

Informal business valuation and buy-sell review services

Learning about complimentary business planning services just got easier. This profile outlines the key features you need to know.

How it works

Principal® offers these complimentary services to help shed light on potential business protection opportunities. They are a great way to start conversations with business owners and provide valuable information about their business. Our team offers:

- **Informal business valuations**
- **Buy-sell reviews**

Target market

The target market varies based on the service being offered:

Informal business valuations¹

- Profitable, growing businesses with gross revenues of \$500,000 or more
- Professional, service-related companies, such as architecture, healthcare, law, engineering, accounting, and technology firms²
- Manufacturing and construction companies²

Buy-sell reviews³

All types of businesses with:

- Buy-sell agreements that haven't been reviewed in two years
- Operating agreements or partnership agreements with buy-sell provisions

Don't forget: Individual disability insurance (IDI) solutions are ideal for business owners ages 30 to 55 who have less than 10 owners in the business.

The business market

Business planning services can lead to a variety of sales opportunities for offering our suite of income and business protection solutions. If your client is working, they likely need income protection. Business owners, though, face a triple threat when it comes to a disability. They need to consider personal income protection, business continuation, and succession planning needs. Our IDI portfolio offers:

Income protection:

Individual Disability Income

DI Retirement Security

Business continuation:

Overhead Expense

Business Loan Protection⁴

Key Person Replacement⁴

Succession planning:

Disability Buy-Out (DBO) (including our unique One-Way Buy-Out Program⁴)

What you need for these services

To request these services, provide the following to your local representative:

- **Digital Request for Proposal.** A [completed proposal request](#).
- **Agreement.** If applicable, upload a copy of any current buy-sell agreement and any amendments.
- **Financials.** Copies of the three most recent years of company tax returns.
- **Insurance.** Detailed list of all life and/or individual disability insurance policies.

Informal business valuations

These valuations help identify next steps for business continuation planning. Knowing the value of a business gives the owner(s) the foundation to make a variety of financial decisions about income protection, business protection, succession planning, and more.

Our team prepares informal business valuations using five common methods.

Asset approach

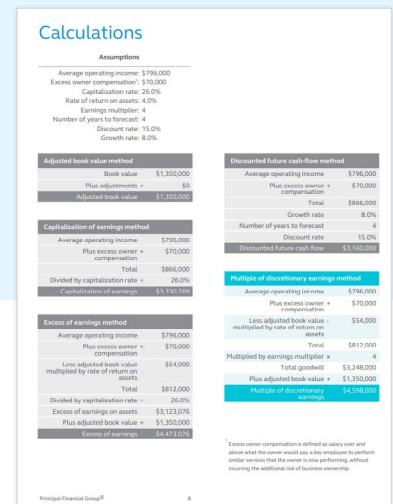
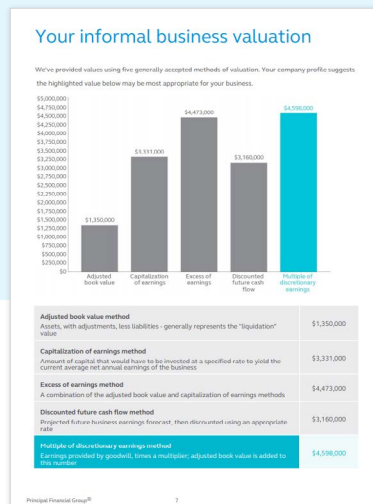
An asset-based approach to valuation is typically used with businesses that have substantial tangible assets, usually in the form of inventory and equipment. This approach is most appropriate for businesses with a substantial amount of fixed assets. We use the **adjusted book value method**.

Income approach

The income approach uses prior earnings to estimate company value based on income potential. This type of valuation approach is most appropriate for businesses with consistently strong earnings. Income approaches include:

- **Capitalization of earnings method**
- **Excess of earnings method**
- **Discounted cash flow method**
- **Multiple of discretionary earnings method**

Learn more about these valuation methods and view a sample business valuation report (BB11286) online at principal.com/businessplanning.



Buy-sell reviews

A buy-sell agreement explains how ownership interest is transferred in the event of a business owner's death, disability, divorce, disagreement, or desire to retire. It provides a specific price and buyer to help facilitate a smooth and complete transition of ownership. It's important to keep a buy-sell agreement up-to-date.

Our review highlights the existing agreement provisions, including recommendations based on business needs.

To help protect the business from the impact of an owner's disabling illness or injury, a buy-sell agreement can be structured two ways:

- **Cross purchase.** Each owner purchases and owns a DBO insurance policy on each of the other owners. When disability occurs, the benefit can be used to buy out the disabled owner.
- **Entity purchase.** The business purchases and owns a DBO policy on each of the owners. This is often the preferred option when multiple owners are involved.

Once the buy-sell agreement is implemented, a business owner should periodically review and update the provisions and business valuation formula to ensure they continue to fit the circumstances. It's also important to make sure the funding is sufficient.

View a sample buy-sell review (BB9868) at [principal.com/businessplanning](https://www.principal.com/businessplanning).

Starting the conversation with clients

Begin by asking if the business owner has a buy-sell agreement. Then ask:

Q: Do you know the value of your business? | No |>

.....
Yes
.....
↓

Q: Have you identified a buyer in case of a business owner's death, disability, or divorce? | No |>

.....
Yes
.....
↓

The value can impact retirement income, taxes, and standard of living for spouse/heirs. We can help assess the value with an informal business valuation.

Identifying a buyer will lead to a smoother transition. We offer a complimentary buy-sell agreement review to help.

Consider a complimentary buy-sell review every two years.



Let's connect

Contact your local representative or the Business and Advanced Solutions Hotline at 833-803-8345.

- ¹ Informal business valuations are an important source of information for business owners. However, some types of companies are not a good fit for the informal business valuation services provided by Principal, such as farms, nonprofit organizations, publicly traded companies, businesses that are not profitable, real estate holding companies, financial services firms, and new companies (less than three years old). The valuation is not a substitute for a formal valuation nor does it establish a value for estate tax purposes.
- ² Some occupations within these organizations may not be ideal candidates for IDI solutions.
- ³ Although a buy-sell review from Principal provides a valuable starting point, it does not provide a legal opinion as to the legal or tax implications of your client's agreement or to the appropriateness of any funding strategies. Principal cannot provide any legal documents or revise existing legal documents. The review is intended to help identify your client's objectives for the buy-sell agreement and any issues that must be addressed to help ensure your client's objectives are being met. The review should be examined by your client's legal and tax advisers.
- ⁴ Not available in all states. Visit www.principal.com/distateapprovals for details.



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