Rise and Fall of EBITDA

Presented by the Business Literacy Institute

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Matching Principle: Example One

Buy 1 truck, cash - $36,000

	Month One	Month Two
Revenue	$10,000	$10,000
COGS	5,000	5,000
Gross profit	5,000	5,000
Expenses	3,000	3,000
Truck	36,000	0
Profit	($34,000)	$2,000

Matching Principle: Example Two

Buy 1 truck, cash - $36,000
depreciate truck over 3 years

	Month One	Month Two
Revenue	$10,000	$10,000
COGS	5,000	5,000
Gross profit	5,000	5,000
Expenses	3,000	3,000
Truck	1,000	1,000
Profit	$1,000	$1,000

Worldcom Example

Illustration numbers (not actuals)
(in billions)

	Actual
Revenue	$30.0
COGS	15.0
Gross profit	15.0
Expenses	16.0
Depreciation	1.0
Profit/EBIT	($2.0)
EBITDA	(1.0)

Annual depreciation 1B

Worldcom Example

Illustration numbers (not actuals) (in billions)

	Actual
Revenue	$30.0
COGS	15.0
Gross profit	15.0
Expenses	16.0
Depreciation	1.0
Profit/EBIT	($2.0)
EBITDA	(1.0)

$4B moved from expenses to be capitalized over 10 years

4B / 10 = .4B
New total 1.4B

Worldcom Example

Illustration numbers (not actuals) (in billions)

	Actual	Reported
Revenue	$30.0	$30.0
COGS	15.0	15.0
Gross profit	15.0	15.0
Expenses	16.0	12.0
Depreciation	1.0	1.4
Profit/EBIT	($2.0)	$1.6
EBITDA	(1.0)	3.0

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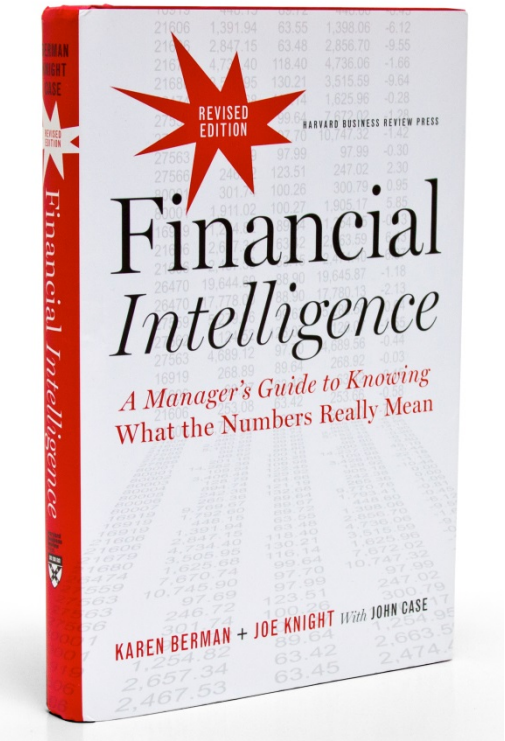

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