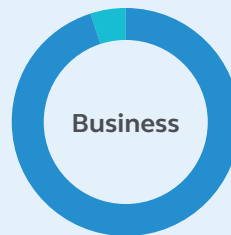


Does your buy-sell agreement include an accurate value for your company?

Know what your business is worth. An unexpected trigger event could leave you or your successors and heirs in a tough situation if the buy-sell agreement kicks in due to a death or disability, and your stated company value is either more or less than its current or actual value.

Only 5% of the buy-sell agreements we review reflect a current fair market value of the business at the time of the review. If there is uncertainty about the company’s value, this can result in an unintended negative financial impact to the owners.



95% Without current valuation
5% With current valuation

Determining company value

Our experience shows most agreements use one of three methods to determine company value. The most common is “agreed value”. While it can be an effective approach, it must be annually updated, and a back-up method should also be included in case the agreed value becomes out of date.

Method

Agreed value: 31%

Formula: 24%

Appraisal: 23%

Other: 22%

Valuation analysis for “agreed value” agreements

Of buy-sell agreements using this method:

- Were the values current?
- Was there a back-up method?



19% Current valuation and back-up method
28% Current valuation but have no back-up method
36% No current valuation but have back-up method
17% No current valuation and no back-up method

Risks of an outdated valuation

If the valuation in the buy-sell agreement does not reflect the business's current financial results, then this inconsistency can get in the way of a smooth transition of the business for all parties involved.



- Costly delays and arguments amongst owners may ensue



- Fair market value may have to be negotiated with the IRS for estate tax purposes



- Retiring or exiting owners/heirs may not get a fair value for their share of the business
- Remaining owners may over-pay the exiting owners/heirs
- “Motivated sellers” and “sellers in liquidation” are less likely to receive full fair value

Take steps now to mitigate risks

Determining the value of your business and reviewing your buy-sell provisions today can help bring everything into alignment. Request a complimentary informal business valuation and planning report and/or a buy-sell review from Principal Financial Group® today!



[Learn more](#)

| Contact your financial professional or go to [principal.com](https://www.principal.com).

Source: Review of 1,485 buy-sell reviews by Principal Financial Group®, January 1, 2011 - January 31, 2017.



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