Chapter 1 - Money Talks: Napkin Math

"Based upon your position in the marketplace and general available information, your EBITDA is probably in the range of 7% to 14%. Can we use 10% as a working number for the sake of this conversation? COGS are probably relatively light because you make chips rather han ball bearings. For the sake of a number let's use 10% to 20%. Generally speaking, that is a working number. You are highly automated, so you are capital intensive and labor light. Let's put the servicing of the capital at 15% and labor at 10%. I'm assuming that those are way off–can you give me some better, more workable numbers? I have about 60% tops here and you are either making amazing profits or there are more costs. Let's see, transportation is at least 10%. What am I missing?"

Napkin Math Example

For the sake of a round number:

EBITDA = 10% (which we'll say is profit)

So, there's then 90% costs we need to account for (100% - 10% EBITDA = 90%)

Rough numbers, let's assume:

COGS =	10%
Cap =	15%
Labor =	10%
Trans. =	10%

10%
15%
10%
= 35%

Then, we're up to 45% in costs (10% + 15% + 10% + 10% = 45%)

So, 90% costs minus the 45% in costs we just identified leaves us with 45% more to account for

(90% - 45% = 45%)

Given that, "What am I missing?" (Looking for approximately 45% missed in identified costs.)

10% EBITDA + 90% costs = 100%

Your turn! What are you trying to accomplish with your napkin math? Try it out below!