EBITDA, 2018

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EBITDA

abbreviation EBIT·DA \ ˈē-bit-ˌdä , -bə- , ˈe- \
variants: or less commonly Ebitda
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1. hirsute 'hairy'

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2. op-ed 'a page of special features usually opposite the editorial page'

3. collegiality 'the cooperative relationship of colleagues'

4. mistrial 'a trial that terminates without a verdict'

5. hogwash 'nonsense, balderdash'

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Definition of EBITDA

earnings before interest, taxes, depreciation, and amortization

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Financial Definition of EBITDA

EBITDA
abbreviation

What It Is

Earnings before interest, tax, depreciation and amortization (EBITDA) is a measure of a company's operating performance. Essentially, it's a way to evaluate a company's performance without having to factor in financing decisions, accounting decisions or tax environments.

EBITDA is calculated by adding back the non-cash expenses of depreciation and amortization to a firm's operating income.

How It Works

EBITDA is calculated using the company's income statement. It is not included as a line item, but can be easily derived by using the other line items that must be reported on an income statement.

The formula for EBITDA is:

EBITDA = EBIT + Depreciation + Amortization

Let's take a look at a hypothetical income statement for Company XYZ:

Income Statement for the Year Ending December 31, 2009	
Sales Revenue	$1,000,000
Salaries	(100,000)
Rent & Utilities	(100,000)
Depreciation	(50,000)
Operating Profit (EBIT)	**$ 750,000**
Interest Expense	(50,000)
Earnings Before Taxes (EBT)	**$ 700,000**
Taxes	(100,000)
Net Income	**$ 600,000**

To calculate EBITDA, we find the line items for EBIT ($750,000), depreciation ($50,000) and amortization (n/a) and then use the formula above:

EBITDA = 750,000 + 50,000 + 0 = $800,000

[InvestingAnswers Feature: The Most Important Tax Changes to Know Before Filing Your Tax Return]

Why It Matters

EBITDA is one of the operating measures most used by analysts.

EBIDTA allows analysts to focus on the outcome of operating decisions while excluding the impacts of non-operating decisions like interest expenses (a financing decision), tax rates (a governmental decision), or large non-cash items like depreciation and amortization (an accounting decision).

By minimizing the non-operating effects that are unique to each company, EBITDA allows investors to focus on operating profitability as a singular measure of performance. Such analysis is particularly important when comparing similar companies across a single industry, or companies operating in different tax brackets.

However, EBITDA can also be deceptive when applied incorrectly. It is especially unsuitable for firms saddled with high debt loads or those who must frequently upgrade costly equipment. Furthermore, EBITDA can be trumpeted by companies with low net income in an effort to "window-dress" their profitability. EBITDA will almost always be higher than reported net income.

Also, because EBITDA isn't regulated by GAAP, investors are at the discretion of the company to decide what is, and is not, included in the calculation. There's also the possibility that a company may choose to include different items in their calculation from one reporting period to the next.

Therefore, when analyzing a firm's EBITDA, it is best to do so in conjunction with other factors such as capital expenditures, changes in working capital requirements, debt payments, and, of course, net income.

[InvestingAnswers Feature: How to Avoid an IRS Audit]

Source: Investing Answers

Law Dictionary

EBITDA

abbreviation

legal Definition of EBITDA

earnings before interest, taxes, depreciation, and amortization

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WORD OF THE DAY