

Title: Selling – A Bird in the Hand

By: Matt Manske

As Don Quixote once said, “A bird in the hand is worth two in the bush.” This quote applies to the funeral home industry. Today, large corporations rarely buy small and medium size funeral homes. Normally they are looking for 250-plus calls per year or more. After the feeding frenzy of the 1990s, corporations learned the importance of an owners personal touch and the importance of not overpaying for acquisitions.

If you are considering the sale of your funeral home, you need to know what’s happening in the market. You need to know who is buying; which buyers will be interested in buying your business; how desirable your business is; what prices buyers can afford to pay, what financing options are available to buyers, and if any seller financing will be required of you. Each of these questions represents a different factor in the equation. Knowing the current market and addressing these factors will help determine the right selling strategy for you.

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Because large corporations were banking on economies of scale and lower expenses, they anticipated operating margins significantly higher than those normally achieved by an individually owned firm. This is why the corporations thought they could afford to pay higher prices when consolidating small- and medium-sized firms. Years later, the importance of personal service and owner personality showed up in the form of lost call volume and decreased revenue. This is why they have divested a fair number of small- and medium-sized firms.

So, where does this leave current funeral home owners? Large corporations are not the premium buyers in the market. They have consolidated, lost money, deconsolidated – and are not likely to start the process again. This means the days of a corporation offering an owner three times revenue are gone and not coming back. They are not coming back because stockholders of large corporations lost so much money from the initial consolidation, it caused a deconsolidation. Right now, individuals and small regional firms are offering the best prices to sellers in the market.

What types of firms are individuals and small regional firms looking to buy? Most individuals are looking to buy a funeral home doing 75 to 150 calls per year. (A more experienced

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individual may go for a larger volume.) Small regional firms are looking to buy funeral homes doing 100 plus calls per year as long as they are within a reasonable distance from their other firms. (They may forego the distance requirement if the local manager can partner with the regional firm and buy into an ownership position.)

If individuals and small regional firms are offering the best prices, what kinds of prices are they paying? Current selling prices range from four to six times adjusted cash flow or up to 2.25 times net revenue. The final price is not dependent or correlated with net revenue, but is sometimes expressed that way. The final price is directly correlated with the adjusted cash flow because that is what shows lenders how much debt service the business can afford. In simple terms, the adjusted cash flow is the amount of money the new owner will have available to pay debt service after the sale. This is where competitive financing comes into play because lower interest rates translate into the ability to finance more debt. An easy example of this is how lower home mortgage rates have allowed people to buy more expensive homes. Competitive financing can be from a lender or from the seller. Since the rates on seller financing are often very competitive, including seller financing in the sale is often a great way for a seller to get a premium sales price.

Sellers in today's market will often seek the advice of an expert, and they are often told their business is worth more than it really is. Be very cautious of: anyone telling you they can sell your business for over 2.25 times revenue, anyone trying to sell you an expensive business appraisal, anyone trying to sell you an outside management contract, anyone trying to sell you accounting services without the direct services of a Certified Public Accountant or anyone trying to get you to sign an exclusive listing agreement.

As a seller, the last thing you want is to hang on too long hoping for a premium buyer that never comes. Work with your accountant to maximize your cash flow and make sure your buyer has competitive financing. And, if you do want a premium price, be willing to carry some of the financing for the buyer.

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