

# 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:

- For the purposes of this discussion, 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

## 1 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

## 2 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:

- For the purposes of this discussion, 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 your life the way you would like
  - What you want

## 3 How Will You Bridge the Gap?

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