ADVANCED MARKETS

Business Valuations and Sales of Life Insurance

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What is a business valuation?

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Business Valuations Can Be...

Formal:

- Selling a company
- Some advanced estate planning techniques
- Need for tax justification
- Appraisal firms typically charge $10,000 or higher

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Business Valuations Can Be...

Informal:

- Establish how much protection is needed
  - Buy-sell insurance
  - Key person insurance
- Succession Planning
- Planning for the future – “Dream Value”

Approximately 75% of business owners **don't** have an accurate idea of what their business is worth

Why Offer a Valuation to a Business Owner?

For a specific need

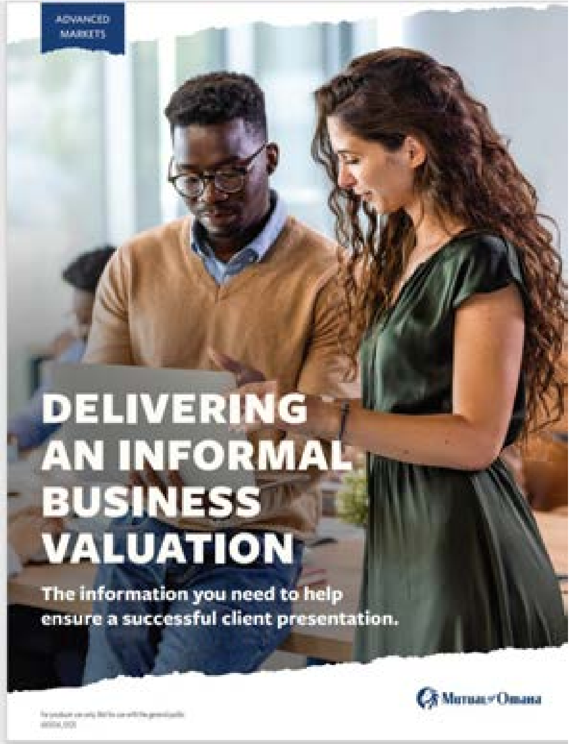
or

"Door-Opener" to help identify a need...

...I don't know what to say to business owners...

Don't forget the factfinder!

Valuations Can Create Opportunities



Life Insurance can help with:

- Funding buy-sell agreements
- Key employee protection
- Succession planning
- Growth plans
- Estate & legacy planning

What's Needed to Complete a Valuation?

Completed factfinder

3-years of business tax returns <u>or</u> financials

What’s Needed to Complete a Valuation?

Informal Business Valuation Request

An important step in planning for the future of your business is to understand the value of your business. The information collected in this factfinder will help deliver insights that can assist you with your business planning.

Business Name ____________________

Business Owner Name ____________________ Date of Birth __________

Phone Number _______________ Address ____________________

City/State/ZIP ____________________

Number of Years in Business __________ Total Number of Employees __________

Do you rent or own your location? ☐ Rent ☐ Own

What is the estimated value? __________ What is the remaining mortgage? __________

Form of Business: ☐ Sole Proprietorship ☐ Partnership ☐ S Corp ☐ C Corp ☐ LLC
☐ Other (please describe) _______________

What percent of the company do you own? ________

How many customers does the business have? ________

What percent of revenue is generated by the top two customers?
☐ 0-20% ☐ 21-40% ☐ 41-60% ☐ 61-80% ☐ 71-100%

What percent of the business’s revenue is recurring, renewing or one-time?
☐ Recurring ______% ☐ Renewing ______% ☐ One-Time ______%

What percent of revenue relies on any one vendor? ______%

How much do you expect your revenue to grow next year? ______%

Who maintains financial records? (You, Internal Accounting/Finance Team, Bookkeeper only, CPA only, Bookkeeper & CPA)
____

If you departed from the business today, how likely is it that revenue and/or profitability declines?
☐ Very Unlikely ☐ Unlikely ☐ Neutral ☐ Likely ☐ Very Likely

If key employees departed from the business today, how likely is it that revenue and/or profitability declines?
☐ Very Unlikely ☐ Unlikely ☐ Neutral ☐ Likely ☐ Very Likely

Does the business’s risk management include any of the following insurance policies? (check all that apply)
☐ General Liability ☐ Buy-Sell ☐ Business Overhead Expense ☐ Key Person

Adjustments to normalize earnings* $ _______________

*Adjustments to normalize earnings include: annual profit sharing, excess owner compensation, charitable contributions and other discretionary expenses may be added back to better reflect true earnings. If applicable, you should work with your accountant or advisor to identify any potential to adjustments to normalize earnings.

Goals for life after business owner retires

The following questions help us understand how the business fits into the owners life plans.

What does a successful exit from the business look like?

☐ Sell (either internally or externally)

☐ Transition (to family, employees, etc.)

☐ Operate until operate until retirement, then close

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The Mutual of Omaha Business Valuation Report

Powered by RISR

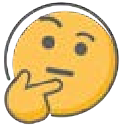
The Biggest Opportunities are Hidden in Complexity

Business owners are
the most complex subset

Use Planning & Discovery to Stay Ahead

65% don’t have a financial representative

66% don’t have a succession or exit plan



75% don’t have a clear retirement strategy

Becoming the trusted financial representative is all about *speed to trust*

Show business owners you understand one of their **most important** assets

Plug-in Values Are No Longer Enough

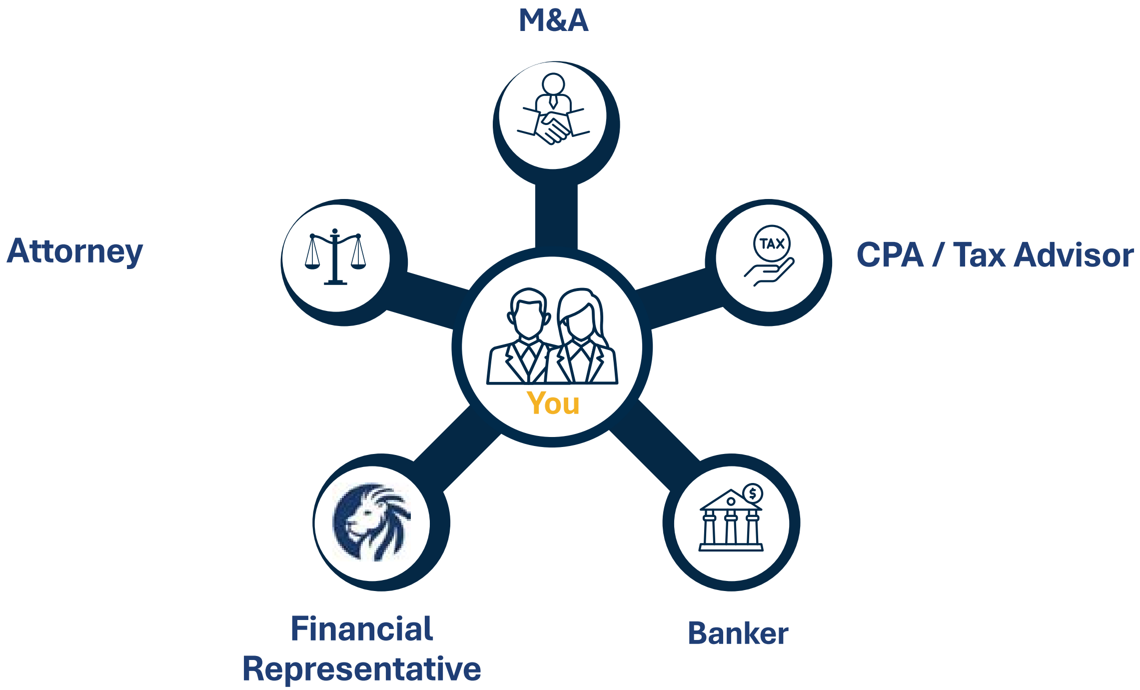
Understand unique challenges:

- Don't know whether to save or invest earnings back into the business
- Not sure what company is worth
- Don't know what company needs to be worth to retire
- Can't see hidden risks within their business
- Don't know what levers they can pull to make progress

Business Insights Unlock Trust-Building Conversations

Insights	Conversations
Valuation estimate	*Your business is worth this much today, let's see if that's enough given your goals…*
"Dream" Value	*To reach your goals your business needs to be worth this much…*
Earnings growth	*If you grow at 8% each year we reach target savings and valuation by 2030…*
Risks & Opportunities	*Here are some action items to increase your valuation and prepare!*

Position Yourself as the “Quarterback”



The RISR Valuation Report

Summary Page

Summary

Valuation estimates

Estimated Current Valuation Range

$2.2m- $2.9m

Based on recent financials and operating practices

Dream Valuation

$5.8m

Valuation needed to accomplish your goals after exit

Growth Opportunities & Risks

Projected Revenue growth

12%

Typically 10 to 20% is an indicator of a thriving small-to-medium business.

Growth opportunities

- Conduct Annual Contract Review
- Conduct Annual Cost Review
- Expand Recurring Renewing Revenue
- Explore Adjacent Products Or Services
- Prioritize Customer Retention
- Set Measure Key Performance Indicators

Risk Score

Moderate

Companies with low risk profiles are more marketable and more likely to sustain value over time.

Key Risks

- Owner Dependency Risk
- Key Employee Risk
- Supplier Diversity Risk
- Financial Practice Risk
- Customer Concentration Risk

Beyond the Numbers

Recommended steps to make more informed decisions and prepare for life after your business.

Implement a Buy-Sell Agreement

Ensure your transition is well defined and protective of the business and your personal financial interests.

Urgency:

Evaluate your insurance coverage

Safeguard your most valuable asset to ensure your future is secure in the face of unforeseen risks.

Urgency:

Review your Personal Estate Plan

Align your estate plans for a legacy that reflects the true worth of your achievements.

Urgency:

Create a Succession & Exit Plan

Create a practical plan to minimize disruptions and ensure your transition aligns with your goals.

Urgency:

Valuation

Valuation Estimates

Current Valuation

Estimates

Current Valuation Estimate
$2,792,977

Current Valuation Range
$2,185,727 - $2,900,139

Annual Income after Exit
$120,700

Key Factors

Industry Code **332710**	Comparable companies that have been sold or acquired in your industry were reviewed for reference. Adjustments were made to account for differences in company sizes to inform valuation estimates.
Risk Profile **Moderate**	The less risky a business is, the more marketable it is to potential acquirers or investors. See Risk Assessment for more details.
Normalized EBITDA **$523,134**	An estimate of the cash profits your company may be able to sustainably generate in the future. Since EBITDA is a key metric used to determine value, small changes in EBITDA can have big impacts on your valuation.

Dream Valuation

Estimates

Valuation Needed at Exit
$5,783,180

Annual Income after Exit
$250,000

Legacy Funding
N/A

Planned Retirement Age
65

Key Considerations

Tax Plan
Estimates shown are based on average tax rates at exit. Work with a tax professional to create a personalized strategy to optimize the amount of cash you retain after exit.

Estate & Legacy Plan
Identifying and estimating your legacy goals with an advisor gives you a better idea of what your cash needs are after exit.

Retirement Plan
When you retire and your plans during retirement will inform how much annual income you need. Make your Dream Value estimate more informed by working on your retirement plan.

Succession & Exit Plan
Create a practical plan with an advisor to minimize disruptions and ensure your transition aligns with your goals.

Current and Dream Valuation Estimates are based in-part on general benchmarks and should be reviewed with professional financial advisors to account for nuances in your situation. These estimates should not be considered a certified valuation and are not intended to provide the fair market value for purposes of selling a business. Estimates should only be used as reference insights for planning purposes with a professional advisor.

Risk Assessment

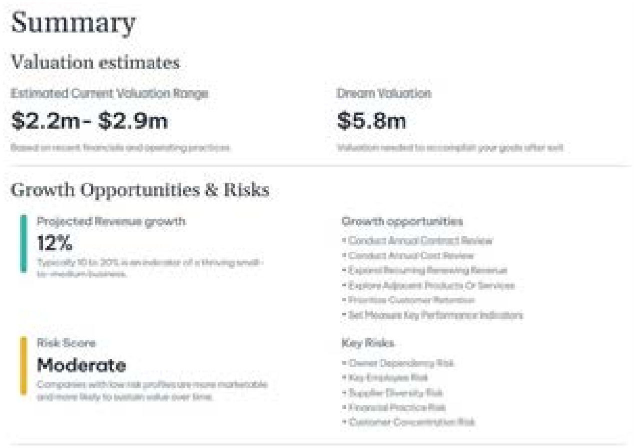
Risk Assessment

Identifying and mitigating key risks is critical to ensure your company is around for a long time. Finding ways to mitigates the risks your business faces will ensure you're prepared for the future.

Score	Recommended Mitigation Practices
Owner Dependency Risk **High**	**Delegate strategically, build process, and empower your team.** It is likely that your profitability declines if you leave the business today. Delegating key responsibilities, documenting processes, and empowering your team to take ownership of key functions fosters a more sustainable and marketable business.
Key Employee Risk **High**	**Retain key employees and protect against losing them** Employees are the lifeblood of your company. Consider revisiting your Employee Benefits Plan or exploring Key Person Insurance.
Supplier Diversity Risk **Moderate**	**Review your supplier relationships routinely** Your business has a diversified supplier base, however, there could be risk of relying too much on your top vendor. Its recommended you review your supplier relationships routinely to enhance stability and fortify your business against potential disruptions.
Financial Practice Risk **Moderate**	**Partner with a bookkeeper to maintain your day to day financial records.** Working with accounting professionals to maintain disciplined financial record keeping not only ensures regulatory compliance but also enhances the marketability of your company, positioning you for success in the eyes of potential buyers or investors.
Customer Concentration Risk **Moderate**	**Expand and diversify your customer base.** Relying heavily on a few customers for the majority of revenue increases business vulnerability. Diversify your customer base to enhance stability, mitigate risks, and fortify your business against potential fluctuations.
Liquidity Risk **Low**	**Your short-term liquidity is strong** The assets you have that can be quickly converted to cash are meaningfully greater than the liabilities you have due in the next year. Consider leveraging this solid foundation to explore strategic investments, optimize working capital, and fortify your financial position.
Leverage Risk **Low**	**Your debt-to-FMV of equity is 0.44** A debt-to-FMV of equity ratio between 1 and 2 is considered healthy for small businesses. This may vary significantly based on industry, business goals, and risk tolerance. on industry, business goals, and risk tolerance.

How Risk Impacts Value

High Risk



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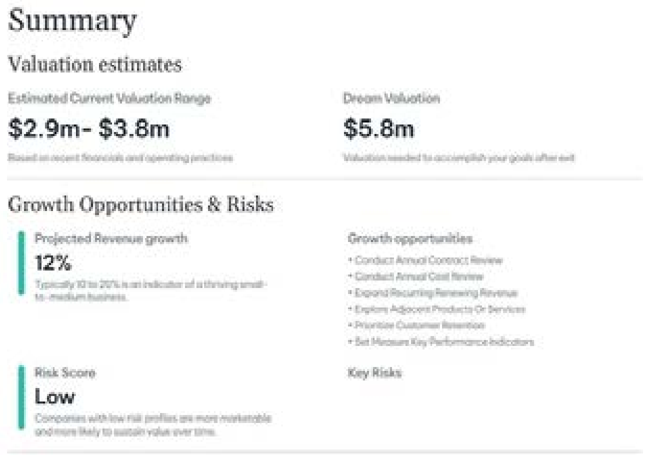
Low Risk



Summary

Valuation estimates

Estimated Current Valuation Range

$2.9m- $3.8m

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Key Risks

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Buy-Sell Agreement

Protect your value with a buy-sell arrangement

Estimated Value at Risk Today

$2,792,977

You have worked hard to make your business what it is today. Without a buy-sell arrangement, the value of your business is at risk in the event of retirement, death, or long-term disability.

How it Works

Buy-sell agreements stipulate how ownership is transferred in the case of owner death, long-term disability, or exit.

Since ownership transfers can require large amounts of cash, **buy-sell agreements are typically backed by life insurance policies.**

Insuring your buy-sell arrangement increases the chances you or a loved one receives the potential value of your ownership in the event of retirement, death, or long-term disability.

Work with an advisor to determine what buy-sell arrangement is right for you.

Benefits for you, your family, and your business

- Your exit from the business is well defined and insured
- Guarantees your loved ones a buyer for an asset that may not be right for them to manage in the event of your death
- May open opportunities to optimize estate taxes
- Protects the longevity and continuity of the business after death or exit

Example Buy-Sell Arrangement Structures

Cross-purchase plans

Each owner purchases a life insurance policy on the other owner(s) to fund the buy-sell arrangement.

Entity redemption plans

Business buys separate life insurance contracts on the owners, pays the premiums, and is the beneficiary.

Insurance & Protection

Safeguard your most valuable asset

Secure business continuity against risk to you or your key employees

In the event you or one of your key employees is disabled or no longer able to work, you will want to ensure the overhead of the business is covered.

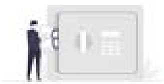
Business Overhead Expense Insurance covers the ongoing operating expenses of the business during the disability period, ensuring that the business can continue to function and meet its financial obligations.

Annual Operating Expenses at Risk:
$160,545

Retain key employees and protect against losing them.

Employees are the lifeblood of your company. Consider revisiting your **Employee Benefits Plan** or exploring **Key Person Insurance.**

Key Employee Dependency Risk:
High



Plan your capital and liquidity needs

Make sure you have access to the right capital resources when needed to ensure smoother operations, mitigate risks, and seize new growth opportunities with confidence.

Work with an advisor to create a **Capital & Liquidity Plan.**

Liquidity Risk:
Low

Ratio of Current Assets to Current Liabilities:
2.4

What’s Being Measured?

Equity Value

- The value of a company that’s available to owners or shareholders after paying off debt

- Business value after paying off all outstanding debt and current liabilities

Tried & Trusted Methods

Revenue Multiple

EBITDA Multiple

Income Approach

How it works...

1. Run three models concurrently on P&L data to derive a range of value
2. Add in Balance Sheet components
3. Incorporate specific company risk

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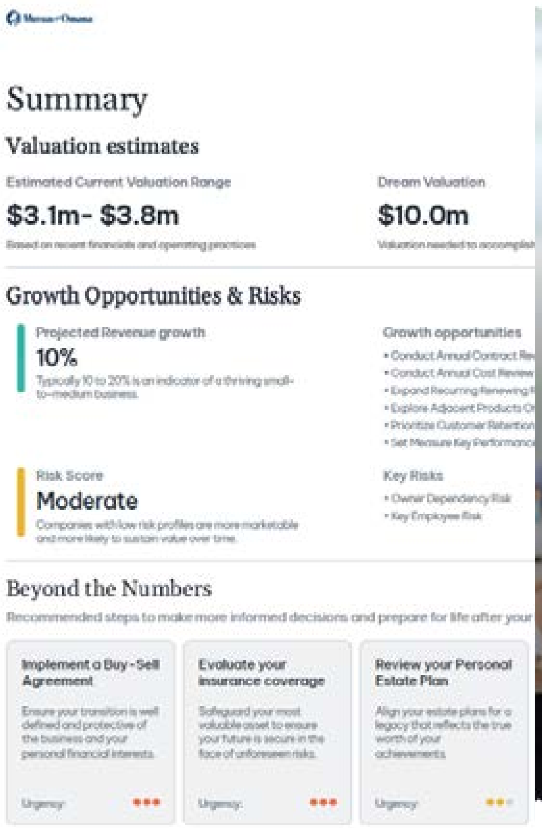
Case Support

What Will We Deliver To You?



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Valuation needed to accomplish

Growth Opportunities & Risks

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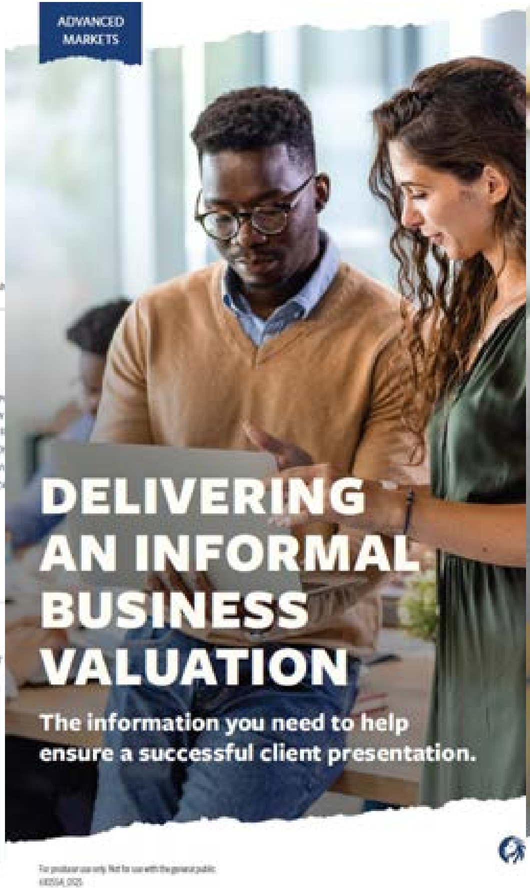

Questions to Ask Your Business-Owner Clients

Disturbing Questions

- "What does your business look like *without* you?"
- "Would your spouse be able to run the business *without* you?"
- "How do you plan to transition out of the business in a way that keeps your family happy?"

Disturbing Questions

"Do you have an exit plan for your business? Because one day you will leave it.

When this happens, do you have a plan to take <u>your</u> money out of the business?"

Tom Fowler, CLU, LUTCF

Disturbing Questions

"Would it make a big difference in your lifestyle if you didn't have $200 a month for your expenses?"

Reply: "No"

"Would it make a big difference in your lifestyle if you didn't have $4,000 a month for your expenses?"

Reply: "You bet – that would be huge!"

Brian H. Ashe, CLU

Mutual of Omaha

Sales Ideas for Multiple Owners...

Buy-Sell Funding

How do you want the business to pass should one of you die?

Do you have an agreement in place that dictates what happens? <u>Is it funded?</u>

Key Person Insurance

Are you, as owners, essential to the operation of the business?

What would happen if one of you were to pass away?

Would you need to replace the other owner in some capacity?

Building Wealth Outside the Business

Would it make sense to diversify your wealth so that if you experience business downturn, you have wealth outside of the business?

Sales Ideas for Sole Proprietors or Single Owners...

Would your surviving spouse get fair value for the business upon your death?

Would your surviving spouse be able to run the business upon your death?

- Would he/she want to?
- Would it be as profitable?

How do you protect your family?

- Replace the value of the income/business

How to Get a Business Valuation

1. Download and fill out a “Business Owner Factfinder”
   (located on the Mutual of Omaha website (SPA) under “Sales Concepts and Tool Kits → Business Planning”

   or send us an email requesting the material – advanced.markets@mutualofomaha.com

2. Return the completed factfinder with three years of business tax returns or financials

Advanced Markets Marketing Materials Available for You

Business Valuation Tools

located on the Mutual of Omaha website (SPA) under:

Sales & Marketing / Advanced Markets / Sales Concept Tool Kits / Business Planning

- Small Business Fact Finder
- Informal Business Valuation Fact Finder
- Working With Small Business Owners Brochure
- Protect What Matters Most Client Brochure
- Sample Valuation Report
- Delivering the Valuation Brochure
- 10 Ways to Increase the Value.... Brochure

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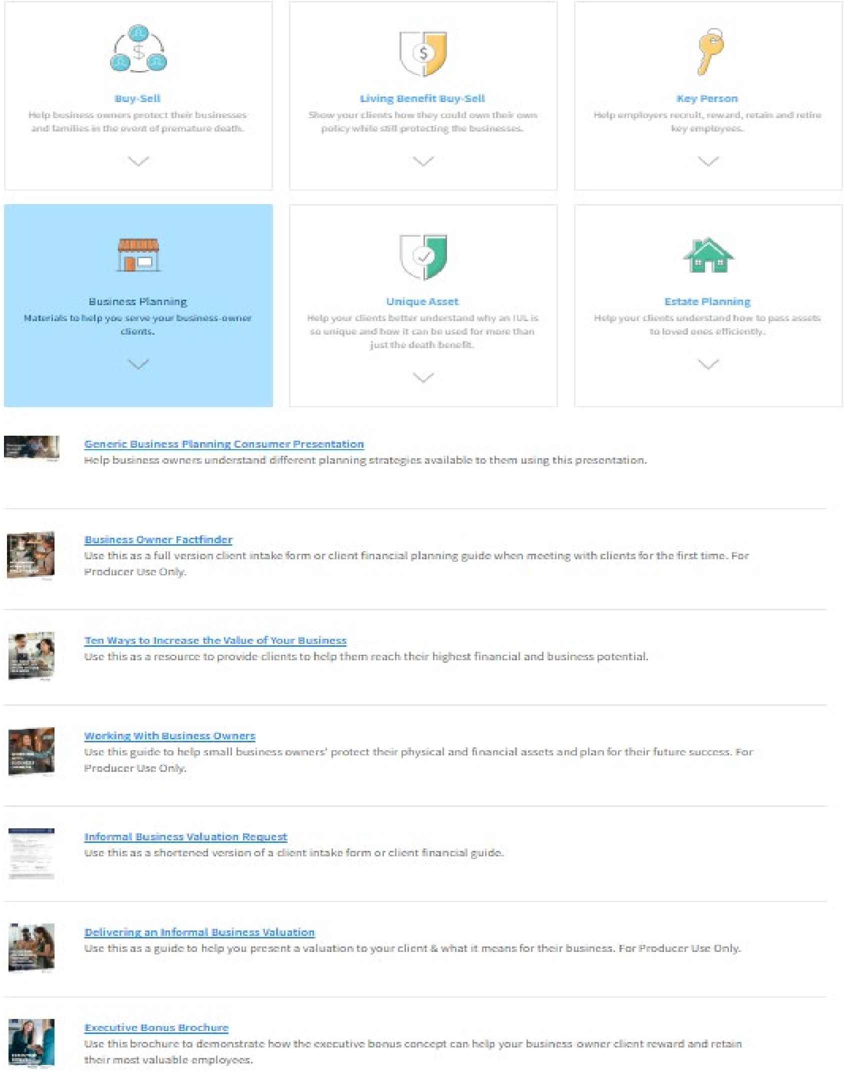
Sales Concept Tool Kits



Business Owners Need YOU!

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Protect Your Kingdom