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**ICCFA Magazine author spotlight**

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**MORE FROM THIS AUTHOR**

➤Educational information, including copies of this article, can be found at ***www.theforesightcompanies.com***

➤You can follow Isard on Twitter at *@f4sight,* LinkedIn and "like" The Foresight Companies on Facebook.

**Editor's note:** The Cemetery Impossible column is written by the staff of The Foresight Companies. **If you have a question you want to be featured in this column, please send it to danisard@theforesightcompanies.com.** Dan Isard or a member of his staff will call you to get more information and a recommendation will be provided via this column, helping not only you but also others who are facing similar challenges.

**MANAGEMENT/FINANCIAL**

Buying a cemetery isn't like buying land. It's more complicated and involves sitting down and making the right calculations.

# Cemetery Impossible

## How can you tell if a cemetery is priced right?

*Dear Cemetery Impossible,*
I own a small cemetery in a two-cemetery town. The other cemetery is larger, and I am very familiar with it. About a decade ago, it was bought by someone and then acquired by another company, then was acquired by another company, and so on.

I asked the current manager of the property to let me know if his company ever wants to sell it. Well, I recently received an offering memo, with financial data, from the company. It turns out that they own hundreds of cemeteries and funeral homes.

I thought the asking price looked reasonable, so I took it to my accountant and lawyer. They both agreed that it was a great deal. I then took it to my banker and he said he will finance it at that price. So, if three people who know nothing about the cemetery business tell me it is a good deal, my intuition is that I should get you to weigh in before I make a big mistake.

The property has 20 undeveloped acres which they value at $150,000 apiece. The business has had earnings of about $200,000 and it is run lean. They do about 200 sales a year (advance and at-need). The seller wants $2.2 million.

What is it that I don't know, that you do, before I sign to buy it?

*Looks too good to be true in Titusville*

*Dear good-looking,*
I have created a number of catch phrases over my career, one of which is, "You don't make money when you sell a business, you make it when you buy a business." If you pay too much, you can go broke. Even if you overpay a little bit, all your profits will be essentially given to the seller. Therefore, it is critical to pay what something is worth, or less.

Looking at this limited data, I have four major concerns. The first one involves semantics. Your letter and the offering memo include the misplaced perception that this is land. It is not. It was land at one time. Once land is consecrated as a cemetery, it goes from being land to being inventory.

You would not be buying land; you would be


buying inventory. You can no longer purchase this as land, as it has a very limited use. Its only use is for the stewardship of deceased human beings via burial, inurnment or mausoleum entombment.

Some people think of the value in simple terms. For example, each acre can accept the burial of 1,000 bodies and the sale price of each interment right is $X, so the value is 1,000 times $X times the quantity of acres.

However, this is not the present value of this business. This might be a way to look at the future value, but not the value today. The value today is a multiple of the EBITDA (earnings before interest, tax, depreciation and amortization) of the business.

If you have 20 acres of land and only develop burial inventory, that results in about 20,000 to 24,000 total burials. If you develop inventory blending crypts, niches and burial options, the total development could be 100,000 interment sites or more.

If there are 200 sales a year, it will take about five years to fill one acre, and therefore, there is at least 100 years of inventory. That means it will take at least 100 years to actualize this future value. The cemetery business involves making decisions to start something today that won't be completed for several generations.

My second concern is the multiple of EBITDA they expect you to pay. We use EBITDA as a threshold of value because it allows us to compare dissimilar businesses to each other. We use it many ways. In this case, we are using it two ways.

One reference to EBITDA is a result of operations. They told you the EBITDA is $200,000. This is neither good nor bad as it is stated; it is a number. However, this number is relative to the sale price. Assuming their computation of EBITDA is correct, a $2.2 million sale price divided by EBITDA of

$200,000 is an 11 times multiple.

I hate rules of thumb for valuation methods, but I do refer to them. Cemeteries sell for a multiple of EBITDA. In the majority of cases, this range is between four and eight times EBITDA. Knowing why there is a such a huge difference from the low of four to the high of eight times EBITDA is what an expert analysis provides. Your attorney and accountant have no knowledge in this matter.

I didn't publish your town information and I did look at this site online. I will tell you this business is probably a six- to seven-times multiple. Therefore, the value is between $1.2 million and $1.4 million.

A deeper study in their operations, types of sales, types of remaining inventory and overall care of the property would be useful to narrow this multiple down to a precise number. Suffice to say that this business is worth $1.3 millionish.

Their offer to sell it for $2.2 million is aggressive. Either that, or they hope that they have an uninformed fool with more money than sense as a buyer.

But let us not assume I am right. Let's look at the cash flow. As they have told you, there is $200,000 of EBITDA. Since they are a big company and have no owners' salaries or owners' perquisites in the overhead, we can assume this is a real number. So, in today's financial world, what can that afford you in debt service?

Of course, the timing of this article is important. If you go to the bank today for a fixed-rate loan for a business purchase, you will probably pay an interest rate of 6.5 percent for a 15-year loan of $1.3 million. That will vary, depending on your credit rating and the bank's desire to make you a loan on this type of business.

Assuming you borrow the full amount from a lender and/or investors, your annual principal and interest (P&I) payment will be about $140,000. You have $200,000 of EBITDA and $140,000 of P&I. You have enough cash flow to pay the loan and income taxes.

The ratio of the EBITDA to P&I is called a debt coverage ratio ("DCX"). The DCX in this case is about 1.40. Anything above 1.35 is usually a good loan. The relationship of the EBITDA to our conclusion of value to the P&I is in harmony.

However, if the value was $2.2 million, a loan payment would be more than $230,000. That is greater than the EBITDA! You can see very easily the offering price just cannot be right.

The third point you raise is the bank. News flash: Banks don't like to make loans to cemeteries! There are two types of banks. Most are asset-based lenders. If you bring a banker $1.00 of assets, they will loan you about $0.75. The other type is cash-flow-based lenders. They make the loans I refer to above in the DCX ratio analysis.

There are very few cash-flow lenders. The good news is the Small Business Administration (SBA) is a cash-flow-based lender, so you are probably looking at an SBA loan. There are some cemetery loan SBA-specialty banks.

You might be wondering, "Why don't banks like cemetery loans?" Because they are not real estate loans—they are inventory loans. These banks can handle real estate loans, but a cemetery loan is a loan on the business of the cemetery. It typically cannot be secured by the land, since it is inventory.

Furthermore, it often cannot be secured by the inventory. The bank would need to have a mortgage on each interment right. If that were the case, every time you made a sale, you would have to have the bank release their interest on that one plot. That would be expensive and time-consuming.

Your last question concerns the fear of dealing with a big company. I have done more than 500 transactions with large funeral or cemetery acquisition companies. I have bought businesses they were divesting and sold them client businesses they wanted to acquire.

Large companies are very proficient at the process. They know what due diligence you will need and usually have excellent recordkeeping. Their people are not acting out of personal gain or ego, unlike an individual buying or selling a business.

While you should be cautious in dealing with them yourself, other experts on your side will help level the playing field. When it comes to contract points, an expert will know the usual and customary language that an acquirer demands.

If something is good for the goose, it should be good for the gander. A large company should expect to concede the same points when they are a seller that they require as a buyer. Someone who has not done this before has no idea what those points should be. You can spend a lot of money educating a new lawyer on cemetery transactions and still not get a fair contract. ❒