EV/EBITDA vs P/E: Screening Companion

One-page worksheet — the 3-gate trust test, the leverage identity, and the 30-year projection.

1. THE LEVERAGE IDENTITY

Enterprise Value = Market Cap + Total Debt – Cash & Equivalents
EV/EBITDA = Enterprise Value ÷ TTM EBITDA
P/E distortion = (P/E ÷ EV/EBITDA) – 1

Worked example (illustrative — AT&T Q4 2025 estimates)

Market cap $185B · Total debt $130B · Cash $8B · TTM EBITDA $20.5B · Net income $5.4B
P/E = $185B ÷ $5.4B = **34.3x** EV/EBITDA = $307B ÷ $20.5B = **15.0x**
Distortion: (34.3 ÷ 15.0) – 1 = 128.7% · Principal haircut on P/E-naive path: 56.3%

2. THE 3-GATE TRUST TEST

All three must PASS before EV/EBITDA informs pricing. Any FAIL → use book value or cash-flow yield.

GATE 1 ☐ PASS ☐ FAIL
Adjusted EBITDA ≤ 110% of GAAP EBITDA?
Flags aggressive add-back stacking.

GATE 2 ☐ PASS ☐ FAIL
EBITDA add-backs reconcile to operating cash flow?
Catches relabeled recurring costs.

GATE 3 ☐ PASS ☐ FAIL
Target outside banks, insurers, REITs, negative-EBITDA?
Confirms EV/EBITDA is the right lens.

3. YOUR NUMBERS — 30-YEAR PROJECTION WORKSHEET

Model: FV_A – FV_B = P × repricing% × (1+r)^t (LUMP_SUM_REPRICING, annual)

PRINCIPAL (P)	RETURN RATE (R)	HORIZON (T)	REPRICING %
$_____	_____%	_____ yrs	_____%

Benchmark case (article): P = $50,000 · r = 7% · t = 30 yrs · repricing = 56.3% → 30-yr gap = **$214,285**

4. WHEN EV/EBITDA WINS · WHEN P/E STILL EARNS ITS KEEP

✓ USE EV/EBITDA WHEN

Pricing a whole-business acquisition
Comparing firms with different leverage
Reading deal memos / banker models
Mature industrials, utilities,
telecoms, consumer staples

→ P/E STILL WORKS WHEN

Passive screening of low-leverage names
Post-close equity (debt refinanced)
Banks, insurers (EBITDA not the unit)
Capital-light SaaS (D&A immaterial)
Negative-EBITDA growth names