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Digital Area for Networking
Teachers and Educators



Co-funded by
the European Union

EBITDA, FCF, Introduction to Capital Budgeting



Outline

- **EBITDA**
- **Cash flow – broader context**
- **Capital budgeting**
- **Examples**



EBITDA - Earnings Before Interest Taxes Depreciation Amortization

- Start with your EARNINGS (Net income)
- Then add back your INTEREST expense (and subtract out your interest income)
- Add back back your TAXES (note this is your income tax, not other taxes like payroll tax, or franchise tax)
- Add back your DEPRECIATION
- Add back your AMORTIZATION

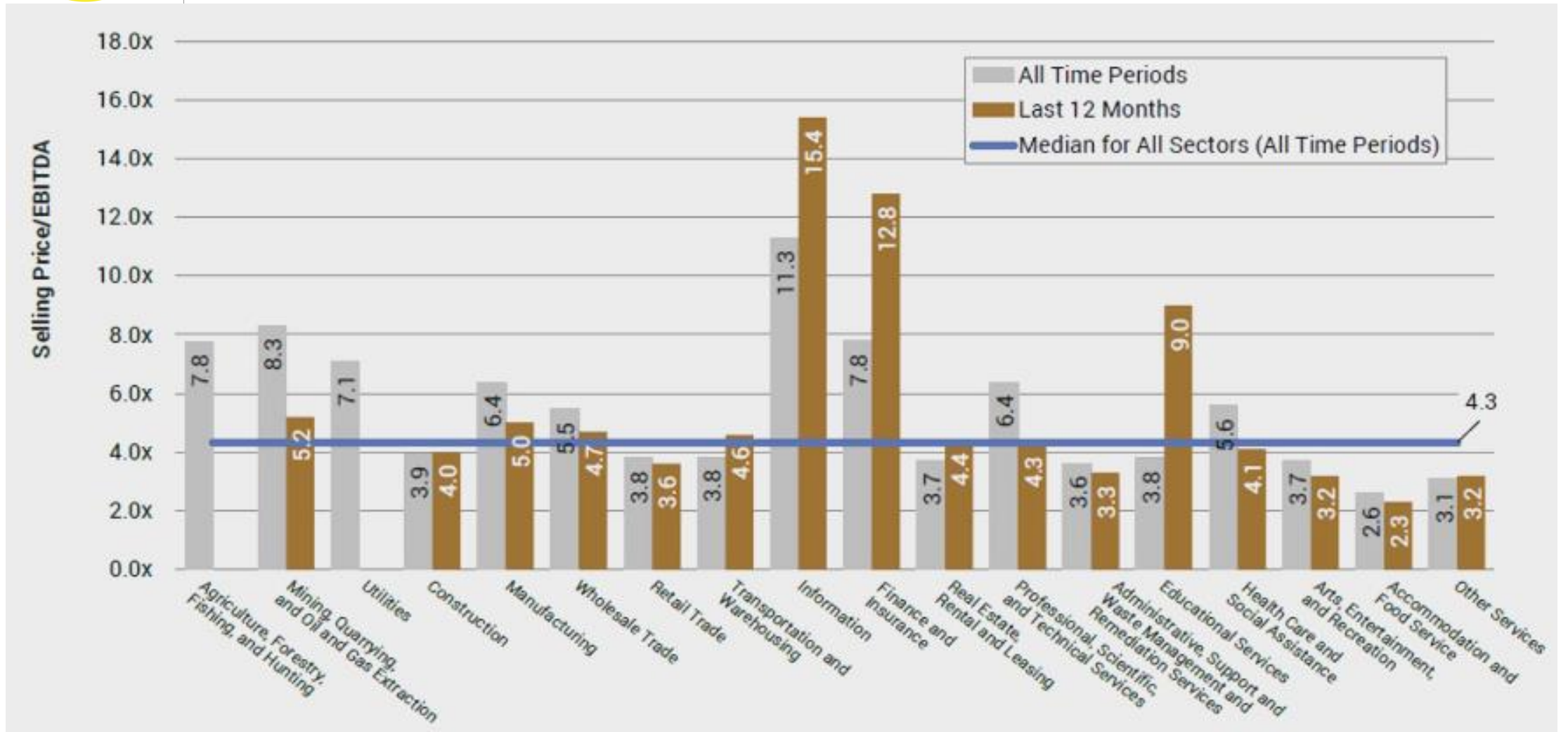


EBITDA - Earnings Before Interest Taxes Depreciation Amortization

- EBITDA is commonly used in valuations
 - EBITDA is often multiplied by a "market multiple" (such as 8.0x) to arrive at a business valuation. This "market multiple" can be obtained by looking at previous transactions of comparable companies in the same industry to see what the company is "trading for".
- It is often used as an approximation for cash flow
 - However, although EBITDA is commonly used as an approximation for cash flow, it can be a misleading figure as it excludes capital expenditures, changes in working capital, and equity distributions.



EBITDA – Multiples by sector (2022)





Cash Flow – meaning

- Money in & out (pos/neg)
- Statement (operating, investing, financing) – check excel file
- Flow from single project



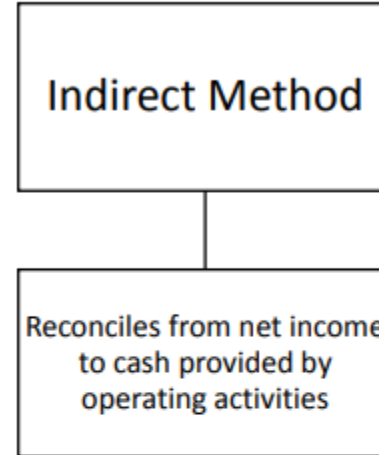
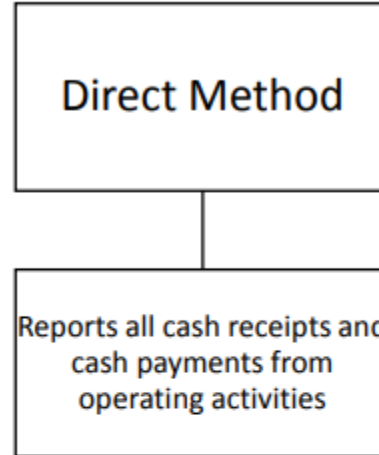
Cash Flow – types

- Cash flow (Cash from operations)
- Free cash flow
- Free cash flow to firm (Unlevered Free Cash Flow)
- Free cash flow to equity (Levered Free Cash Flow)



Cash Flow - estimation

Direct method	
Sales Revenue	+
Accounts Receivable	± Δ
Unearned Revenue	± Δ
Cost of Goods Sold	-
Inventory	± Δ
Accounts Payable	± Δ
Wages	± Δ
Prepaid Expenses	± Δ
Accrued Liabilities	± Δ
Tax, Interest Expense	± Δ



Indirect method	
Net Income	+
Amortization Expense	+
Depreciation Expense	+
Loss	+
Gain	-
Accounts Receivable	± Δ
Accounts Payable	± Δ
Inventory	± Δ
Prepaid Expenses	± Δ
Accrued Liabilities	± Δ
Wages	± Δ
Interest	± Δ
Tax	± Δ



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