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)?

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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.