

## EBITDA – What Is It and How Do You Use It?

EBITDA is something your accountant likely talks about. Are you wondering what it is and why it is essential?

### EBITDA stands for:

**E** – Earnings

**B** – Before

**I** – Interest (Business expenses caused by interest rates on loans)

**T** – Taxes (Federal, state, and local taxes)

**D** – Depreciation (The noncash expense that indicates the reduction of an asset's value)

**A** – Amortization (Noncash expense of the cost of intangible assets)

- **EBITDA** is calculated by taking Operating Income (EBIT) + Depreciation + Amortization
- **EBITDA Margin** is calculated by taking EBITDA and dividing it by Net Sales

EBITDA reflects the short-term operational efficiency of your business and shows investors how much of your company's earnings are attributed to operations. The formula removes non-operating management decisions, providing a clear picture of your operating profitability.

- A decreasing EBITDA could indicate cash flow problems or low profitability.
- Higher EBITDA means stable business earnings. It is an essential indicator of the value of a company.

Calculating EBITDA requires 3-5 years of sound financial data, necessitating good financial reporting systems and processes. Your accountant should include the EBITDA calculation in your income statement.

### Let's talk about how to use and improve your EBITDA.

EBITDA Margin indicates how much cash is generated for every dollar of revenue earned and is a benchmark used to compare companies. It is used for merger and acquisition planning to compare performance with similar companies. When looking back on five years of data, potential buyers will be able to see the increased performance, thus making your business more valuable. Understanding your EBITDA will help you know where you are today and what changes you could make to impact a future sale as you begin your exit strategy.

This is just a quick overview of EBITDA. Give us a call and let's discuss your specific business needs.