

Advanced Planning Sushi: Business Valuation Service: Uncovering Hidden Sales in Plain Sight

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Speaker 1: Advanced Planning Sushi. Fresh and flavorful sales bites. The business valuation service, uncovering hidden sales in plain sight.

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Speaker 1: Hi, thanks for tuning in to the Advanced Planning Sushi podcast, I'm your host Sarah, and today Jim Barbee from the Advanced Planning team is here to share some ways to use the Business Valuation Service to uncover sales opportunities. Jim, thanks for joining me today.

Speaker 2: Sure, Sarah. Glad to be here.

Speaker 1: Alright. So, let's get right into the meat of today's discussion, the business valuation services offered through AuguStar's Advanced Planning team and allows contracted financial professionals to get a business valuation report for their clients who own businesses and at a very reasonable cost. So, Jim, with well over one billion dollars in aggregated business valuations, I'm sure you have seen some interesting sales come through for this service. Can you share with us some of the ways you see the financial professionals using this service to uncover sales opportunities?

Speaker 2: Sure, yah, Sarah. Actually, there's quite a number of uses for this that turn into sales. One of my favorite that I want to start with is using life insurance as the great equalizer. And first let me start by explaining what equalizing is and how we might use the business valuation service.

Speaker 1: Alright.

Speaker 2: So, let's say I have an estate and the primary asset of my estate is a fine arts collection and I want to leave everything to my three children equally. But splitting up that art collection is actually going to decrease its value. It's not something that I'd want to do. So, I have an inability to spread my assets around. Or maybe I have my primary asset as my home, and I want to leave it to my spouse because she is still going to live there. But then I have nothing really left to leave to my kids. Well, the problem here is that the assets in the pot are not easily divided. If I add life insurance, cash is a great equalizer. And life insurance is great because the cash becomes available precisely when it's needed. So, back to my fine art collection example. If I were to add a death benefit to my estate, I can then maybe leave the fine art collection to one child and the life insurance proceeds to the other child. So, how does this work with the valuation service? Many of our clients, business owner clients, have businesses and they don't really know what the value of the business is and sometimes, actually often, one or two of the children are going to participate in that business, but the

other children are not. And so, what they'll come, the agent will come to us, and say what can we do to solve this problem? We might use the biz equities valuation service to help the agent value the client's business and then help them if the intent is to equalize assets between the kids. Maybe let's say there's three kids and the business is valued at one million dollars. This is easy math. Maybe what the agent wants to do is sell two million dollars of life insurance and then when the client dies, leave the one million dollar business to the child who is going to participate in it and then split the two million between the other two children so everyone has received something of fairly similar value. Most of our clients don't know the value of their business and so that is how the business valuation service can really help with doing that and for equalizing purposes. It gives them a great start to figure out how much insurance they need.

Speaker 1: Sure. That makes so much sense. So, can you share some of the ways that you have seen this system used for prospecting?

Speaker 2: You know, a lot of our life agents and I've been working recently with some ONESCO registered reps using it for prospecting in particular. So, a lot of our agents. Most agents are looking for something to stand out, or a way to set themselves aside from the competition. Well, here we have a great way, it's a great value add and a great way to prospect. Most business owners don't know the value of their business and so what agents will do is they'll approach them and say I have access to a valuation service. I would like to provide you with a complimentary valuation of your business, and we can go over the different values for your business. I'm going to make this process very easy for you. Some agents will charge for the valuation, but a lot of them don't. And so, it really helps you stand out from the competition. Now, many clients don't know the value of their business because valuations take time, money, and it's usually not an urgent priority. You know, they don't do it unless there is a tax or legal need. But if an agent approaches a business owner and offers to do it for them at low or no cost and making the process extremely easy, it can really help you stand out from all of the other advisors. I know one ONESCO registered rep has used this with clients who appreciate the service, they appreciate the offer from the registered rep right away and they have in turn not, they haven't bought life insurance, but it has helped this registered rep gather AUMs, assets under management from clients. This woman has also been very successful in getting referrals from the business owner client that she has approached. So, maybe she approaches them and gives them a business valuation. And who do business owners know? Well, they know other business owners and so they'll say, you know, my friend down there who owns that gas station would probably really like this service, too. And so, she's gotten an awful lot of referrals and she's gotten clients out of this, and she's actually done several valuations with me recently and I think they are all being productive for her in one way or another. I don't want to just say ONESCO registered reps, I mean we have a lot of insurance agents use this for the exact same way.

Speaker 1: Sure. So, how about using the service for buy-sell planning?

Speaker 2: Buy-sell planning is really the primary use of the service process and there's two basic types of buy-sell cases that we see most often. Let me explain. The typical case is an agent will come in and say the client does not have succession planning in place and they don't have a buy-sell. What do we do? Where do we start? And so, we say ok, well let's start by doing a valuation. And so, I will send the data taker to the agent, and the agent will send it, forward it on to the client. I like to encourage these meetings to occur in person, but the way we've designed it, it's a fillable data taker, where they can email it to the client. The client can fill it in, email it back to the agent, attaching some tax returns. The agent then will send me that email and I will put together a valuation. Our team will put together a valuation and then we'll go through a report, it's a nice twenty-nine-page report, with the agent. And if they want, we can help the agent explain it to the client. It really starts the buy-sell planning discussion. So, for example, in our report we have equity, asset, enterprise, and liquidation value. Well, the equity value might be one and a half million, and that's typically what we would look for in a buy-sell, we want to value the business at one and a half. But the liquidation value, that's what you're going to receive if you die without a buy-sell in place because you're not going to collect your accounts receivable, your income stream dries up, you know you have to sell your best assets to pay the creditors who are banging the loudest at the doors. Liquidation value is almost always lower than equity. So, that will encourage the client to get a buy-sell in place. This is really the typical case that we see. Now I was just working on one that is atypical, and I want to go through this one because in this case the client approached the business owner, and the response was we already have a buy-sell in place. And so, when the client says that agents should pivot to other questions. They should say ok, is it in writing? Is it funded? And how did you value the business? And so those are the questions to ask. And we have a really nice document review service in our department. So, if the client says. Yes, we have a buy-sell, here is our contract. The agent can then forward it to us and our team of attorneys will look over the buy-sell and then we can tell the agent ok this is compliant with current tax laws or I wonder if you should tell the client, you know, that they value their business at fifty thousand dollars. This is a twenty-year-old buy-sell agreement. Do they really think their business is only worth fifty thousand dollars? We can point out other things to them as well. For example, the agreement is not signed. Or it has got a math formula in here that is not consistent with their current business model. You know, things like that. Get us the buy-sell contract, and we will tell you what it says. Then we say ok now you valued it in here a X amount. Let's still do a valuation on the business anyway and see if our value is much different than what the client's have come up with. In the case I'm thinking of, you know, they had all valued it at like five million dollars. The agent couldn't really figure out how it was valued. Well, when we did the valuation, we came up with eight point five million. This was a four-owner business and so what happened was they made some changes to their buy-sell contract. They were very happy to get that advice, but also the agent was able to place four one-million-dollar policies to make up the difference between five and you know eight point five. They decided to fund this with nine million of insurance and so it resulted in four more insurance policy sales. And that's what I want to come back to. That was as a result of the clients saying we already have a buy-sell and it's already funded. So, the agent didn't stop there. They asked, they pivoted to the different questions.

Speaker 1: Wow, that's amazing. And that's what we're really highlighting today. So, do you want to give us a refresher on how our financial professionals can obtain the business valuation? What the first step is.

Speaker 2: So, when we first started this service we had like an eight page spreadsheet where we said, okay gather your clients tax returns and if it is this type of tax return we need the numbers from these different lines and it was a bad idea when we put it in place. So our current process is contact the Advanced Planning team, we will email you this fillable data taker, it's form 8963, and a nice sample report that is client approved. The agent can then share these documents with their client, gather the information, you know filling out the data taker, it's really not hard, I think it's got nine questions on it. The agent, all they have to do is get the tax returns from the client, they don't have to study them or understand them, send them to our department. We will then complete this valuation and send it back to the agent. And some agents want me to go through all of the report with them and I'm happy to do it. Some agents have done this a number of times and don't need the explanation. We're happy to do both. There is a cost. It's twenty-five dollars for each report that is ordered. You don't have to send a check, or you know telegraph the money or anything, it's just charged to the agent's account. I don't think we could have made this process any simpler for either the client or the agent.

Speaker 1: Perfect. That's great, Jim. So, our contracted financial professionals can call the Advanced Planning team to request these materials that Jim has just mentioned. Or you can access them through our secure website, AuguStar Pro.

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Speaker 1: Jim, as always, thanks for joining me today and thanks to our listeners for tuning in to another episode. Until next time.

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