

Beginning **business** **succession** planning

Helping you determine the worth of your business

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If you own a business, you likely understand the importance of planning, organization, and attention to detail – but have you considered the reasons you should track the worth of your company, too?

Business succession planning is vital to a company's success and survival. Suppose you want to sell the company to a business partner or family member when you retire, or have concerns about providing for your family if you die prematurely. No matter what your specific needs or strategy, obtaining an estimate of the value of your business – or business valuation – is a good first step in the business succession planning process.



WHAT IS YOUR BUSINESS WORTH?

Use our online calculator
to get started.

There are different ways you can obtain a business valuation. Some methods are based on business assets and debt, historical earnings, future earnings, industry standards, risk, or a combination of these and other factors. Check with your accountant on which method or combination of methods may provide the most accurate approximation of your own business valuation.

Estimating your business's value

To determine the value of your business, Allianz Life Insurance Company of North America (Allianz) and CalcXML created an online calculator to help make it easier. This tool applies the discounted cash flow and earnings method to calculate an informal estimate, based on an analysis of:

- The discounted potential future cash flows of your business, with consideration for excess compensation paid to the owners
- Level of risk
- Possible adjustments for small size or lack of marketability

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You will need the following information to calculate a preliminary value for your business:

- 1. Annual earnings before interest, taxes, depreciation, and amortization:** Generally, using an average of the last three years can help avoid valuations that are too high or too low.
- 2. Excess compensation paid to owners:**
Excess compensation is the difference between total compensation paid to you, the owner, and total compensation paid for the same job(s) if you were not the owner of the business. This applies when total compensation paid to the owner is greater. If you have excess compensation, calculate the average of the last three years' compensation.
- 3. Anticipated rate of earnings/compensation growth:**
Provide a growth rate between 0% and 100%. Use 0% if level.
- 4. Number of years earnings are expected to continue:**
A maximum of 10 years will assume perpetuity.
- 5. Discount factor based on level of business/industry/financial risk:** The income approach analysis uses *level of business/industry financial risk* to determine a discount factor in the calculation. For example, a business in a new industry may reflect a higher risk of failure. Alternatively, it could also reflect a lower risk of failure for businesses in a stable or mature industry.

It's important to remember that certain industries may have higher levels of risk than others. Levels of risk and corresponding discount factors used in the income approach are:

- Low (6.5%)
- Average (10%)
- Considerable (13.5%)
- High (17%)
- No level of risk (3%)

- 6. Discount for lack of marketability:** This may be appropriate for businesses that are difficult to sell, such as:
 - Small or private businesses
 - A business with environmental problems or hazards, etc.
 - Value of business closely linked to special relationships of current owner

Now that you have an idea of your business's worth, you can start discussing your options for business succession with your financial professional. Depending on your situation, one solution could include funding a buy-sell agreement with life insurance, such as a fixed index universal life insurance policy.

For further assistance, you can also seek advice from your accountant or a professional business appraiser, or contact the American Society of Appraisers (ASA) to refer you to a Chartered Business Valuator (CBV) in your area.

Ready to plan for the future of your company? Work with your financial professional to complete an estimate today.

Life insurance requires health and financial underwriting.

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