



Jim's Profit Accelerator 160 What Is Net Worth, Worth?

No, it's not a proofreading puzzle, although it could be a puzzle. The short answer is, not much, mostly.

We're talking here about a financial measure, which has collected a spider web of meaning that has caught business owners (and many of their financial advisors) in a misdirection of misunderstanding. Let's gently pull apart the threads of the web.

First, net worth exists in two places: as a personal measure, and as a business measure.

Personal measure: As a client pointed out, "I've been tracking my personal net worth ever since I began working. It's a vital measure of how I'm doing personally." He's exactly right. Here's the definition: the value of what I own minus what I owe—think value of your home minus what you owe on your mortgage.

SPEED BUMP: Personal net worth is a good measure; business net worth is not.

"Well," business folks say, "doesn't net worth work the same way in my business?" Unfortunately, if it does, it's a coincidence, because it isn't the same at all. The business definition is assets minus liabilities, which shows up on your balance sheet. The problem is in the definition of *value* in a business. The rules for balance sheet description of value are entirely different for business accounting than for your personal accounting, and properly so.

SPEED BUMP: Business net worth is a math equation, not a statement of valuation.

"Well, I watch net worth because I know my banker does." Actually she doesn't. It's on the financials that you send to her quarterly, but that's about it. I asked a banker friend how he uses net worth in tracking client and prospect business performance. Here's what he said: "I don't." To be fair, of course he looks at financial statements, but his attention is on other numbers. He's a senior vice president in a major bank with over 25 years of banking experience. I'll take his word for it.

SPEED BUMP: Track the valuation of your business, not its net worth.

Where to turn? Shift from net worth to valuation of your business. Valuation is the market value of your business, or what a willing buyer will pay to a willing seller right now. So yes, it's a measure of the worth of your business, but it's not "net worth."

But don't I need a professional appraiser to determine the valuation of my business? Yes, but only when a precise valuation is part of a decision about selling all or part of the business. "Selling" means that someone else will receive part or all of the ownership of the business, called "equity" for simplicity. Those events happen seldom, but they pack a financial wallop that can be life-changing for you. What to do? Track valuation every month, and include it in decisions about risk and investment in the business.

You don't have to pay an appraiser to figure valuation. You can estimate it closely enough to be satisfactory, since your measure should be about how valuation changes over time. Just use the same method consistently. The method is market multiple times EBITDA.

Market multiple is available from your accounting or banking professional for your business. It is usually a multiple of EBITDA, or sometimes revenue for certain industries.

Here are the steps to figure your business multiple:

1. Define your business multiple.
2. Calculate EBITDA (earnings before interest expense, taxes, depreciation and amortization).
3. Multiply #1 times #2.

For simplicity, post your business valuation at the bottom of your balance sheet monthly. Your EBITDA may change monthly. Your multiple can be reviewed annually.

USER WARNING: Until your business has been profitable for a year, track profit, not net worth or valuation. Once you've been profitable for a year (and expect to be in the future), add valuation to the bottom of your balance sheet and update it as above.

ACCELERANT: What's the valuation of your business?

NOTE: A more complete discussion of this vital topic is available in my book *The Other Side of Succession*. It's on Amazon: <https://goo.gl/URT61S>

Or email me and I'll send you a free copy.

For more information on how you can accelerate revenues and profits in your business, please call or email me.

A note on **SPEED BUMPS:** Use them to click quickly with an idea that can immediately be implemented in your life as a business leader. Think: "How can I use this today?" or "Who can use this?"

For more information, visit www.grewco.com.

Jim Grew, the Business Defogger and Accelerator, helps leaders discover hidden opportunities within their businesses and exploit them for dramatic results. Jim has led 9 businesses, worked in 31 companies at C-level, and is an expert in strategy and executive leadership. He presents regularly to industry groups, mentors business leaders, and shares insights in his Executive Letter (above). Jim holds BA and MBA degrees from Stanford University. In his new book, *The Other Side of Succession*, he shares how to plan for the future by growing your business now.

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