Owner earnings

Letters: 1986 · Difficulty: Intermediate

> *"We consider the owner earnings figure, not the GAAP figure, to be the relevant item for valuation purposes." (1986)*

1. Net income is $100, depreciation and amortization are $40, and the capital spending needed just to maintain the business is $50. What are owner earnings (net income + D&A − maintenance capital spending)?
   90

2. Compared with EBITDA, owner earnings…

   A. is always larger

   B. subtracts the capital spending needed to keep the business running

   C. ignores depreciation

   D. adds back income taxes

Source: Warren E. Buffett, Letters to Berkshire Hathaway Shareholders: 1986 (berkshirehathaway.com/letters). Quotation © Berkshire Hathaway Inc., all rights reserved; quoted for non-commercial teaching. Numbers in the questions are made up unless stated.