THE EBITDA BRIDGE

A Step-by-Step Guide to the Levers You Control—and the Market You Don't



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CHAPTER 1

The Levers You Control

"Of things some are in our power, and others are not."
— Epictetus, Enchiridion *1, trans. George Long (1877)*

Conrad Kellerman gave me the number over coffee, before the walk. It was Day 0, a Monday, and we stood in the front office at Hickory holding paper cups while the first shift came in through the gate. He said it in one sentence: thirty-four point four at the twenty-four-month board.

Conrad was the operating partner at Coldwater Point Partners and the chair of my board, and the number came out of the model his firm had built when it bought the company. He didn't explain it, and he didn't need to. My first question was not how we would get there. It was which part of that number was mine to move.

Copper had gone up and come back down twice that year. Construction was soft, and the building-wire plant in Bowling Green felt it every week. My predecessor had explained both to the board, carefully and at length, for two quarters. Then he left.

The copper was real, and so was the construction market, but neither of them was mine to move — and neither one is yours. Five levers are.

That is the rule this book is built on. You can't control the market, so don't build your plan around explaining it. You can control five levers, and they come in a fixed order — price first, then mix, share and M&A, with cost last. But the last lever isn't the last one you start. What you buy to run the business goes out to bid beside price, from the first month, and the slow work on what goes into your products starts soon after, because its savings won't show up until year two. Turn the board's number into points of margin, put a dollar figure and one person's name on every lever, and read them every month.

There are ten ways to pull those levers, and they come in order too: stop the leaks, raise price where you have earned it, sell more of what makes money, fix or exit the tail, start in your own backyard, take share where you can win, buy what makes the levers bigger, buy better, simplify and then Zero-Up, and turn EBITDA into cash. None of them starts until you know the number — where it came from, how far away it is and what it is made of.

What EBITDA Is For

EBITDA is earnings before interest, taxes, depreciation and amortization. Take the letters away and the idea is plain: it is what the operation earns from the work itself, before the financing and the tax code have their say.

Each of the four things it leaves out belongs to somebody other than the plant. Interest depends on how much the owner borrowed, and taxes depend on the code and on how the company is put together. Depreciation and amortization depend on what was paid for the machines and for the deal, and on how fast the accountants write them down. None of that is the work of making and selling things, so EBITDA sets it aside and leaves the work.

Why do the buyer and the banker read it first? Because it lets them compare companies with different owners and different debt on the same footing. A buyer prices your company as a multiple of it, a lender sizes the loan against it, and the covenant in your credit agreement is written in it. So is your board's number. EBITDA margin is EBITDA divided by revenue. Thornbury Wire & Cable, the company whose numbers run through this book, earned $24.8 million on $248.0 million of revenue, a margin of 10.0 percent — and margin is what the levers in this book move.

The word has an official meaning, and you should know it before you put it on a page. SEC staff guidance reads the "earnings" in EBITDA as net income under GAAP (generally accepted accounting principles), and says a figure calculated any other way should not be called EBITDA at all but should carry a name of its own, such as Adjusted EBITDA. That guidance is written for companies that file with the SEC, and it may not bind yours directly. It is still the cleanest definition on offer, and a good discipline for any adjusted figure you show a lender or a buyer. Have your CFO and counsel review every adjusted figure before it goes to a lender, a buyer or the public.

So what does it leave out? Capital spending, for one — the machines you will have to replace. Working capital, too: the receivables and inventory that grow when sales grow. And the interest and the taxes, which are real checks written to real people. EBITDA is not cash, and a bank is paid in cash, which is why this book keeps a second bridge behind the first one. Chapter 11 builds that cash bridge.

The Number on the Board

Every company a sponsor owns has a number. It is the EBITDA the business must earn for the deal to pay back what the fund promised its own investors, and it was set before you arrived, in a model you may never have opened. Most chief executives know their budget line by line. Far fewer can tell you where the board's number came from.

Don't take it on faith. Rebuild it yourself from five inputs: the EBITDA at entry, the multiple the sponsor paid, the debt at close, the multiple of its money the fund wants back and the length of the hold. Then work it in five steps.

1. Multiply entry EBITDA by the entry multiple to get the enterprise value the sponsor paid.
2. Subtract the debt at close, and what is left is the equity the fund put in.
3. Multiply that equity by the target multiple of money (two and a half or three times is common) to find what the equity must be worth at exit.
4. Add the debt the model expects to still be owed at exit, which gives you what the whole company has to sell for.
5. Divide by the exit multiple, underwritten flat — the same multiple the sponsor paid. The answer is the exit EBITDA, and the number at any board between now and the sale is a point on the path to it.

Why flat? Because the help a rising multiple used to give is gone. Bain & Company put the change in five words in its *Global Private Equity Report 2026*: "12 is the new 5." A typical buyout in the 2010s, Bain worked out, could return two and a half times its money over five years on EBITDA growth of about 5 percent a year. Now it takes 10 to 12 percent a year to do the same. Bain also notes that rising multiples, carried up by low interest rates, powered more than half of all buyout returns in the decade of cheap money. Don't plan on that help coming back.

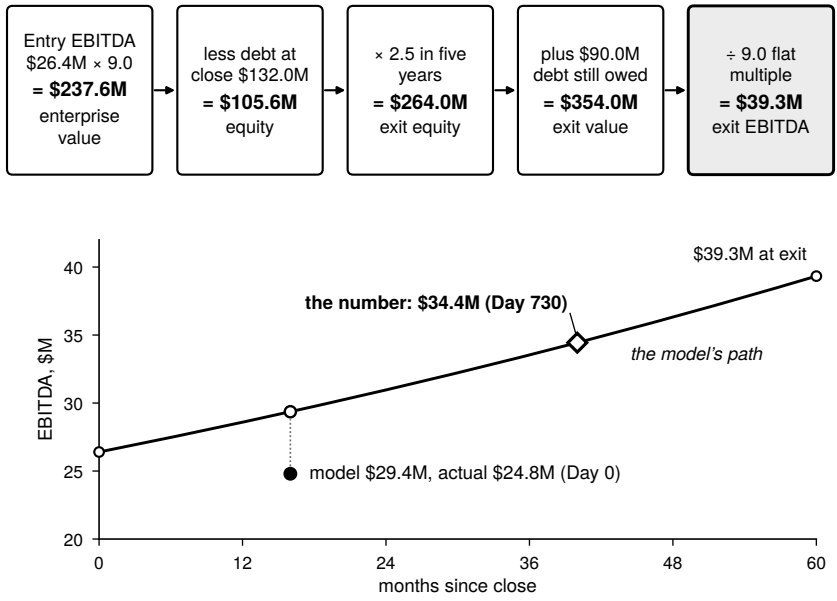


Fig. 01-01: The board's number, from five inputs: Thornbury's deal worked from the price Coldwater paid to the EBITDA it needed at exit, with the number at the twenty-four-month board as a point on that path.

The holds run longer, too. By PitchBook's count, the US private-equity-backed companies sold in 2025 had been held a median of six years. That was shorter than the seven-year peak of 2023 and still longer than the five-and-a-half-year average before the pandemic.

All of that lands on the person in your chair. Russell Reynolds Associates looked at 196 European private-equity exits between 2020 and 2025, and in 69 percent of them the company had changed chief executives at least once during the hold. In my experience, a lot of those changes start with a number the chief executive never rebuilt.

Run the steps on Thornbury's deal and they fit on one line.

Then run the same arithmetic one turn lower, so everyone at the table knows what a softer market for companies would cost. At 8.0 times instead of 9.0, Thornbury's $354.0 million of exit value needs $44.3 million of EBITDA rather than $39.3 million — nearly $5 million more for one turn of multiple. The number you sign is the flat one. The lower turn tells you how much room you don't have.

Once you have rebuilt it, sign it. Put it on one page — the five inputs, the arithmetic, the exit EBITDA and the number at each board until the sale — with your signature at the bottom and the chair's acknowledgment beside it. I call that page the board's number. Once it is signed, the number stays where it is. The path to it will move every month (it always does), and that is what the bridge is for.

Points, Not Dollars

Boards talk in dollars, but margin is measured in points, and your plan should be built in points.

A hundred basis points is one point of margin, and on Thornbury's $248.0 million of revenue a point was $2.48 million. Its gap to the number was $9.6 million. On flat revenue that meant taking margin from 10.0 percent to 13.9 percent — about 390 basis points, a little under four points.

Why convert? Because "$9.6 million more" and "390 basis points" call for different plans. A plan written in dollars reaches for volume first, since volume is where most companies have always gone looking for dollars. Sell more of the same products to the same kinds of customers at today's prices, and you add dollars at about the margin you already earn while the points hardly move. Points come from price, from mix and from cost. Build the plan in points, then convert it back to dollars when you report, because the board and the bank count in dollars.

Then put the gap on a clock. Divide the number by today's EBITDA and work out the yearly rate over the time you have. How far is too far? I use four bands.

1. Under 8 percent a year is reachable with a sound plan, run well.
2. From 8 to 15 percent needs an owner and a date on every dollar.
3. From 15 to 25 percent needs real change in what the company sells, to whom and at what price.
4. Above 25 percent, go back to the board and reset the number — in your first months, not your last.

Thornbury had to go from $24.8 million to $34.4 million in two years. That is 1.39 times, and 18 percent on top of 18 percent gets you there, so the rate was about 18 percent a year. Real change.

One more test belongs on the same page. If more than 60 percent of the gap has to come out of revenue you already have (it usually does), the plan needs subtraction as well as addition. Some of what you sell

today will have to be priced up or let go, and it is better to know that in the first month than to discover it in the fifth.

Put the dollars, the points, the rate and the band on one page, and put that page in front of every plan you take to the board. That page is the gap in points.

The Line You Don't Own

Some of what happens to your EBITDA has nothing to do with you. Copper trades on the COMEX, construction volume rises and falls, and wages and benefits climb whether the plan allowed for it or not. Interest rates move, and tariffs come and go. Call all of it the market.

Who owns the market? Nobody, and nobody should. It is real, and sometimes it is large, but it is not a lever. Put it on the bridge as its own bar, apart from the five, and have your CFO estimate it before the year starts, report it every month and explain it. Never net it into a lever (a price bar that is "up $1 million after copper" tells you nothing about price). And never hand it to a lever owner, who will either hide behind it or be blamed for it.

Watch the tailwinds as closely as the headwinds. A good month on the market bar feels like progress, and it will cover for levers that aren't working. I once watched a $6 million commodity tailwind hide two lagging levers — the total looked healthy, so nobody asked which bars were carrying it. When the market hands you money, report it as the market's and keep reading the levers.

Interest sits below EBITDA, so it is not on this bridge at all. That doesn't make it harmless. A soft market can pull EBITDA down toward a leverage covenant in the same quarter that rates push interest up, and the bank won't care whose bar did it (Chapter 11 takes that up).

Five Levers, in Order

What is left after the market is yours: price, mix, share, M&A and cost. Every dollar of EBITDA you can earn on purpose comes through one of them, and they come in that order. Price first, and indirect cost with it. Direct cost starts early and pays in year two. That is the rule, and the order is the argument.

Price is a higher net price on the same offer to the same customer, and only realized price counts. It goes first because it is the fastest dollar

there is: the order already exists, and nearly every dollar of an increase falls through to EBITDA.

Mix is the composition of what you sell — more of the customers and products that make money, less of the ones that don't. It comes second because the invoice lines that show you price hand you mix in the same file.

Share is new business, starting with the rest of what your best customers buy and moving on to accounts you don't have yet. It comes third because it pays only where you have the right to win, and because price and mix pay for it.

M&A is buying a company that makes your own levers bigger. It comes fourth because it earns its dollars only after the base is proven, and until a deal is signed its bar is a debt, not a credit.

Cost comes last in the order, but it doesn't start last. It comes in two kinds, and they don't move at the same speed.

Indirect cost is what you buy to run the business — the phones, the freight, the hotels, the supplies. Start on it the month you start on price. It's a quick hit, none of it goes into the product, and it rarely matters which supplier you buy it from, as long as the price and the service hold.

Direct cost is what goes into the product you sell, and it pays slowly. Change a material, a supplier or a design and you need first articles (the first production pieces, checked against the print), engineering hours and often your customer's approval, and all of that takes months. So start early, on your important products, as soon as the quads have named them, because the savings won't show up until the end of the first year or the start of the second. The people who run the business wait longer, until Chapter 10 rebuilds their work around the Fort.

What fails is the cut most companies make first, the same slice off every budget. Cut that way and you cut into the 20 percent of the business that earns the money, because that is where the spending shows. Until you know which revenue is good, you can't tell which costs are bad.

Keep the bars clean. Price is what you charge for a given offer to a given customer and mix is what you sell, so a dollar belongs to one bar, never two.

What about working capital? It is not a sixth lever. Collecting faster and carrying less inventory release cash, sometimes a lot of it, but neither one adds a dollar of EBITDA. Count released cash as EBITDA and your bridge stops telling the truth, so working capital gets a bridge of its own, behind this one. (*The 80/20 Company* cuts the same money a different

way, into margin levers inside the P&L. The bridge counts it by where each dollar comes from.)

Is the company ready to grow? Run one test before you plan for growth. The Right-to-Grow ratio takes material margin, which is revenue after purchased material and net freight, and divides it by total employee cost, contractors included.

About 2.0 is the line. Above it, new revenue tends to pay its way. Below it, the company is not yet earning enough on the people it already has, and growth only adds work at the old economics — so you price and simplify first, then grow. Chapter 4 teaches the ratio in full.

Then build the bridge, and hold it to five rules.

1. Every bar carries a dollar figure, one owner, a date and a leading indicator, and a bar called "commercial excellence" with no dollar figure is not a bar.
2. Bars never move, and they never net. A miss on price stays a miss on price, even in a month when cost runs ahead.
3. Phase every bar by month, the way the money will really arrive, and never divide the year by twelve.
4. Size M&A to what it owes, and count it as zero until a deal is signed.
5. Read the bridge every month with the owners in the room (Chapter 12 shows the meeting).

A leading indicator is a number that moves before the dollars do, such as realized price against plan on the price bar, so a miss shows up a month early instead of a quarter late. Choose it when you size the bar, not after the bar starts to slip.

I call the page the five-lever bridge. Put the market and the levers on one page, and you can see at a glance which is which.

Thornbury

Conrad left after the coffee, and Octavio Arroyo, the Hickory plant manager, walked me through the plant. We went the way the copper goes. Rod came in at the receiving dock, was drawn down to wire, then stranded, insulated, cabled and jacketed, and went out the shipping doors on reels. Octavio knew every line by its schedule and could tell me, line by line, what was waiting to run. Near the end of the walk he stopped at a door off the main aisle and pointed up.

Over the door of the quoting room, where the inside-sales reps price the orders, hung a hand-lettered sign: *We don't sell copper. We sell the work.*

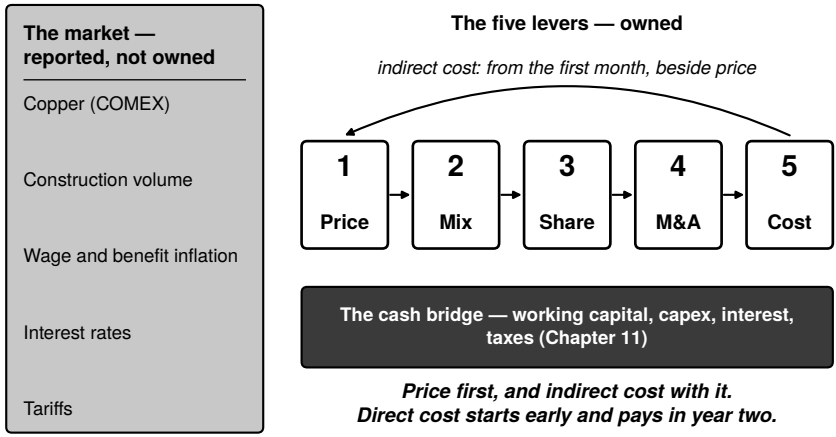


Fig. 01-02: What you control, and what you don't: the market sits on the bridge with a reporter and no owner, the five levers carry owners in a fixed order with the indirect part of cost moved up beside price, and the cash bridge stands behind them.

It had gone up in 1961, the year Clement Thornbury started making lamp cord for the furniture plants around Hickory, and nobody had ever changed a word of it. I read it twice. It was as good a pricing strategy as I have seen written anywhere, and over the next two months I would learn how far the company had drifted from it.

By Day 0 his lamp-cord shop was Thornbury Wire & Cable. Hickory made control, instrumentation and flexible cable for equipment makers. A second plant, in Bowling Green, Kentucky, bought in 1997, made building wire and portable cord for electrical distributors. The company had $248.0 million of revenue and $24.8 million of EBITDA, 10.0 percent, and it had 760 people (430 at Hickory and 330 at Bowling Green), 1,940 active accounts and 6,800 active part numbers.

Copper rod was about 36 percent of revenue. Thornbury bought it at the COMEX price plus a premium and passed it through to customers on a metal adder, so copper moved revenue and material by the same dollars and EBITDA by nothing. That is why every figure in this book is stated at Day 0 copper. Coldwater Point Partners had bought the company from Clement's grandchildren sixteen months before I arrived, paying 9.0 times $26.4 million of EBITDA.

On Day 3 Shonda Sykes, the plant manager at Bowling Green, walked me through a floor where two shifts made building wire for the distributors. On Day 5 I asked Arlo Ashworth, the controller, for three years

of invoice lines — every line, with the customer, the part number, the quantity, the net price and the cost. He asked for two weeks and needed twelve days. On Day 9 I spent a morning in the quoting room under Clement's sign, and Chapter 2 tells what I saw there.

On Day 12 Anjali Sandhu, the chief financial officer, and I rebuilt the board's number at the table in her office, with the deal model on her screen and a legal pad between us. The arithmetic was the arithmetic in the figure a few pages back, and we agreed on it in about twenty minutes. The line underneath it took longer.

What had the model expected? On its path, Thornbury should have been earning $29.4 million by month 16, the month I arrived, and it was earning $24.8 million. Anjali put her pen on the two numbers. "We're not behind the model," she said. "We're behind the closing." She was right. Coldwater had bought $26.4 million of EBITDA, and sixteen months later the company was earning $1.6 million less than that.

The same path put the twenty-four-month board at month 40, at $34.4 million — the number Conrad had handed me over coffee. From $24.8 million that was a gap of $9.6 million, and on flat revenue it meant margin going from 10.0 to 13.9 percent, about 390 basis points, at about 18 percent a year for two years. By my own bands, that was real change. We wrote the inputs, the arithmetic and the number on one page that afternoon, and I signed it.

On Day 17 Arlo put the invoice cube on the conference-room screen: three years of invoice lines, every account and every part number, tied to the ledger before anyone read a chart. I will give one result here. Quad 1 — the A customers who buy A products, the quad I call the Fort — earned 109 percent of the company's EBITDA. Everything else, taken together, gave some of it back. Chapter 4 tells the rest of that afternoon.

The same data gave us the Right-to-Grow ratio. Material margin of $118.8 million over total employee cost of $61.4 million came to 1.93, just under the line, and that settled the shape of the first year. We would price and simplify before we tried to grow, and nobody would buy anything until the ratio was above 2.0 and climbing.

Anjali estimated the market bar that week at −$2.50 million over the two years. It came from two places: soft construction volume at Bowling Green, and wages, benefits and other costs the metal adder doesn't pass on. She would report it every month, and nobody would own it. (She walked me through the covenant on Day 20, but that is Chapter 11's story.)

On Day 60 the bridge went to the board, every bar with a dollar figure, one name, a date and a monthly phasing to Day 730. Garrett Harwell, the chief commercial officer, owned price at +$5.00 million and mix at +$2.20 million, with Rafael Navarro, the chief operating officer, beside him on mix. Tamika Odom, the vice president of sales, owned share at +$1.80 million.

Rafael owned cost at +$2.80 million, with Rita Esposito, the director of purchasing, on the buying. His first dollars were already signed, because Rita had gone after the freight and the indirect spend in the first month (Chapter 9 tells how). The rest he phased into year two, because none of the direct savings would show up before the first year was out, however early Rita started them. Anjali owned the investment bar at −$0.80 million (the pricing desk, engineers to help sales and the data work), and she reported the market at −$2.50 million. The M&A bar was +$1.10 million, owed, and it was mine. Garrett and Rafael had spent most of the week before arguing over the phasing, month by month — the argument you want before a bridge is signed, not after.

Add the five levers and you get $12.90 million. Take off the market and the investment and you have $9.60 million, the gap to the penny. Without M&A the plan reached $33.30 million, which left $1.10 million for a deal to carry, and on one page it looked like this.

I signed it. Conrad read the page twice and asked one question. "Why is your name on the only bar that's worth nothing?"

"Because it's the one I can't hand to anybody," I said. "It counts as zero until a deal is signed, and you won't see a deal from me until the base is proven on actuals. That's the year-one board, not this one."

He looked at the M&A bar a while longer. Then he wrote "acknowledged" beside my signature, and the bars on that page never moved again. Chapter 12 tells where each of them landed.

From the Record

John Malone ran Tele-Communications Inc., the cable company better known as TCI, for cash flow rather than reported earnings. William Thorndike tells the story in *The Outsiders* (2012). Cable systems cost a fortune to build, so Malone built them with borrowed money and depreciated them as fast as the rules allowed. On paper, the interest and the depreciation left little profit to tax. The cash kept coming anyway, and it paid for the next system. "To Malone, higher net income meant higher taxes," Thorndike writes.

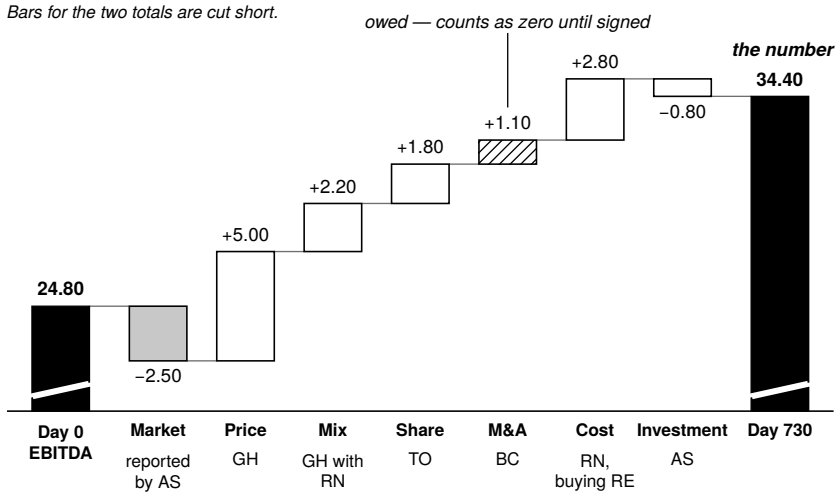


Fig. 01-03: The committed bridge, Day 60: from $24.80 million to the number, $34.40 million, with an owner's initials on every bar and the M&A bar counted as zero until a deal is signed.

So what did he show the people lending him money? Not earnings per share. "In lieu of EPS, Malone emphasized cash flow to lenders and investors," in Thorndike's words — what the systems produced before the interest, the taxes and the depreciation took their share. Thorndike gives him the credit for putting EBITDA into the business vocabulary. That is Thorndike's claim, and it is fair to repeat as his.

What took the number mainstream was the leveraged buyout. Moody's, looking back in June 2000, wrote that before the 1980s the usual test of a company's ability to service its debt was EBIT, its earnings before interest and taxes, or its operating income. Then, "with the advent of LBO mania in the 1980s," EBITDA came into wide use as a way to measure a company's cash flow and, from that, the debt it could carry. The buyout sponsors' argument was simple. Depreciation and amortization are charges with no cash going out, they said, so the money behind them should be free to pay the lenders.

EBITDA was built to answer one question: what does the operation earn before anybody pays for the money? A buyer prices a company on

the answer, and a lender lends against it. It is the answer your board wrote its promise in, and the one the five levers move.

Do This

1. Rebuild the board's number yourself from the five inputs, put it on one page and sign it.
2. Convert the gap into basis points on today's revenue, then work out the yearly rate and the band it falls in.
3. Put the market on its own bar, estimated and reported by your CFO and owned by nobody.
4. Write the five levers in order — price, mix, share, M&A, cost — with one owner beside each.
5. Give every bar a dollar figure, a date and a leading indicator, phase it by month, and count M&A as zero until a deal is signed.
6. Ask your controller for three years of invoice lines, with the customer, part number, quantity, net price and cost on every line.
7. Ask purchasing for twelve months of what you pay to run the business — freight, phones, travel, supplies — and put the biggest lines out to bid this month.