

The Difference Between EBITDA & SDE

ABC, Inc. Income Statement

EBITDA & SDE Definitions

Year Ended December 31, 2020

Revenue	\$100,000
Cost of Goods Sold	\$ 20,000
Gross Profit	\$ 80,000
Selling & Admin Expense	\$ 20,000
Owner Salary	\$ 30,000
Depreciation	\$ 10,000
Interest Expense	\$ 2,000
Earnings Before Taxes	\$ 18,000
Tax	\$ 3,500
Net Income	\$ 14,500

EBITDA -> Earnings Before Interest, Taxes, Depreciation & Amortization

- Typically used to evaluate larger businesses who have professional, dedicated management staffs (> \$1M annual earnings)
- The operating profit a business provides to an investor after paying a fair manager salary
- $EBITDA = \text{Net Income} + \text{Interest} + \text{Taxes} + \text{Depreciation/Amortization}$
- $EBITDA = \$14,500 + \$2,000 + \$3,500 + \$10,000$
- **EBITDA = \$30,000**

SDE -> Seller Discretionary Earnings

- Typically used to evaluate smaller businesses (< \$1M annual earnings)
- The financial benefit a business provides to a single owner-operator
- $SDE = EBITDA + \text{Owner Salary} + \text{Discretionary/Non-Re-occurring Expenses}^*$ (assumed to be \$0 in this example)
- $SDE = \$30,000 \text{ (EBITDA)} + \$30,000 \text{ (Owner's Salary)} + \$0 \text{ (Discretionary Exp.)}$
- **SDE = \$60,000**

* Examples could include rent paid in excess of market value, owner's personal expenses (travel and entertainment), non-essential family member compensation, charitable contributions, and inventory write-offs.