

**1998 ICFA
FALL MANAGEMENT CONFERENCE**

***DUE DILIGENCE
AND EVALUATING YOUR PROPERTY***

SPEAKERS

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DUE DILIGENCE AND EVALUATING YOUR PROPERTY

DISCUSSION AGENDA

- 1. WHAT IS DUE DILIGENCE?***
- 2. WHY DUE DILIGENCE IS IMPORTANT TO YOU***
- 3. WHAT YOU NEED TO KNOW ABOUT DUE
DILIGENCE***
- 4. HOW TO COME OUT OF DUE DILIGENCE A WINNER***

DUE DILIGENCE AND EVALUATING YOUR PROPERTY

Definition:

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

Due diligence encompasses a series of information gathering activities and analyses conducted throughout the acquisition process.

DUE DILIGENCE AND EVALUATING YOUR PROPERTY

Due diligence is important to the seller as well as the buyer.

1. It is the seller's responsibility to provide the required information.

- Compiling the information is tedious and time-consuming.
- There are confidentiality issues.

2. How you handle the due diligence process will affect how successful you are in selling your business.

- 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.

3. Information produced through due diligence will become part of final sale contract.

- Seller must represent and warrant to the accuracy of this information.
- Full disclosure will minimize the chance of claims
 - Disclose anything that can affect future operations, e.g., items included at no additional cost such as free graves, entombments, transfers.

DUE DILIGENCE AND EVALUATING YOUR PROPERTY

Two phases of due diligence:

Phase 1 – Preliminary analysis.

- **The 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. Confidentiality is an issue.**
- **Phase 1 occurs before the offer.**

Phase 2 – Final Analysis.

- **In depth, comprehensive review of all aspects of the business.**
- **Looking for hidden skeletons.**
- **Very difficult to maintain confidentiality through this stage.**
- **Phase 2 occurs after the signed Letter of Intent (LOI).**

THE DUE DILIGENCE PROCESS

ASSESS ON-GOING OPERATIONS	
Revenue Production	Costs & Operating Factors
Case or interment history and trends (last 5 to 10 yrs) Market share analysis Competitor analysis Local economic conditions Local demographics Existing customer base Pre-need program – status and sales	Facilities and grounds Personnel Vehicles Marketing and advertising General and administrative Contractual commitments Capital expenditure requirements Maintenance requirements
EVALUATE CURRENT STATUS	
Organizational Structure	Assets
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	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	Legal and Risk Management
Loans & credit lines Leases Contracts for services Accounts payable & accrued expenses Income taxes Liability for presold merchandise Contingent liabilities	Pending litigation Pre-need regulations Regulatory compliance Titles & surveys Environmental reports Structural reports Insurance coverage
ANALYZE FINANCIAL STATEMENTS	
Balance Sheet	Income Statement
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	Past 5 to 10 yrs. & current YTD Consolidated and by location Actual vs. budget Trend analyses Owners compensation & benefits 5 year forecast

DUE DILIGENCE AND EVALUATING YOUR PROPERTY

You will be the winner if you prepare for due diligence.

1. 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!

2. Put your business in the best possible light to get the best offer.

- The quality of the business equates to its value.
- Attempt to clean-up problem areas, e.g., personnel problems, maintenance backlog, environmental problems, regulatory compliance problems, etc.
- Make sure all revenue is properly reflected on the books.
- Eliminate unnecessary costs.
- Don't worry too much about product costs ... consolidators will have better pricing anyway.
- Separate out owner's hidden benefits.
- Make sure the trusts are adequately funded.
- Solidify market position.
- Improve pre-need sales.
- Show positive trends ... it may take some time!

3. There will be a 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 may decide to keep it.