



Adjusted EBITDA is not cash

Adjusted EBITDA is a reference point in business valuation, but it does not equal cash generation or the proceeds shareholders receive. When selling a company, earnings quality, working capital, and financial obligations influence the final price.

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EBITDA plays a central role in many mergers and acquisitions negotiations. Applying a valuation multiple to EBITDA provides an initial reference for enterprise value and helps compare businesses with different capital structures. Its usefulness, however, does not turn adjusted EBITDA into cash or determine the proceeds shareholders will receive. When a company is sold, the buyer examines the path from reported earnings to normalized earnings, cash generation, and the adjustments applied to the purchase price at closing.

CVM Resolution No. 156, which governs voluntary EBITDA disclosures by publicly held companies in Brazil, requires EBITDA to be calculated from financial statements and accompanied by a reconciliation. For adjusted EBITDA, it also requires an explanation of the nature, calculation, and rationale for the adjustments.¹ Although the regulation has a specific scope, the discipline of reconciling and explaining the figures is also relevant when preparing privately held companies for a transaction.

A study published by S&P Global Ratings in 2025 reinforces the need for scrutiny. Over the period examined, addbacks represented a median of 28% of the adjusted

An EBITDA adjustment must reflect a sustainable change in earnings, supported by evidence the buyer can verify.

EBITDA presented by management in the transactions studied. The study also found that projections proved optimistic when compared with subsequent results.² These findings, drawn from transactions monitored by the rating agency, help explain why buyers closely examine adjustments based on future savings, synergies, or expenses classified as nonrecurring.

An adjustment may be legitimate when it corrects a genuine, documented distortion. Exceptional expenses, costs that will actually disappear after the transaction, or shareholder compensation that differs from market rates may require normalization. Acceptance depends on the evidence. The buyer checks whether the event has occurred before, whether it could recur, whether the amount reconciles with the accounting records, and whether the expense will need to be replaced. Compensation removed from the calculation, for example, may be replaced by the cost of hiring an executive to perform the same role.

A quality of earnings analysis also examines revenue recognition, margin trends, customer concentration, seasonality, related party transactions, provisions, and changes in accounting practices. The objective is to understand how much of the reported performance can be sustained after the acquisition. Consistent adjustments can increase or decrease EBITDA: exceptional income must also be considered when it does not reflect recurring operations.

After validating earnings, financial due diligence examines their conversion into cash. EBITDA does not deduct capital expenditures, interest, or income taxes, nor does it directly reflect working capital requirements. A company can increase EBITDA while consuming cash because it has extended customer payment terms, accumulated inventory, or started paying suppliers earlier. It can also temporarily preserve cash by postponing necessary investments in equipment and systems. Buyers therefore compare different periods, examine receivables, inventory, and payables, distinguish maintenance capital expenditures from expansion investments, and assess how much capital the business will need after the acquisition.

Working capital can also directly affect the transaction price. The 2025 SRS Acquiom study analyzed more than 1,250 acquisitions of privately held companies, totaling US\$298 billion, that closed between 2020 and the third quarter of 2024 and had finalized purchase price adjustments.³ In transactions using this mechanism, the parties typically agree on a level of working capital to be delivered at closing. If the actual balance falls below the agreed target, the shortfall may reduce the purchase price under the terms of the agreement.

The bridge from enterprise value to equity value also accounts for cash, debt, and other negotiated adjustments. Taxes payable under installment plans, related party obligations, transaction expenses, and certain liabilities may enter the calculation, depending on their nature and the contractual definitions. The same item must not be deducted twice, for example, as both debt and a working capital component. As a result, two companies with the same EBITDA can generate very different net proceeds for their shareholders.

Preparation for a sale should begin before the buyer gains access to the information. The company needs to reconcile reported and adjusted EBITDA, document each normalization adjustment, and assess revenue quality, cash conversion, working capital, recurring capital expenditures, and obligations that may be deducted from the purchase price. When this work starts only after an offer has been received, the seller tends to react to the other party's conclusions. When it is completed beforehand, the seller understands the factors affecting the proceeds and negotiates using its own analysis. In M&A, the credibility of adjusted EBITDA rests on the quality of the evidence supporting it.

Fontes

¹ Comissão de Valores Mobiliários. Resolução CVM nº 156, de 23 de junho de 2022, artigos 1º a 5º.

² S&P Global Ratings. *EBITDA Addback Levels Remain High Despite Some Easing*. 17 de abril de 202

³ SRS Acquiom. *2025 M&A Working Capital Purchase Price Adjustment Study*.

