



CEMETERY VALUATIONS & HOW TO INCREASE THE VALUE OF YOUR CEMETERY

CEMETERY DIRECTORS CONFERENCE

*PRESENTED BY:
LARRY ANSPACH*

CAESARS PALACE
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What Results in a High Valuation vs. a Low Valuation?

32 Factors that Impact the Valuation

What Results in a High Valuation vs. a Low Valuation?

- Higher profits results in higher valuation
- Lower profits results in lower valuation
- High “franchise value” – companies that have country clubs, cars, apartment rentals, etc. results in higher valuation
- A large inventory of grave spaces, mausoleum crypts, lawn crypts, niches, etc. results in a higher valuation
- If you have more undeveloped acres this results in a higher valuation
- The higher the yield per acre for all inventory results in a higher valuation- 8' x 3' vs. 10' x 3'6”
- The lower cost of cemetery operations results in a higher valuation – frequent culprits are union labor and high sales costs
- Higher prices and merchandise mark ups results in a higher valuation



What Results in a High Valuation vs. a Low Valuation? (continued)

- ❑ The cemetery that collects its own installment sales and finance charges will result in a higher valuation than the cemetery that sells its “paper”
- ❑ Good collectible receivables results in a higher valuation
- ❑ A paid inventory of vaults, memorials, vases, urns, etc. results in a higher valuation
- ❑ New grounds equipment and office equipment results in a higher valuation
- ❑ Large office and service buildings results in higher valuations
- ❑ Cemeteries with paved roads are worth more
- ❑ New grounds equipment and office equipment results in a higher valuation
- ❑ Original artwork results in a higher valuation than mass produced artwork



What Results in a High Valuation vs. a Low Valuation? (continued)

- No debt or debt with low interest rates results in higher valuations than major debt and higher interest rates – Indiana cemetery
- A large endowment care fund results in higher valuations than lower or unfunded care funds
- Proper insurance with proper insured values results in a higher valuation
- Cemeteries with merchandise and service trust short falls results in lower valuations
- A cemetery in a good location and good sub-soil, access, etc. is worth more
- A cemetery with little competition is worth more
- A cemetery with good public relations and good service is worth more
- A cemetery located in a big city tends to be worth more



What Results in a High Valuation vs. a Low Valuation? (continued)

- A cemetery with natural or installed drainage is worth more
- A cemetery with no easements will be worth more – utilize your undeveloped land
- Good landscaping adds to a higher value
- Pending litigation will lower the value
- Cemeteries with good computerized records will be worth more
- Inadequate personnel lowers the value
- Good corporate structure adds to a higher valuation – minority stockholders
- Compliance with environmental issues results in a higher valuation



Due Diligence And Evaluating Your Property

WHAT IS DUE DILIGENCE?

WHY UNDERSTANDING DUE DILIGENCE IS IMPORTANT TO YOU

WHAT YOU NEED TO KNOW ABOUT DUE DILIGENCE

HOW TO COME OUT OF DUE DILIGENCE A WINNER

What Is Due Diligence?

Definition:

Due diligence is the care exercised by a buyer to ensure that an acquisition meets the buyer's investment objectives.

Encompasses a series of information gathering activities and analyses throughout the acquisition process.



Why Understanding Due Diligence Is Important to You

- It is the **seller's responsibility** to provide the required information.
- Compiling the information is tedious and time-consuming
- There are confidentiality issues



Two Phases of Due Diligence

Phase 1 – Preliminary Analysis

- ❑ Purpose is to determine whether or not to make an offer and how much to offer.
- ❑ Will the acquisition yield the buyer's required return on investment?
- ❑ Seller must open its books.
- ❑ Secure a confidentiality agreement.

Two Phases of Due Diligence

Phase 2 – Final Analysis.

- ▣ In depth, comprehensive review of all aspects of the business.
- ▣ Looking for hidden skeletons (no pun intended).
- ▣ Very difficult to maintain confidentiality through this stage.
- ▣ Phase 2 occurs after signed Letter of Intent (LOI)

How You Handle the Due Diligence Process Will Affect How Successful You Are

- Buyer must complete due diligence to its satisfaction
- The sale will not close until the buyer is satisfied
- Generally, there are no short-cuts
- Due diligence will affect the price you get for your business



Information Produced Through Due Diligence Will Become Part of Final Sale Contract.

- ❑ Seller will be making reps and warrants to this information.
- ❑ Full disclosure will minimize the chance of claims
- ❑ Disclose anything that can affect future operations (items included at no additional cost such as free graves, crypts, transfers)
- ❑ Anticipate what the buyer will be doing as part of their due diligence and be prepared.



Revenue Production

- ❑ Case history and trends (last 5 to 10 yrs)
- ❑ Market share analysis
- ❑ Competitor analysis
- ❑ Local economic conditions
- ❑ Local demographics
- ❑ Existing customer base
- ❑ Prearranged funerals sold
- ❑ Status of pre-need program



Costs & Operating Factors

- Facilities and grounds
- Personnel
- Vehicles
- Marketing and advertising
- General and administrative
- Contractual commitments
- Capital expenditure requirements
- Maintenance requirements

Organizational Structure

- ❑ Ownership & Corporate structure
- ❑ Shares issued and outstanding
- ❑ Options, shareholder rights, etc.
- ❑ Articles of incorporation, etc.
- ❑ Shareholder or partnership agreements, Federal and state filings
- ❑ Original acquisition agreements, etc



Assets

- Cash
- Inventory
- Buildings
- Furniture & fixtures
- Computers
- Prepaid expenses
- Intellectual property
- Pre-construction sales
- Developed/
undeveloped land
- Receivables
- Trust Assets
- Vehicles
- Equipment
- Software
- Deposits



Debts & Obligations

- Loans & credit lines
- Leases
- Contracts for trade services
- Accounts payable & accrued expenses
- Income taxes
- Liability for presold merchandise
- Contingent liabilities

Legal and Risk Management

- Pending litigation
- Pre-need regulations
- Regulatory compliance
- Titles & surveys
- Environmental reports
- Structural reports
- Insurance coverage



Balance Sheet

- Past 5 yrs and current date
- Accounts Receivable Aging
- Depreciation Schedules – Tax & Book
- Accounts Payable Aging
- Analyses of accrued expenses
- Analysis of deferred income tax

Income Statement

- Past 5 to 10 yrs. & current YTD
- Consolidated and by location
- Actual vs. budget
- Trend analyses
- Owners compensation & benefits
- 5 year forecast



How to Come Out of Due Diligence a Winner

- Don't under-estimate the importance of due diligence or the effort required to complete the process.
- Be a facilitator of the process ... not a hindrance!
- Start now to get your books and records in order!

The Pay-Off for Your Efforts

- You'll get top dollar for your business
- The sale process will be much shorter and easier
- Or ... your business will be so much improved that you decide to keep it!



**SCREAM CEMETERY 1
BALANCE SHEET
NOVEMBER 16, 2010**

ASSETS

CASH IN BANKS	\$11,500
ACCOUNTS RECEIVABLE	1,645,000
INVENTORIES	
LAND	51,000
CRYPTS AND NICHES	<u>43,000</u>
TOTAL INVENTORIES	94,000
PREPAYMENTS	1,500
EQUIPMENT	
TOTAL	920,000
LESS: RESERVE FOR DEPRECIATION	<u>82,000</u>
NET EQUIPMENT	838,000
INTANGIBLE ASSETS	<u>20,000</u>
TOTAL ASSETS	\$2,610,000



**SCREAM CEMETERY 2
BALANCE SHEET
NOVEMBER 16, 2010**

ASSETS

CASH IN BANKS	\$110,000
ACCOUNTS RECEIVABLE	1,925,000
INVENTORIES	875,000
DUE FROM SUBSIDIARY	155,000
PREPAYMENTS	10,000
EQUIPMENT (NET OF DEPRECIATION)	<u>115,000</u>
TOTAL ASSETS	<u>\$3,585,000</u>



**SCREAM CEMETERY 2
BALANCE SHEET
NOVEMBER 16, 2010**

LIABILITIES AND NET WORTH

LIABILITIES

NOTES PAYABLE **\$325,000**

ACCOUNTS PAYABLE **115,000**

ACCRUED TAXES **11,000**

TOTAL LIABILITIES **451,000**

NET WORTH

CAPITAL STOCK ISSUED **100,000**

SURPLUS **3,034,000**

TOTAL NET WORTH **3,134,000**

TOTAL LIABILITIES AND NET WORTH **\$3,585,000**

ASKING PRICE **\$1,000,000**



**SCREAM CEMETERY 3
BALANCE SHEET
NOVEMBER 16, 2010**

<u>ASSETS</u>	
CASH IN BANKS	\$1,100
ACCOUNTS RECEIVABLE	31,900
INVENTORIES	
LAND	5,700
CRYPTS AND NICHEs	<u>8,300</u>
TOTAL INVENTORIES	14,000
PREPAYMENTS	<u>1,000</u>
TOTAL CURRENT ASSETS	48,000
FIXED ASSETS	
EQUIPMENT	4,200
LESS: RESERVE FOR DEPRECIATION	<u>1,200</u>
NET FIXED ASSETS	3,000
OTHER ASSETS	
UNDEVELOPED LAND	7,600
INTANGIBLE ASSETS	2,400
TOTAL OTHER ASSETS	<u>10,000</u>
TOTAL ASSETS	<u>\$61,000</u>



**SCREAM CEMETERY 3
BALANCE SHEET
NOVEMBER 16, 2010**

LIABILITIES AND NET WORTH

CURRENT LIABILITIES

NOTES PAYABLE	\$2,000
ACCOUNTS PAYABLE	1,500
ACCRUED TAXES	<u>500</u>
TOTAL CURRENT LIABILITIES	4,000

NET WORTH

CAPITAL STOCK ISSUED	2,000
EARNED SURPLUS	<u>55,000</u>
TOTAL NET WORTH	57,000
TOTAL LIABILITIES AND NET WORTH	<u>\$61,000</u>

ASKING PRICE **\$100,000**



So, Which Cemetery Would You Buy?

Analysis of: Scream Cemetery 1

- It is the policy of this cemetery not to write off bad and old accounts receivable, only \$100,000 is good out of the listed \$1,645,000.
- The inventories shown of \$94,000 are at market value, the cost of the land is \$1,000 and the cost of the crypts and niches is \$4,300 for a total of \$5,300. Also, there is no remaining land left to develop. You can't determine this by the balance sheet, you need to see the cemetery.
- The equipment includes a machine valued at \$100,000 after depreciation, this machine is not usable.
- The intangible assets have no value.



Analysis of: Scream Cemetery 1 (continued)

- \$76,000 of the notes payable of \$200,000 is past due.
- Also, which is not shown are unrecorded liabilities of \$200,000 for undelivered memorials and vaults.
- This one item is probably the most overlooked item in performing due diligence.
- The earned surplus of \$1,806,000 does not reflect the above \$1,545,000 in uncollectible accounts receivable, \$88,700 in inventories, \$100,000 in equipment, \$20,000 in intangible assets, and \$200,000 in unrecorded liabilities.
- This total is actually \$1,953,700 which reflects a net deficit of \$147,700. If you add the capital stock and revaluation surplus of \$500,000, the net as adjusted is only \$382,300.



Analysis of: Scream Cemetery 1 (continued)

- Therefore, the asking price for Scream Cemetery 1 of \$1,000,000 is too high considering the net assets are only \$382,300.

Analysis of: Scream Cemetery 2

- Only \$12,000 of the accounts receivable are current, the balance of \$1,913,000 are old and have not been written off as uncollectible.
- The inventories are all developed and carried at market value of \$875,000 and should be reflected at cost of \$8,000.
- Due from subsidiary has no value because the subsidiary is in bankruptcy. The actual reconciliation shows a liability of \$100,000.
- The notes payable are past due and the accounts payable are mostly past due.
- There is not enough cash to pay the notes and accounts payable.



Analysis of:

Scream Cemetery 2 (continued)

- Again, not shown as a liability are undelivered and unpaid memorials of \$200,000.
- The net worth as shown is \$3,134,000.
- If you take in to consideration the above facts of uncollectible receivables of \$1,913,000, inventories reduced by \$867,000, due from subsidiary of \$155,000 should actually be adjusted to a liability of \$255,000, and the undelivered memorials of \$200,000, the net as adjusted is a net deficit of \$1,000.
- If you add the capital stock of \$100,000, the net asset adjustment is \$99,000 compared to the asking price of \$1,000,000.



So, Which Cemetery Would You Buy?

- Ok, by this point, you might have figured out that the Scream Cemetery 3 is the best deal because the balance sheet is accurate as shown.
- There are no unrecorded liabilities, the inventories are shown at cost, and includes plotted graves developed and not sold of 100,000 graves for 100 acres.
- Hopefully by now, you can read a balance sheet and better understand what to look for and more importantly what to ask.

Checklist for Acquiring a Funeral Home / Cemetery

We have listed 34 items (not in any order of importance) that should be considered when performing due diligence for a cemetery or funeral home acquisition. *Please keep in mind this is not an all inclusive list.*

CHECKLIST FOR PURCHASER IN ACQUIRING A CEMETERY/FUNERAL HOME

- 1) *Check Articles of Incorporation and/or Association. Up to date? Need any changes? Are they adequate?*
- 2) *Check Constitution or By-laws. Are they current? Are changes needed?*
- 3) *Obtain copies of the rules and regulations that govern the cemetery. How current are they? Are there serious deficiencies?*
- 4) *Secure complete financial statements for the last 3 years.*
- 5) *Examine charter. Are powers implied or specified? Are the conveyed powers sufficiently broad, or need to be amended? Does the charter limit sales?*
- 6) *What year was the cemetery/funeral home started?*
- 7) *Obtain number of interments/cases to date? Per year?*



CHECKLIST FOR PURCHASER IN ACQUIRING A CEMETERY/FUNERAL HOME *(continued)*

- 8) Obtain price lists of all products for sale? Include caskets, memorials, spaces, vaults, flowers, wreaths, evergreen blankets, vases, urns, crypts, niches, etc.
- 9) Obtain price lists of all services performed? How does this compare to competitor operations? Include service fees, transfer fees, interment fees, foundation and setting charges, planting fees.
- 10) Secure information on all sources of income. Have all taxes been paid including sales tax, real estate and withholding taxes.
- 11) Obtain listing of account receivables. Listing should be aged with receivables over 90 days delinquent discounted by 1/3.
- 12) What are the liabilities? Undelivered but sold merchandise and services?
- 13) Are there any other debts?
- 14) What is the amount in the perpetual (endowment care trust fund), pre-need funeral trust? Where are these investments held? How are they being invested?



CHECKLIST FOR PURCHASER IN ACQUIRING A CEMETERY/FUNERAL HOME *(continued)*

- 15) *Are there any reserve funds? Retirement funds? Merchandise trusts?*
- 16) *Secure a current inventory of all office, caskets, merchandise, and grounds equipment noting the insured value, the condition of equipment and the age.*
- 17) *Itemize all fixed assets of cemetery/funeral home and estimate their real value. Are these facilities sufficient or are additions or expansions urgently needed?*
- 18) *Look at conditions of the grounds. Have the roads and parking lot been maintained? Check trees and turf. Check conditions of buildings?*

CHECKLIST FOR PURCHASER IN ACQUIRING A CEMETERY/FUNERAL HOME *(continued)*

- 19) *What is public opinion of the cemetery/funeral home?*
- 20) *Are there any special sections developed in the cemetery?*
- 21) *Ascertain history of cemetery/funeral home. Have there been unfortunate experiences in the past? Is there any current pending or threatened litigation or such?*
- 22) *If property had any investment selling, determine the total amount of this, and secure list of investment owners. Determine if this might be advantageous or disadvantageous. Is the cemetery obligated to repurchase any of this property?*
- 23) *What are sub-soil conditions? Any severe rock, sand, or gravel underlay? Does soil percolate or might property be wet? Any severe topography or heavily wooded areas might create expensive future development problems?*



CHECKLIST FOR PURCHASER IN ACQUIRING A CEMETERY/FUNERAL HOME *(continued)*

- 24) *Are office records up to date? Has information been backed up on computer or microfilm? Is there access to a computer?*
- 25) *What is the existing inventory of cemetery space divided by lots, crypts, niches.*
- 26) *Obtain amount of undeveloped acreage available for future development.*
- 27) *Is there excess undeveloped acreage that could be sold separately?*
- 28) *Is the property centrally located? Readily accessible to cemeteries and funeral homes? Near expressways or good traffic arteries? Is the property near good subdivisions? Is the property in an area where population may decline or expand?*
- 29) *How many times has the property changed hands?*



CHECKLIST FOR PURCHASER IN ACQUIRING A CEMETERY/FUNERAL HOME *(continued)*

- 30) *Are there key people employed by the property who could be retained? Has compensation and fringe benefits paid by prior management been adequate?*
- 31) *Is cemetery or funeral home personnel unionized? Are there any union problems?*
- 32) *Who will be drawing up purchase contract?*
- 33) *Are there any environmental issues? Conduct a Phase 1 report.*
- 34) *What is the zoning of the cemetery or funeral home?*