

The Valuation School



DEFINITIVE GUIDE

EBITDA

Most Simplest Explanation Ever

Calculation of EBITDA

	Sales	xxx	→ Top line
(-)	COGS	(xx)	→ Exp related to mfg of product.
	Gross profit	xxx	
(-)	SG & A	(xx)	
	<u>EBITDA</u>	<u>xxx</u>	

→ Earnings Before Interest, Tax, Depreciation & Amortization

Calculation of EBITDA Through Net Profit

Net profit	-	xxx
(+) Tax		<u>xx</u>
Profit before Tax		xxx
(+) Interest		<u>xx</u>
EBIT		xxx
(+) Depreciation		<u>xx</u>
EBITDA		xxx

Why EBITDA ? - Importance →

- EBITDA is cash operating profits
- which means its free from impact of:
 - ✓ capital structure (Interest)
 - ✓ fixed Assets (Depreciation)

Let's understand in Depth

Why EBITDA ? - Importance

- Two companies are not comparable if one is making higher profits due to low interest loans / No loans.
- Similarly, if one company is making higher profits due to lower depreciation (can be rigged as per management discretion)

Why EBITDA ? - Importance →

- Since EBITDA is before Interest & Depreciation.
- It shows profits due to "True business operations & Efficiency"
- Desi Language - Kamkaji Munafa
- That's why EBITDA is useful to compare businesses

Use of EBITDA



- EBITDA is used to value Businesses ($EV/EBITDA$)
- EBITDA is used in Ratio Analysis ($CFO/EBITDA$)
- EBITDA is used to compare different co. in same sector



What is Adjusted EBITDA?

Food Services · 2 Min Read

Zomato turns adjusted EBITDA positive in Q4FY23; Blinkit still in red

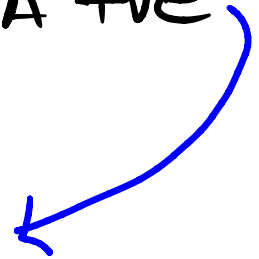
The profitability was driven by Zomato's food delivery business generating adjusted EBITDA of Rs 0.78 billion in the quarter. Its total adjusted EBITDA (excluding Blinkit) stood at Rs 0.28 billion for the quarter.

Adjusted EBITDA



- Because EBITDA represent "cash operating profits".
- All the companies are **desperate** to declare themselves EBITDA +ve

- OYO told its employees recently that its adjusted EBITDA is expected to rise about 3X to INR 185 Cr during the second half of FY23
- The IPO-bound hospitality chain reported an adjusted EBITDA of INR 63 Cr in the first half of FY23
- The expected jump in adjusted EBITDA can be attributed to reduction in costs, growth in hotels business, and continued operational profitability: OYO



Adjusted EBITDA →

What is Adjusted EBITDA?

- It is Earnings before Interest, Tax, Depreciation, and ?

Anything

ESOPs, Litigation Exps, Covid Exps, Rent, Goodwill Impairment, forex losses, etc.

Adjusted EBITDA



let's take a practical example of

 D-Mart &

 Reliance
SMART



Adjusted EBITDA



- It is unfair to compare Net Profit of DMART & Reliance Smart
 - Because DMART has higher Depreciation (as they own all the stores)
 - Because Reliance smart has higher Rent (as they don't own any store)
- Therefore, merely EBITDA isn't sufficient

Adjusted EBITDA →

- we need to use EBITDAR - Earnings before Intt, Tax, Depreciation & Rent. to have fair comparison of earnings from Business efficiency
- Here EBITDAR is adjusted EBITDA.



If you want me to cover Adjusted EBITDA in depth; let me know in comments.



Why Adjusted EBITDA is allowed?

- Because Reporting EBITDA is neither mandatory by Regulation nor by GAAP (Accounting standards)

Therefore, any adjustment in EBITDA doesn't bother Regulators or Auditors.

EBITDA isn't part of financial statement

Hope you learned something!

REPOST - To help others.

SAVE - for future reference.

Sorry for pathetic handwriting!