



PETER C. KING
CEO

VR Business Sales
Mergers & Acquisitions

pking@vrbusinessbrokers.com
954-565-1555 ext. 23

VALUED REPRESENTATION

THE CRITICAL IMPORTANCE OF EBITDA ACCURACY WHEN SELLING A BUSINESS

By Peter C. King, CEO VR Business Sales / Mergers & Acquisitions

When preparing to sell a business, the accuracy of adjusted or normalized EBITDA is one of the most important drivers of value. In the middle market, EBITDA is typically the primary metric buyers rely on to evaluate performance and establish purchase price. As a result, the quality and credibility of EBITDA directly influence how a business is priced, negotiated, and ultimately perceived by potential buyers.

Accurate EBITDA is not simply about reporting higher earnings. It is about clearly defining what is recurring, justified, and sustainable. Buyers look for consistency, transparency, and support behind every adjustment. When EBITDA is well prepared and defensible, it builds confidence, accelerates diligence, and reduces the risk of valuation disputes later in the process.

Conversely, unclear or loosely supported EBITDA adjustments often lead to skepticism. Buyers may apply more conservative multiples, challenge assumptions, or delay decisions while additional validation is performed. In some cases, credibility issues around EBITDA can derail a transaction entirely.

For sellers, treating EBITDA accuracy as a strategic priority rather than a technical exercise sets the foundation for a smoother sale process and a stronger negotiating position. EBITDA that withstands scrutiny, protects value and reinforces the narrative of a healthy, well managed business.

COMMON SOURCES OF EBITDA INACCURACY

Inaccurate EBITDA often stems from a limited understanding of what buyers consider recurring and supportable earnings.

One common issue involves one time or non-recurring items. Legal settlements, insurance proceeds, unusual professional fees, or extraordinary regulatory costs may legitimately distort historical results. However, if these items are not clearly identified, properly justified, and documented, buyers may reject the adjustment or discount the multiple applied to earnings.

Discretionary and owner-related expenses are another frequent source of misalignment. Above market compensation, personal expenses run through the business, or non-essential overhead can artificially depress EBITDA. Sellers must be prepared to distinguish between business expenses and owner decisions in a way that buyers find credible and reasonable.

Accounting methodology also plays a meaningful role. Many privately held businesses report results on a cash or modified cash basis, while buyers evaluate performance using GAAP consistent principles. Differences in revenue recognition, accrual timing, and expense capitalization can materially change EBITDA if these issues are not addressed and reconciled in advance.



EBITDA ACCURACY AND THE BALANCE SHEET CONNECTION

EBITDA does not exist in isolation. Buyers assess EBITDA alongside balance sheet quality to determine whether earnings are sustainable. Working capital trends, deferred revenue, accrued expenses, and debt can either reinforce or undermine the credibility of reported EBITDA.

A strong income statement paired with a weak or inconsistent balance sheet often raises concerns about earnings quality. Clear, accurate, and transparent balance sheets help buyers understand whether EBITDA converts to cash flow and whether any hidden liabilities may offset reported profitability.

PREPARING EBITDA TO WITHSTAND BUYER SCRUTINY

To ensure EBITDA accuracy, sellers should approach preparation with the same rigor buyers will apply during due diligence.

A Quality of Earnings analysis is one of the most effective tools in this process. It provides an independent assessment of recurring earnings, identifies potential adjustments, and highlights areas where EBITDA may be vulnerable to challenge. Sellers who complete this work proactively are better positioned to defend their numbers and avoid surprises late in the process.

Equally important is internal consistency. Financial statements, tax returns, management reports, and underlying documentation must align. Inconsistencies across reporting sources often lead buyers to question not only EBITDA, but the overall reliability of financial information.

Finally, sellers should ensure their management team understands how EBITDA is constructed and can explain the drivers behind it. Buyers expect informed leadership that can clearly articulate historical performance and future expectations.

EBITDA ACCURACY AS A VALUE PROTECTION TOOL

At its core, EBITDA accuracy is about protecting value. Sellers who invest time and resources into developing a well-supported and defensible EBITDA profile reduce the risk of valuation erosion during negotiations. Accurate EBITDA sets realistic expectations, shortens diligence timelines, and strengthens a seller's negotiating position.

Selling a business is a complex, multi-dimensional process, and EBITDA sits at the center of it. VR Business Sales / Mergers & Acquisitions play a critical role in helping sellers prepare and defend EBITDA by aligning financial presentation with buyer expectations. Their expertise often determines whether EBITDA holds up under scrutiny and whether the agreed price reflects the true value of the business.

In disciplined acquisition markets, credibility commands value. Sellers who present accurate, transparent, and supportable EBITDA place themselves in the strongest position to achieve the right price and a successful transaction.