



CHAPTER 2 ERRATA

Financial Statements Analysis

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The values presented for EBITDA (Earnings before Interest, Taxes, Depreciation, and Amortization) are incorrect. We would like to thank **Leonora de la Cruz** for spotting the error! The correct figures should be:

	2015	2016	2017	2018	2019	2020	2021
EBITDA	10,086	11,994	18,797	24,825	28,248	5,064	23,771

In addition, the line item called “Operating Income (Loss)” should have been labeled as “EBIT (Earnings before Interest and Taxes).”

A Note on Operating Income and Earnings before Interest and Taxes

Although “Operating Income” and “Earnings before Interest and Taxes” (EBIT) are often used interchangeably, even in this textbook, there are times when they are not the same. This is especially true in more complex financial statements like Jollibee’s.

Operating Income measures revenues and expenses that a company earns from *normal business operations*. By definition, this excludes all non-operating income and expenses, as well as operating income from discontinued operations.

In contrast, **EBIT** is derived by adding back interest expense and income taxes to net income. Therefore, it includes non-operating income and expenses, and only excludes interest and taxes.

In Jollibee’s case, operating income and EBIT are different because of how complicated its income statement was:

Calculation of Operating Income		Calculation of EBIT	
Gross Revenues	₱ 153,575,590	Net Income	₱ 5,501,911
Direct costs	<u>-127,496,679</u>	Add back: Income tax expense	641,435
Gross Profit	₱ 26,078,911	Income before Tax	₱ 6,143,426
General & administrative expense	-16,473,091	Add back: Interest expense	<u>4,145,749</u>
Advertising & promotion expense	<u>-3,331,207</u>		
Operating Income	₱ 6,274,613	Earnings before Interest & Taxes	₱ 10,289,175

The difference can be explained as follows:

Operating income	₱ 6,274,613
Add: Other income - net	3,893,018
Add: Interest income	164,967
Less: Equity in net losses of joint ventures and associates	(<u>43,423</u>)
Earnings before Interest and Taxes	<u>₱ 10,289,175</u>

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The calculation for **Operating Margin**, which was not presented, should have been:

$$\text{Operating (EBIT) Margin}_{21} = \frac{10,289}{153,576} = 6.7\%$$

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The calculation for **Debt Service Coverage** should have been:

$$\text{DSCR}_{21} = \frac{23,771 - 2,077}{31,502} = 0.69$$

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The calculation for **Enterprise Value to EBITDA** should have been:

$$\frac{\text{EV}}{\text{EBITDA}_{21}} = \frac{327,094.176}{23,771} = 13.8$$