

Inflated EBITDA Addbacks Are Driving Debt Covenant Violations



By [John J. Koepfel](#)

August 10, 2026 | **CORPORATE**

What is a key frustration of many private equity / independent sponsor buyers?

Answer: Inflated EBITDA addbacks now average 29% of total marketed EBITDA.

- Per a recent S&P study, there is a significant correlation between excessive EBITDA addbacks and the likelihood of a target violating debt covenants.
- Troublesome EBITDA add-back examples include recurring sales training, pro forma adjustments for newly opened locations/sites still under construction, higher costs for temporary workers and/or supply chain disruptions, “extraordinary” executive comp/bonuses (yet management expects them to continue post-close), etc.
- In lower-middle market deals, we also sometimes see negotiations over counter-EBITDA adjustments (i.e., a target business is missing, say, a key executive role needed post-close).
- The resulting enterprise value negotiations are often a balancing of adjusted EBITDA assumptions, the multiple,

and the structure of deal consideration (i.e., cash vs deferred - rollover equity, seller financing, and earn-outs).

John J. Koeppel's commentary on "[EBITDA adjustments are getting ridiculous](#)," *Pitchbook.com*, March 5, 2026

Disclaimer: *The information in this post is provided for general informational purposes only, and may not reflect the current law in your jurisdiction. No information contained in this post should be construed as legal advice from our firm or the individual author, nor is it intended to be a substitute for legal counsel on any subject matter. No reader of this post should act or refrain from acting on the basis of any information included in, or accessible through, this post without seeking the appropriate legal or other professional advice on the particular facts and circumstances at issue from a lawyer licensed in the recipient's state, country or other appropriate licensing jurisdiction.*