

EBITDA Tracks the Financial Health of Your Business

If you remember only one acronym from the analysis of your financial statements, it should be EBITDA. This statistical measure stands for Earnings Before Interest, Taxes, Depreciation, and Amortization.

EBITDA is essentially a component of cash flow. It reveals the ability of your business to generate sufficient funds for loan payments, taxes, and growth. To calculate EBITDA, subtract your operating expenses from business revenue. A positive number means your business has enough sales to cover expenses (with no debt). Do not count expense categories of depreciation and amortization in the calculation. These are simply the write-offs over time for the cost of capital purchases such as equipment or building improvements.

Your EBITDA is the source of money for capital asset purchases or for making loan payments if you decide to finance them. It provides a base to judge expansion possibilities and the results of operations from a debt-free perspective.

Feel free to contact us if you have any questions or would like to understand how using this benchmark can become a relevant tool for your business.