

Know Your Gaps

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



Profit Gap

THE PROFIT YOU'RE SACRIFICING BY NOT OPERATING AT A BEST-IN-CLASS LEVEL

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

Key Points:

- Profit is best defined as earnings before interest, taxes, depreciation, and amortization (EBITDA)
- Your actual EBITDA should be re-casted or adjusted for
 - Discretionary expenses that are tied to the owner
 - Extraordinary or one-time events
 - Expenses that are currently above or below market rates such as rent, compensation, etc.

Consider: What good could you do in the business with that extra flow?

Value Gap

THE BUSINESS VALUE YOU'RE SACRIFICING 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 Best-in-Class Profit at Your Level of Sales (determined in the Profit Gap analysis)
- The Best-in-Class multiple is applied to the Best-in-Class Profit
- Your actual value should be based on your actual re-casted or adjusted EBITDA

Consider: How quickly would narrowing your Value Gap close your Wealth Gap?

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:

- Do not include the value of your business
 - It is not easily 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 life the way you want

Consider: How Will You Bridge the Gap?

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