

5 EBITDA USES

- Business Valuation – Used in M&A for pricing
- Loan & Creditworthiness – Assesses ability to repay debt
- Performance Benchmarking – Compares industry profitability
- Investor Analysis – Evaluates operational efficiency
- Private Equity & Buyouts – Determines leverage capacity

7 EBITDA DRIVERS

- Revenue Growth – Higher sales & pricing power
- Cost Efficiency – Cutting operational costs
- Pricing Strategy – Optimizing pricing models
- Operational Efficiency – Automating processes
- Customer Retention – Maximizing lifetime value
- Favorable Industry Trends – Leveraging economic cycles
- Strategic Cost Allocation – Outsourcing & supply chain improvements

EBITDA VS OTHER METRICS

- **EBITDA vs EBIT:** EBIT includes depreciation & amortization
- **EBITDA vs Net Profit:** Net profit accounts for all expenses
- **EBITDA vs Cash Flow:** EBITDA excludes changes in working capital

COMMON EBITDA ADJUSTMENTS

- Companies often adjust EBITDA to remove one-time or non-operating expenses, including:
- Restructuring costs
 - Legal settlements
 - Stock-based compensation
 - Foreign currency gains/losses

DEFINITION

EARNINGS
BEFORE
INTEREST
TAX
DEPRECIATION
AMORTISATION

WHY IS EBITDA IMPORTANT

- Shows core profitability
- Helps compare businesses
- Used by investors & lenders
- Can indicate a company's ability to service debt

5 EBITDA ALTERNATIVES

EBIT – Includes depreciation & amortization

EBITA – Excludes amortization but includes depreciation

EBITDAR – Excludes rent & lease expenses

Adjusted EBITDA – Removes one-time expenses

Operating Cash Flow & Free Cash Flow – More cash-driven approaches

EBITDA IN ANALYSIS

EBITDA Margin = (EBITDA / Revenue) × 100 → Profitability measure

Debt/EBITDA Ratio = Total Debt / EBITDA → Debt repayment ability

EV/EBITDA Ratio = Enterprise Value / EBITDA → Valuation tool

3 EBITDA LIMITATIONS

- ⚠ Ignores CapEx – Can overstate financial strength
- ⚠ Excludes debt obligations – Not a direct cash flow measure
- ⚠ Can be manipulated – Affected by accounting choices

FORMULA

Basic Formula:

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

Alternative Formula:

EBITDA = Operating Profit (EBIT) + Depreciation + Amortization

EBITDA AND DEBT SERVICEABILITY

Debt Service Coverage Ratio (DSCR):

Measures a company's ability to cover debt obligations using EBITDA.

Formula:

DSCR = EBITDA / Total Debt Service (Interest + Principal Repayments)

A DSCR greater than 1 indicates that a company generates enough EBITDA to meet debt obligations, while a ratio below 1 suggests financial strain.

Debt/EBITDA Ratio: Used by lenders to assess risk and financial leverage.

Formula:

Debt/EBITDA = Total Debt / EBITDA

A lower ratio means a company has manageable debt levels, while a higher ratio may signal financial risk.

Interest Coverage Ratio: Shows how easily a company can pay interest using its EBITDA.

Formula:

Interest Coverage Ratio = EBITDA / Interest Expense

A higher ratio suggests better debt serviceability.