

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