

EVA, not EBITDA: A New Financial Paradigm for Private Equity Firms

Bennett Stewart

First published: 26 September 2019

<https://doi.org/10.1111/jacf.12365>

Abstract

Private equity firms have boomed on the back of EBITDA. Most PE firms use it as their primary measure of value, and ask the managers of their portfolio companies to increase it. Many public companies have decided to emulate the PE firms by using EBITDA to review performance with investors, and even as a basis for determining incentive pay. But is the emphasis on EBITDA warranted?

In this article, the co-founder of Stern Stewart & Co. argues that EVA offers a better way. He discusses blind spots and distortions that make EBITDA highly unreliable and misleading as a measure of normalized, ongoing profitability. By comparing EBITDA with EVA, or Economic Value Added, a measure of economic profit net of a full cost-of-capital charge, Stewart demonstrates EVA's ability to provide managers and investors with much more clarity into the levers that are driving corporate performance and determining intrinsic market value. And in support of his demonstration, Stewart reports the finding of his analysis of Russell 3000 public companies that EVA explains almost 20% more than EBITDA of their changes in value, while at the same time providing far more insight into how to improve those values.

Citing Literature



This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

[Manage Preferences](#)[Accept All](#)[Reject Non-Essential](#)

Accessibility

Wiley Research DE&I Statement and Publishing Policies

HELP & SUPPORT

Contact Us

Training and Support

DMCA & Reporting Piracy

Sitemap

OPPORTUNITIES

Subscription Agents

Advertisers & Corporate Partners

CONNECT WITH WILEY

The Wiley Network

Wiley Press Room

Copyright © 1999-2026 John Wiley & Sons, Inc or related companies. All rights reserved, including rights for text and data mining and training of artificial intelligence technologies or similar technologies.

WILEY

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)



Manage Preferences

Accept All

Reject Non-Essential