Informal Business Valuation and Business Planning Report

Connecting business value to your success

Presented to

Sample Company

Based on financials from 2015 - 2017

Presented by

Principal Financial Group

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Protect your success

You can be proud of the business you've built and its success. You've worked hard, so you want to make sure that the business plans you have for the future can be realized.

There are three key components to effective planning:

1 | **Knowing the value of your business.**

2 | **Protecting your business and your key employees –** Business succession and business protection plans allow you to prepare for the unexpected, as well as the future success of your business. And, retention and retirement solutions can also help both you and your valuable key employees.

3 | **Protecting your lifestyle –** Retirement, income protection and legacy and estate planning solutions help you and your family maintain your lifestyle.

That may sound like a lot to think about. But, that's where Principal® comes in. We're here to help you implement proper business planning, and to offer simple processes to help keep those plans current.

You've already taken the first step

Because the value of your business is such an integral part of effective planning, that's a great place to start. You probably have a good idea of what your business is worth. But, if you're like a lot of other business owners, you may not have ever had your business valued. So, the informal business valuation that follows is a great start towards protecting your business' future success.

Let us help you with the rest

The rest of the content in this report is intended to help you with the protection aspect of the planning process – protecting your business, your key employees and your lifestyle.

- **Protecting your business and key employees –** An important part of this is planning for the future, which includes having a formal business succession plan in place. It's the best way to help ensure that your business will continue in your absence, on your terms. This is something many business owners don't address. In fact, almost half of growing businesses don't have an exit or continuation plan in place.[1]

  Even though the top two transition events for businesses are death and disability of an owner, many buy-sell agreements we've reviewed fail to make these mandatory trigger events. Death is a mandatory buy-out event for 70% of agreements. But for disability, the percentage drops to only 33%.[2]

- **Protecting your lifestyle –** Protecting the value of your business is key for this. It's important to your company's overall success should something unexpected happen. But, you also want to protect the business that's likely a source of income for you and your family, as well as planned retirement income for you. We know this type of planning is easy to avoid, so that's why we've identified some planning solutions to help you get started.

This comprehensive report is meant to be a guide for the long-term future of your business. It starts out with the informal valuation of your business, then highlights possible solutions and next steps needed to create effective plans specifically for your business. And, knowing you probably can't do everything at once, we'll help you prioritize your next steps.

We look forward to working with you to put a plan in place that will help ensure your business will meet the goals you have set, and thrive under many contingencies.

[1] 2017 Principal Financial Business Owner Survey.
[2] Review of 1,485 buy-sell agreements by Principal Financial Group (1/01/2011 to 1/31/2017).

Know the value of your business

Determining the value of your business is the starting point and an integral part of the planning process. There are many different methods to value a business, but there's no one method that's always appropriate. At the end of the day, the "fair market value" of a business is the amount agreed upon by a willing buyer and a willing seller. Neither party is under any compulsion to buy or sell, and both must have reasonable knowledge of all the relevant facts. This is a common definition used for valuing a business, but we'll try to add a little more clarity to it below.

Valuation approaches and methods

Business valuation methods are generally categorized under three approaches: asset approach, income approach and market approach. Since no single method is most appropriate for valuing every business, it's common to reference a business valuation method under any one or all three approaches.

Asset approach

This is typically used with businesses that have substantial tangible assets, usually in the form of inventory and equipment. It's most appropriate for businesses with a substantial amount of fixed assets.

Adjusted book value – This generally represents the "liquidation" value – assets, with adjustments, less liabilities.

Income approach

This type of approach uses prior earnings to estimate company value based on income potential. It's most appropriate for businesses with consistently strong earnings. Specific methods include:

Capitalization of earnings method – Applicable for consulting-type businesses and/or those with few or no tangible assets.

Excess of earnings method – Generally for manufacturing-based firms with significant assets.

Discounted cash flow method – Uses projected values. Projected future earnings are forecast, then discounted using an appropriate rate representative of the "next best investment opportunity" with a comparable level of risk. Used mainly for mergers and acquisitions.

Multiple of discretionary earnings method – Applicable for more service-oriented firms, such as legal, accounting, healthcare systems, dental, engineering, etc. Goodwill of the owner(s) has a significant impact on value.

Considerations for valuing a business per IRS Revenue Ruling 59-60

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

Market approach

This is 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. **A valuation using this method is not provided in this report.**

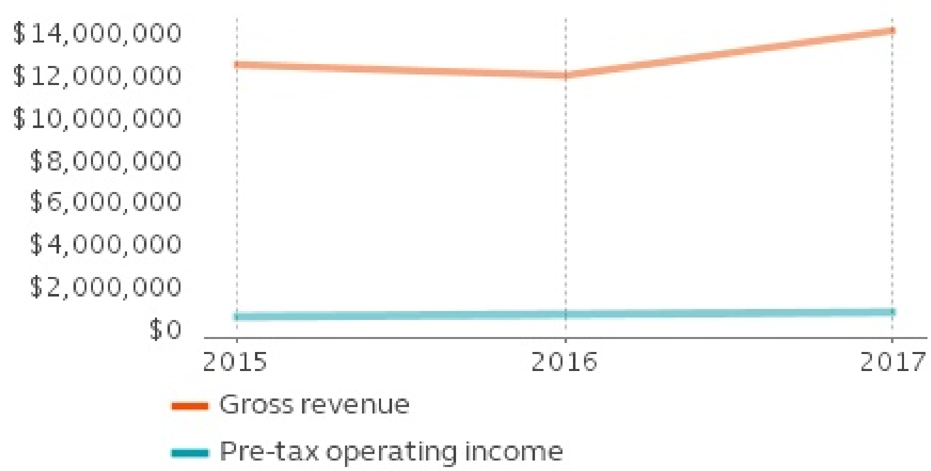
Your company profile

Entity type:	S Corporation
Industry:	Service Industry
State:	IA
Years in business:	12
Number of business owners:	2
Number of employees:	10-50
Family business:	No

Financial statement summary

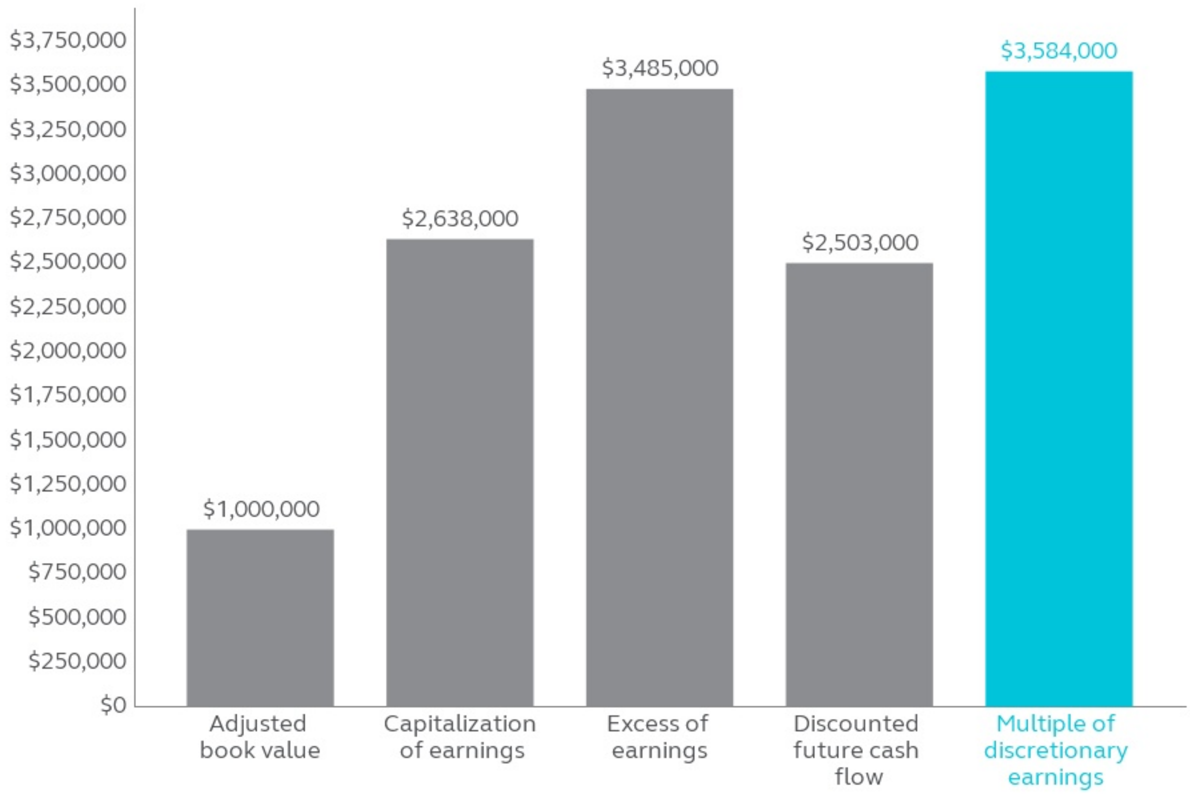
This summary of your provided financial information was used to calculate the business valuations that follow.

Income	2015	2016	2017
Revenues	$12,490,000	$12,000,000	$14,090,000
Pre-tax operating income	$599,000	$650,000	$740,000
Depreciation	$110,000	$110,000	$110,000
Owner compensation	$250,000	$264,000	$280,000



Your informal business valuation

We've provided values using five generally accepted methods of valuation. Your company profile suggests the highlighted value below may be most appropriate for your business.



Adjusted book value method Assets, with adjustments, less liabilities - generally represents the "liquidation" value	$1,000,000
Capitalization of earnings method Amount of capital that would have to be invested at a specified rate to yield the current average net annual earnings of the business	$2,638,000
Excess of earnings method A combination of the adjusted book value and capitalization of earnings methods	$3,485,000
Discounted future cash flow method Projected future business earnings forecast, then discounted using an appropriate rate	$2,503,000
Multiple of discretionary earnings method Earnings provided by goodwill, times a multiplier; adjusted book value is added to this number	$3,584,000

Calculations

Assumptions

Average operating income:	$686,000
Excess owner compensation[1]:	$0
Capitalization rate:	26.0%
Rate of return on assets:	4.0%
Earnings multiplier:	4
Number of years to forecast:	4
Discount rate:	15.0%
Growth rate:	8.0%

Adjusted book value method	
Book value	$1,000,000
Plus adjustments +	$0
Adjusted book value	$1,000,000

Capitalization of earnings method	
Average operating income	$686,000
Plus excess owner compensation +	$0
Total	$686,000
Divided by capitalization rate ÷	26.0%
Capitalization of earnings	$2,638,461

Excess of earnings method	
Average operating income	$686,000
Plus excess owner compensation +	$0
Less adjusted book value multiplied by rate of return on assets -	$40,000
Total	$646,000
Divided by capitalization rate ÷	26.0%
Excess of earnings on assets	$2,484,615
Plus adjusted book value +	$1,000,000
Excess of earnings	$3,484,615

Discounted future cash-flow method	
Average operating income	$686,000
Plus excess owner compensation +	$0
Total	$686,000
Growth rate	8.0%
Number of years to forecast	4
Discount rate	15.0%
Discounted future cash flow	$2,503,000

Multiple of discretionary earnings method	
Average operating income	$686,000
Plus excess owner compensation +	$0
Less adjusted book value multiplied by rate of return on assets -	$40,000
Total	$646,000
Multiplied by earnings multiplier x	4
Total good will	$2,584,000
Plus adjusted book value +	$1,000,000
Multiple of discretionary earnings	$3,584,000

[1] Excess owner compensation is defined as salary over and above what the owner would pay a key employee to perform similar services that the owner is now performing, without incurring the additional risk of business ownership.

Protect your business with a buy-sell agreement

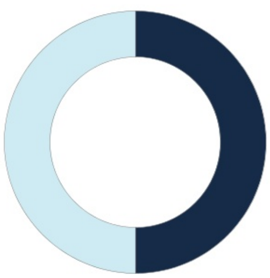
A properly funded and current buy-sell agreement helps business owners make sure they have the right amount of money, in the right place, at the right time.

With a little coaching from Principal, you can design a buy-sell agreement which:

- Provides departing owners a market and price for an asset that might otherwise be hard to sell;
- Prevents an unqualified or undesirable individual from acquiring an interest in the business;
- Minimizes business disruptions at various triggering events;
- Provides assurances to employees, customers, suppliers and creditors that the business will remain strong through owner transitions;
- Provides both the financing and the mechanism to ensure that control of the business will remain with the current owners (when funded with insurance).

Important features of a buy-sell agreement

- Firm buy-sell commitments
- A comprehensive list of clearly defined triggering events
- Funding that's consistent with plan design
- A clearly designated or defined purchase price
- Clear, realistic payment terms
- Language addressing purchase options for life and/or disability income insurance policies



Business ownership

Owner	Ownership %	Value today	Estimated future value[1]
John	50.00%	$1,792,000	$2,633,035
Mary	50.00%	$1,792,000	$2,633,035

[1] Estimated future value is based on a 8.0% growth rate and 5 year(s) in the future.

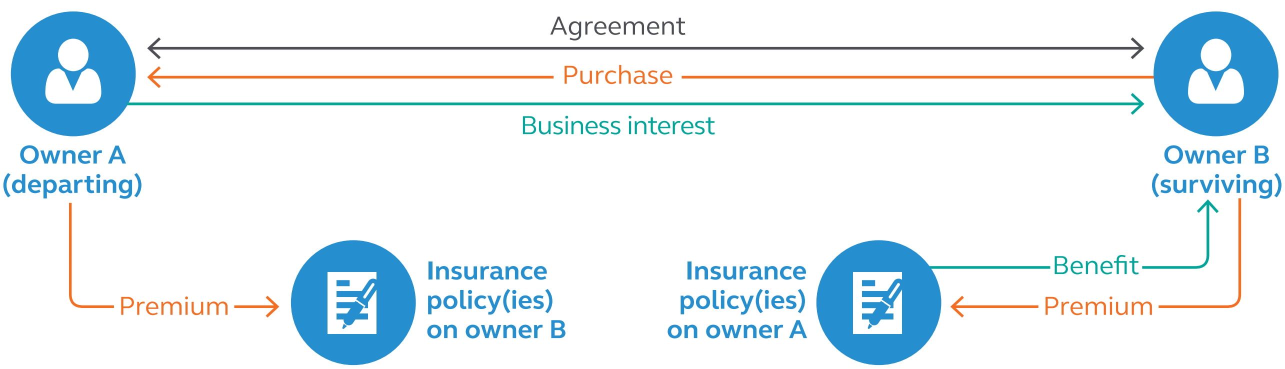
You may want to consider the following business succession solutions.

Cross purchase buy-sell agreement

A cross purchase buy-sell agreement can help protect the future of your business. This type of agreement arranges for the remaining owners (rather than the business) to purchase a departing owner's interest. The purchase can be triggered by death, disability, divorce, retirement or other events.

Here's how it works

Once the agreement is in place, each owner purchases a life and/or disability insurance policy on each of the other owners. Each owner is the premium payer and beneficiary of the policies he or she owns. Upon the triggering event, the remaining owners purchase the departing owner's business interest using policy cash values or benefits from the policy.



What you need to know

There are advantages to this sort of an agreement, just as there are some other things to consider.

Taxes could be minimized upon a subsequent sale – Insurance proceeds are received income tax-free. Remaining owners receive an increased cost basis as a result of the purchase price paid to the departing owner.

Business may pay premiums – Dollars used to pay premiums are taxable as a bonus to the policy owner and are generally deductible to the business.

Multiple policies may be necessary on each owner – If there are more than two business owners, multiple policies on each are required. Each business owner is the owner, premium payer and beneficiary of policies on each of the other owners. So, if there are multiple business owners, this may become cumbersome.

Tax implications can vary by triggering event – Family members generally receive an adjusted basis following an owner's death. For disability or other lifetime triggering events, the selling owner may recognize capital gain.

How to fund a buy-sell agreement

Buy-sell agreements involve the selling and buying of the departing owner's business interests according to the terms of the formal agreement. This means money will be needed to complete the transaction when it occurs. So, it's best to have a plan for securing that money. There are basically five options for this.

Funding methods

Cash – Requires sufficient cash flow to pay the full price in a lump sum.

Loan – Involves unknown factors such as future credit availability and cost of borrowing. Borrowed funds must be repaid (with interest) from earnings. A down payment is generally required.

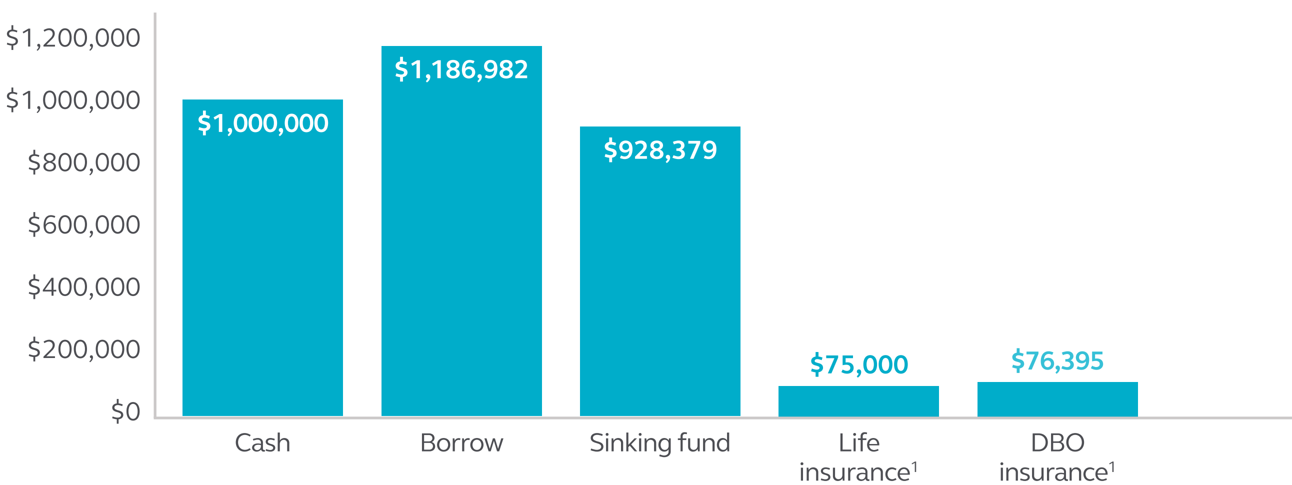
Savings – Doesn't assure that sufficient funds will be available when needed because of unpredictable departure timing.

Installment sale – Requires repayment from earnings and is contingent on future success of the business.

Insurance – Provides liquidity when purchased upon the implementation of an agreement. Since the death or disability of an owner is often unpredictable and disruptive to a business, each is typically a mandatory triggering event in a buy-sell agreement.

How do you decide which method is appropriate for your situation? Timing of liquidity and cost are typically the key considerations. Compare these hypothetical protection costs for a $1,000,000 purchase price.

Hypothetical funding method cost at end of 15 years



Assumptions:

Cash	$1,000,000
Borrow	Represents five equal annual payments of $200,000 plus interest at 6%.
Sinking fund & cash	Sinking fund of $146,621 (annual deposits equal to the life insurance premiums growing at 8%) plus the balance necessary of $853,379 in cash.
Insurance	**Life –** Estimated premiums of $5,000 for Male, 45, Preferred, Non-tobacco, UL Flex II policy. **Disability Buy-Out (DBO) –** estimated premiums of $5,093 for Male, 45, Executive Occupation class DBO policy. Insurance premiums paid for 15 years. Not valid without accompanying insurance illustrations. See illustrations for important information.

[1]The amount of insurance available to purchase depends upon the value of the business. Underwriting standards for life insurance and disability coverage are different. Disability buy-out insurance may not be available for every business.

Protect your business from the loss of a key employee

In the event of a death, disability or resignation of a key employee, would your business be as successful as it is today? A business protection plan can help you prepare for the unexpected and lessen the impact of such a loss. Unfortunately, only 36% of business owners have a business protection plan in place[1], leaving them exposed to risk.

A business protection strategy can lower the risk. It allows you to implement a financial cushion, with cost- effective liquidity, which can help replace and/or retain key employees who critically impact the value of your business.

Are business protection solutions right for your business?

Before moving forward with a strategy, an important first step is to ask "Who exactly are my key employees?" Think about the employees in your organization who really make a difference. Consider the areas of operations, workflow, relationship management, customer relations, sales and profitability.

Then, think about these questions:

Yes No

- ◯ ◯ Would your business be negatively impacted by the **loss of a key employee**?
- ◯ ◯ Are you interested in developing special incentives to **tie your key employees to the business** for the long term?
- ◯ ◯ Would your key employees like to **save more money** on a tax-advantaged basis?

If you answered yes to any of these questions, you can implement simple strategies to help. There are generally two types of solutions: **key person protection** and **key employee benefits**.

Key person protection

Protect the integrity, cash flow and ongoing success of your business from the loss of a key employee due to death, disability or termination of employment. Key person insurance helps the business overcome additional expenses associated with recruiting and training a replacement.

[1] 2017 Principal Financial Business Owner Survey.

Key employee benefits

Recruit, reward, retain and retire the key employees with key employee benefit plans. These plans can help you by helping them. They can provide additional benefits and/or help them make up for benefits lost due to government restrictions placed on qualified retirement plans. The result? More engaged and loyal employees and a great recruiting tool, too.

Specifically, these plans:

- Enhance your total benefits package by offering a financial reward.
- Encourage loyalty by helping to secure their financial futures.
- Give key employees an incentive to grow the business.
- Provide simplified government reporting and disclosure rules – or none at all.

Considerations for common key employee benefit plans

Business considerations	Principal Executive Bonus Plus℠	Principal SERP Select℠	Principal Select Reward Plan	Executive Nonqualified Excess Plan℠
Immediate tax deduction	*Yes*	*No*	*No*	*No*
Golden handcuffs	*Limited*	*Yes*	*Yes*	*Yes*
Cost recovery	*No*	*Yes*	*Yes*	*Yes*
Administrative services	*Yes*	*Yes*	*Yes*	*Yes*
Employer contributions	*Yes*	*Yes*	*Yes*	*Yes*
Employee contributions	Yes	No	No	Yes

You may want to consider the following business protection solutions.

Key person life insurance

The most valuable assets of any business are often the key people who contribute most to its success.

They generate revenue, handle major responsibilities and have a unique wealth of knowledge that seems irreplaceable.

Have you considered the amount of time and money it would take to replace your top talent? If their loss would create a financial burden that puts the business at risk, a key person insurance policy is a simple and efficient solution.

Here's how it works

Your business is the owner and beneficiary of a life insurance policy for each key employee chosen, which can include business owners. If the unexpected does happen, the business receives cash, generally income tax-free, to help overcome the financial burden of the loss.

What you need to know

There are advantages to this sort of an arrangement, just as there are some other things to consider.

Immediate cash – So you don't have to worry about how you will pay for the loss and replacement of a key employee.

Cost efficiency – Low-cost term or permanent policies may provide significant death benefits.

Cash value potential with permanent policy option – Potential cash values can remain an asset on your balance sheet or be used for other expenses, such as a key employee benefit program.

What is right for you – There are several insurance and funding options. Carefully decide what is best for your business.

Effect on your assets – Understand how significant life insurance policy holdings will affect your capital and liquidity.

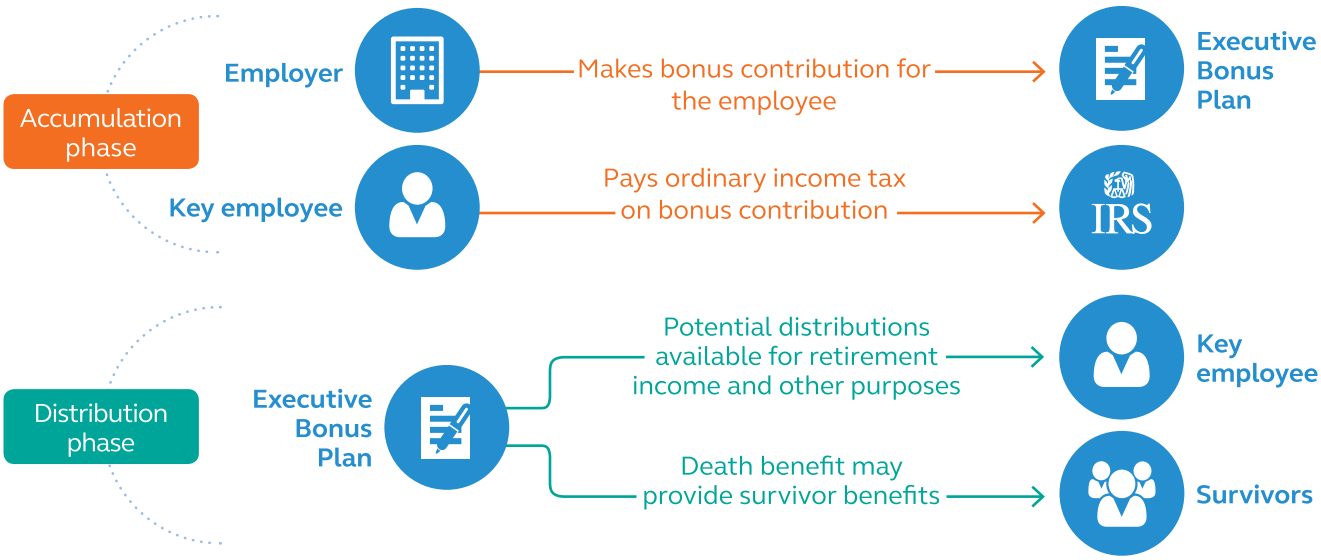
Employee retention – If keeping your key employees is a concern, consider a retention bonus plan that allows you flexibility as well as funding to protect your most valued employees under multiple scenarios.

Principal Executive Bonus Plus℠

This retirement benefit is an incentive plan that offers your key employees multiple benefits. It helps your top talent increase their savings for the future, while helping you reward and keep them for the long term. Plus, contributions are tax-deductible to you, and it's easy to administer.

Here's how it works

Typically, the bonus you contribute to the plan for select key employees is used to buy a life insurance policy from Principal[1]. This policy funds the Executive Bonus Plan and provides retirement income, death benefit protection, as well as additional living benefits.



What you need to know

There are many advantages to this plan, just as there are some things to consider.

For your business:

Increase morale – It's an effective way to recruit, reward, retain and retire the employees who are most valuable to your business.

Receive tax deduction – You receive a current tax-deduction[1] on the bonuses contributed to the plan.

Communicate easily – Its simple and flexible plan design is easy to communicate and maintain.

Save time – You save time by not having to deal with annual reporting or ERISA requirements.

Impact cash flow – Bonuses you pay reduce company cash flow.

For your key employees:

Save more – More can be saved for retirement; above the limits of a qualified plan, such as a 401(k) or 403(b).

Receive multiple benefits – In addition to retirement income, it provides access to funds to address unexpected events, such as disability, chronic illness and other financial needs.

Enhance financial security – The employee's family may receive tax-free benefits at the employee's death.

Owns the policy – The key employee owns the life insurance policy[2], but must stay with the organization to be eligible for the bonus.

Pay potential taxes – An additional tax may be due if the employer's bonus doesn't cover all of the income tax. However, the tax on the bonus may be partially or fully offset with another employer bonus.

[1] Due to the flow-through tax treatment of some businesses, such as S corporations and limited liability corporations (LLCs), you may want to consider specific plans designed to benefit the owners of these entities.

[2] Additional financing options may be available.

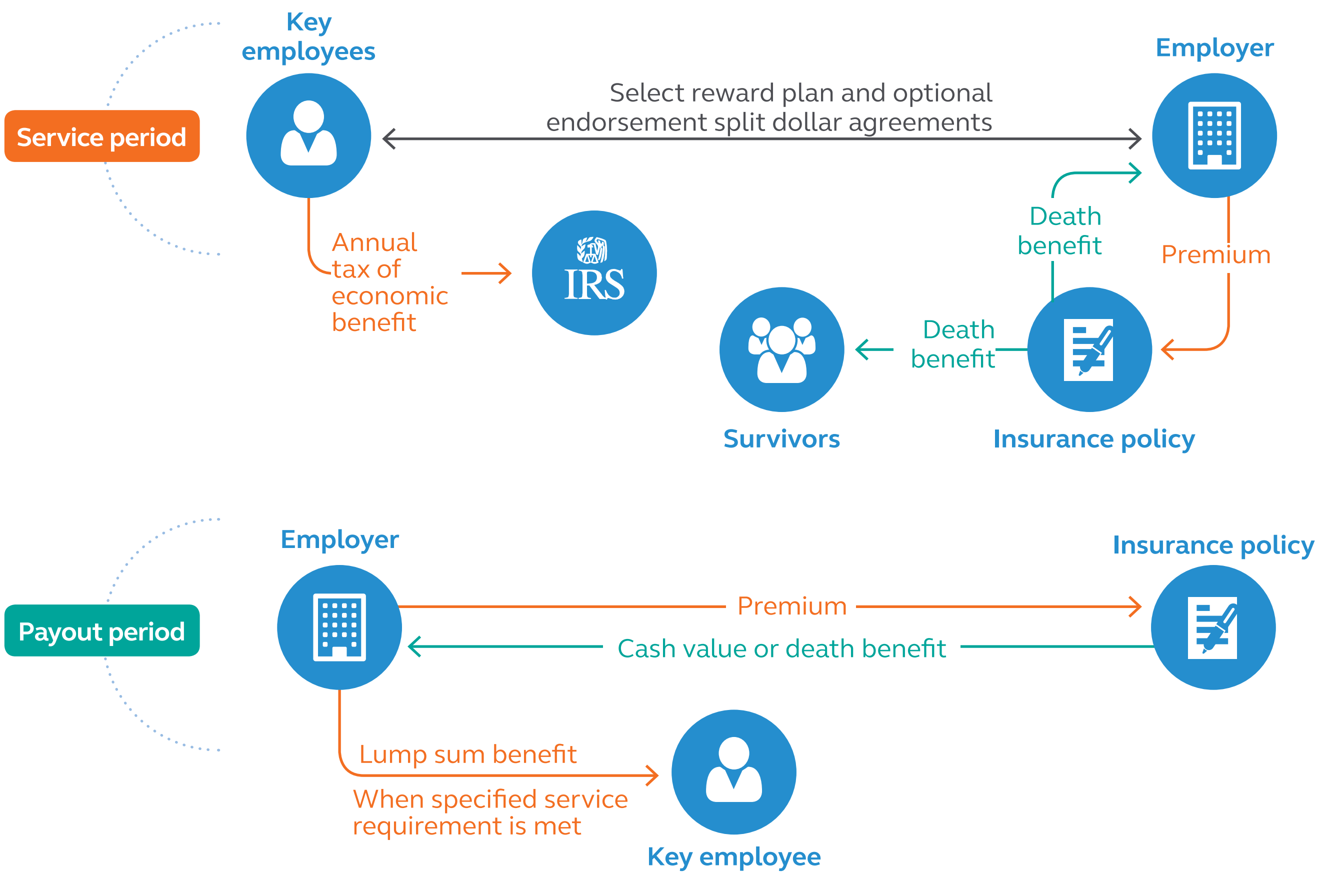
Principal® Select Reward Plan

This incentive plan is a smart solution for you and your key employees. It provides a lump-sum benefit to them at the end of a pre-determined service period. This encourages them to stay with you for the long term, instead of exploring opportunities with your competition.

Here's how it works

You and your key employee enter into an agreement stating the length of time before the lump-sum benefit will be paid. The company then purchases and pays the premium on a life insurance policy that builds cash value. If desired, an endorsement split dollar agreement can be set up so that part of the policy's death benefit goes to the key employee's survivors if he/she should die during the service period.

When the service requirement has been met, the lump-sum bonus can be paid to the key employee using cash value from the policy. As an alternative, the ownership of the policy can be transferred to the key employee to meet the bonus requirement.



Principal® Select Reward Plan (continued)

What you need to know

There are many advantages to this plan, just as there are some things to consider.

For your business:

Encourage loyalty – You provide incentive for the key employee to remain loyal to your organization for a predetermined service period.

Receive a tax deduction – In the year the bonus is paid or the life policy is transferred to the key employee, a tax deduction is received for the entire bonus.

Reduce cash flow – Premiums are paid with company after-tax dollars, so each premium payment reduces your annual cash flow.

Recover the premium cost – If the key employee dies before the end of the service period, the life policy's tax-free death benefit[1] may be used to recover the cost of the premiums you paid.

For your key employees:

Pay minimal cost – The key employee will pay tax on the value of the life insurance death benefit that's endorsed to them during the service period. This cost is much less than if the key employee was to personally purchase that amount of life insurance.

Help with taxes – In the year the bonus is received, the policy's cash value may be used to pay the income tax due. It's not possible to receive annual payments or defer receipt of the bonus.

Use for personal needs – If ownership of the life policy is transferred to the key employee, its cash value and death benefit may be used for personal financial needs.

Must qualify – The key employee must be healthy enough to qualify for the life insurance policy.

Note: The bonus must be paid in a lump sum within 2½ months of the end of the tax year in which the key employee meets the service requirement to avoid being considered a deferred compensation plan and subject to IRC Section 409A requirements.

[1] If the requirements of IRC Section 101(j) are not met, then death proceeds from employer-owned life insurance contracts may be taxable as ordinary income in excess of the cost basis.

Your business plays a key role in your retirement

You've poured a lot of yourself into making your business successful. Now, it's time to take a few steps to make sure you're building a solid foundation for your retirement. A number of business owners – 23% – say they don't even plan to retire[1]. Many fear they can't afford to. Regardless of whether you're concerned about the economics of it or have been dreaming about it for years, your business can play a key role.

Many financial professionals say that each of us will need annual income of at least 80% percent of our pre-retirement earnings to maintain our current standard of living during retirement. Where will that money come from? You may be relying on a combination of Social Security, a qualified retirement plan such as a 401(k) plan and your business. However, Social Security and qualified retirement plans can actually discriminate against business owners by placing limits on contributions, payouts and tax advantages. This can result in a retirement income gap.

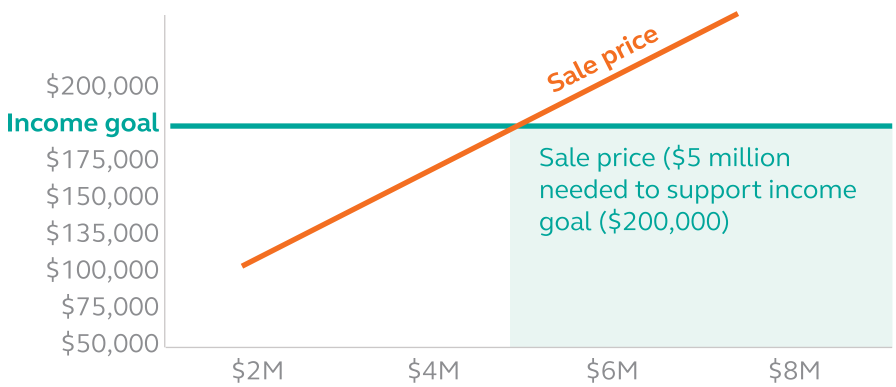
Your business holds the key

Depending on the value of your business and the strength of your transition plan, your business can generate income during retirement, just like it has done through your working years. All it takes is some careful planning.

You may choose to hold onto your business and use a continuing income stream for retirement income. But what will the impact be to the cash flow of the business? Alternatively, a nonqualified retirement plan can be set up through your business to help provide supplemental income.

Another very likely scenario involves using the proceeds from the sale of your business for retirement income. Many assume that the sale will provide enough to keep them comfortable. But, some find out when it's time to sell that the business isn't worth enough to sustain their income needs. In order to know where you stand, you need to consider the potential sale price of your business. Then, you can plan accordingly.

Hypothetical sale-to-income challenge



[1] Harris Interactive business owner survey 2017.

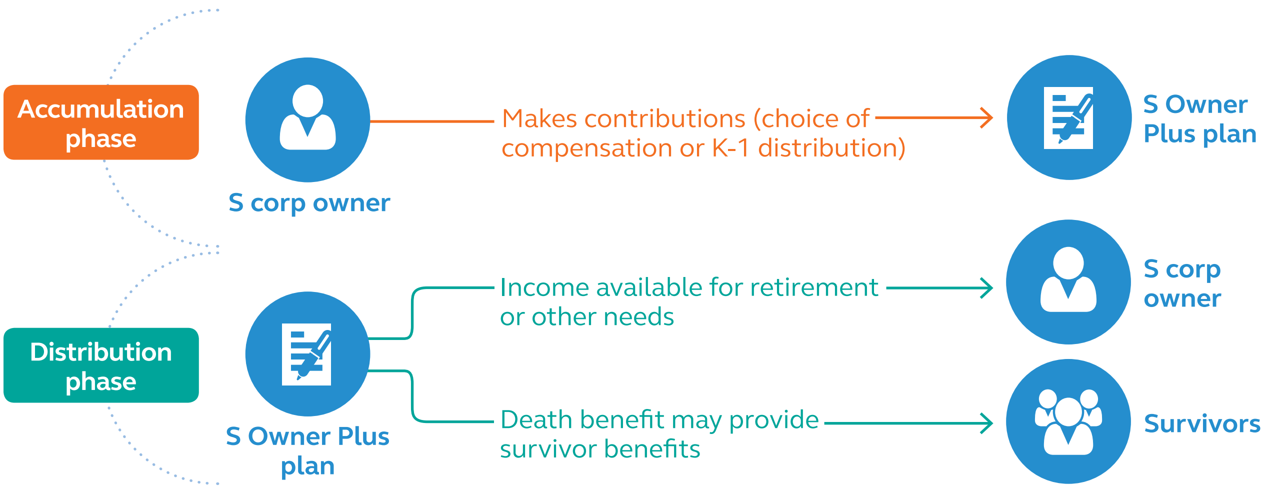
You may want to consider the following retirement solutions.

Principal S Owner Plus℠

Where will you get your retirement income? Social Security? A 401(k)? For many business owners, even if you rely on both sources, it may not be enough. You may also be relying on a regular income stream, or proceeds from the sale of your business to fill this gap. Either strategy involves uncertainty. Principal S Owner Plus may be a more reliable way to address your retirement income goals. It offers death benefit protection and helps you save more for retirement. And it can provide tax leverage without the contribution limits and restrictions on compensation that apply to qualified plans. The tax leverage comes with using life insurance to finance the plan, rather than it being based on a tax code provision.

Here's how it works

You select an amount to contribute from compensation or K-1 distributions[1] – and your dollars are used to finance the personally owned asset – like life insurance. At retirement, you may access the values in the financial asset to help supplement your retirement income.



What you need to know

There are many advantages to this plan for you, just as there are some things to consider.

Save more – While qualified plans and Roth IRAs offer tax benefits, they have limits on compensation and contributions that don't apply to the S Owner Plus plan.[1]

Choose from contribution options – As an S corporation owner, you can choose to take income as compensation or a K-1 distribution, allowing some payroll tax leverage.

Pay out distributions properly – If there's more than one owner, and K-1 distributions are used, distributions need to be in proportion to ownership.

Pay income tax now – Whether profits are distributed or retained for business expansion, you and any other owners are taxed at current ordinary income tax rates.

Need to be healthy – You must be able to qualify for life insurance if you choose to use it for financing the plan.

Choose alternate financing options – If you or another owner is unable to qualify for life insurance, other options for financing the plan are available. But these options will have different tax implications regarding accumulation and distribution.

[1] Contributions must meet reasonable compensation regulations.

Preserve the legacy you've built

Preserving all that you've built for the next generation takes careful planning. But, a proper plan helps ensure assets – both personal and business – meet lifetime objectives and will be distributed the way you want.

Some may think this type of planning is just for the wealthy. For many individuals, the higher federal estate-tax exemption (approximately $5 million per person) may fully shield you from federal estate taxes. However, there are other estate settlement costs, including accounting fees, appraisals, income taxes, attorney fees, court costs, final expenses and state death taxes.

Wealth transfer tactics can help ensure your assets are distributed in an equitable and efficient manner – and in the manner in which you have selected. And, numerous wealth preservation techniques involve both estate and business planning. Common techniques include:

Inheritance equalization – The net worth of many business owners consists mostly of the business. In a situation in which some children participate in the business and others do not, how do you be fair and equitable? Life insurance can create an opportunity to provide for a fair division of assets, while making sure that control and ownership remain with the children working in the business.

Gifting strategies – The higher gift-tax exemption (approximately $5 million per person) presents a substantial opportunity to transfer wealth and reduce long-term estate tax exposure for individuals willing and able to make gifts during their lifetime. A current gift removes future appreciation and income from the taxable estate.

Discounting strategies – Valuation discounts (e.g., lack of control and lack of marketability) may reflect the lower market value of minority ownership interests in closely held businesses. This can reduce the gift-tax value of transferred assets.

Trust solutions – This simple gifting strategy makes a cash gift to a trust, such as an irrevocable life insurance trust (ILIT). Then, that gift is leveraged with life insurance. An ILIT funded with a life insurance policy is a popular and proven estate planning tool that offers a death benefit payable exactly when needed.

This type of planning may seem complicated, but that's why Principal has products and services to help make it easier for you. We'll help you project potential estate taxes and analyze different wealth transfer techniques. We can help you evaluate your situation and recommend strategies to help meet your needs. With periodic reviews of your estate and business transfer plans, you can rest assured that your legacy will be protected.

Protect your income and your business

Disability insurance protects your income against life's uncertainties so you can avoid dipping into savings or retirement assets when you're not working. Individual disability income insurance can help replace a portion of your income lost due to a prolonged illness or injury.

Consider the **four key areas** that can be impacted by a disability event.

Income protection/ benefit planning

How will you pay the bills if you become too sick or hurt to work? Do you offer employees group long-term disability (LTD) insurance? Do you offer special benefits to retain/reward your key employees?

Individual disability income insurance can help:

- Provide for your family if you become too sick or hurt to work.
- Maintain your lifestyle without draining savings or business profits.
- Provide benefits for employees.

Retirement savings

Would you or your key employees still be able to save for retirement if you could no longer work due to a disability?

DI Retirement Security[1] can help:

- You continue to save for retirement since often 401(k) (and employer match), Social Security and pension plan contributions stop if you can't work.

Business protection

How will you pay business loans and expenses if an owner becomes too sick or hurt to work? What will you do if a key employee can't work due to a disabling illness or injury?

Three solutions offer protection:

- **Overhead expense insurance –** Reimburses you for fixed business expenses.
- **Business loan protection[2] –** Provides payments to help cover the cost of a business-related loan obligation.
- **Key person replacement insurance –** Provides benefits to the business in the event an insured key employee becomes totally disabled.

Business succession planning

If you have a buy-sell agreement, is it funded if an owner becomes disabled?

Disability buy-out insurance funds a buy-sell agreement to buy out a totally disabled business owner. This allows you and your partners to:

- Maximize the financial return when the business is transferred, while minimizing tax liability.
- Help the business survive a partner's departure, allowing remaining owner(s) and their family(ies) to receive the full value of the business.

[1] DI Retirement Security is issued as a non-cancelable, guaranteed renewable, individual disability income insurance policy. It is not a pension or retirement program or a substitute for such a program. DI Retirement Security is not available for government employees or anyone who is over insured based on Principal Life's current Issue and Participation guidelines. It may not be available or the benefit amount may be reduced for certain occupations if there is existing DI coverage with lifetime benefits. Additional underwriting guidelines may apply.

[2] Available as a rider on an overhead expense insurance policy.

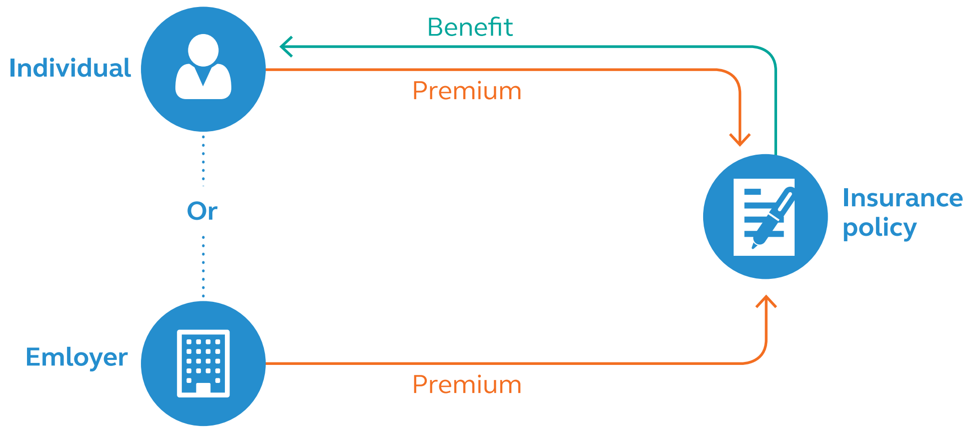
You may want to consider the following disability insurance solutions.

Individual disability income insurance

Protecting your income using individual disability income insurance is a smart move. It provides monthly benefit payments if you're unable to work. It's like receiving a "paycheck" when you can't work due to an illness or injury.

Here's how it works

An individual or employer pays premium on an individual disability income policy. Upon meeting the definition of disability, the insured is paid a monthly benefit for a set period of time stated in the policy. Benefit amounts are calculated based on current income, occupation when the policy was purchased, medical history and if other disability insurance policies exist.



What you need to know

There are many advantages to this protection, just as there are some things to consider.

For your business:

Benefits enhancement – Can be an excellent addition to an employee benefit package if the employer pays all or part of the premium.

Tax efficiency – Premium can be paid with pre-tax dollars. But the benefits paid to the employee, if they're disabled, will be taxed.

Tool to recruit, retain and reward – Executive carve-out and bonus opportunities are available for key employees.

Available discounts – If three or more individuals with a common employer purchase coverage, then they're eligible for a 20 percent multi-life discount.

For the individual:

Increased protection – Can supplement group disability insurance coverage to protect more income.

Tax-free benefits – If premiums are paid with after-tax dollars, then the benefits received are tax free.

Portable benefits – If the individual leaves the employer, they can take the policy and discounts with them – as long as they continue to pay for the coverage.

Slight delay in benefits – Benefit payments begin one month after you satisfy the policy's elimination period (the number of days you must wait before benefits begin).

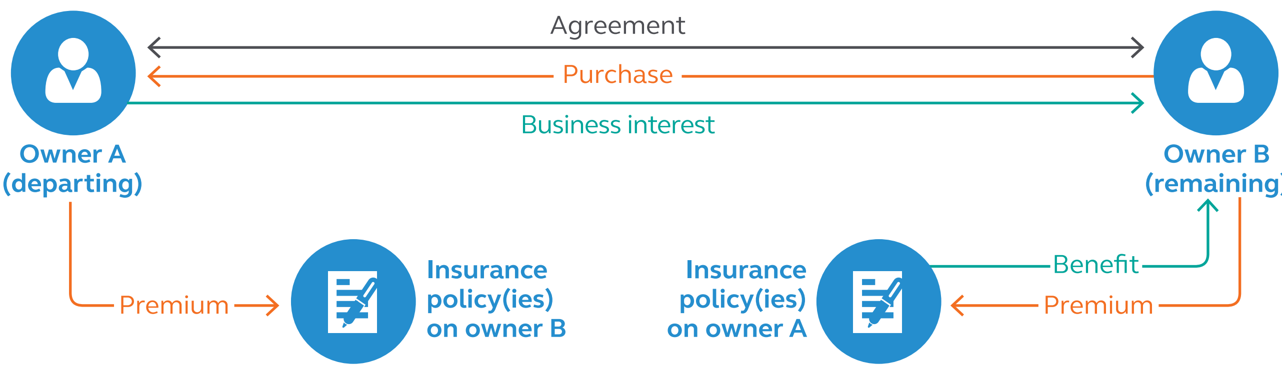
Disability buy-out insurance

Make sure your business is protected – no matter what life brings – with disability buy-out insurance. It helps provide the funding to purchase a disabled owner's interest in a business under a buy-sell agreement (such as cross purchase or entity purchase) in the event of a total disability. And, it lets remaining owner(s) continue to run the business without interruption.

Here's how it works

In a cross purchase buy-sell agreement (illustrated below) – Each owner purchases a disability insurance policy on each of the other owners. Each is the premium payer and beneficiary of the policies he or she owns. Upon a disability, the remaining owners purchase the disabled owner's interest.

In an entity purchase buy-sell agreement – The business is the owner, premium payer and beneficiary of a policy on each owner. Then the business purchases the disabled owner's interest upon a disability.



What you need to know

There are advantages to this sort of protection, just as there are some other things to consider.

Buy-sell agreement not required for insurance purchase – However, one must be in place at the time of a disability claim. (In New York, an agreement is required before purchasing a policy.)

Peace of mind – Knowing a funded exit plan is in place.

Potential taxes for the disabled owner – Pays taxes on the gain from the sale of the business. Any portion of the payout that's structured as non-compete or severance pay may be taxed differently. The gain may be considered an installment sale if at least one payment is received after the close of the tax year in which the sale was made.

Tax benefits for remaining owner(s) – Even though insurance premiums aren't deductible, the benefits are received income tax-free. And, the payout can be structured as a non-compete or severance pay, which is generally tax deductible.

Minimized taxes upon a subsequent sale – Remaining owner(s) receive an increased cost basis as a result of the purchase price paid to the departing owner.

Overhead expense insurance

Make sure your business is protected – no matter what life brings – with overhead expense insurance. It helps keep your business running while you recover from a disabling illness or injury. And, it helps ensure you have a financially sound business to return to or sell.

Here's how it works

You pay premium on the insurance policy. Upon meeting the definition of disability, you are paid a monthly benefit for a set period of time stated in the policy. The amount of your maximum monthly benefit is based on your type of business and current covered business expenses. Then, while disabled, you're reimbursed monthly based on your actual covered fixed business expenses for that month.

What you need to know

There are many advantages to this protection, just as there are some things to consider.

Take advantage of unused benefits – If covered expenses are less than your policy's maximum monthly benefit, the unused balance can be carried over to a later month.

Continue loan payments – Payments on outstanding business loans may continue with the Business Loan Protection Rider.

Receive a tax deduction – Premiums are tax deductible as a necessary business expense.

Pay potential taxes on benefits – While any benefits received are taxable, they must be used for expenses that qualify for federal income tax deductions, so the net benefits are virtually tax-free.

Follow benefit request procedure – Submitted expenses must meet the policy's claims requirements before benefits can be received.

Key person replacement insurance

Make sure your business is protected – no matter what life brings – with key person replacement insurance. It pays benefits to your business if a key person (or you, the owner) becomes totally disabled. The remaining owner(s) can use the benefits as they wish – to cover recruitment costs, pay for temporary staffing, replace revenue or deal with other business needs.[1]

Here's how it works

Your business is the owner and beneficiary of a disability insurance policy for each key employee chosen, which can include owners. If a total disability occurs, the business receives cash, generally income tax-free, to help handle the loss.

What you need to know

There are advantages to this sort of protection, just as there are some other things to consider.

Tax-free benefits – The business generally doesn't pay income taxes on the benefits received.

Financial stability – You don't have to worry about how you will pay for the loss and replacement of a key employee and the policy can demonstrate financial stability to creditors and clients.

Business owns the policy – Benefits can't be assigned to the employee and are paid only to the business.

[1] The benefit payments cannot be given to the disabled key employee or owner.

Plan services that make things easier for you

It takes a lot of work to run a company, to say the least. And, we understand you may not have time to think about business transfer strategies, employee retention programs or retirement planning. That's okay. That's why we're here.

How do you get started?

After helping you identify the right solutions for your organization, Principal will help you implement them properly. Staffed with attorneys, CPAs and plan design specialists, our Advanced Solutions team is ready to assist you with design consultation and sample plan documents. But, we don't stop there.

Your needs may change. Regulations may change. We can help you keep up with both.

You don't have to take care of the ongoing management of your plan all by yourself. We provide dedicated, ongoing support for your employer-owned and employer-sponsored plans funded with life insurance. And we'll be there not just today, but throughout the life of your plan.

Administrative services

Dedicated administrator – Personally assists you with enrollments, policy adjustments, service requests, policy illustrations and more.

Plan-level reporting – Makes participant communications and any needed tax reporting easier. Consolidated reports show current coverage amounts, policy values, and premium information for all participants with life policies under your plan.

List billing – Delivers consolidated payment reminders covering all policies under your plan – billed annually, semiannually, quarterly or monthly.

Online access – Allows you to view policy information 24/7. Policy owners may also make changes or initiate service requests.

Supporting you every step of the way

How do you get started?

We know that we've given you a lot to think about in this report. That's why we've summarized it here and highlighted some key planning considerations for you and your business. To help you figure out where to start, we recommend that you:

1. **Review this summary**
2. **Rank your priorities**
3. **Set a target date to implement**
4. **Work with your financial professional on next steps**

	Priority ranking	Target date
Business succession planning		
Buy-sell agreement – Businesses with two or more owners need a buy-sell agreement fully funded with life and disability insurance. If one already is in place, a buy-sell review could be conducted by Principal. You may have or want to consider the following: › A cross purchase buy-sell agreement		
Business succession planning – In order to help you successfully transition out of your business, numerous buy-sell and transfer strategies are available. Principal can consult with you to identify a solution best suited to your unique needs and company characteristics.		
Business and key employee protection		
Key person life insurance – It's likely that your business relies heavily upon the talents of your key employees. Consider purchasing life insurance policies on all owners and those key employees integral to the success of your business. Principal offers a key person calculator to help you and your financial professional determine the appropriate amount of coverage.		
Recruit, reward, retain, retire key employees – Consider the following to help fulfill a valuable benefit for select key employees that can also help you recruit, reward, retain and retire those who are vital to the success of your business. › A nonqualified Principal Executive Bonus Plus plan › A Principal Select Reward Plan		

	Priority ranking	Target date
Business owner retirement planning		
Principal S Owner Plus – As a profitable S corporation, this nonqualified retirement plan could complement other retirement plans you currently have in place.		
Legacy and estate planning		
Estate tax analysis – Due to the significant value of your business, it's important that you consider your current estate tax exposure. Principal can offer you an estimate of this exposure and help you analyze different techniques to help you meet your specific goals and objectives.		
Disability income protection		
Individual disability income insurance – Consider purchasing disability income insurance to protect your income should you become too sick or hurt to work.		
Disability buy-out insurance – Consider protecting the value of your business by using this to fund a buy-sell agreement that would enable you to buy out a totally disabled business owner.		
Overhead expense insurance – Consider this coverage along with the Business Loan Protection rider (upon availability) to help cover the fixed costs and loan payments associated with operating a business should you become disabled.		
Key person replacement insurance – Consider how your business might suffer in the event a disabling illness or injury kept a key employee from working. From managers to administrative assistants or other integral individuals, there could be a significant negative impact on sales, customer relationships and/or creditors.		

No one knows your business and your specific needs as well as you do. By working closely with your financial professional, you'll be able to formulate a plan that works for you. Whether it's analysis of your current plans, assistance with future plans, insurance protection or all three, Principal is here to help.

You benefit from a partner who knows business

As the owner of a business, your financial needs are different than those of other individuals. So, it only makes sense to work with a company that understands the financial needs of businesses and their owners. We help business owners like you every day. This means we have the expertise, solutions and services to consult with you on financial solutions that help address specific needs.

- No. 1 provider of nonqualified deferred compensation plans[1]
- Provider of complimentary business market administrative services for more than 30 unique program designs and over 16,000 plans.
- Preparer of thousands of informal business valuations since 2011.
- Reviewer of more than 1,500 buy-sell agreements since 2011.

[1] Based on total number of Section 409A plans and non-governmental 457 plans, PLANSPONSOR 2017 Recordkeeping Survey, June 2017.

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The previous pages depict certain business planning options. All of these options are based on the information you shared with us for this purpose and the assumptions stated throughout the report. Of course, any variance in the information or assumptions could change the results.

All assets assume specific growth rates, calculated based on information from the client. These individual rates are used to project the possible growth of the business. These projections are made to estimate future business insurance needs.

Although the informal business valuation from The Principal can provide a valuable starting point in helping you determine the value of your business, the valuation will not be a substitute for a formal valuation nor does it establish a value for tax purposes. A formal valuation should be constructed with the guidance of your legal and/or tax advisors.

Solutions outlined in this report do not imply a recommendation that a specific business planning option should be implemented. Rather it represents a summary of potential considered strategies, which each individual should discuss with his or her tax advisor, attorney, and/or other professional advisor before taking any action.

Because your business planning goals may change in the future, periodic monitoring should be an essential component of your program.

All guarantees and benefits of the insurance policy are backed by the claims-paying ability of the issuing insurance company. They are not backed by the broker/dealer and/or insurance agency selling the policy, nor by any of their affiliates, and none of them makes any representations or guarantees regarding the claims-paying ability of the issuing insurance company.

Disability income insurance has certain limitations and exclusions. For costs and complete coverage details, contact your Principal representative.

Individual disability insurance Series 700. Not all products available in all states.

The subject matter in this communication is provided with the understanding that Principal® is not rendering legal, accounting, or tax advice. You should consult with appropriate counsel or other advisors on all matters pertaining to legal, tax, or accounting obligations and requirements.

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May lose value • Not a deposit • No bank or credit union guarantee Not insured by any Federal government agency