Business

By Bill Williams

How to Smoothly Transition Financial Assets When Acquiring Another Firm

In a world of lower interest rates and a growing economy, mergers and acquisitions are rising in popularity for many in the death-care industry. The nature of merging with a company or absorbing another entity gives business owners the opportunity to expand product offerings, increase market share, gain direct access to new technology and even enter additional markets. Maybe, most importantly, a successful M&A provides you with added financial security.

But just because M&A is an attractive option doesn't necessarily mean it is a walk in the park. Several cons to M&A exist, and there are many that most businesspeople consider, including a poor strategic fit, culture clash and potential downsizing. While all of these pitfalls are extremely important for any merger or acquisition, there is another critical box to check before signing on the dotted line ... one that many professionals often miss.

That all-important-yet-overlooked action for firms looking to buy is conducting proper due diligence on the selling firm's resources and financial status, and then crafting a plan for how to transition the entity's assets to your books. The bottom line is that you want

This article originally appeared in the October 2018 issue of American Funeral Director, published by Kates-Boylston Publications, and is being shared with permission. Visit www.americanfuneraldirector.com to subscribe.

to protect yourself from any major disorganization, instability or, even worse, auditing or legal issues because of the selling firm's financial history.

When you or a third party conduct due diligence prior to an acquisition, the best place to start is requesting the company's annual, quarterly and even monthly financial statements over the last three to five years, along with any history of audits and projections. During the thorough review of these records, among others, you should be able to determine the overall financial health of the company, specifically if it is meeting its financial goals and growing on a regular basis. As you may anticipate, what is most important is ensuring that the firm is not doing the opposite.

Due diligence goes beyond just examining a firm's financial history. This process also includes a study of the selling firm's technology and intellectual property. What patents or trademarks does the company offer, and has it taken the necessary steps to protect those assets? What technology does the company operate with, how critical and effective is it, and will it benefit you once the acquisition is complete?

While there are several intricacies for proper M&A due diligence, the final point to address here is the importance of a very detailed review of all material contracts and commitments from the selling firm. This step is often the most time-consuming component of an acquisition but perhaps the most critical as well.

The review will require a study of any guaranties, loans, credit agreements, leases and so on, but specific to the death-care industry is the number of active preneed contracts the selling firm has on file and – especially if the number is high – how well the company has maintained them. A disorganized set of records will leave you with more questions than answers. Just to begin, you may have trouble determining the exact status of each contract, if consumer payments and investment income from the trust are being distributed appropriately to each contract line item, and if every contract is on track for fulfillment. Of course, as the buying firm, this responsibility will ultimately fall on you.

Once you're done reviewing many of the intricacies for proper M&A due diligence, you may begin to realize that this task is not one for the person also running the business – it should be done by an expert who understands the financial landscape, especially in the death-care industry. Yes, it will be an investment for you up front – in addition to the purchase price of the acquisition – but this proper, professionally conducted due diligence could save you thousands of dollars (and headaches) down the line.

Don't let these complexities steer you away from considering the acquisition of another firm. If your company has the means and you engage the necessary resources to conduct proper due diligence, adding new talent, services and technology to your business model can help elevate it to the next level. •

This article originally appeared in the October 2018 issue of American Funeral Director, published by Kates-Boylston Publications, and is being shared with permission. Visit www.americanfuneraldirector.com to subscribe.