SunCoast
MERGERS AND ACQUISITION CONSULTANTS

UNDERSTANDING EBITDA ADD-BACKS

What Insurance Agency Owners Need to Know Before Presenting Adjusted EBITDA to a Prospective Buyer.



What Is an Add-Back?



An add-back is an expense that may be added back to reported earnings when determining the normalized or **Adjusted EBITDA** of a business.

The basic idea is straightforward: privately held insurance agencies sometimes incur expenses that are legitimate today but that a rational new owner would not expect to incur at the same level after the transaction. If an expense truly goes away under normal new ownership, it may qualify as an adjustment.

The goal is not to make EBITDA look artificially larger. The goal is to present a fair picture of the agency's ongoing earning capacity.

Why Add-Backs Matter in a Transaction

In many insurance agency transactions, buyers apply a valuation multiple to Adjusted EBITDA. That means a legitimate adjustment can affect more than the earnings number itself.

For example, assume an agency reports $500,000 of EBITDA and has $50,000 of legitimate, documented add-backs. Adjusted EBITDA could be $550,000. At an illustrative 7x multiple, that $50,000 adjustment represents $350,000 of potential enterprise value.

That is why add-backs deserve careful attention before an agency goes to market.



Add-Backs That May Be Supportable

Depending on the facts, potential adjustments may include excess owner compensation above a reasonable replacement cost; personal or discretionary expenses paid through the business; compensation or benefits for a family member who will not remain with the company; and legitimate one-time expenses that are not expected to recur.

Other situations can exist, but every adjustment should have a clear business explanation and supporting documentation. An expense being inconvenient or undesirable does not automatically make it an add-back.

The Common Thread

The common thread is simple: **Would a rational new owner expect to incur this expense at the same level?** Buyers are trying to understand what the business is likely to look like under normalized ownership. If an expense goes away cleanly and the seller can prove it, the adjustment has a stronger foundation. If the expense is necessary to operate the business, continues after closing, or cannot be supported, a buyer is much more likely to reject it.



Add-Backs Buyers Commonly Push Back On

Recurring 'one-time' expenses. If legal fees, consulting expenses, system upgrades, or similar costs appear repeatedly, buyers may question whether they are truly non-recurring. A true one-time expense should actually be unusual rather than a normal part of doing business.

Projected cost savings after closing. Saying that a vendor contract will be eliminated after the sale does not necessarily make the current expense an add-back. If the cost has not actually been eliminated, the seller may be asking the buyer to give credit for a future action rather than a demonstrated adjustment.

Growth investments. Sellers sometimes want to add back advertising, staffing, technology, or other expenses because those investments were intended to produce growth. Buyers may reject that logic when the expense helped generate the revenue and earnings being valued. You generally cannot keep the benefit of the growth while pretending the cost that helped produce it never existed.

Unsupported owner expenses. Even when an expense appears personal or discretionary, the seller should be able to identify it clearly and provide documentation. Vague estimates usually receive more scrutiny than specific, supportable adjustments.

Documentation Is What Makes the Argument Credible



A seller should be prepared to show where each proposed add-back appears in the financial statements or general ledger, explain why it is non-recurring or non-operational, provide invoices or other support when appropriate, and explain what happens to the expense after closing.

A clean add-back schedule gives a prospective buyer a clear bridge from reported EBITDA to Adjusted EBITDA. It also makes the seller's position easier to defend during due diligence or a Quality of Earnings review.

Do Not Wait for the Buyer to Find Them

One of the worst times to begin identifying add-backs is after a buyer has already analyzed the financial statements and formed an opinion about earnings.

Agency owners considering a transaction should review potential adjustments before going to market. That gives the seller and advisor time to determine which adjustments are legitimate, remove weak ones, gather supporting documentation, and build a defensible Adjusted EBITDA calculation.



Be Reasonable

Aggressive add-backs can hurt credibility. If a seller presents every questionable expense as an adjustment, the buyer may begin questioning the entire financial presentation.

A shorter list of well-supported add-backs can be more persuasive than a long list of aggressive assumptions. The objective is not to maximize the add-back schedule. It is to maximize the credibility of the earnings being presented.



The Bottom Line

Add-backs can have a meaningful impact on Adjusted EBITDA and potentially on enterprise value, but only when they are legitimate, reasonable, supportable, and properly documented.

Before taking an insurance agency to market, owners should understand the difference between an expense that truly disappears under normalized ownership and an expense they simply wish a buyer would ignore.

At **SunCoast Consulting Group**, we help health, life, Medicare, and employee benefits agency owners review their financials, identify and document appropriate EBITDA adjustments, and prepare a clear financial story before engaging prospective buyers.

Don't manufacture EBITDA. Document it.

SunCoast Consulting Group

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

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