HOW TO CALCULATE

Adjusted EBITDA

Adjusted EBITDA in 4 easy steps.

Sell Your Business 101 #VRVALUE

About Adjusted EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)

If interested parties are other companies, private investors or private equity groups (PEGs), then the value they wish to define is the Market Value of Invested Capital (MVIC) or Enterprise Value of the company. The MVIC or Enterprise Value is generally defined by a multiple of adjusted EBITDA, where compensation and benefits of the owner are normalized to align with market based benefits and compensation required to operate the business.

Essentially, the buyer will need to replace you within your business, but compensation should represent market costs, not necessarily what you pay yourself. In a transaction where value is based on MVIC, the deal structure is an asset sale that includes all the tangible and intangible assets of the business plus the normalized Net Working Capital (NWC) of the business. NWC is defined as current assets (accounts receivable and finished goods inventory) minus current liabilities (accounts payables, accrued expenses and other short term liabilities). Adding NWC to the tangible and intangible assets of the business, creates an important distinction between businesses valued as a multiple of SDE and those valued as a multiple of adjusted EBITDA.

Adjusted EBITDA is most commonly used for company earnings above $1,000,000, where buyers are other companies, private investors or private equity groups (PEGs).

3 Years Tax Returns

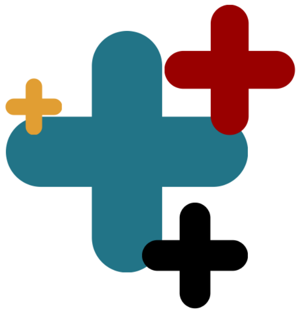
01

Pull out your tax returns for the years you'd like to calculate Adjusted EBITDA, using the last three years is common. Perform the steps below for each tax year as each will have its own Adjusted EBITDA.

Add up these numbers

02

Generally, you can find these numbers on the first page of your tax returns:



Find ordinary business income (pre-tax earnings)

- ✚ Add Interest Expense
- ✚ Add Depreciation Expense
- ✚ Add Amortization Expense
  (this may be listed in the itemized expense statement further back in the tax return)

We are using ordinary business income from tax returns, so taxes haven't been deducted and therefore do not need to be added back.

03

Adjust for unusual expenses

Now that you've found Adjusted EBITDA in Step 2, review your expenses for the period you've completed the calculation for. Were there one-time and non-recurring expenses? Identify any unusual expenses you don't see year to year and add them back. Charitable donations, excessive travel and entertainment expenses, one-time bad debt write-offs, etc.

04

Normalize Benefits and Compensation

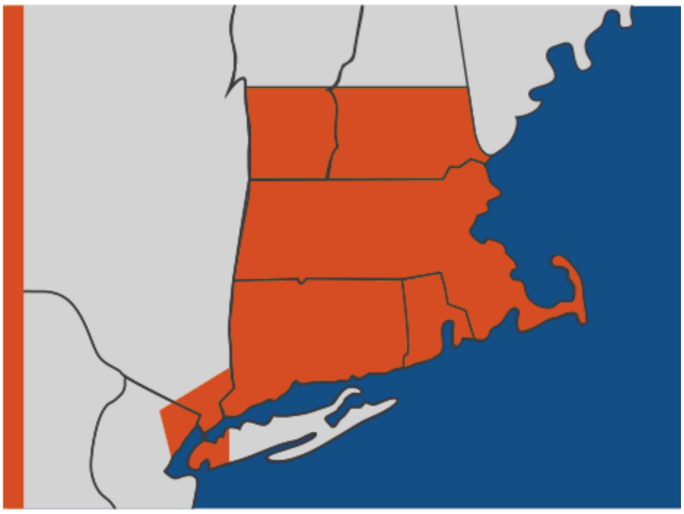
This is likely the hardest step, requiring a little research or talking to industry peers. Identify normal or average compensation for the management position needed to replace you for similar companies and compare to your own salary and benefits. If there is a difference between current compensation in the company and the market, you can add back in the difference to arrive at your final number.

Although it is best to work with a professional to determine the business sale price or listing price range, an owner can use estimated Adjusted EBITDA and an appropriate multiple of 1-3 times to get an idea of the company's value.

VR BUSINESS SALES | MERGERS & ACQUISTIONS

COMPANY OVERVIEW

VR Business Sales New Haven represents owners of businesses valued between $500,000 and $25 million or with annual revenues from $1 million to $30 million. The office provides exceptional merger ands acquisition advisory services to companies operating within a wide range of industry segments in Connecticut, Southern New England and Metro NY. Independently owned and operated, the office consistently ranks within the Top 10 of over 50 offices worldwide with the VR franchise network.



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