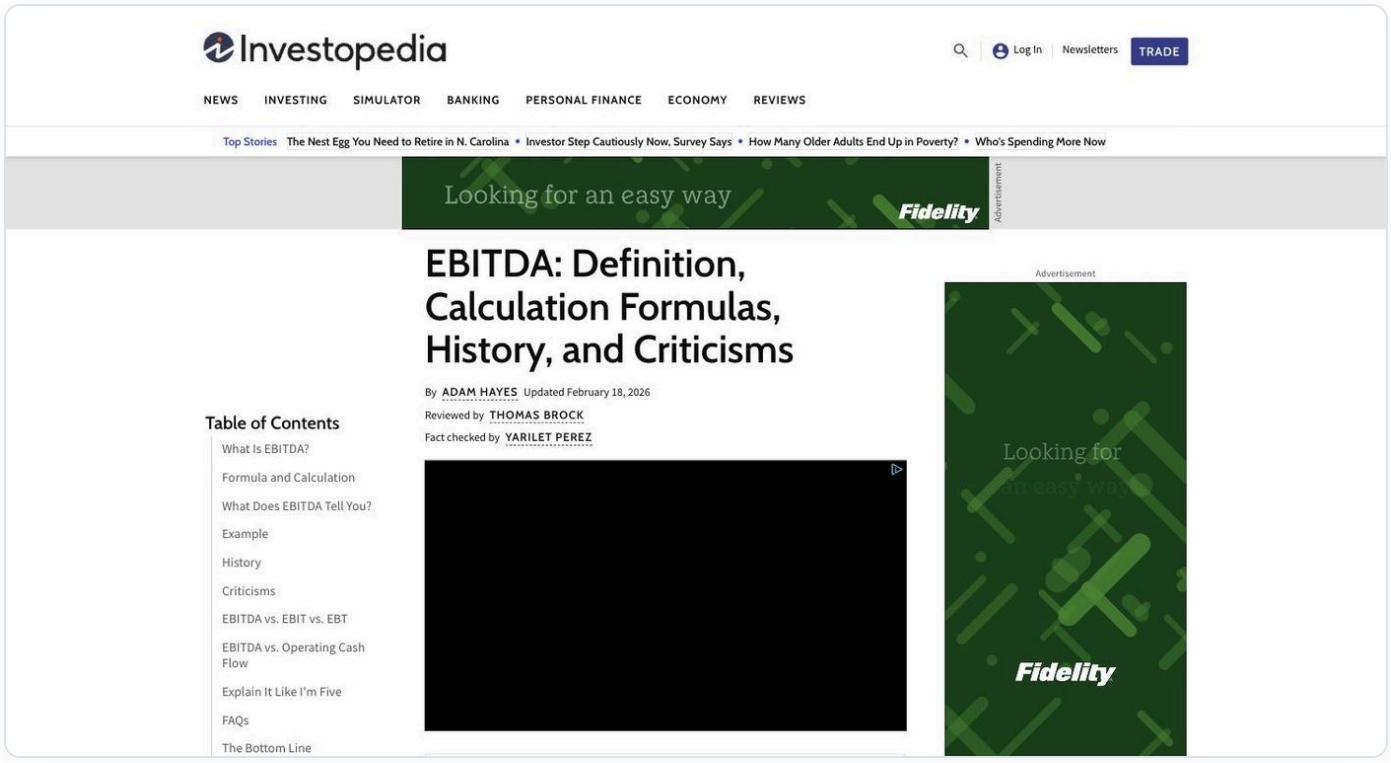
ADVANCED FINANCE, MODULE 4

EBITDA

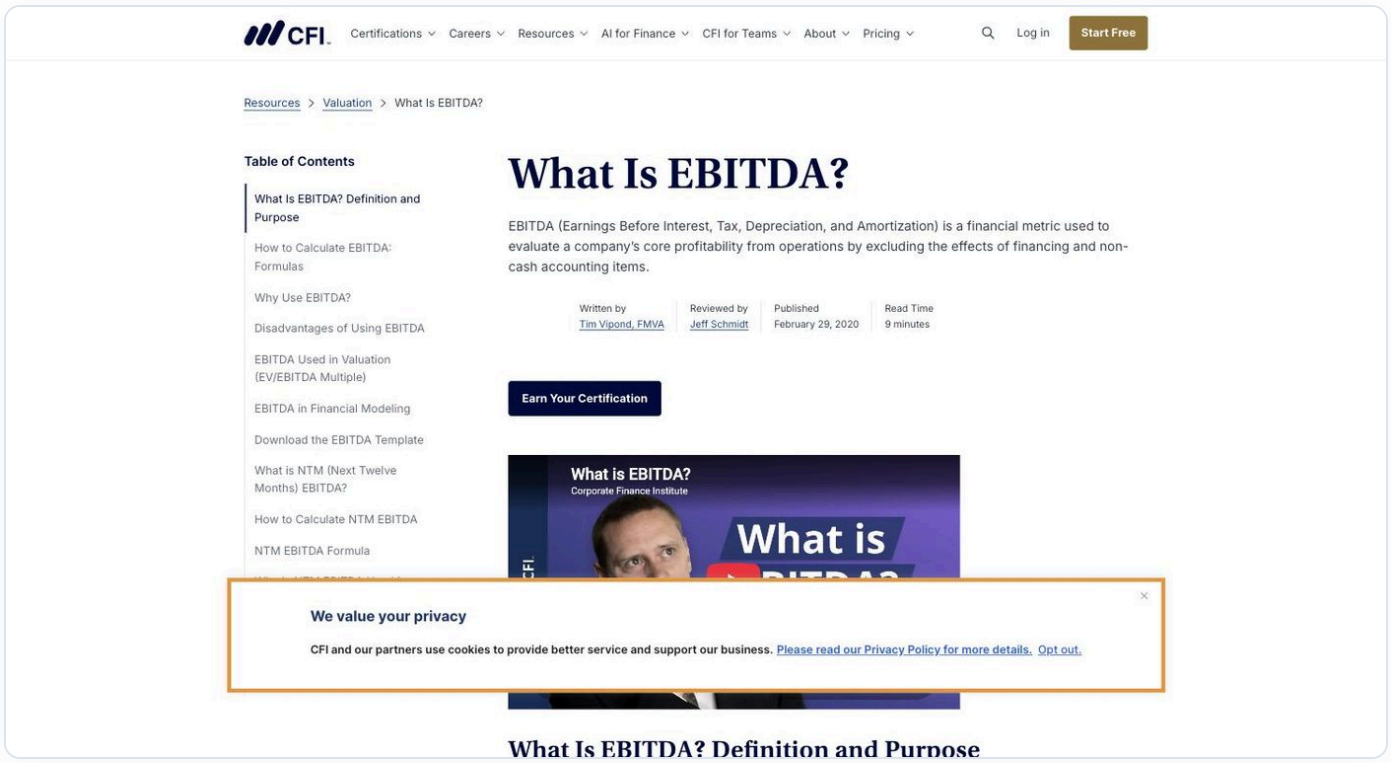
After this module you can build EBITDA by hand from a P&L, explain each add back, say why a buyer or a lender starts there instead of at net income, and tell the difference between EBITDA and adjusted EBITDA.

What it is

EBITDA is Earnings Before Interest, Taxes, Depreciation and Amortization. Start with net income and add back four things that have little to do with how well the clinic itself runs: the interest on its loans, the income tax it pays, the depreciation of its equipment and the amortization of its start up and intangible costs. What is left is a rough measure of the cash the operation throws off before anyone decides how to finance it or how the tax code treats it.



Source Investopedia, EBITDA: Definition, Calculation Formulas, History, and Criticisms, updated February 18, 2026.



Source Corporate Finance Institute, What Is EBITDA? "A financial metric used to evaluate a company's core profitability from operations by excluding the effects of financing and non cash accounting items."

Why anyone cares

Two clinics with identical patients, prices and staff can show very different net income. One bought its lasers with cash, the other with a loan (interest). One is a C corporation, the other an S corporation (taxes). One bought equipment last year, the other five years ago (depreciation). EBITDA strips those differences out so the two clinics can be compared, and so a buyer can ask "what would this operation earn under my financing and my tax situation?" That is why valuations are quoted as a multiple of EBITDA and why a lender sizes a loan on it.

Harbor Aesthetics, full year

Here is the sample clinic's annual P&L in the shape a buyer's accountant would put it in. Read down to net income, then build up.

Harbor Aesthetics, Profit and Loss, full year	Amount	% of revenue
Revenue	1,500,000	100.0%
Injectables	830,000	55.3%
Laser, light and skin treatments	400,000	26.7%
Memberships earned	180,000	12.0%

Retail	90,000	6.0%
Cost of services	341,000	22.7%
Gross profit	**1,159,000**	**77.3%**
Operating expenses	1,025,000	68.3%
Provider wages and commissions 360,000; front desk and admin 110,000; payroll taxes and benefits 60,000; owner salary 150,000; rent 96,000; marketing 100,000; equipment lease 48,000; software 24,000; insurance 18,000; professional fees 15,000; utilities and other 44,000		
Depreciation	60,000	4.0%
Operating income (EBIT)	**74,000**	**4.9%**
Interest expense	22,000	1.5%
Income tax	11,000	0.7%
Net income	**41,000**	**2.7%**

Build it yourself

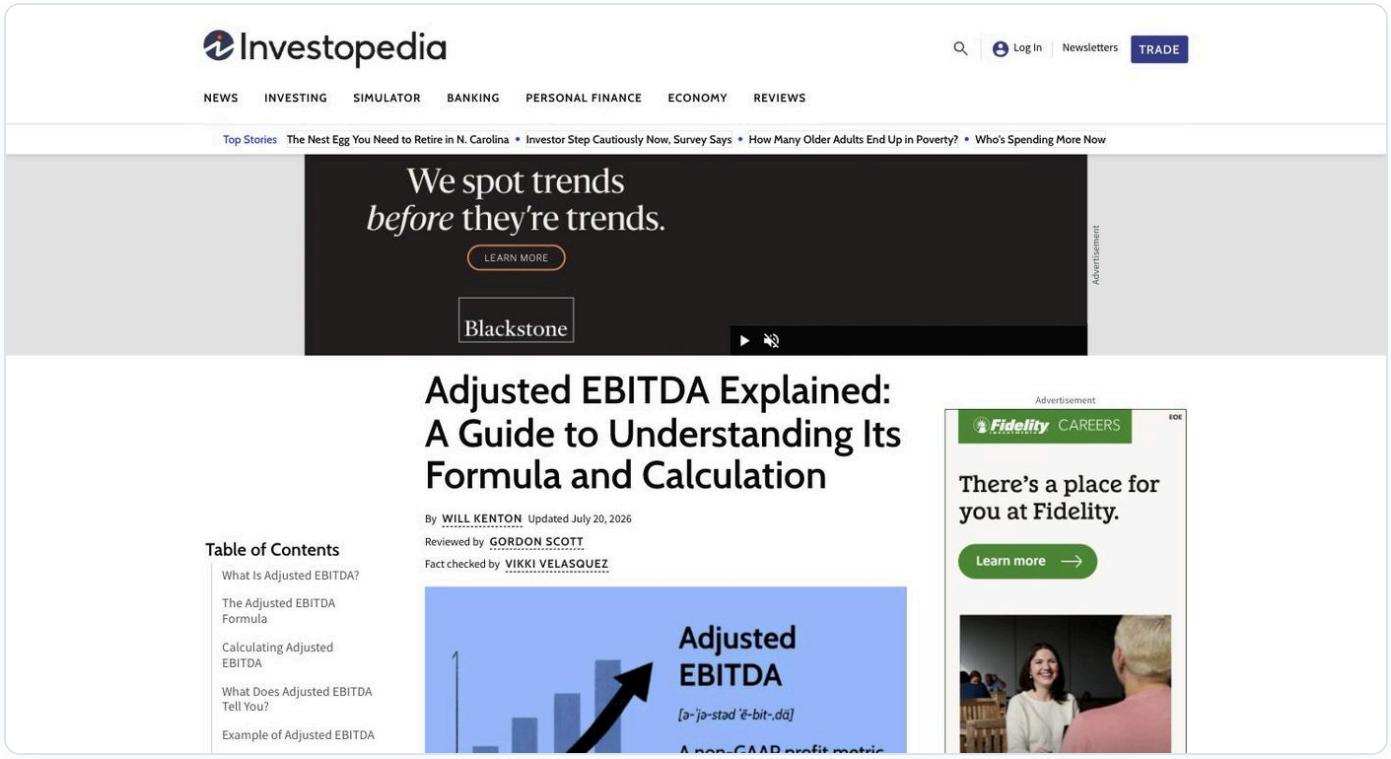
Start from net income. Tick each add back and watch the number change. The first four are the definition. The last three are the adjustments a buyer would negotiate, which is the difference between EBITDA and adjusted EBITDA.

Net income	$41,000
☐ Add back interest (financing, not operations)	+22,000
☐ Add back income taxes (depends on entity type and the buyer's situation)	+11,000
☐ Add back depreciation (non cash, the laser wearing out on paper)	+60,000
☐ Add back amortization (none this year at Harbor; start up costs would appear here)	+0
☐ Adjust: owner salary above market (owner pays herself 150,000; a part time medical director at market rate would cost about 90,000)	+60,000
☐ Adjust: one time website and rebrand (will not recur)	+25,000
☐ Adjust: personal vehicle run through the business (a buyer would not inherit it)	+9,000
Net income	**$41,000**

2.7% of revenue

What just happened. Net income said the clinic made $41,000. EBITDA says the operation generated $134,000 before financing and tax. Adjusted EBITDA says a new owner, paying market rate for the roles and without the one offs, would see about $228,000. Same clinic, three numbers, each answering a different question. The valuation in Advanced 5 uses the last one.

Adjusted EBITDA and the credibility problem



Source Investopedia, Adjusted EBITDA Explained, updated July 20, 2026.

Every seller wants to add back as much as possible. Every buyer wants to add back as little as possible. The adjustments that survive are the ones that can be proven from the books: a payroll register showing the owner's salary, an invoice for the rebrand, a vehicle lease in the owner's name. The adjustments that die are the ones that live in the seller's memory. This is the practical reason clean books matter: a documented add back is worth its amount times the multiple. An undocumented one is worth nothing.

Where Benchmark comes in. Every add back is documented the month it happens, with the invoice or payroll line attached, so adjusted EBITDA is a schedule with paper behind it rather than a memory. It is on your annual review and in the data room when the time comes.

What EBITDA is not. It is not cash flow. A clinic can have strong EBITDA and no cash, because it is buying equipment, paying down a loan, or building inventory. The cash flow statement, and the cash runway number on your scorecard, answer the cash question. EBITDA answers the operating question.

Try it yourself

- [ ] Take last month's P&L. Find net income, interest, depreciation and any tax. Add them. That is monthly EBITDA; times twelve is a rough annual figure.
- [ ] List every expense in the books that a new owner would not have. Each one is a candidate adjustment, and each one needs a document.

Check yourself: Advanced 4

Net income 30,000; interest 8,000; depreciation 20,000; income tax 6,000. EBITDA is

- 30,000
- 64,000
- 16,000

30,000 + 8,000 + 20,000 + 6,000. All four are added back.

Why is depreciation added back?

- Because equipment never loses value
- Because it is a non cash charge spreading a past purchase over time
- Because the IRS requires it

The cash left when the laser was bought. Depreciation is the accounting of that purchase, not a new outflow.

Which of these is a legitimate adjustment to EBITDA?

- Provider commissions
- A one time website rebrand
- Monthly rent

Adjustments remove things that will not recur or that a new owner would not carry. Commissions and rent are ongoing operating costs.

A clinic shows adjusted EBITDA of 300,000 but the owner cannot document 120,000 of the add backs. A buyer will most likely value it on

300,000

About 180,000, the documented portion

Net income

Undocumented add backs do not survive diligence. The documented number is the negotiating floor.

EBITDA is high but the bank balance keeps falling. The most likely explanation is

EBITDA is wrong

Cash is going to loan principal, equipment or inventory, none of which reduce EBITDA

Revenue is overstated

EBITDA measures operations, not cash. Principal payments and asset purchases are below the line.

Pick an answer for each question.

Want this done, not just explained?

The 10-Day Sprint finds the leaks for $1,000, one time. After that, on the plan, the scorecard keeps coming and at least one growth initiative is executed with you every month. Plans from $2,299 a month. Everything in this module is part of that work.

See the sprint and pricing | Text Nate

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