

Beyond earnings: do EBITDA reporting and governance matter for market participants?

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Purpose

The purpose of this paper is to investigate whether formally disclosing an earnings before interests, taxes, depreciation, and amortization (EBITDA) number reduces the information asymmetry between managers and investors beyond the release of GAAP earnings. The paper also assess if EBITDA disclosure enhances the value relevance and the predictive ability of earnings.

Design/methodology/approach

The authors explore the interface between GAAP and non-GAAP reporting as well as the impact of corporate governance on the quality of non-GAAP measures.

Findings

Results suggest that EBITDA reporting is associated with greater analyst following and with less information asymmetry. The authors also document that EBITDA reporting enhances the positive relationship between earnings and stock pricing as well as future cash flows. Moreover, it appears that corporate governance substitutes for EBITDA reporting for stock markets. Hence, EBITDA helps market participants to better assess earnings valuation when a firm's governance is weak. Inversely, when governance is strong, releasing EBITDA information has a much smaller impact on the earnings-stock price relation.

Originality/value

The authors revisit the issue of how corporate governance relates with earnings quality by considering the potentially confounding effect of EBITDA reporting; it appears that such reporting substitutes for governance in moderating the relation between governance and earnings quality.

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