



Principal Business Owners Insights

Preparing business owners for each phase of the
business life cycle

Deepen relationships

**Differentiate with
business owners**

Who fits the
profile?

Don't miss out on continuity
planning & significant liquidity
events ...

Be an integral part of strategy
discussions with business owners
planning to sell or transition their
company.

Deepen relationships

**Differentiate with
business owners**

The SMB
opportunity

Roughly 130M people working at 32.5M U.S. businesses – and 50% of those work at SMBs¹

99% of all U.S. businesses have <500 employees, with 1% having >500 employees¹

Smaller businesses are often unadvised.

Women business owners

- About 20.9% (1.2 million) of businesses are owned by women²

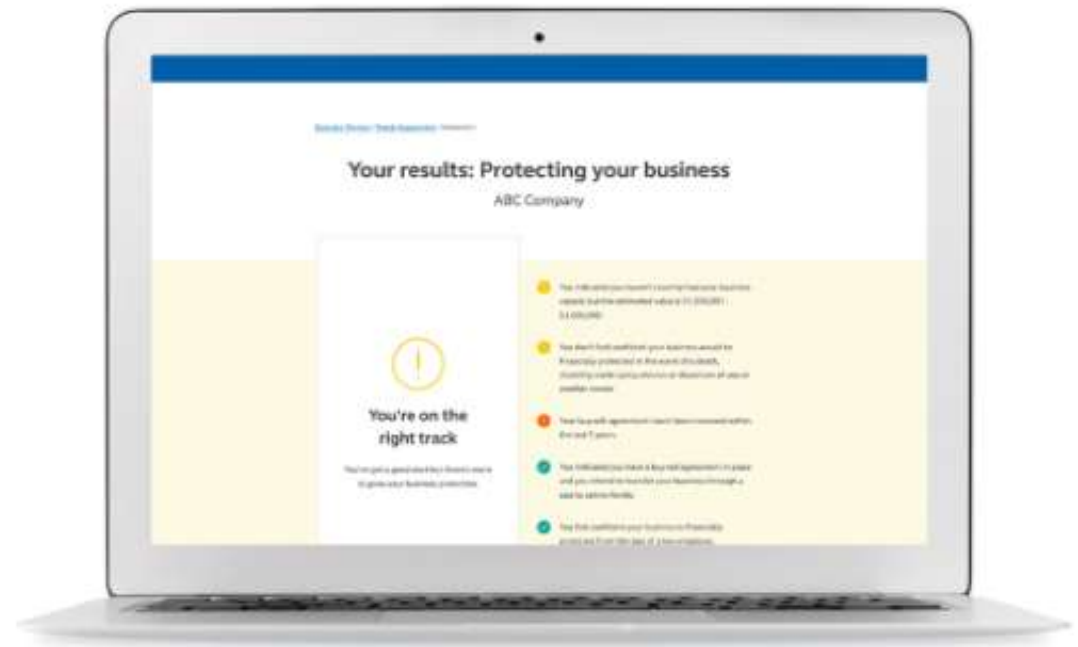
¹ Small Business Profile, SBA Office of Advocacy, 2020
² 2020 Annual Business Survey which covers reference year 2019.

Business needs assessment

Who can benefit?

Who's it for?

- Privately held and publicly traded businesses
- For-profit and nonprofit organizations
- Businesses with any number of employees
- All industries



Business Needs Assessment

Business owner top priorities

1 Business protection



It's the No. 1 priority since 2010, yet less than half have solutions in place.

2 Health and wellness solutions



Of the owners who provide benefits, 30% offer an employee assistance program (EAP), and 30% offer emotional and wellness programs.

3 Business succession planning



Of those with a plan, 26% haven't reviewed it in more than two years.

4 Income protection



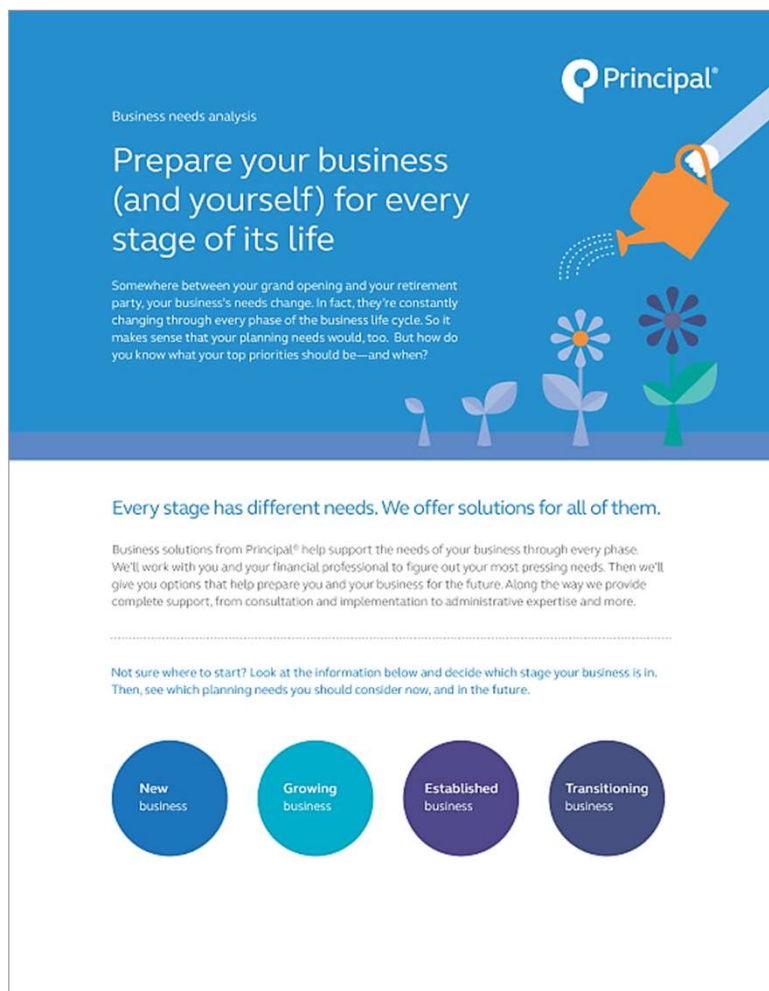
It's been a top 5 priority since 2008, yet less than half have a plan.

5 Non-medical benefits



Dental insurance and Paid Family and Medical Leave are the most offered benefits.

Prioritizing business needs



The graphic features a blue background with the Principal logo in the top right. The main title is 'Prepare your business (and yourself) for every stage of its life'. Below this is a paragraph about business needs changing over time. An illustration shows a watering can watering four plants of different sizes. At the bottom, four colored circles represent business stages: New business (blue), Growing business (teal), Established business (purple), and Transitioning business (dark purple).

Principal®

Business needs analysis

Prepare your business (and yourself) for every stage of its life

Somewhere between your grand opening and your retirement party, your business's needs change. In fact, they're constantly changing through every phase of the business life cycle. So it makes sense that your planning needs would, too. But how do you know what your top priorities should be—and when?

Every stage has different needs. We offer solutions for all of them.

Business solutions from Principal® help support the needs of your business through every phase. We'll work with you and your financial professional to figure out your most pressing needs. Then we'll give you options that help prepare you and your business for the future. Along the way we provide complete support, from consultation and implementation to administrative expertise and more.

Not sure where to start? Look at the information below and decide which stage your business is in. Then, see which planning needs you should consider now, and in the future.

- New business
- Growing business
- Established business
- Transitioning business

New business

Growing business

Established business

Transitioning business

Business Needs Assessment

Business life cycle traits

New business

(1-3 years)

Company traits

- Trying to become established in the market
- Putting profits back into the company
- Generally has substantial debt

Growing business

(3+ years)

Company traits

- Potentially still establishing market share
- Expenses are reinvestment in the company may still be decreasing
- Revenue stream is growing
- Client base is building, relationship management and key person retention need may be more significant

Established business

(10+ years)

Company traits

- Established in the market
- Experienced management team
- Consistent cash flow
- Business continuity plan in place
- Consistent revenue
- Established client base and relationship management

Transitioning business

Company traits

- Established in the market
- Strong management team in place
- Looking to maintain and grow the business as ownership changes
- Established client base and relationship management

Business Needs Assessment

Mature businesses often face complex challenges

Is the business prepared to transfer ownership to the right person, at the right time, at the right value?

How can owners structure earnings when they begin to step away from their business?

How can a business survive if a key employee departs – or the owner is disabled?

Succession

Transfer ownership or sell a business

Family

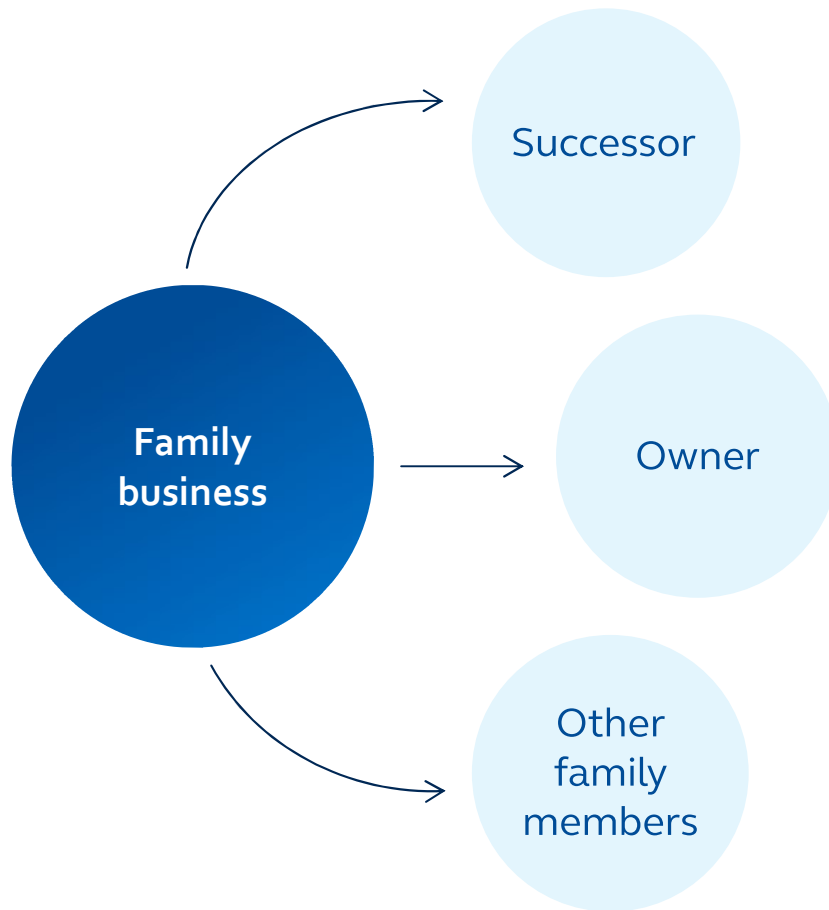
Gift to family	Sell to family	Bequest to family	Combination of gift, sale, or bequest
Gift	One-way buy-sell		
Grantor Retained Annuity Trust (GRAT)	Sole owner transition		
Inheritance equalization	Select buy-out		
	Installment sale		
	Interest only note		

Non-family

Sell to co-owner or business	Sell to third party	Sell to employee	Sell to an employee stock ownership plan (ESOP)
Cross purchase	Select buy-out	Select buy-out	
Entity purchase	One-way buy-sell	One-way buy-sell	
Multi-owner buy-sell	Sole owner transition	Sole owner transition	
Business continuation general partnership/ LLC	Installment sale	Installment sale	
Installment sale			
Wait and see			

Succession

Owners often must balance competing needs



- Assure other family members of equitable inheritance
- 51% of family-owned businesses plan to give the business to family members.¹
- 23% of family participants haven't completed any planning other than writing a will.¹
- Only 59% will have an exit plan.¹

¹ From Principal Business Owner Market Study: online survey of business owners conducted by Dynatata from January 11-22, 2021.

Deepen relationships

**Differentiate with
business owners**

Expertise &
resources

Succession planning consultants, private bank trusts, and law firms are often hired as specialists.

Principal has consulting expertise & analytical resources to help you be a trusted advisor that solves for the most important business owner continuity decisions.

Business Needs Assessment

Principal can help



BUSINESS SUCCESSION

- Transfer strategies
- Buy Sell review



BUSINESS PROTECTION

- Key employees
 - Replacement
 - Retention



OWNER SECURITY AND PLANNING

- Income protection
- Legacy & estate plan

Informal business valuation, buy-sell review, and business continuation

Where to begin & how to engage owners

Do you have the expertise and resources to be a trusted advisor to solve for the most important business owner decisions

Know the Value

Protect the Value

Business valuation/Buy-sell review/Business continuation Complimentary services

- Informal business valuation
- Buy-sell review report
- Business continuation proposal



Approach brochure (BB9852)

Prioritizing business needs

A consultative approach

- Business owners have numerous planning needs
 - Some known
 - Some unknown
- Many times, their needs coincide with where they are in their business lifecycle
- You can help business owners meet and prioritize a variety of needs for the business, for their employees, and for their lifestyle
- The business is the owner's most valuable asset
 - Confirms knowledge of the value, and/or sets expectations
- Helps ensure the buy-sell agreement is current and funding is adequate
- Can kick-start the continuation planning process
- Opens dialogue for problem solving & solutions

Know the value of an
owner's business

Know the value of a business

Many owners don't have an up-to-date business valuation

52%

of owners have never had their business valued

Of those who have:

46% had a valuation done in the last 2 years

51% had one in the last 2–10 years

Know the value of
the business

How is a
business valued?

Fair market value: the price agreed upon by a willing buyer and a willing seller.



Know the value of a business

How to influence business value?

IRS Revenue Ruling 59-60

The approach, methods and factors to be considered in valuing closely held corporations for estate tax and gift tax purposes

- Nature and history of business
- Economic outlook & specific industry
- Financial condition of business & its book value
- Earnings capacity of company
- Nature and value of any intangible assets of business, such as goodwill
- Relative size & block of business interest to be valued & any prior sales
- Market price of actively traded stock of corporations in the same or similar business

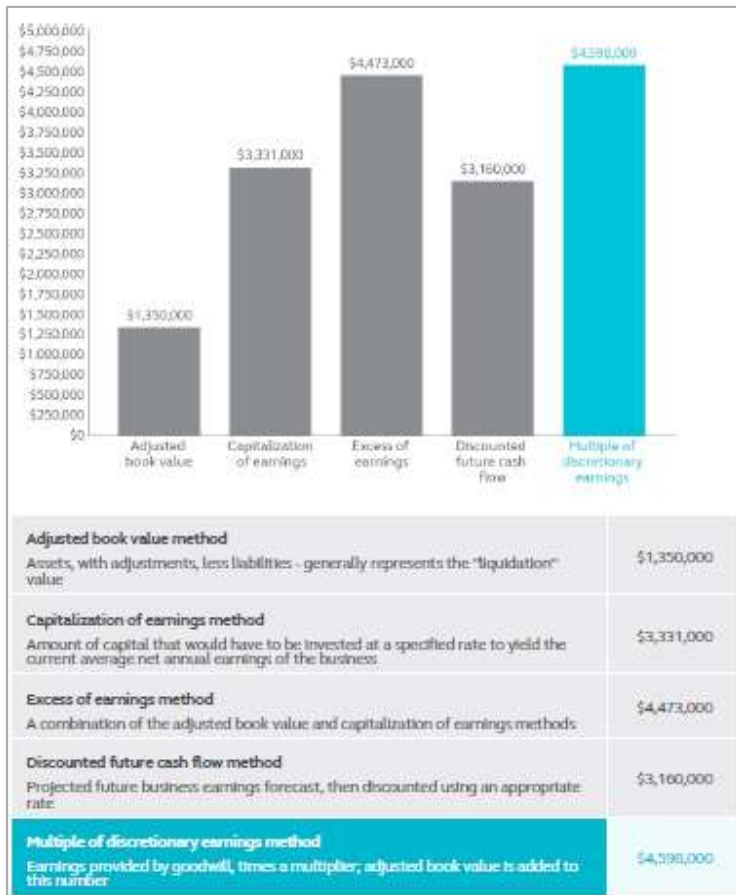
Know the value of a business

What influences the value?

- Focus on **increasing cash flow**
- Develop operating systems that **improve sustainability of cash flows**
- **Document sustainability** of earnings
- **Improve facility's appearance**
- **Pay down debt**
- **Solidify and diversify** customer base
- Implement a strategy to **grow the company**
- **Build a solid management team** and groom a successor

Business valuation proposal

5 common valuation methods



Sample Informal Business Valuation Proposal (BB11286)



Business Valuation/ Buy-Sell Review RFP/Fact Finder (BB10847C)

**Know the value of
the business**

Where to get
a business
valued?

- Business appraisal firms
- Business brokers or investment bankers
- CPAs
- Financial professionals



Protect the value of an
owner's business

Protect the value of your business

Common owner concerns

- When can I exit my business?
- Can the company survive without me?
- Will it sell for what it's worth?
- How can I incent key employees & management team to stay?
- Will my children or family members be able to, or want to, take over?
- How can I minimize tax impacts?

**Protect the value of
a business**

Event planning
to protect a
business

Planned events

- Retirement
 - Termination
-

Unplanned events

- Death
- Disability
- Divorce
- Financial disruption

Protect the value of a business

Buy-sell review

- Structure of the agreement
- The buy-sell triggers (mandatory and optional)
- How the parties determine the sale price
- The terms of the purchase transaction
- How the funding is structured



Protect the value of a business

Example analysis of buy-sell triggering events

Triggering events	Mandatory/optional	Purchasers
Death	mandatory	company mandatory
Disability	optional	company optional
Retirement	not addressed	not addressed
Termination of employment (voluntary)	not addressed	not addressed
Termination of employment (involuntary)	not addressed	not addressed
Bankruptcy	not addressed	not addressed
Divorce	not addressed	not addressed
Operation of law	not addressed	not addressed
Deadlock provision	no	

Source: Review of 1,561 buy-sell agreements by Principal Financial Group®, January 1, 2014-January 31, 2018.

Protect the value of a business

Protect the business with a buy-sell agreement

- Buy-sell agreements stipulate how a partner's share of a business may be transferred in the event of death or departure
- Buy-sell agreements may also establish a method for determining the value of a business
- **Cross-purchase** agreements allow remaining owners to buy the interests of a deceased or selling owner
- **Redemption agreements** require the business entity to buy the interests of the selling owner

Protect the value of your business

Buy-sell funding methods

Timing of liquidity & costs

Cash

Loan

Savings

Installment sale

Insurance

Protect the value of a business

Common challenges with agreements between owners



Not formalized



Poorly structured



No or partial funding



Out-of-date

Business Needs Assessment

Why business protection planning is important

Protect their business

- Buy-sell and business transfer strategies
- Key employee retention benefits
- Key person protection

Protect their lifestyle

- Business owner strategies
- Disability insurance
- Life insurance
- Legacy and estate planning

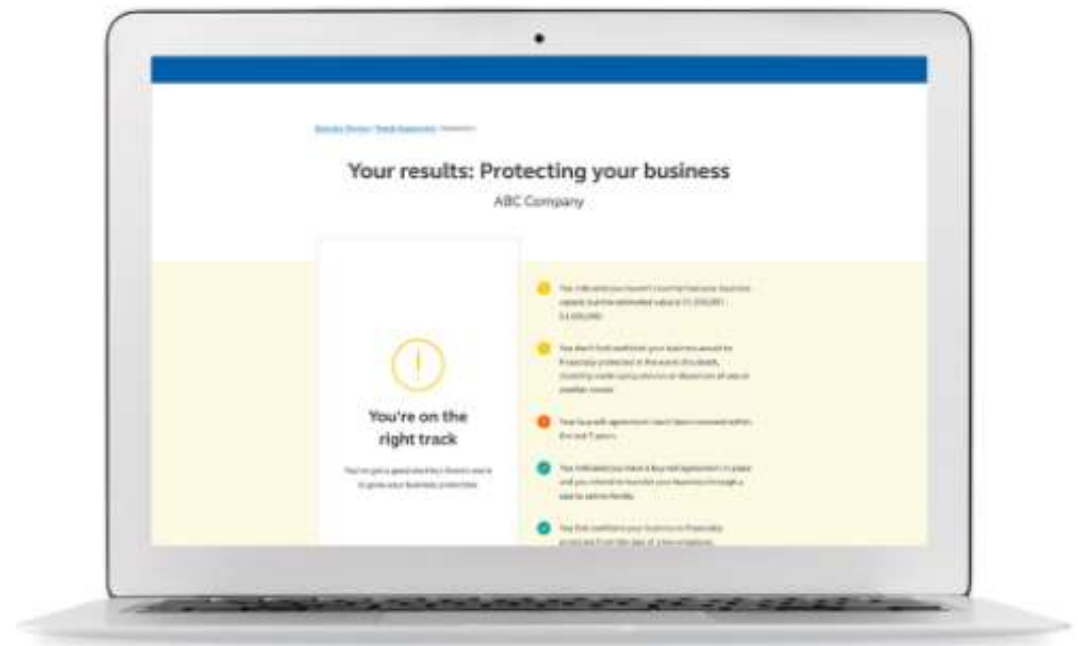
Where to source opportunities... Getting started

Business Needs Assessment

Who can benefit?

Who's it for?

- Privately held and publicly traded businesses
- For-profit and nonprofit organizations
- Businesses with any number of employees
- All industries



The opportunity

Who fits the profile?

	General business market profile	Business secession cases	Key person insurance
Top five industries	<ol style="list-style-type: none"> Professional, scientific, & technical services Construction Manufacturing Healthcare & social assistance Finance & insurance 	<ol style="list-style-type: none"> Professional, scientific, & technical services Construction Healthcare & social assistance Manufacturing Wholesale trade 	<ol style="list-style-type: none"> Professional, scientific, & technical services Construction Manufacturing Wholesale trade Finance & insurance
Employee size	<ul style="list-style-type: none"> 1-99 employees: 77% – 1-4 employees: 21% – 5-24 employees: 33% – 25-49 employees: 13% – 50-99 employees: 9% 100-1,000 employees: 16% 	<ul style="list-style-type: none"> 1-99 employees: 84% – 1-4 employees: 24% – 5-24 employees: 38% – 25-49 employees: 14% – 50-99 employees: 8% 100-1,000 employees: 9% 	<ul style="list-style-type: none"> 1-99 employees: 77% – 1-4 employees: 21% – 5-24 employees: 33% – 25-49 employees: 13% – 50-99 employees: 9% 100-1,000 employees: 16%
Years in business	<ul style="list-style-type: none"> 25+ years: 43% 11-24 years: 22% 6-10 years: 11% 1-5 years: 12% 	<ul style="list-style-type: none"> 25+ years: 40% 11-24 years: 25% 6-10 years: 11% 1-5 years: 12% 	<ul style="list-style-type: none"> 25+ years: 40% 11-24 years: 25% 6-10 years: 11% 1-5 years: 12%
Annual sales volumes	<ul style="list-style-type: none"> < \$3 million: 49% \$3.1 to \$10 million: 16% \$10.1 to \$50 million: 14% \$50.1 to \$500 million: 8% 	<ul style="list-style-type: none"> < \$3 million: 57% \$3.1 to \$10 million: 16% \$10.1 to \$50 million: 12% \$50.1 to \$500 million: 3% 	<ul style="list-style-type: none"> < \$3 million: 51% \$3.1 to \$10 million: 18% \$10.1 to \$50 million: 13% \$50.1 to \$500 million: 5%
Entity type	<ul style="list-style-type: none"> Corporations (S or C): 62% Partnerships: 7% Sole proprietorship: 2% Nonprofit: 4% 	<ul style="list-style-type: none"> Corporations (S or C): 57% Partnerships: 8% Sole proprietorship: 3% 	<ul style="list-style-type: none"> Corporations (S or C): 61% Partnerships: 7% Sole proprietorship: 2%

Source: Principal® business market analysis of over 25,000 plans is appended with Dunn & Bradstreet (D&B) data. The data is current as of December 2020. Statistics shown only include those plans with appended data. The overall match rate is 88%, and not all categories will add up to 100%.

Deepen relationships

**Differentiate with
business owners**

Engage business
owners & meet
evolving needs

Existing & prospective business owners

- Especially businesses with potential succession related liquidity events
-

Centers of Influence - CPAs/Attorneys

- 34% use a CPA and 22% use an attorney to assist with insurance and employee benefit needs¹
-

Family businesses and industry specific such as Agriculture and Healthcare

Source: ¹ The 2021 Principal Business Owner Insights survey is based on 1,011 online interviews conducted in January 2021 by Dynata.

Recap: Preparing business owners for each phase of the business life cycle

1

Understand the value of the business

2

Implement (or update) a succession plan

3

Protect the value of the business

4

Make sure the business can endure without owner(s) or key employees

Business Needs Assessment

Principal can help



BUSINESS SUCCESSION

- Transfer strategies
- Buy Sell review



BUSINESS PROTECTION

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 - Retention



OWNER SECURITY AND PLANNING

- Income protection
- Legacy & estate plan

Business valuation/Buy-sell review/Business continuation Common business planning strategies

Buy-sell and succession strategies

- Buy-sell plan and funding
- Succession plan and funding
- Key person protection
- Key person retention

Retirement income

- Retirement analysis
- Supplemental income
- Chronic illness protection

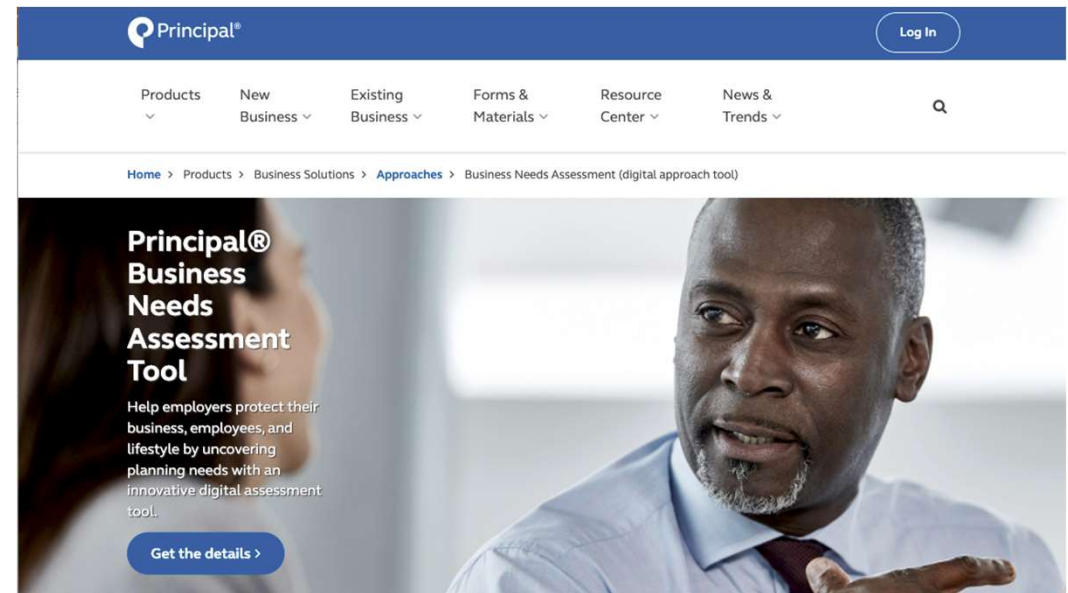
Estate planning

- Wills & trusts
- Inheritance equalization
- Estate taxes
- Gifting techniques



Everything you need to start the conversation with your clients at:

https://life.employers.principal.com/needs/assessment/advisor?utm_source=advisor&utm_medium=banner&utm_campaign=businessneedsassessment_advisor_2021



Use one of these two options to work with your client or prospect to complete the business needs assessment.

Email Assessment

Send them an email to complete the assessment at their convenience. Results will automatically be sent to you. Start by creating a personalized link for each business client or prospect.

Guided Assessment

Meet in person, or schedule a virtual meeting, to complete the assessment together.

Business Needs Assessment

Tools & resources for you

Thank you.
Questions?

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