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EBITDA, EBITA or EBIT?

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Abstract

Over the last forty years there has been a strong positive trend in the magnitude of amortization charges due to both economic and accounting changes. Concurrent with this trend, managers and external users of financial statements increasingly discuss operating performance focusing on earnings metrics that exclude amortization but include depreciation. This study compares earnings before interest, taxes, and amortization (EBITA) with its two more common alternatives-EBIT and EBITDA. Throughout the sample period, EBITDA performed substantially better than both EBITA and EBIT in explaining market values using industry multiples, and EBITA performed better than EBIT. Consistent with the amortization trend, EBITA's advantage over EBIT has gradually increased over time. In terms of predicting stock returns, the three operating income measures performed well until the financial crisis, but not since then.

Keywords: JEL Classification: G12, G14, G30, M41 EBITDA, EBITA, EBIT, valuation, price multiples, industry multiples, comparable company analysis, stock return predictability, non-GAAP earnings, enterprise value, earnings management, earnings quality, operating income, depreciation, amortization, intangible assets

JEL Classification: G12, G14, G30, M41

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