

Understanding EBITDA

How Day Nurseries Are Valued

Day nurseries are typically valued using multiples of EBITDA.

EBITDA stands for Earnings Before Interest, Tax, Depreciation and Amortisation. In simple terms, this represents the true underlying profitability of the business, stripped back to show how the nursery performs operationally.

This figure is used by buyers, sellers, and lenders to assess value and compare opportunities consistently.

What Gets Added Back to Calculate EBITDA?

In most nursery accounts, there are a number of costs that are legitimate but personal to the current owner, rather than true ongoing business costs.

Common examples include:

- personal insurance
- use of home allowances
- personal vehicle costs
- director-related expenses

These costs are added back to the reported profit to calculate EBITDA, as they would not necessarily continue under new ownership.

You will find a list of these personal and business add-backs clearly shown in the Profit & Loss (P&L) section of the marketing prospectus.





Business Add-Backs and Ownership Structure

Some business costs are also added back where they relate specifically to how the business is currently run, rather than how it would operate under a new owner.

Examples include:

- director salaries
- bank loan repayments

These items are adjusted to reflect the nursery's performance before ownership-specific decisions are applied.

Again, all add-backs are detailed in the P&L within the marketing prospectus.

Using Up-to-Date Financial Information

One of the challenges with statutory accounts is that, by the time they are finalised, they are often already out of date.

Nursery businesses can change quickly, so EBITDA is calculated using the most up-to-date financial information available, particularly turnover. This allows buyers to understand the business as it operates now, not how it looked many months ago.

You will find a commentary in the marketing prospectus explaining how the up-to-date income figure has been calculated.

Understanding Staff Costs in the Modelling

Staff costs are recalculated using:

- contracted hours
- hourly rates
- National Insurance
- pension contributions

This modelling includes only staff who would transfer under a sale.

If family members or staff who have since left are included in the historic accounts, those costs are removed. This gives a clearer picture of the staffing costs you would actually incur going forward.

A detailed breakdown of staff hours and rates can be found on the Staff page of the marketing prospectus, along with notes explaining any adjustments made.

Cost of Sales: Food and Consumables

Items such as food and consumables are treated as costs of sale. These costs are expected to fluctuate in line with changes in turnover.

Where necessary, these costs are adjusted in the modelling to reflect the updated income level. This is usually done on a percentage-of-turnover basis.

For example, if food and consumables represented 6% of turnover in the accounts, the model assumes the same percentage against the updated turnover.

Any adjustments are explained in the P&L commentary within the marketing prospectus.





Other Ongoing Business Costs

In most cases, other costs within the accounts are assumed to continue at a similar level year on year.

Costs such as:
utilities (light and heat)
staff training
general running expenses

are not expected to fluctuate significantly. Where any further adjustments have been made, these are clearly explained in the P&L commentary.

A Practical Example of EBITDA Modelling

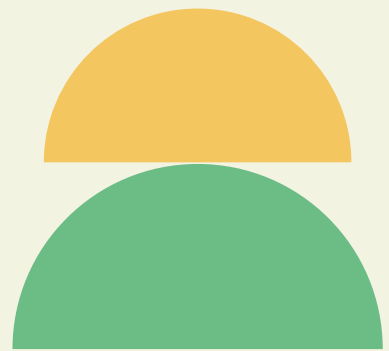
To help illustrate how EBITDA is calculated, the table below shows an example of how historic accounts are adjusted to reflect projected modelling, along with notes explaining the assumptions made.

(Table retained as provided in the prospectus)

Key add-backs in this example include:

- Director's salaries and pensions
- Travel and motor costs
- Depreciation
- Use of home

These adjustments allow buyers to see the true earning potential of the nursery under new ownership.



Why EBITDA Matters for Buyers

Understanding EBITDA helps buyers:

- assess value accurately
- compare different nurseries fairly
- understand how lenders view affordability
- identify opportunities to improve performance post-purchase

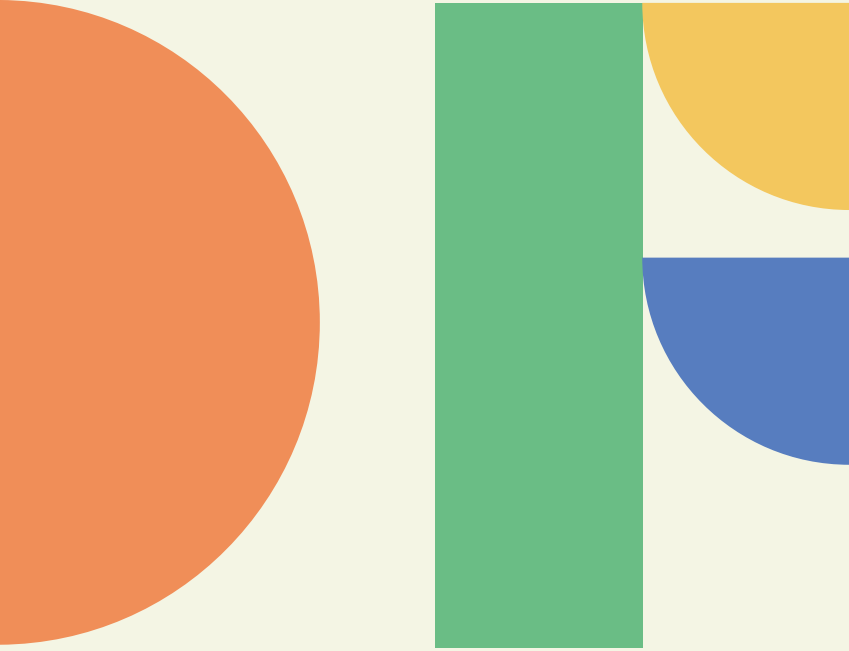
It is a critical figure in both valuation and funding discussions, which is why transparency and clear explanation are so important.

Understanding EBITDA is key to understanding the true value of a nursery.

If you'd like help interpreting financial information, add-backs, or how EBITDA affects valuation and lending, our team is always happy to talk it through.

[Speak to Owen Froebel about your nursery purchase](#)





Whether you're new to the early years sector or looking to expand your existing portfolio, the dedicated team at Owen Froebel can help you find, assess and acquire the right nursery for you.

To access our full list of nurseries for sale and be the first to hear about new opportunities, you'll need to register on our website. It's quick, free and puts you first in line.

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Contact Leah Turner – Co-Founder

hello@owenfroebel.co.uk | 02476 013929

Company Number 13971855

