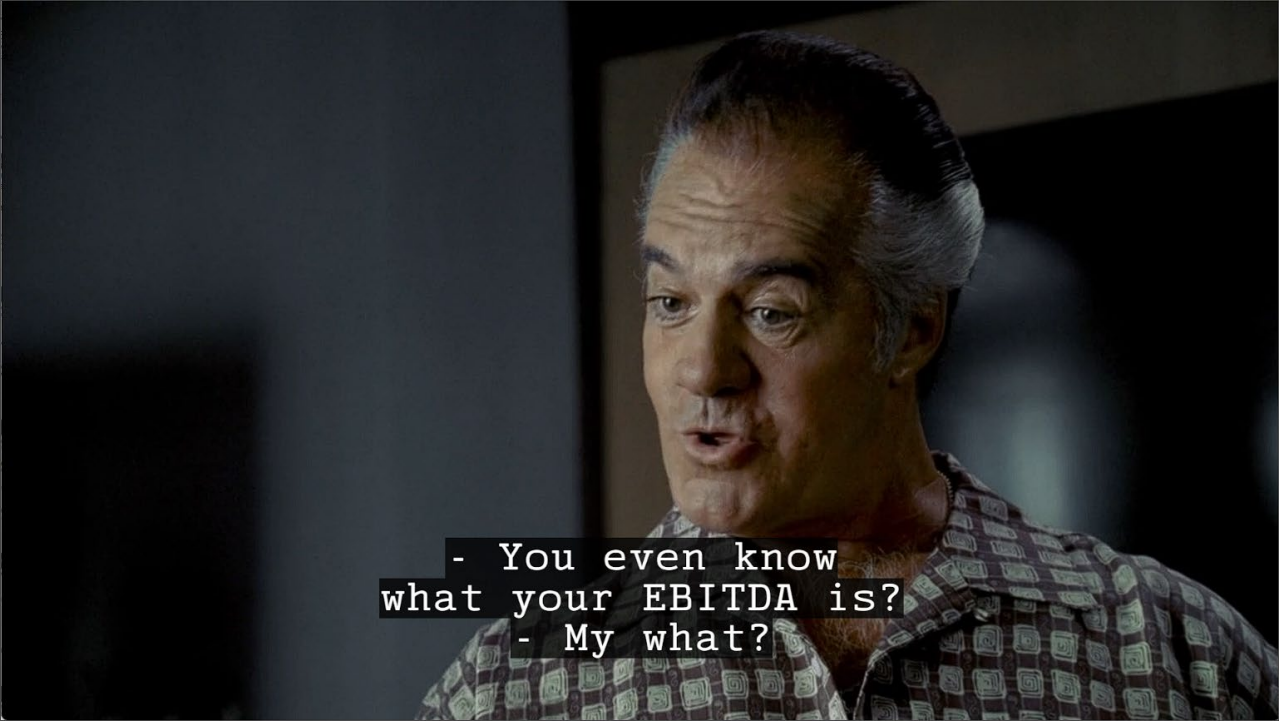


EBITDAR: One Step Beyond Tony Soprano in Corporate Finance

A close-up photograph of Tony Soprano from the TV show 'The Sopranos'. He is wearing a patterned shirt and looking slightly to the left with a serious expression.

- You even know what your EBITDA is?
- My what?



"If you can quote the rules, then you can obey them."

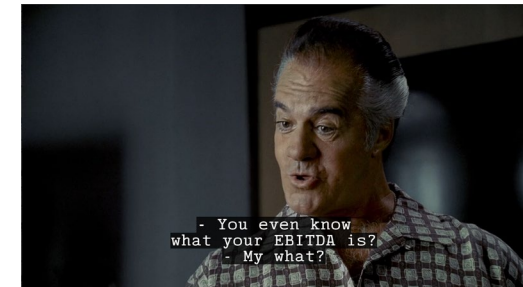
EBITDAR: The Short Version

If you want this tutorial in writing, along with screenshots, PDFs, and the Excel model, go to this URL (**pinned in the comments**):

<https://breakingintowallstreet.com/kb/accounting/ebitdar/>

The Short Answer...

- **EBITDAR:** Earnings Before Interest, Taxes, Depreciation, Amortization, and Rent; used to normalize companies with different leasing/ownership policies and U.S. vs. non-U.S.
- **Tony/Paulie:** No, EBITDA is not “the true picture of a company’s profitability,” and EBITDAR is even further removed from profits
- **Most Useful:** One company leases all its assets, and the other owns all its assets → EBITDA will give a misleading picture, but EBITDAR will normalize for this (under U.S. GAAP)



The Short Answer...

- **Other Uses:** One company uses Finance Leases, and the other Uses Operating Leases; you are comparing U.S. and non-U.S. companies with different accounting standards
- **Pure IFRS Companies:** Post-IFRS 16 in 2019, EBITDAR is “somewhat useless” because it’s the same as EBITDA or 99% the same in most cases
- **Valuation Multiples:** If you use EBITDAR in the denominator, you **must** include all Lease Liabilities in the Enterprise Value numerator (same goes for variants like Debt / EBITDA)



EBITDAR Crash Course: Outline

- **Part 1:** EBITDAR Calculations and U.S. GAAP vs. IFRS **5:13**
- **Part 2:** Valuation Multiples and Credit Stats **7:27**
- **Part 3:** EBITDAR in Real Life for China Oilfield Services **11:21**

Part 1: How to Calculate EBITDA in More Detail

- **Company A:** Rents all equipment, properties, and other assets
- **Company B:** Owns all equipment, properties, and other assets
- **U.S. GAAP:** EBITDA gives a misleading picture of profitability or approximate cash flow because it excludes/ignores the full costs of Debt-funded ownership
- **Adjust:** Add back the Rental Expense for both companies
- **IFRS:** Companies A and B have the same accounting



Part 2: Valuation Multiples and Credit Stats

- **Principle:** If the denominator of a valuation multiple **excludes or adds back** an expense, the numerator should **include or add** the corresponding Liability

$$\frac{x}{y}$$

- **EX:** Interest Expense, Debt, and TEV / EBITDA



- **IFRS:** Not much to do because you normally count all Lease Liabilities in TEV... and EBITDA excludes the full lease expense



- **U.S. GAAP:** *Add* Operating Lease Liabilities to TEV if you use EBITDAR and ensure Finance Lease Liabilities are there, too (they are often counted within Debt, but not always)



Part 2: Valuation Multiples and Credit Stats

- **Operating vs. Finance Leases:** EBITDAR can also be useful for normalizing because EBITDA has similar issues under U.S. GAAP (adds back the Finance Lease Expense, but not the Operating Lease Expense)
- **Credit Stats:** Similar idea; if you're using EBITDAR under U.S. GAAP, "Debt" should include all Lease Liabilities as well
 - **VALID:** Debt / EBITDA
 - **VALID:** Debt Including All Lease Liabilities / EBITDAR
 - **NOT VALID:** Debt / EBITDAR



Part 3: EBITDAR for China Oilfield Services

- **Common Use Case:** You have U.S. and non-U.S. companies in a “global” set of comparable public companies
- **Industries:** Anything related to commodities, shipping, or transportation (oil tankers, oilfield services, miners, etc.)
- **COSL:** We use TEV Including All Lease Liabilities / EBITDAR because some firms use U.S. GAAP, but others use IFRS
- **EBITDA:** Not the end of the world if you use it, but it is **less accurate** because of these accounting differences



COSL



Recap and Summary

- **Part 1:** EBITDAR Calculations and U.S. GAAP vs. IFRS



- **Part 2:** Valuation Multiples and Credit Stats



- **Part 3:** EBITDAR in Real Life for China Oilfield Services

