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Inflated EBITDA Addbacks Are Driving Debt Covenant Violations

By John J. Koeppel

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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