

The EBITDA Bridge: Mission-Critical Tool or Boardroom Bulldozer?



Much ado about
something….
sometimes, somewhere.

The EBITDA Bridge… to Nowhere?

The EBITDA Bridge shows how a company goes from EBITDA in one period to EBITDA in the next, or what "bridges the gap" between EBITDA and FCF (or other metrics).

It highlights **what drives changes in EBITDA** and presents everything visually.

Outline for This Tutorial:

- **Part 1:** EBITDA Bridge: The Short Version **1:50**
- **Part 2:** How to Make a Standard EBITDA Bridge **3:47**
- **Part 3:** Other Variations (Actual vs. Budgeted, FCF, etc.) **9:07**
- **Part 4:** Limitations of the EBITDA Bridge **11:36**

The EBITDA Bridge… to Nowhere?

For the written version, images, Excel files, and additional tips, go to:

https://breakingintowallstreet.com/kb/financial-statement-analysis/ebitda-bridge/

Part 1: EBITDA Bridge: The Short Version

- **EBITDA:** "Earnings Before Interest, Taxes, Depreciation, and Amortization"; lets you evaluate a company's **core business** without distractions from taxes, financing, etc.



- **PROBLEM:** Not always clear *why* EBITDA changes from one period to the next… unless you plot it visually



- **SOLUTION:** Create a waterfall chart in Excel based on the *changes* in the individual components of EBITDA



- **LIMITS:** Not useful in many "standard" scenarios; company data might be limited; single-year changes may be misleading

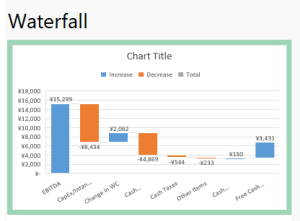


Part 2: How to Make a Standard EBITDA Bridge

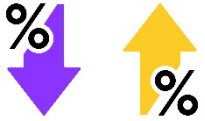
- **IDEA:** Take everything that contributes to EBITDA, such as Revenue, COGS, and OpEx, and calculate the *changes* in all the items, so that Ending EBITDA = Beginning EBITDA + Changes



- **Then:** In any modern version of Excel, select the data, insert a chart (Alt, N, R), select Waterfall, set the "Totals," and format it



- **More Interesting:** Show the Pricing vs. Volume split for the Changes in Revenue



- **Takeaways:** This company's growth *depends heavily* on price increases (falling population in Japan…)

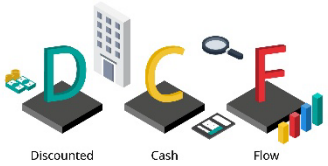


Part 3: Other Bridge Variations

- **EBITDA to FCF:** This one's not about the change *over time*, but the *differences* in a single year (see previous video)



- **Why:** EBITDA by itself is often deceptive; Free Cash Flow (and all variations) determines long-term value



- **Takeaways:** CapEx is *very* elevated in the early period, which seems to be a bet on improving facilities and raising prices



- **Other Uses:** Budgeted vs. Actual EBITDA for a period; can explain *why* a company achieved or failed to achieve its targets



Part 4: Limitations of the EBITDA Bridge

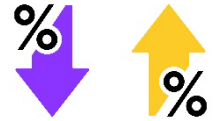
- **Beginning:** Not that useful in "normal" scenarios, company data might be too limited in unusual scenarios (acquisitions, divestitures, etc.), and single years can be misleading



- **Example:** See the NichiiGakkan EBITDA bridge for Years 0 – 1 vs. the one for Years 4 – 5



- **Isolation:** You walk away with *very* different impressions of the company (Are EBITDA and Volume increasing or falling?)



- **What's Right?** We don't know – but the PE firm has assumed substantial improvements, which are questionable

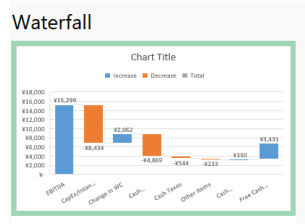


Recap and Summary

- **Part 1:** EBITDA Bridge: The Short Version



- **Part 2:** How to Make a Standard EBITDA Bridge



- **Part 3:** Other Variations (Actual vs. Budgeted, FCF, etc.)



- **Part 4:** Limitations of the EBITDA Bridge

