EBITDA, EBITA, or EBIT?

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Abstract

Over the last thirty years there has been a strong positive trend in the magnitude of amortization charges, due to both economic and accounting changes. This trend has accelerated over the last decade, following the implementation of a revised accounting standard for business combinations. Concurrent with the recent 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. Consistent with the amortization trend, EBITA's advantage over EBIT in explaining market values has gradually increased over time. However, throughout the sample period, EBITDA performed substantially better than both EBITA and EBIT. In terms of predicting stock returns, the three operating income measures performed well in the 1990s and 2000s, but not over the last decade.

Keywords: EBITDA, EBITA, EBIT, valuation, price multiples, industry multiples, stock return predictability, non-GAAP earnings, pro forma earnings, enterprise value, earnings management, earnings quality, operating income, depreciation, amortization, intangible assets

JEL Classification: G12, G14, G30, M41

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