



Learning about complimentary business planning services is easy. 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 businesses. Our team offers:

- Informal business valuations
- Buy-sell reviews

### Target market

The target market varies a bit based on the service being offered:

#### Informal business valuations<sup>1</sup>

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

Note: Some occupations within these organizations may not be ideal candidates for IDI solutions.

#### Buy-sell reviews<sup>2</sup>

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 IDI market

Business planning services can lead to a variety of sales opportunities for offering our suite of income and business protection solutions. Almost everyone in the working population needs 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 portfolio offers:

**Income protection:**  
Individual Disability  
Income  
DI Retirement Security

**Business continuation:**  
Overhead Expense  
Business Loan Protection<sup>3</sup>  
Key Person Replacement<sup>3</sup>

**Succession planning:**  
Disability Buy-Out  
(DBO) (including our  
unique One-Way  
Buy-Out Program<sup>3</sup>)

## What you need for these services

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

- **Request for proposal** – A completed proposal request (BB10847).
- **Agreement** – If applicable, provide a copy of any current buy-sell agreement and any amendments. Include any documents you think control the transfer of the business.
- **Financials** – Copies of financial statements (balance sheets, income statements or company tax returns) from the most recent three full tax years.
- **Insurance** – Detailed list of all life and/or disability insurance policies associated with the agreement.

# Informal business valuations

These valuations help identify next steps for business continuation planning. Knowing the value of their businesses gives owners the foundation to make a variety of financial decisions about business protection, succession planning and more.

Our team prepares informal business valuations using two of three common approaches.



## 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:

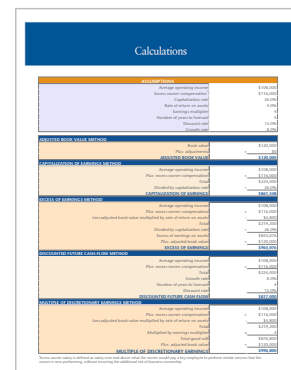
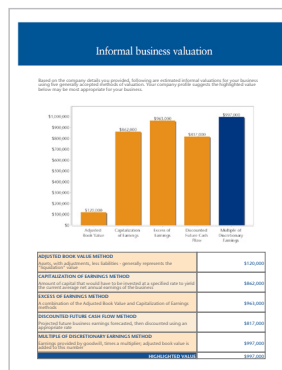
- **Capitalization of earnings method**
- **Excess of earnings method**
- **Discounted cash flow method**
- **Multiple of discretionary earnings method**

To learn more about these valuation methods and to see a sample report online check out BB11286

## Market approach

Market-value approaches to business valuation are based on the prices of similar or comparable businesses that have recently sold. This data is more challenging to find for the sale of small businesses and professional practices, rather than for large businesses. Information related to valuing a business under this method is not provided in this report.

View a sample business valuation report online – BB11286 – at [principal.com/businessplanning](http://principal.com/businessplanning).



## Buy-sell reviews

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

Our review:

- Highlights the existing agreement and includes recommendations based on business needs
- Summarizes current funding provisions and options to address 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:

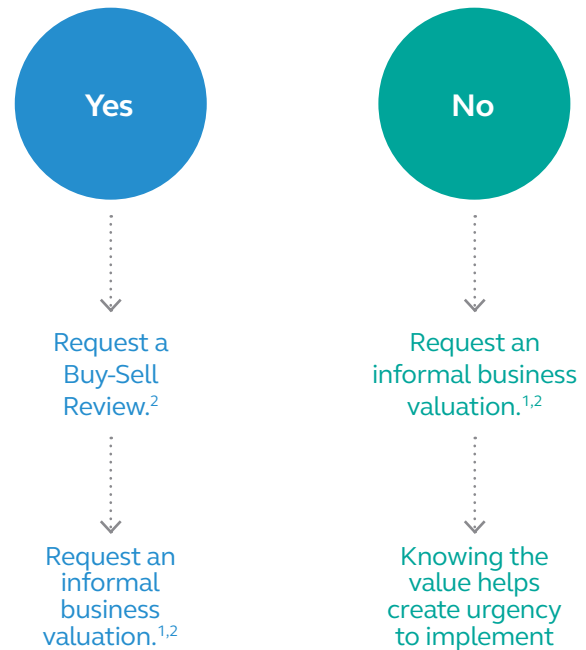
- **Cross purchase** – Each owner purchases and owns a DBO insurance policy on each of the other owners. At the buy-out of a disabled owner, healthy owners receive a step-up in basis.
- **Entity purchase** – The business purchases and owns a DBO policy on each of the owners. This is often the preferred 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.

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

## Starting the conversation with clients

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





Let's connect.

Contact your local representative.

- <sup>1</sup> 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, sole proprietors, real estate holding companies, financial services firms and new companies (less than three years old).
- <sup>2</sup> 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 valuation is not a substitute for a formal valuation nor does it establish a value for estate tax purposes. 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.
- <sup>3</sup> Not available in California, not available in all states. Visit [www.principal.com/distateapprovals](http://www.principal.com/distateapprovals) for details.



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