

JESUS M&A

A Business Owner's Guide to Calculating Your True EBITDA



The "DIY" Baseline vs. The Advisor Premium

Before we dive into the math of calculating your company's profit, it is important to understand *why* how you calculate it matters so much.

You can absolutely take your tax return right now and calculate a baseline EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization). However, an academic study by the University of Alabama and Portland State University analyzed over 4,400 private company transactions and found a striking reality:

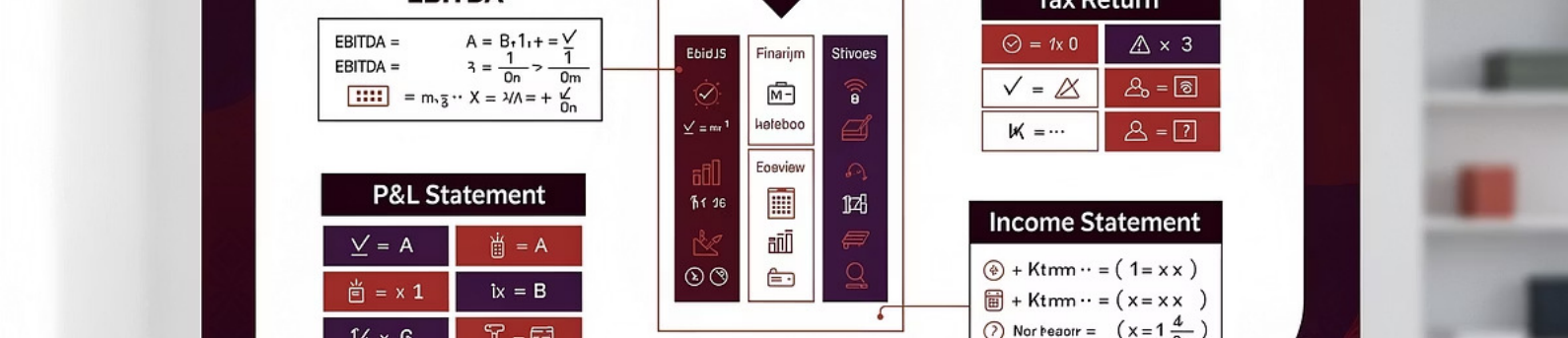
Sellers who used a professional M&A advisor achieved a valuation premium of approximately 25% compared to those who sold independently.

Why?

Because a baseline calculation only tells half the story. Our job as advisors is to forensically rebuild your financials, legally extract every hidden dollar of true earning power, and aggressively defend those "add-backs" to a buyer. This professional normalization process frequently covers our success fee multiple times over.

But to understand how we do that, you first need to understand the baseline. Here is how you can calculate your starting EBITDA using your own financial statements.





The 5 Methods to Calculate EBITDA

Depending on what financial documents you have in front of you (a Profit & Loss statement, a tax return, or an income statement), you can use one of these five formulas to find your baseline EBITDA.

1

Top-Down (Revenue Down)

Best used when looking at a high-level income statement.

2

Bottom-Up (Net Income Up)

The most common and easiest method using your standard P&L or income statement.

3

Operating Profit + D&A

Best used if your accountant provides a detailed P&L that isolates Operating Profit.

4

Revenue Margin

A quick "back-of-the-napkin" method to estimate EBITDA if you know your company's net profit margin.

5

Tax Statement

Best used when you only have your filed tax returns from the IRS or the ATO.



Methods 1 & 2: Top-Down and Bottom-Up

METHOD 1

Top-Down (Revenue Down)

Best used when looking at a high-level income statement.

Formula: $\text{EBITDA} = \text{Revenue} - \text{COGS (Cost of Goods Sold)} - \text{SG\&A (Selling, General \& Administrative expenses)} + \text{Depreciation \& Amortization}$

How it works: You start with the total money coming in (Revenue), subtract the direct costs of making your product (COGS), and subtract your overhead (SG&A). If your SG&A figure already had Depreciation and Amortization deducted from it, you add them back in to get your final EBITDA.

METHOD 2

Bottom-Up (Net Income Up)

The most common and easiest method using your standard P&L or income statement.

Formula: $\text{EBITDA} = \text{Net Profit After Tax} + \text{Interest} + \text{Taxes} + \text{Depreciation \& Amortization}$

How it works: You start at the very bottom line of your P&L (your Net Profit). Then, you work your way back up, adding back the interest you paid to the bank, the taxes you paid to the government, and the non-cash accounting expenses of depreciation and amortization.

Methods 3, 4 & 5: Operating Profit, Revenue Margin & Tax Statement

METHOD 3

Operating Profit + D&A

Best used if your accountant provides a detailed P&L that isolates Operating Profit.

Formula: EBITDA = EBIT (Operating Profit) + Depreciation & Amortization

How it works: EBIT (Earnings Before Interest and Taxes) is exactly what it sounds like—your profit from standard business operations. Since interest and taxes are already excluded, you simply add back the Depreciation and Amortization to reach your EBITDA.

METHOD 4

Revenue Margin

A quick "back-of-the-napkin" method to estimate EBITDA if you know your company's net profit margin.

Formula: EBITDA = (Revenue * Net Income Margin) + Interest + Taxes + Depreciation & Amortization

How it works: You multiply your total sales by your profit margin percentage to find your Net Income. Then, just like the Bottom-Up method, you add back your interest, taxes, depreciation, and amortization.

METHOD 5

Tax Statement

Best used when you only have your filed tax returns from the IRS or the ATO.

Formula: EBITDA = Taxable Income + Interest + Depreciation & Amortization

How it works: Your tax return shows your "Taxable Income" before the actual taxes are taken out. Therefore, you do not need to add taxes back. You simply take that Taxable Income figure and add back the interest, depreciation, and amortization claimed on the return.





The Secret Weapon: Normalization & Add-Backs

Whichever formula you used above, the number you just calculated is your *unadjusted* baseline. Now, we apply the "Broker Premium" by normalizing your earnings through Add-Backs.

An add-back is an expense currently lowering your profit that a new buyer will not have to pay, or a personal benefit you derive from the business. Here is how this transforms your valuation:

The Situation

You pay yourself a W-2 (US) or PAYG (Aus) salary of \$180,000 a year to act as the full-time General Manager of your business.

The Add-Back

Because a new owner-operator would step into your shoes and take over that role, would 'normally' earn say \$120,000 along with the business profits. We add \$60,000 as a normalized salary add-back into the profit pool — this is for EBITDA calculations only.

Going Further

For PEBITDA/SDE calculations we add the entire salary back in — let's explore this.

EBITDA vs. PEBITDA/SDE

As we adjust your salary, we must correctly classify the final number based on *who* is buying your business:

PEBITDA (Proprietor's EBITDA) / SDE (Seller's Discretionary Earnings)

If you are selling to another owner-operator who will run the day-to-day business, we add your *entire working salary* back into the profit pool (just like Example 1). This number shows an individual buyer exactly how much money they will make if they replace you. In our case we would add-back the entire **\$180k**.

EBITDA

If you are selling to a larger corporation or a Private Equity firm, they will not run the business themselves. They have to hire a General Manager to replace you. Therefore, we do *not* add your salary back (or if we do, we must immediately deduct the fair market cost of a replacement GM). It is for our example we add-back the **\$60k**.

- Once we know which tier of buyer we are targeting, we continue normalizing the rest of your expenses.





Add-Back Examples

1

The Discretionary Vehicle

The Situation: You lease a luxury SUV through the business for \$1,200 a month, plus \$3,000 a year in insurance and fuel. It's a great tax write-off.

The Add-Back: The new owner does not get your car. We add that \$17,400 back to your profit. At a 4x market multiple, that single adjustment adds **\$69,600** to your final sale price.

2

One-Off Legal Fees

The Situation: Last year, you spent \$25,000 on a lawyer to successfully trademark your brand and resolve a minor vendor dispute.

The Add-Back: A buyer will not have to trademark the brand again next year. It is a non-recurring event. We add \$25,000 back to your profit, instantly increasing your business value by **\$100,000** (at a 4x multiple).

3

Non-Working Family Members

The Situation: You pay your spouse a salary of \$40,000 a year for "administrative support," but in reality, they only work a few hours a month.

The Add-Back: Since the buyer will not need to hire someone for \$40,000 to replace those few hours, this is treated as a personal owner benefit. We add it back, raising your valuation by **\$160,000** (at a 4x multiple).



More Add-Back Examples

Unreported Cash Income

The Situation: Your business generates an extra \$30,000 a year in cash that goes straight into your pocket and does not appear on your official tax returns.

The Add-Back: We *can* add this \$30,000 back to your profit pool, but with a massive caveat: no sophisticated buyer will take your word for it without proof. To safely claim this add-back, it must be "qualified" or proven during the handover and training period. Once proven, that \$30k add-back increases your valuation by **\$120,000** (at a 4x multiple).

Personal Donations & Corporate Sponsorships

The Situation: You donate \$5,000 a year to your favorite personal charity and sponsor your child's local soccer team for \$10,000, and your accountant legally marks these as a "Marketing & Advertising" expense.

The Add-Back: While generous, these are philanthropic choices driven by your personal interests, not strict marketing requirements needed to keep the business running. We add that \$15,000 back to the bottom line, boosting your valuation by **\$60,000** (at a 4x multiple).

Personal Travel & Meals

The Situation: You expensed \$15,000 for a family "business trip" to Hawaii or high-end social dinners.

The Add-Back: A buyer won't inherit your vacations. We add this \$15,000 back, putting an extra **\$60,000** in your pocket (at a 4x multiple).

Other Examples

Example	The Situation	The Add-Back & Valuation Impact
7. Rent Adjustments (If You Own the Building)	You own your building and charge the business \$120,000 a year in rent, but fair market value is only \$80,000.	The buyer will only pay the market rate. We add back your \$40,000 "overpayment," boosting your valuation by \$160,000 (at a 4x multiple). <i>(Note: If you severely undercharge your business for rent, we must negatively adjust this!)</i>
8. Owner's Discretionary Benefits	The business pays \$25,000 a year for your family's health insurance and voluntary Super (Aus) or 401(k) (US) contributions.	These are personal perks, not operating costs. We add the \$25,000 back, increasing your valuation by \$100,000 (at a 4x multiple).
9.. CapEx Expensed as Maintenance	You spent \$40,000 replacing a roof, but your accountant expensed it as "Repairs & Maintenance" for an immediate tax break.	This is a one-time capital asset purchase, not a daily expense. We add the \$40,000 back, driving your valuation up by \$160,000 (at a 4x multiple).
10. One-Off Bad Debts or Settlements	You wrote off \$30,000 from a bankrupt client or paid a \$20,000 one-time legal settlement.	These are rare historical anomalies a new owner is unlikely to face. We add the combined \$50,000 back, increasing your value by \$200,000 (at a 4x multiple).
11. Personal Travel & Meals	You expensed \$15,000 for a family "business trip" to Hawaii or high-end social dinners.	A buyer won't inherit your vacations. We add this \$15,000 back, putting an extra \$60,000 in your pocket (at a 4x multiple).



Although these are the main add-backs, there are many others which an experienced M&A Advisor can help you uncover.

The Compound Effect: Uncovering Your True Valuation

Individually, each of the add-backs we have explored might seem like a minor accounting adjustment. But in the world of Mergers & Acquisitions, these numbers compound rapidly.

To illustrate the sheer power of professional normalization, let's look at what happens when a hypothetical business owner experiences all eleven of the scenarios we just covered. By relying on a baseline tax-return EBITDA, they leave a staggering amount of equity on the table.

When we rebuild the financials and apply a conservative 4x market multiple, the true picture emerges:

Add-Back Category	Normalized Profit Reclaimed	Valuation Increase (at 4x Multiple)
Owner's Salary Adjustment	\$60,000	\$240,000
Discretionary Vehicle	\$17,400	\$69,600
One-Off Legal Fees	\$25,000	\$100,000
Non-Working Family Salary	\$40,000	\$160,000
Proven Unreported Cash	\$30,000	\$120,000
Personal Donations/Sponsors	\$15,000	\$60,000
Personal Travel & Meals	\$15,000	\$60,000
Rent Overpayment	\$40,000	\$160,000
Owner's Discretionary Benefits	\$25,000	\$100,000
CapEx Expensed as Maintenance	\$40,000	\$160,000
One-Off Bad Debts/Settlements	\$50,000	\$200,000
TOTAL HIDDEN EQUITY	\$357,400	\$1,429,600

 By taking the 'DIY' approach, this owner would have unknowingly discounted their life's work by nearly \$1.43 million.

Your accountant's job is to aggressively minimize your profit to save you money on taxes today. Our job as your M&A Advisor is to aggressively (and legally) rebuild that profit to maximize your wealth tomorrow.



The Defense: Protecting Your Multiplier Under Fire

Uncovering your hidden equity is exciting, but it is only half the battle. The real test happens in the boardroom during due diligence.

When you present your normalized EBITDA to a sophisticated buyer or a Private Equity firm, their immediate goal is to tear those add-backs down. Why? Because every dollar they successfully challenge lowers their purchase price and takes money straight out of your pocket.

This is where the difference between a simple "DIY" calculation and a professional advisory firm becomes critical. We do not just find these add-backs; we build an evidence-based fortress around them. We anticipate the buyer's objections, prepare the meticulous paper trail required, and fiercely defend your true earning power.

If an add-back cannot be confidently proven with data, it is just a fantasy. Our job is to turn it into an undeniable fact that buyers will pay a premium for.

Ready to Find Your True Value?

Calculating your baseline is just the beginning. The real art of M&A is knowing exactly which add-backs will survive a buyer's rigorous due diligence and which will be rejected.

If you are ready to stop guessing and start building a defensible, premium valuation for your exit, let's talk.



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