

THE EBITDA CALCULATION

Description	Taxable Entity	Pass-Through Entity
Total Revenue		
Cost of Sales (-)		
Gross Profit		
Expenses		
Income Before Taxes		
Income Taxes (Fed & State)		
Income After Taxes		
EBITDA Calculation		
• Income After Taxes (from above)		
• Interest Expense		
• Income Taxes		
• Depreciation Expense		
• Amortization Expenses		
EBITDA Adjusted		

EBITDA ADJUSTMENT EXAMPLE

For an EBITDA to be most useful, adjustments must be identified. These are usually items that might be considered distortions to the EBITDA calculation by prospects. Our transition advisors, a business broker or accountant familiar with the process, need to spend time reviewing and discussing any possible adjustment to EBITDA long before any discussion with prospects.

Description	Amount
ADJUSTED EBITDA	\$795,000
Add backs:	
Expenses related to hiring of experts in anticipation of the sale - Legal, audits, appraisals etc.	\$45,000
Removal of Bonuses	\$75,000
Removal of one-time, non recurring transactions	\$150,000
Vehicle and Insurance	\$36,000
Country Clubs, sporting club dues	\$50,000
Personal entertainment and food	\$24,000
Other:	
Total add backs:	\$380,000
Increased cost of dual roles during transition	\$(50,000)
Adjusted EBITDA	\$1,125,000
Multiplier	3x
Estimated value of ABC Example Company, Inc.	\$3,375,000