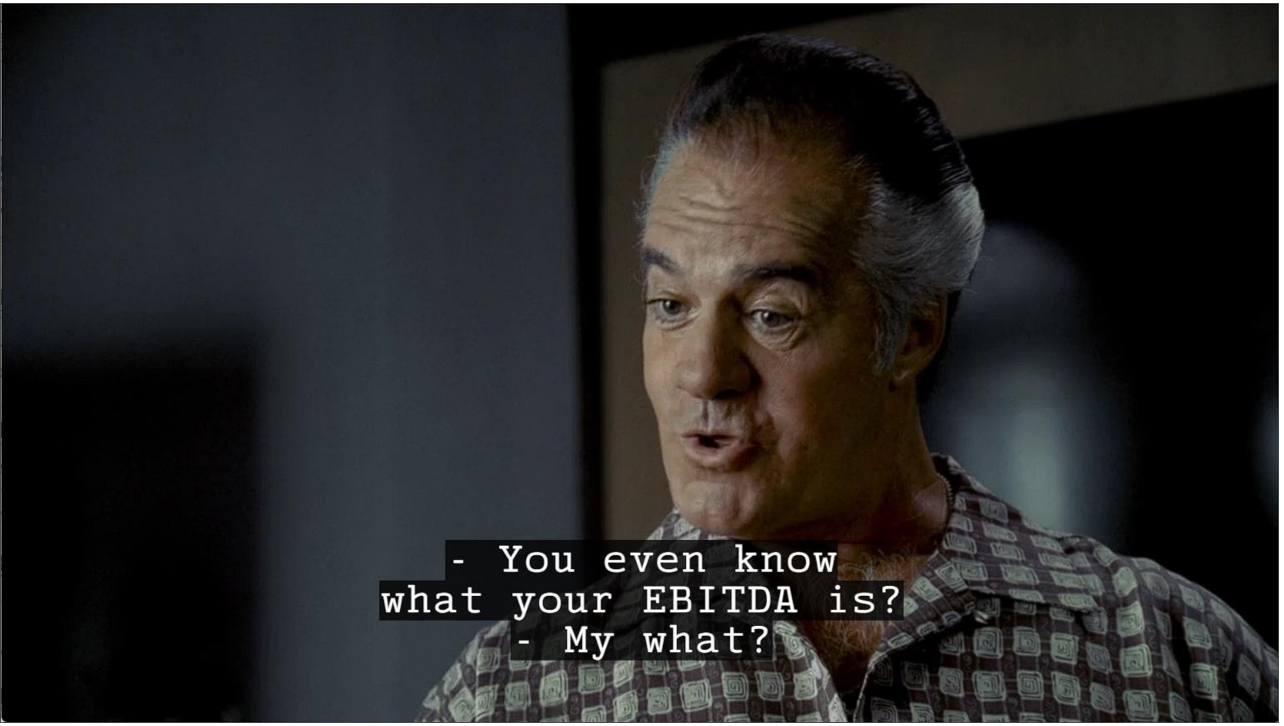
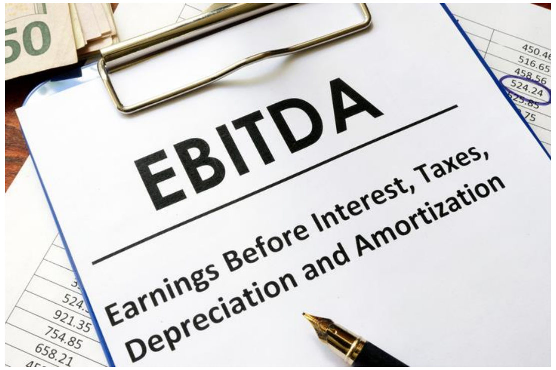




EBITDA: Corporate Finance Lessons from Tony Soprano (and Paulie!)

Is EBITDA "The True Picture of a Company's Profitability?"

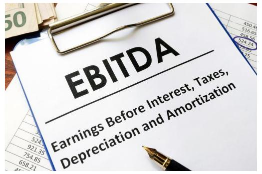
EBITDA: The Short Version

If you want this tutorial in writing, along with screenshots, PDFs, and the Excel model, go to this URL (**pinned in the comments**):

https://breakingintowallstreet.com/kb/accounting/ebitda/

The Short Answer…

- **What is EBITDA?** It's a proxy for **core, recurring business cash flow from operations** *before* capital structure, taxes, and re-investment needs



- **How to Calculate EBITDA:** Start with EBIT (Operating Income) on the Income Statement, and always add D&A *from the Cash Flow Statement* (other numbers are not all-inclusive!)

- **And:** If there are any clear, non-recurring expenses, such as Restructuring, *that have reduced the company's Operating Income*, also add them back

The Short Answer…

- **Non-Recurring Expenses:** Be careful because many items that companies like to call "non-recurring" are, in fact, recurring

- **EBITDA Criticism:** It's **quite different** from Cash Flow from Operations (CFO), even though it is supposed to be a CFO proxy

- **Warren Buffett:** "Does management think the tooth fairy pays for capital expenditures?"

- **But:** The *true purpose* of EBITDA is to **compare** companies quickly and efficiently; it does *not* accurately capture the full cash flows

EBITDA Crash Course: Outline

Part 1: How to Calculate EBITDA in More Detail

- **Key Point:** Yes, add back D&A from the CFS, but *ignore most other items* in the Cash Flow from Operations section

- **Why:** Items like Stock-Based Comp. *affect the company's share count*, and items like Gains and Losses *do not affect* EBIT!

- **Non-Recurring vs. Recurring:** Be careful with add-backs, as items like "Restructuring" *may be* recurring (see the Best Buy example)

- **Time/Effort Required:** Depends on the context of the analysis

Part 2: What Does EBITDA Mean?

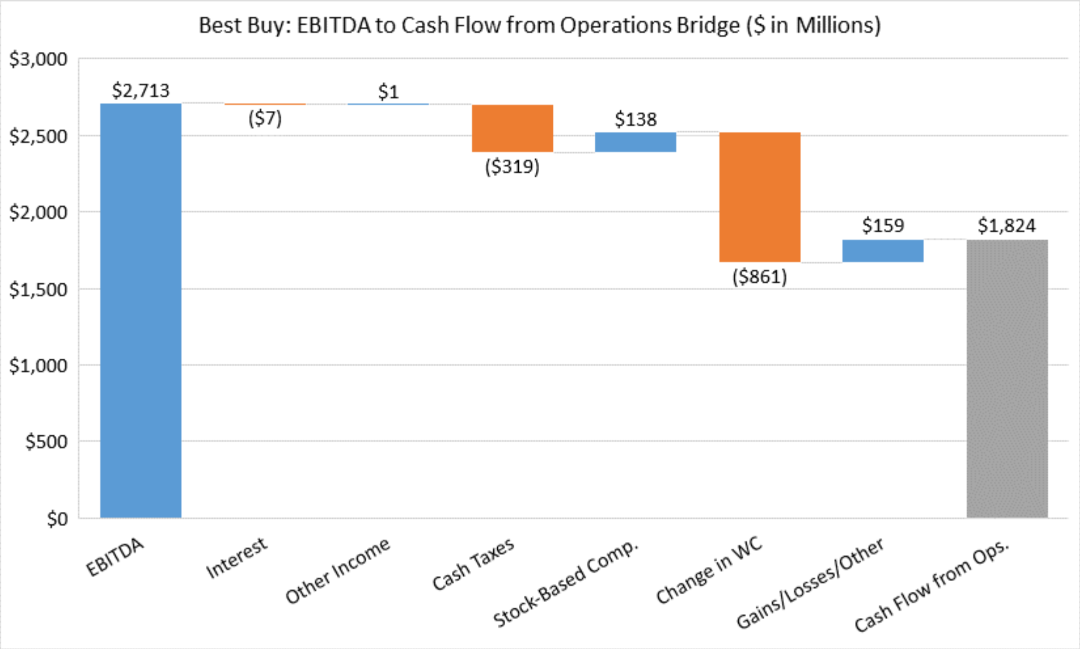
- **Main Purpose:** *Compare* the core business cash flow of similar companies (public comps) while ignoring capital structure, taxes, and re-investment requirements

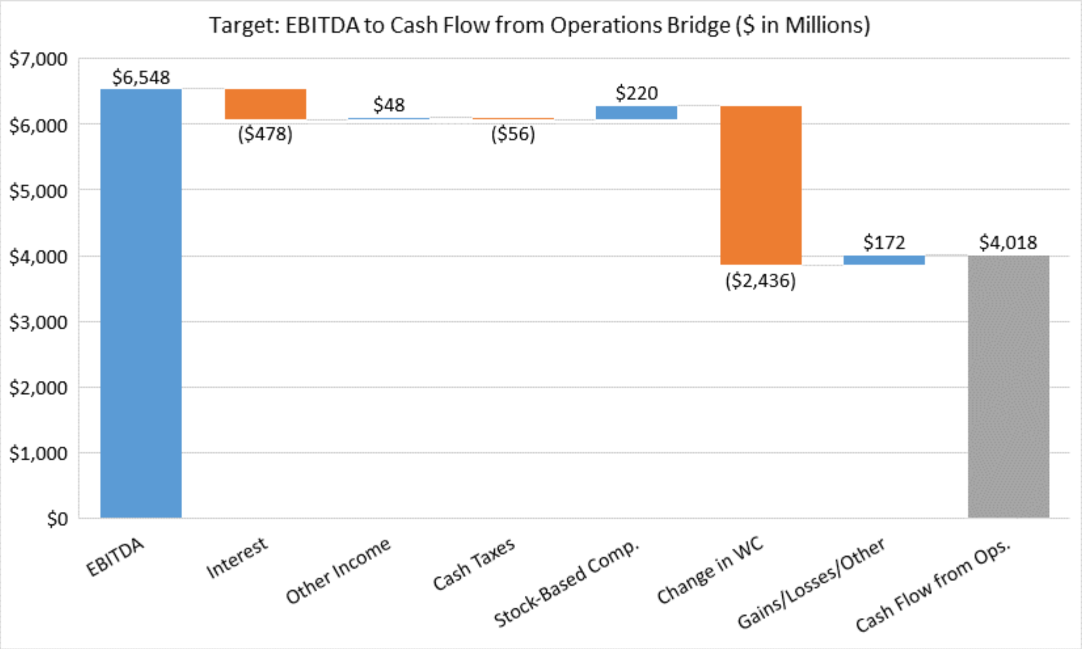
- **So:** Is one company more/less efficient? What's driving the growth or decline? Is the industry changing, or just one firm?

- **Also:** Can be used in valuation multiples (TEV / EBITDA) and to assess a company's ability to carry and service Debt (Debt / EBITDA, EBITDA / Interest, etc.)

Part 3: Is EBITDA Close to Cash Flow from Ops.?

- **Short Answer:** Sometimes, but usually it's not simply due to Interest, Taxes, and the Change in Working Capital





- **More Accurate:** Could use EBITDA – CapEx, EBITDA +/- Change in WC – CapEx, or other variations

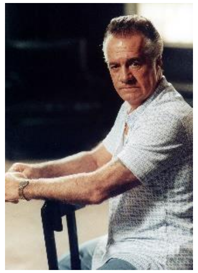
Part 4: The Pros and Cons of EBITDA

- **EBITDA:** It’s just a tool, and, like any tool, it has good/bad uses

- **Pros:** Quick and simple to calculate, allows for easy comparisons, and everyone knows it

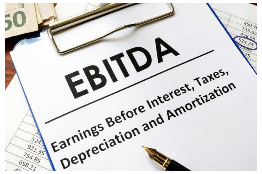
- **Cons:** *Not* that close to CFO, FCF, or UFCF in most cases, and the non-recurring add-backs can be quite subjective

- **Paulie from *The Sopranos*:** EBITDA is not “the true picture of a company’s profitability”; it’s closer to “adjusted cash flows” (still, don’t sell your business if you don’t know its EBITDA!)



Recap and Summary

- **Part 1:** How to Calculate EBITDA in More Detail



- **Part 2:** What Does EBITDA Mean?

- **Part 3:** Is EBITDA Close to Cash Flow from Operations?

- **Part 4:** The Pros and Cons of EBITDA