THE FIELD GUIDE

THE EBITDA BRIDGE

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



BILL CANADY

Bestselling author of The 80/20 CEO

Chapter 1

The Levers You Control

Chapter 1 of the book. The market isn't yours to move, so rebuild the board's number from the deal's five inputs, restate the distance to it as points of margin and a rate a year, and give each of five levers a dollar figure and a single name on a bridge read every month. Instruments: worksheets 1, 2 and 3.

Conrad Kellerman handed me thirty-four point four over coffee on my first morning, and for twelve days it stayed his number. I could say it. I couldn't have told you which input in the deal model moved it most, how far it sat from what we earned in anything but dollars, or whose job each piece of it was. A chief executive in that spot ends up defending a figure he can't take apart.

These three pages take it apart. The first rebuilds the number from the deal's own inputs and puts your signature under it. The second turns the distance into points of margin and a rate a year, which tells you before anyone writes a plan whether you need a good year or a different company. The third hands every point to one person, with a date and an early warning.

Anjali Sandhu and I did the first two in an afternoon. The third took until Day 60, and most of that time went on the phasing. Skip them and your first board meetings turn into seminars on copper and construction starts, the meeting my predecessor held for two quarters before he left.

WHAT IT LOOKS LIKE WHEN IT IS MISSING

- The board's number lives in the sponsor's deal model, and nobody in the building has opened the tab it came from.
- The board pack leads with copper, construction starts and wage inflation, and the explaining takes longer than the plan.
- The plan is written in revenue ("$20 million more next year"), and nobody has turned a dollar of it into margin.
- One bar on the plan is labeled "growth initiatives," carries no dollar figure, and has three names next to it.
- The price line reads "up $1 million after copper," so nobody can say what price did on its own.
- The acquisition the chair keeps mentioning is already inside the plan's total.
- Every month's target is the year divided by twelve, so January looks like a miss and June like a rescue.

The tell is a chief executive who can quote the board's number to the decimal and can't tell you the multiple underneath it.

IN THE BOOK

Chapter 1 argues that part of what happens to EBITDA belongs to the market (copper on the COMEX, construction volume, wage and benefit inflation, rates and tariffs) and the rest arrives through five levers a chief executive controls, pulled price first and cost last, with mix, share and M&A between them. One part of cost, what the company buys to keep running, is brought forward to sit beside price, and the other part, what goes into the product, gets its slow work under way soon after, because that money lands in year two. The market goes on the bridge as a bar of its own, which the CFO estimates and explains each month and nobody owns, and it is never folded into a lever. The first instrument works the board's number back out of the deal (the EBITDA and the multiple the fund bought at, the debt it closed with, the multiple of its money it promised and the years it means to hold), keeps the exit multiple flat and goes on one signed page. The second converts the gap into basis points of today's revenue and a compounded yearly rate, read against four bands. The third is the five-lever bridge: each bar sized in dollars, given a single name and a date, watched through a number that moves before the money does, and spread across the months the money will really arrive, with M&A held at nothing until a deal is signed. Its rule is that you can't control the market, so you turn the number into points and put a figure and a name on every lever. At Thornbury the number was $34.4 million, about 390 basis points away, and the bridge Conrad acknowledged on Day 60 reached it to the penny. Its Do This list, as a checklist:

- ☐ Work the board's number out yourself from the deal's five inputs, on a single page, and sign it.
- ☐ Turn the gap into basis points of today's revenue, then into a compounded rate a year, and find its band.
- ☐ Give the market a bar of its own, estimated and explained each month by the CFO, with no owner beside it.
- ☐ List the five levers in order, price leading and cost last, the indirect bids running alongside price and the direct work begun early, and put one name beside each of them.
- ☐ Size every bar in dollars, date it, pick the number that will warn you early, spread it by the month the money lands, and keep M&A at nothing until there's a signed deal.
- ☐ Get the controller started on three years of invoice lines, each showing customer, part number, quantity, cost and net price.

WORKED EXAMPLE

Day 12 was the rebuild, in Anjali's office, with the deal model open and a pad of paper on the desk. Coldwater had paid 9.0 times entry EBITDA of $26.4 million, an enterprise value of $237.6 million, and borrowed $132.0 million of it, so the fund's own money in was $105.6 million. The model wanted two and a half times that back over five years, which is $264.0 million of equity at the sale. Add the $90.0 million of debt the model expected still to be owed, and the sale price had to be $354.0 million. Divide that by the same 9.0 times, held flat, and exit EBITDA came to $39.3 million, growth of about 8.3 percent a year from the close. Run it one turn lower and $354.0 million ÷ 8.0 = $44.25 million, nearly $5 million more EBITDA because the multiple slipped a turn. We signed the flat figure and kept the lower one on the page beside it.

The model's path put month 16, my first month, at $29.4 million, and we were earning $24.8 million, $1.6 million less than Coldwater had bought. Month 40 was the twenty-four-month board, Day 730, and the path put it at $34.4 million, the figure Conrad had given me over coffee. So the gap was $34.4 million − $24.8 million = $9.6 million. A point of margin on $248.0 million of revenue is $2.48 million, and 9.6 ÷ 2.48 = 3.87 points, which we wrote down as about 390 basis points: a margin of 13.9 percent instead of 10.0 on flat revenue. As a rate, $34.4 million is 1.39 times $24.8 million, and about 18 percent a year compounded over two years gets you there. That's the third band, the one that calls for real change in what the company sells. I signed the page that afternoon.

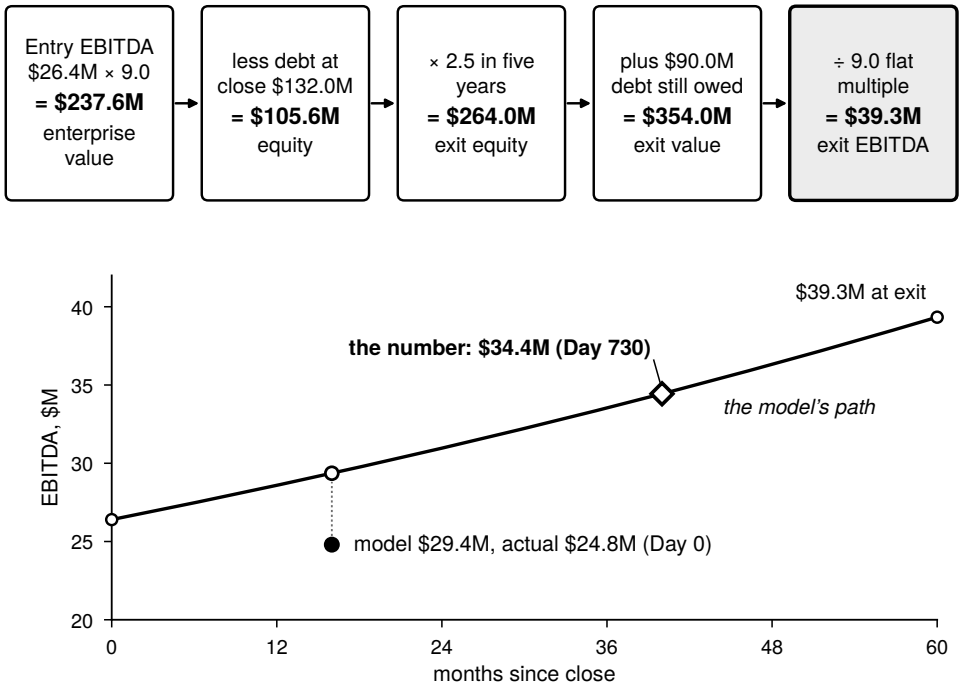
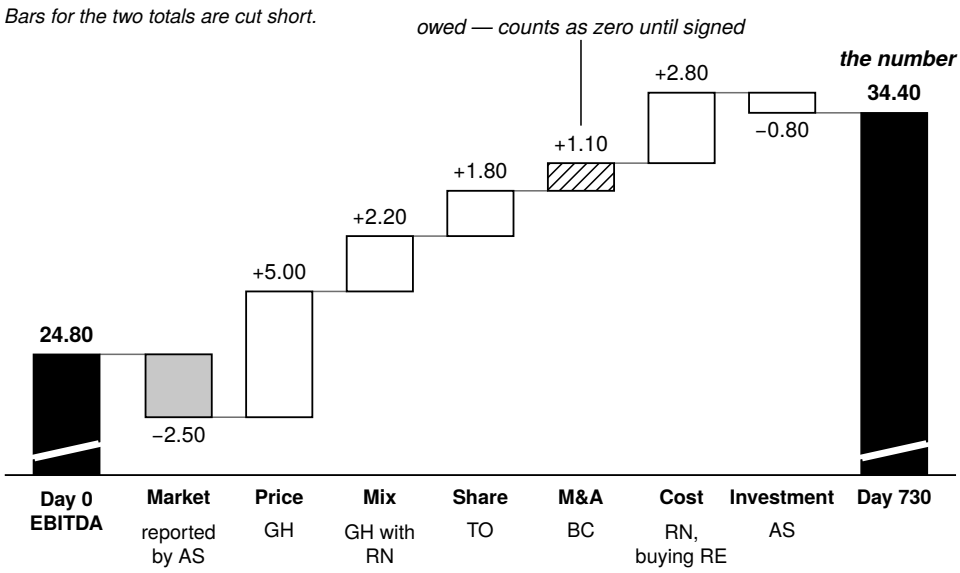


Fig. 01-01: The board's number, from five inputs: Thornbury's deal worked from the price Coldwater paid to the EBITDA it needed at exit, with the number at the twenty-four-month board as a point on that path.

The bridge took the next seven weeks. By Day 17 the cube had shown us the Fort carrying more than the whole company's EBITDA, 109 percent of it, and a Right-to-Grow ratio of 1.93, just under the line, so the bars leaned on

price and mix and nothing would be bought before the ratio had passed 2.0 and kept rising. Anjali's estimate of the market was −$2.50 million across the twenty-four months, from soft construction volume at Bowling Green and from the wage, benefit and other increases the metal adder can't carry to customers, and she would report it every month with nobody owning it.

On Day 60 the bars went to the board. Garrett Harwell took price, +$5.00 million, and mix, +$2.20 million, with Rafael Navarro beside him on mix. Share, +$1.80 million, was Tamika Odom's. M&A was +$1.10 million, owed and mine. Cost, +$2.80 million, was Rafael's, and Rita Esposito would do the buying, with everything beyond the indirect savings phased into year two. Anjali carried the investment, −$0.80 million. The five levers add to $12.90 million, and taking off the market and the investment leaves $9.60 million, the gap exactly. Without the deal the plan reached $33.30 million, so a deal had $1.10 million to carry. Conrad asked why the only bar worth nothing carried my name, and I told him a deal would wait until the year-one board had proved the base on actuals. He wrote "acknowledged" beside my signature. At Day 730 those seven bars added to $34.90 million, and none of them had been redrawn.



Every bar: a dollar figure, one owner, a date, a leading indicator. Phased by month.

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.

WORKSHEETS

Three worksheets carry this chapter: the number rebuilt and signed, the gap restated in points and as a rate, and the bridge that gives every point an owner.

WORKSHEET 1

The board's number — five inputs, one signed page

Rebuilds the number from the deal's own inputs, so every dollar of it can be traced and defended. The CFO brings the deal model and the credit agreement, and the chief executive does the arithmetic and signs.

Deal closed on, and the number at the next board

The five inputs, and the arithmetic. One line for each step, written out, every figure taken from the model or the credit agreement.

Entry EBITDA × entry multiple = price paid

Price paid − debt at close = equity in

Equity in × target multiple = equity out

The hold, and debt still owed at exit

Equity out + debt still owed = exit value

Exit value ÷ the same multiple = exit EBITDA

One turn lower: exit value ÷ (multiple − 1)

The path. What the model needs at every board between now and the sale, beside what you earn today.

Board	Month of the hold	EBITDA on the path	Earned today

Signed by, and acknowledged by the chair

☐ Each input traced to the deal model or the credit agreement, none to a slide

Thornbury's version

Anjali Sandhu and I worked it at her table on Day 12 in about twenty minutes, and I signed it that afternoon. Conrad Kellerman's acknowledgment went beside my signature on the bridge at Day 60.

Step	Thornbury, Day 12
Price paid	$26.4 million × 9.0 = $237.6 million
Equity in	$237.6 million − $132.0 million of debt = $105.6 million
Equity out	$105.6 million × 2.5, over a five-year hold = $264.0 million
Exit value	$264.0 million + $90.0 million still owed = $354.0 million
Exit EBITDA	$354.0 million ÷ 9.0 = $39.3 million
One turn lower	$354.0 million ÷ 8.0 = $44.25 million
Month 16, Day 0	path $29.4 million, earned $24.8 million
Month 40, Day 730	$34.4 million, the number

WORKSHEET 2

The gap in points — from dollars to basis points and back

Restates the gap as points of margin and as a yearly rate, so the plan reaches for price, mix and cost before it reaches for volume. The CFO fills it in beside the signed number, and the chief executive reads the band out loud.

Today's EBITDA, revenue and margin

One point of margin: revenue ÷ 100

The gap. Row one runs to the next board's number, row two to exit.

To	Dollars	Basis points on today's revenue	Months left	A year, compounded

Margin today, and margin at the number

The band. Check the one the yearly rate to the next board falls in.

☐ Under 8 percent: within reach of a sound plan, well run
☐ 8 to 15 percent: each dollar needs a name and a date
☐ 15 to 25 percent: change what you sell, to whom and at what price
☐ Over 25 percent: reset the number with the board, early

Where the points come from.

Share of the gap from revenue you already have

☐ Over 60 percent: name what the plan will have to subtract

The plan in points, and the same plan in dollars

Thornbury's version

Worked the same afternoon as the number, Day 12. The band said real change, and when the bridge locked on Day 60, price and mix carried $7.20 million of the $9.60 million, 75 percent, so the plan had to subtract as well: the tail would be priced up or let go.

Line	Thornbury
Day 0	$24.8 million on $248.0 million of revenue, 10.0 percent
One point of margin	$2.48 million
To Day 730	$9.6 million ÷ $2.48 million = 3.87 points, about 390 basis points
Margin needed	10.0 percent to 13.9 percent, on flat revenue
A year, to Day 730	$34.4 million ÷ $24.8 million = 1.39, about 18 percent for two years
Band	15 to 25 percent: real change
To exit, month 60	$39.3 million − $24.8 million = $14.5 million, about 585 basis points
A year, to exit	about 13 percent a year over the 44 months left

WORKSHEET 3

The five-lever bridge — a dollar figure, an owner and a date on every bar

Walks from this year's EBITDA to the number bar by bar: first the market, by itself, then the five levers in order, then the investment that pays for them. The chief executive writes it with the bar owners, and the CFO reports the market and keeps the monthly phasing.

Today's EBITDA, and the number

The bars. Eight rows: the market, the five levers in their order, the investment, and the number. The market gets a reporter and no owner. M&A is worth nothing until a deal is signed.

Bar	Dollars	One owner	Date	Leading indicator

Five levers − market − investment =

The plan without M&A, and what a deal must carry

Phased by month, and signed on

- ☐ Nothing netted, so copper never sits inside the price bar
- ☐ No dollar on two bars, and no bar with two owners
- ☐ Every bar spread by the month its money lands, never in twelve equal slices

Thornbury's version

It went to the board on Day 60, every bar dated to the twenty-four-month board and phased by month, after Garrett Harwell and Rafael Navarro had argued the months for most of a week. I signed it, and Conrad Kellerman wrote "acknowledged" beside my signature. At Day 730 the same bars added to $34.90 million.

Bar	$ million	Owner	Leading indicator
Market	−2.50	reported by Anjali Sandhu, owned by nobody	none, it is reported
Price	+5.00	Garrett Harwell	realized price against plan
Mix	+2.20	Garrett Harwell, Rafael Navarro beside him	the Fort's lead time
Share	+1.80	Tamika Odom	Fort wallet share, top twenty accounts
M&A, owed, zero until signed	+1.10	me	Right-to-Grow ratio above 2.0 and climbing
Cost	+2.80	Rafael Navarro, buying with Rita Esposito	the savings ledger, by column
Investment	−0.80	Anjali Sandhu	spend against its monthly phasing
The number	34.40	from 24.80, to the penny	

RUNNING IT WITH THE TEAM

The number needs two people and an afternoon: you and your CFO, the deal model open, the credit agreement on the table and a pencil. Work every step by hand even though the model has already done it, because the point is to watch each input arrive and know which one you'd lose sleep over. Then work it a turn lower, and write both answers on the page before you sign the flat one.

The gap in points belongs to the same sitting. Have the CFO convert it while you watch, and read the band aloud before anyone proposes a plan. If the band says real change, use those words the first time you show the page to your leadership team. A team told it faces "a stretch year" will bring you a stretch-year plan.

The bridge takes several sittings over a few weeks, and the room is the people who will own the bars: the CFO, the chief commercial officer, the vice president of sales, the chief operating officer, the director of purchasing, and the controller with the numbers. Open by saying two things: the number is fixed and the path isn't, and every bar will carry one name. The CFO runs the sessions, reads the market estimate first and owns none of it, and keeps the sheet where each owner phases a bar month by month. Each owner drafts a bar alone and then defends it to the room: how many dollars, which month the first of them lands, and which number will turn before the dollars do.

Expect the phasing argument, and welcome it. At Thornbury, Garrett and Rafael gave most of the last week before the lock to theirs, which is where that argument belongs, before the signatures and not after them. An argument about March is cheap in week seven and expensive in month nine. Close the last session by reading every bar back with its owner, its dollars and its date, and name the day it goes to the board.

What goes wrong the first time. An input comes off a board slide instead of the model, and the number shifts when somebody checks it. An owner asks to show his bar "net of copper," which buries the lever under the market. Two people ask to share a bar, and a shared bar has nobody to answer for it when it slips. Somebody spreads a bar evenly across twelve months to save an hour. And the chair asks you to count the acquisition in the total. Leave it at zero, write what it owes beside it, and tell him what the base has to prove before you'll go looking.

THREE QUESTIONS FOR MONDAY

1. If your chair asked tomorrow which of the five inputs moves your number most, could you answer without opening the deal model?

2. Which line on your current plan has no single name beside it, and whose name should go there this week?

3. What did the market hand you last quarter that your reports gave to a lever?

BEFORE YOU MOVE ON

You should now have, on paper:

- ☐ Worksheet 1, the number rebuilt from five inputs on one page, signed, with the one-turn-lower line beside it
- ☐ Worksheet 2, the gap three ways, as dollars, basis points and a compounded rate, with its band checked
- ☐ The 60 percent test answered, and what the plan will subtract named
- ☐ Worksheet 3, seven bars with dollars, one owner, a date and an early-warning measure, phased by month
- ☐ The market estimated by the CFO and sitting on its own bar with no owner
- ☐ Three years of invoice lines asked for, with the date the controller owes them