

HOW IS EBITDA CALCULATED - AND WHY DO BUYERS CARE?

Understanding The Number Buyers Often Use As A Starting Point For Agency Valuation.



Start With **the Formula**

EBITDA means Earnings Before Interest, Taxes, Depreciation, and Amortization. A simplified way to calculate it is to begin with net income and add back interest, taxes, depreciation, and amortization.

Why Those Items Are **Removed**

One agency may have substantial debt while another has none. Their interest expense will differ even if their underlying operations are similar. Taxes can also vary based on ownership and structure.

Depreciation and amortization are accounting expenses that do not necessarily represent current-period cash outflows. Removing these items can help buyers compare operating performance more consistently.



A Simple Calculation

Suppose an agency reports \$200,000 of net income, \$20,000 of interest expense, \$60,000 of taxes, and \$20,000 of depreciation and amortization. Adding those items back produces \$300,000 of EBITDA.

Then Comes **Adjusted EBITDA**

For a privately owned agency, the analysis often continues. The buyer may ask whether reported EBITDA accurately represents the ongoing earning capacity of the agency under new ownership. Legitimate owner-related, discretionary, or non-recurring expenses may be considered as adjustments when properly supported.

If the agency has \$50,000 of legitimate adjustments, \$300,000 of EBITDA could become \$350,000 of Adjusted EBITDA.

Why It Can **Affect Value**

At an illustrative 7x multiple, \$300,000 of EBITDA implies \$2.1 million of enterprise value while \$350,000 implies \$2.45 million - a \$350,000 difference. Actual multiples and transaction values vary, but the example shows why accurate financial preparation matters.



The Story Behind **the Number**

EBITDA gives buyers an important number, but buyers also want to understand the story behind it: growth, retention, recurring revenue, concentration, management, owner dependency, and the sustainability of earnings.

SunCoast **Consulting Group**

Helping Agency owners understand their true value, prepare for transactions, and make informed decisions.