2018 IBP Exam Topics
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Accounting

- Describe the purpose, uses, and users of accounting, describe accounting regulations and principles
- Identify key accounting and reporting differences between companies reporting in accordance with US GAAP and IFRS

Income statement

- Describe the accrual concept of accounting, the matching principle, and methods of revenue recognition permissible under both US GAAP and IFRS
- Distinguish between direct and indirect operating expenses, as well as operating versus non-operating expenses
- Describe depreciation accounting permissible under US GAAP and IFRS and its impact on the income statement
- Distinguish between measures of profitability including gross margin, pretax income, operating income and net income
- Define basic and diluted earnings per share under US GAAP and IFRS
- Describe the presentation and accounting of both common and preferred dividends
- Identify and interpret supplemental disclosures in annual and interim filings that provide additional income, expense and earnings per share detail, including stock based compensation, depreciation and amortization and nonrecurring items

Balance sheet

- Define the accounting equation, and describe the purpose and presentation of the balance sheet, including the process of double-entry accounting, and the current versus long term classifications of assets and liabilities
- Describe the measurement and financial statement classification of financial assets including cash, debt and equity securities under both US GAAP and IFRS
- Define accounts receivable and describe the relationship between accounts receivable and revenue
- Describe the accounting for prepaid expenses and the relationship to associated expenses on the income statement
- Describe the methods of inventory accounting permissible under US GAAP and IFRS and the relationship between inventory and cost of goods sold
- Describe the reporting of fixed assets on the balance sheet, the impact of depreciation accounting permissible under US GAAP and IFRS on the balance sheet and income statement
- Distinguish between depreciable and non-depreciable fixed assets
- Describe the reporting of intangible assets on the balance sheet, the impact of intangible asset accounting permissible under US GAAP and IFRS on the balance sheet and income statement
- Distinguish between finite lived and indefinite lived intangible assets
- Define goodwill and describe the accounting for goodwill on the income statement and balance sheet for both public and private companies under both US GAAP and IFRS
- Define accounts payable and describe the relationship between accounts payable and associated expenses on the income statement
- Describe the accounting for accrued expenses and associated expenses on the income statement
- Describe the accounting for deferred revenue and associated revenue on the income statement
- Describe the accounting and classification of debt and relationship between debt and interest expense on the income statement
- Describe the accounting for, and measurement of, common stock issuance and share repurchases, as well as the impact of these activities on earnings per share
- Describe the accounting for retained earnings and the relationship between retained earnings and the income statement
- Describe the accounting for other comprehensive income and the relationship between other comprehensive income and associated gains and losses
- Describe the purpose of the statement of comprehensive income and its relationship to the balance sheet and income statement
- Describe the purpose of the statement of shareholders' equity and its relationship to the balance sheet and income statement
- Identify and interpret supplemental disclosures in annual and interim filings that provide additional balance sheet detail

Cash flow statement

- Contrast the direct and indirect methods of cash flow statement presentation
- Compare cash from operations, cash from investing and cash from financing activities and describe the proper classification of cash flow line items within these components
- Reconcile the income statement to cash from operations
- Describe the linkages between cash flow statement line items and the balance sheet line items

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Financial statement analysis

- Describe the strengths and shortcomings of the balance sheet as a tool for identifying asset and equity value
- Contrast accrual accounting with cash accounting as tools for evaluating both near term and long-term profitability and liquidity
- Describe common ratios used to evaluate firm profitability, liquidity, activity and solvency and interpret financial ratios
- Define working capital and describe the implications of changes in working capital

Financial reporting

- Describe the purpose, applicability and filing deadlines of 10Ks, 10Qs, and the timing of quarterly earnings releases
- Contrast the level of detail included in 10Ks, 10Qs and quarterly earnings releases
- Describe the purpose of 8K, S1, S3, S4, 20F and Proxy statements
- Describe financial reporting requirements of private companies in the United States

Excel

- Identify Excel's universal keyboard shortcuts for PC Excel versions 2007-2016
- Demonstrate knowledge of the following Excel functions: if and ifs, iferror, and, or, isnumber, istext, eomonth, edate, yearfrac, day, month, year, date, hlookup, vlookup, choose, offset, index, indirect, match, concat, text, sumproduct, sumif, sumifs, averageif, averageifs, count, counta, countif, countifs, ceiling, floor, abs, round, roundup, rounddown & combin, min, max, npv, xnpv, irr, xirr, len, left, right, replace
- Demonstrate knowledge of Excel's Paste Special, Data Tables, Flash Fill, Find and Replace, Sort, Autofilter, Data Validation, Conditional Formatting, and Go To tools
- Demonstrate the ability to construct "waterfall" and valuation matrix "football field" charts

PowerPoint

- Describe the goals, structure and critical components of a sell side and buy side pitchbook
- Demonstrate knowledge of PowerPoint's slide master, table, chart and text box, header & footer, page numbers, slide size and print features
- Demonstrate the ability to construct key investment banking marketing collateral, including company profile and executive summary slides

Financial Statement Modeling

Modeling conventions and best practices

- Contrast approaches for the layout of model assumptions, calculations and outputs
- Describe the formatting, formula, periodicity and structure conventions for constructing financial models
- Describe optimal Excel settings for financial modeling
- Demonstrate the process for checking and resolving common model errors

Forecasting financial statements

- Describe the process of data gathering in advance of forecasting a company's financial statements, identify resources for locating historical and assumptions useful for forecasting, and contrast the process for public and private companies.

Income statement forecasting

- Contrast and demonstrate common revenue forecasting approaches
- Describe acceptable forecasting approaches for operating expenses, non-operating items, taxes, earnings per share and non-recurring items
- Contrast forecasting of operating and non-operating items

Balance sheet forecasting

- Describe the structure and advantages of structuring balance sheet line items using a "roll-forward" approach
- Describe acceptable forecasting approaches for cash and equivalents, working capital assets and liabilities, fixed and intangible assets and goodwill, assets and liabilities labeled "other", investments, deferred tax assets and liabilities, capitalized software development costs, debt and debt equivalents, non-controlling interests, common stock, treasury stock, retained earnings and other comprehensive income.
- Contrast the forecasting approaches for operating assets and liabilities and non-operating assets and liabilities

Cash flow statement and connecting the statements

- Describe approaches for linking the financial statements in the model
- Construct a cash flow statement forecast based on the income statement and balance sheet forecasts
- Demonstrate how to designate cash and revolver as "model plugs" to ensure that the balance sheet remains in balance and that cash balances never drop below prescribed thresholds
- Describe approaches for calculating interest income and interest expense
- Contrast the strengths and shortcomings of integrating an intentional circularity into the model
- Describe the process of balancing a financial model and identify reasons that a model may be out of balance
- Scenario analysis and modeling presentation
- Demonstrate how to add scenarios to the model, perform a sensitivity analysis using data tables, and prepare a financial model for both internal and external distribution

Valuation Modeling

Discounted cash flow valuation

- Describe the relationship between growth, returns on capital and risk in determining company value, and contrast the equity value and enterprise value approaches
- Contrast the levered and unlevered discounted cash flow valuation approaches
- Reorganize financial statements to produce cash flow, operating assets, non-operating assets, operating liabilities and non-operating liabilities (debt equivalents) consistent with and necessary for the unlevered and levered DCF approaches
- Define non-operating assets and debt equivalents, and contrast the assets and liabilities that should be valued using a cash flow forecast and those that should be valued separately within net debt in the unlevered DCF approach.
- Describe and contrast the prevailing practices for calculating shares outstanding for determining fair value per share, including the treatment of both existing and future dilutive securities, including options, warrants, restricted stock and RSUs, convertible bond and preferred stock
- Describe the methodology for estimating cost of capital under both levered and unlevered approaches, including the estimation of cost of equity using the capital asset pricing model
- Describe the process for valuing acquired firms, including the valuation of synergies and the impact on cost of capital, taxes, and dilutive securities
- Identify resources for locating historical data and assumptions for estimating the cost of capital
- Define terminal value and contrast prevailing approaches for terminal value estimation
- Evaluate criticisms of the discounted cash flow valuation methods
- Demonstrate how to attach a DCF valuation to an existing operating model, such that the DCF output is sensitive to changes in the operating and financing assumptions of the operating model
- Demonstrate how to apply the midyear and stub year adjustments to cash flow forecasts
- Demonstrate how to arrive at an implied exit multiple from terminal growth assumptions and vice versa
- Identify key drivers in the model and demonstrate how to add scenarios to the model, perform a sensitivity analysis using data tables

Comparable company analysis

- Describe the methodology used to perform relative valuation, including the process of selecting comparable firms and evaluating the appropriate multiples to use, and contrast the purpose and applicability of common enterprise value and equity value multiples
- Contrast the DCF approaches to relative valuation approaches
- Reconcile both relative and intrinsic valuation techniques to the fundamental value driver equation
- Identify resources for locating comparable companies, historical data and assumptions for calculating multiples
- Demonstrate how to normalize financial reports, calculate last twelve months multiples and calendarize multiples to improve comparability
- Evaluate the rationale for including the valuation target in the comparable set
- Demonstrate how to construct an output sheet that includes the ability to remove individual firms from the comparable set dynamically

Comparable transaction analysis

- Contrast the purpose and insights gained through comparable company and comparable transaction analysis
- Identify resources for locating comparable transactions, historical data and assumptions for calculating multiples
- Demonstrate how to calculate offer value and transaction value, purchase premiums and synergies

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Mergers & Acquisitions

Sell Side and Buy Side Process

- Describe the rationale for corporate mergers and acquisitions, the key participants in the M&A process, and current trends around volume, premiums and valuation multiples across industries
- Contrast differences between sell-side advisory responsibilities, timelines and processes in broad auction, targeted auction, negotiated sales and non-friendly transactions (hostile takeovers)
- Identify the various stages and significant milestones within each stage of both a buy side process and sell side process
- Explain the composition and development process of the sell side auction marketing materials - including the teaser, OM (CIM) and CA
- Explain what's involved in advisor due diligence and articulate its benefits and limitations. Contrast to the due diligence performed by other participants in the process, including accounting, tax, legal advisors, as well as managements themselves.
- Describe the data room process

M&A accounting

- Describe the acquisition method under US GAAP and IFRS
- Perform a purchase price allocation to arrive at new goodwill created in a transaction, and describe the asset write up, transaction and financing fee, goodwill and equity adjustments to a target's balance sheet required to arrive at a pro forma balance sheet
- Explain why buyers place importance on EPS accretion and why intrinsic valuation concepts may be overshadowed by this consideration
- Perform an accretion dilution analysis which quantifies the accretion/dilution impact of purchase premium, stock vs cash consideration, deal debt financing, synergies, incremental D&A from asset write ups, transaction and financing fees, and taxes on both traditional EPS and cash EPS measures.
- Perform a high level accretion dilution analysis, including the impact of incremental borrowing, asset write ups, synergies, and transaction and financing fees on pro forma EPS

Leveraged Buyouts and Private Equity

Buyout process and the private equity landscape

- Define an LBO, identify the basic strategic rationale for an LBO, the most common LBO "exits"
- Explain basic LBO economics, calculate a high-level LBO analysis provided basic assumptions around capital structure, future operating performance and debt service and show how leverage enhances equity returns in an LBO
- Identify the key participants in an LBO transaction and their characteristics

Commercial Awareness

- Describe the role of the investment bank within the capital markets, and contrast an investment bank's corporate advisory and financing products
- Explain the role of the investment bank in the sell side and buy side M&A process and describe the typical roles within an investment banking deal team
- Explain the role of pitching, describe the typical composition of a pitch book, and the relative responsibilities of a deal team in M&A advisory.
- Explain the role, benefits and limitations of the investment bank in selecting the buyer universe (on a sell side auction) and performing a preliminary valuation analysis
- Explain the role of the investment bank in the LBO process, both in financing and strategic advice

Effective Communication

- Describe the fundamental techniques presented in Dale Carnegie's "How to Win Friends and Influence People" to communicate effectively, active listening, establishing trust and developing leadership skills
- Demonstrate the key elements for effective written communication in the investment banking context
- Describe Daniel Goleman's emotional intelligence domains and competencies, including self awareness, self management, social awareness and relationship management
- Describe the application of emotional intelligence, effective communication, business etiquette, to the investment banking profession as described in Jim Runde's and Diana Giddon's "Unequaled: Tips for Building a Successful Career Through Emotional Intelligence"

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Accounting

- Reconcile Non-GAAP to GAAP measures of earnings and contrast the strengths and shortcomings of common Non-GAAP measurements
- Contrast effective, marginal and statutory tax rates and interpret income tax disclosures
- Describe the purpose, accounting and balance sheet classification of deferred tax assets and liabilities
- Describe the impact on the financial statements of deferred tax assets created due to differences between book and tax revenue recognition rules, and deferred tax liabilities due to differences between book and tax depreciation assumptions
- Describe the classification of corporate investments under US GAAP and IFRS and contrast the accounting for investments classified as equity investments and non-controlling interests
- Describe the impact and classification of non-controlling interests and equity investments on the financial statements
- Describe the rationale and acceptable approaches for capitalizing leases, rent and research and development expensed under GAAP and IFRS
- Describe how revenue recognition rules, depreciation, stock based compensation expense and lease accounting under both US GAAP and IFRS enable management estimates to impact income and expense reporting on the income statement and balance sheet and evaluate the impact of these estimates on financial ratios

Valuation Modeling

- Demonstrate the valuation of non-controlling interests, equity investments, capital and operating leases, rent, research and development expenses and deferred taxes in the discounted cash flow analysis
- Describe the process of determining whether convertible bond and convertible preferred stock should be converted and contrast the approaches for a standalone and acquisition driven valuation
- Demonstrate the process for normalizing terminal year free cash flows
- Describe the process for valuing acquired firms, including the valuation of synergies, NOLs and the impact on cost of capital, taxes, and dilutive securities

Mergers and Acquisitions

Sell Side and Buy Side Process

- Explain the composition of a definitive agreement
- Explain the purpose and composition of a fairness opinion. Explain the potential conflicts of a firm serving as both advisor and fairness opinion provider.
- Explain the most common uncertainties between announcement and closing, including regulatory approvals

M&A accounting

- Contrast asset sales/338(h)(10) elections and stock sales from the buy and seller perspective. The candidate should be able to explain the major tax advantages and disadvantages to both buyer and seller, as well as the accounting advantages and disadvantages to the buyer.
- Calculate deferred tax liabilities created due to asset write ups in acquisitions
- Contrast the tax treatment of goodwill depending on the deal's tax structure
- Perform a purchase price allocation that includes the impact of in process research research & development, contingent consideration ("earn-outs"), deferred taxes
- Describe the treatment of pre-existing DTLs and DTAs, including NOLs for both asset sales/338(h)(10) and stock sales.
- Calculate buyer and seller indifference points between transactions structured as stock sales and asset sales/338(h)(10)

Accretion / Dilution Modeling

- Candidate should be able to build a sources and uses of funds table equating the typical sources of funds in an acquisition, including revolver, bonds, term loans, preferred stock, acquirer cash, acquirer stock, with the typical uses of funds in an acquisition, including financing and transaction fees, stock to target and cash to target, and refinancing of target debt.
- Candidate should be able to explain the equivalence of identifying excess cash as a source of funds vs identifying all target cash as a source and minimum cash as a use.
- Explain how pre-existing oldco cash and debt is typically treated in an acquisition and demonstrate how to model the impact on the sources and uses of funds table and financial statements
- Calculate acquirer diluted shares outstanding and target shares outstanding and explain the difference between the treatment of dilutive securities such as restricted stock, op-

tions warrants and convertible securities
- Model an acquirer opening balance sheet along with deal related accounting and financing adjustment leading to a pro forma balance sheet. Candidate should be able to identify the most common and significant acquirer balance sheet effects of an acquisition.
- Calculate standalone and pro forma statistics including net debt, EV/EBITDA, gross debt / EBITDA. debt/equity
- Model a fully dynamic EPS calendarization to acquirer fiscal year end, given fiscal year forecasts for target and acquirer EPS. The calendarization should work for any fiscal year end for both acquirer and target. Candidate should be able to build a cash EPS and GAAP EPS accretion dilution analysis driven off the model, given EPS and net income forecasts, accurately calculating pretax synergies required to break even
- Build toggles that facilitate comparisons between the impact of asset sale and stock sale transaction structure on the acquiring firm's financial statements
- Build a sensitivity analysis testing impact on accretion dilution any model input, and an analysis at various prices (AVP)
- Model a valuation based on Revenue, EBITDA, net income contribution
- Model a fixed exchange ratio, with and without collars, and a floating exchange ratio, with and without collars.

Leveraged Buyouts and Private Equity

Buyout process and the private equity landscape

- Describe current lending and private equity trends affecting the LBO environment, including capital structure, credit statistics, leverage and valuation trends
- Explain the key characteristics of revolving credit line used in LBO transaction, including fees, interest payments, availability calculations, relationship/priority to other providers of capital, nature of lender, typical credit statistics, typical covenants, typical contribution to overall capital structure
- Explain the key characteristics of term loans used in LBO transaction, including fees, interest payments, relationship/priority to other providers of capital, prepayment trends and amortization schedules, nature of lender, typical credit statistics, typical covenants, typical contribution to overall capital structure
- Explain the key characteristics of bonds used in LBO transaction, including fees, interest payments, relationship/priority to other providers of capital, nature of lender, PIK toggles, typical credit statistics, covenants, typical contribution to overall capital structure
- Explain the key characteristics and purpose of mezzanine financing and bridge loans in LBOs, including warrant structure, how returns are distributed, relationship/priority to other providers of capital, nature of lender, typical contribution to overall capital structure
- Explain the key characteristics of equity used in LBO transaction, premiums offered, fees, investment horizon, how returns are distributed, relationship/priority to other providers of capital, nature of lender, typical contribution to overall capital structure
- Explain the role of target management in the LBO process, including management buyouts, management rollover
- Explain the timeline and process for pricing an LBO

LBO Modeling

- Candidate should be able to build a sources and uses of funds table equating the typical sources of funds in an LBO, including revolver, bonds, term loans, preferred stock, sponsor equity and management rollover, with the typical uses of funds in an LBO, including fees, buyout of equity, and refinancing of target debt. Candidate should be able to explain the equivalence of modeling management rollover as a source and use of funds and omitting it entirely from the schedule, as well as the equivalence of identifying excess cash as a source of funds vs identifying all target cash as a source and minimum cash as a use.
- Explain how pre-existing oldco cash and debt is typically treated in an LBO and demonstrate how to model the impact on the sources and uses of funds table and financial statements
- Calculate offer price per share when provided an offer expressed as an EV/EBITDA multiple and calculate the EV/EBITDA purchase multiple when provided an explicit offer price. Contrast the modeling implications of the explicit EBITDA multiple valuation approach with the explicit offer price per share approach and describe circumstances when one approach might be preferable over the other.,
- Distinguish between the calculation of diluted shares outstanding in the context of standalone valuation and in a transaction analysis
- Explain the difference between the accounting treatment of transaction fees and financing fees, and reflect the impact of both fee types on the income statement, balance sheet and cash flow statement
- Build an income statement forecast and modifying "stand alone" forecasts to reflect new capital structure
- Calculate goodwill using the purchase price allocation approach, given assumptions for FMV write ups of PP&E

and intangible assets, asset vs stock sale, status and nature of NOLs including the resulting deferred taxes, and contrast to the accounting of a recapitalization.
- Construct a pro formal balance sheet, including a debt schedule that captures term loan amortization and incorporates a cash sweep, allows for modeling PIK vs cash interest, and a preferred stock schedule that handles PIK vs cash dividends, and a revolving credit facility with intentional circularity
- Construct a pro forma cash flow statement, fully integrated with the balance sheet and income statement
- Calculate the returns to most common LBO capital contributors, including revolver, term loans, bonds, preferred stock, management rollover of equity, sponsor equity

Model hurdle rate sensitivity, IRR sensitivity to leverage, valuation and any other modeling input

Ethics in Investment Banking Advisory

- Describe circumstances where the investment bank can act for more than one party in a transaction and describe the nature of conflicts of interest between an investment bank's financing, advisory and research businesses
- Describe the obligations of advisory professionals when making claims during the marketing "pitching" process surrounding valuation, performance and forecasts, confidential information of other clients, and the bank's sector and product expertise
- Describe the obligations of advisory professionals to make accurate representations in engagement letters, including the obligations of advisory professionals to adhere to the pre-mandate representations made regarding the availability, experience and engagement level of deal team members
- Describe the obligations of advisory professionals to make accurate representations in fairness opinions
- Describe the obligations of senior advisory professionals to junior team members