

# Know Your Gaps

Three numbers every business owner should know and manage to help meet their goals.



**Profit Gap = The Profit You Could be Foregoing by Not Operating at a Best-in-Class Level**

= Best-in-Class Profit at Your Level of Sales – Your Actual Profit

Key Points:

- For the purposes of this document, profit is best defined as earnings before interest, taxes, depreciation, and amortization (EBITDA)
- To ensure an apples-to-apples analysis, your actual EBITDA should be re-casted or adjusted for
  - Extraordinary or one-time events
  - Discretionary expenses that are tied to the owner
  - Expenses that are currently above or below market rates such as rent, compensation and others

What good could you do in the business with that extra flow? **1**

**Value Gap = The Business Value You Could be Foregoing by Not Operating at a Best-in-Class Level**

= Best-in-Class Value if at Your Level of Sales – Your Actual Business Value

Key Points:

- The basis of the Best-in-Class Value begins with the Optimal Profit at Your Level of Sales (determined in the Profit Gap analysis)
- The Best-in-Class multiple is applied to the Optimal Profit
- Your actual value should be based on your actual re-casted or adjusted EBITDA

How quickly could narrowing your Value Gap close your Wealth Gap? **2**

**Wealth Gap = The Additional Wealth You Need to Accumulate to Meet Your Goal**

= Your Net Worth Goal – Your Current Actual Net Worth (not including your business)

Key Points:

- For the purposes of this discussion, do not include the value of your business
  - It is not readily converted to cash
  - You may or may not convert it into cash depending on what you decide to do with it
- As you consider your net worth goal, identify:
  - What you truly need to live your life the way you would like
  - What you want to live the life that aligns with your principles and ideals

How Will You Bridge the Gap? **3**

# Disclosures

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