text{Gross Margin} = \text{Gross Profit} / \text{Revenue} \times 100$

Interview takeaway: Higher gross margin generally means more revenue remains after direct costs.

12. EBIT

Simple explanation: Earnings before interest and taxes; an operating profit measure after depreciation and amortization.

Formula / key idea: $\text{EBIT} = \text{Revenue} - \text{Operating Expenses}$

Interview takeaway: EBIT is closer to operating profit than EBITDA.

13. EBIT Margin

Simple explanation: EBIT as a percentage of revenue.

Formula / key idea: $\text{EBIT Margin} = \text{EBIT} / \text{Revenue} \times 100$

Interview takeaway: It measures operating profitability after D&A.;

14. Net Profit

Simple explanation: Profit remaining after operating costs, interest, taxes and other applicable expenses.

Formula / key idea: $\text{Net Profit} = \text{Revenue} - \text{Total Expenses}$

Interview takeaway: It is the bottom line of the income statement.

15. Net Profit Margin

Simple explanation: Net profit expressed as a percentage of revenue.

Formula / key idea: $\text{Net Margin} = \text{Net Profit} / \text{Revenue} \times 100$

Interview takeaway: It shows how much of each rupee of revenue becomes profit.

16. Free Cash Flow (FCF)

Simple explanation: Cash generated that remains after operating needs and capital investment.

Formula / key idea: $\text{FCF} = \text{Operating Cash Flow} - \text{CAPEX}$

Interview takeaway: FCF is central to DCF valuation.

17. CAPEX

Simple explanation: Money spent on long-term assets such as equipment, buildings or technology.

Formula / key idea: CAPEX = Cash spent on property, plant and equipment and other long-term assets

Interview takeaway: CAPEX is an investment in future operating capacity.

18. OPEX

Simple explanation: Ongoing operating expenses required to run a business.

Formula / key idea: Examples: salaries, rent, utilities and marketing

Interview takeaway: OPEX is generally expensed as part of normal operations.

19. Depreciation

Simple explanation: Allocation of the cost of a tangible asset over its useful life.

Formula / key idea: Straight-line: $(\text{Cost} - \text{Salvage Value}) / \text{Useful Life}$

Interview takeaway: Depreciation is generally non-cash but reduces accounting profit.

20. Amortization

Simple explanation: Allocation of the cost of an intangible asset over its useful life.

Formula / key idea: Often calculated systematically over the asset's useful life

Interview takeaway: Think depreciation for many tangible assets and amortization for many intangible assets.

21. ROE

Simple explanation: Return generated on shareholders' equity.

Formula / key idea: $ROE = \text{Net Income} / \text{Average Shareholders' Equity} \times 100$

Interview takeaway: It indicates how efficiently equity capital is being used.

22. ROCE

Simple explanation: Return generated from capital employed in the business.

Formula / key idea: $ROCE = EBIT / \text{Capital Employed} \times 100$

Interview takeaway: It is often used to assess operating returns relative to capital invested.

23. P/E Ratio

Simple explanation: Compares a company's share price with its earnings per share.

Formula / key idea: $P/E = \text{Share Price} / EPS$

Interview takeaway: It shows how much investors are paying per unit of earnings.

24. EPS

Simple explanation: Profit attributable to each outstanding common share.

Formula / key idea: $EPS = \text{Profit available to common shareholders} / \text{Weighted Average Shares}$

Interview takeaway: EPS is a key input for the P/E ratio.

25. EV/EBITDA

Simple explanation: Compares enterprise value with EBITDA.

Formula / key idea: $EV/EBITDA = \text{Enterprise Value} / EBITDA$

Interview takeaway: It is commonly used to compare operating valuations across companies.

26. Enterprise Value (EV)

Simple explanation: A measure of the value of a company's operating business to all capital providers.

Formula / key idea: $EV \approx \text{Equity Value} + \text{Debt} - \text{Cash}$

Interview takeaway: EV is commonly paired with EBITDA in valuation multiples.

27. Equity Value

Simple explanation: The market value attributable to shareholders.

Formula / key idea: $\text{Equity Value} = \text{Share Price} \times \text{Diluted Shares Outstanding}$

Interview takeaway: Equity value differs from enterprise value because of capital structure and cash.

28. Debt-to-Equity Ratio

Simple explanation: Compares a company's debt with shareholders' equity.

Formula / key idea: $D/E = \text{Total Debt} / \text{Shareholders' Equity}$

Interview takeaway: It is a common measure of financial leverage.

29. Current Ratio

Simple explanation: Measures the ability to cover short-term liabilities with short-term assets.

Formula / key idea: $\text{Current Ratio} = \text{Current Assets} / \text{Current Liabilities}$

Interview takeaway: A ratio above 1 means current assets exceed current liabilities, subject to business context.

30. Quick Ratio

Simple explanation: A more conservative short-term liquidity measure that excludes less-liquid current assets such as inventory.

Formula / key idea: $\text{Quick Ratio} = (\text{Cash} + \text{Marketable Securities} + \text{Receivables}) / \text{Current Liabilities}$

Interview takeaway: It focuses on assets that can generally be converted to cash more quickly.

31. NPV

Simple explanation: The present value of future cash inflows and outflows, including the initial investment.

Formula / key idea: $NPV = \sum CF_t / (1+r)^t - \text{Initial Investment}$

Interview takeaway: Positive NPV means the investment adds value under the stated assumptions.

32. IRR

Simple explanation: The discount rate at which an investment's NPV equals zero.

Formula / key idea: $NPV = 0$ at IRR

Interview takeaway: IRR is commonly interpreted as the project's implied rate of return.

33. Cost of Equity

Simple explanation: The return shareholders require for investing in a company's equity.

Formula / key idea: CAPM: $\text{Cost of Equity} = \text{Risk-free Rate} + \text{Beta} \times \text{Market Risk Premium}$

Interview takeaway: Cost of equity reflects the return investors demand for equity risk.

34. Cost of Debt

Simple explanation: The effective rate a company pays on borrowed funds.

Formula / key idea: $\text{After-tax Cost of Debt} = \text{Pre-tax Cost of Debt} \times (1 - \text{Tax Rate})$

Interview takeaway: Interest expense can create a tax shield in many tax systems.

35. Market Capitalization

Simple explanation: The market value of a company's outstanding shares.

Formula / key idea: $\text{Market Cap} = \text{Share Price} \times \text{Shares Outstanding}$

Interview takeaway: It is the basic market value of equity.

36. Liquidity

Simple explanation: The ability to meet short-term financial obligations.

Formula / key idea: Common measures: Current Ratio and Quick Ratio

Interview takeaway: Liquidity concerns near-term cash and payment capacity.

37. Leverage

Simple explanation: The use of debt or other fixed financial commitments to amplify returns and risk.

Formula / key idea: Financial leverage is commonly assessed using debt-related ratios

Interview takeaway: More debt can magnify both gains and losses to equity holders.

38. ROA

Simple explanation: Return generated relative to the assets used by the company.

Formula / key idea: $ROA = \text{Net Income} / \text{Average Total Assets} \times 100$

Interview takeaway: It measures how efficiently the asset base generates profit.

39. Cost of Capital

Simple explanation: The required return demanded by providers of capital to a company.

Formula / key idea: Often summarized through WACC for debt and equity financing

Interview takeaway: It represents the hurdle rate for many investment and valuation decisions.

40. Free Cash Flow to Firm (FCFF)

Simple explanation: Cash flow available to all providers of capital before interest payments to debt holders.

Formula / key idea: $FCFF = EBIT \times (1 - \text{Tax Rate}) + D\&A; - CAPEX - \text{Change in NWC}$

Interview takeaway: FCFF is commonly discounted using WACC to obtain enterprise value.

Quick interview tip: Don't only memorize formulas. Explain what the metric means, what drives it, and how it connects to the three financial statements or valuation.