CARRIAGE SERVICES, INC.

Moderator: Chris Jones
November 4, 2015
10:30 a.m. ET

Operator: This is conference # 57625001.

Good day, ladies and gentlemen. Welcome to the Carriage Services 3Q 2015 earnings webcast.

All lines have been placed on mute to prevent any background noise. After the speakers remarks, there will be a question and answer session.

If you would like to ask a question at that time, simply press star then zero on your touchtone telephone.

As a reminder, this conference is being recorder.

I would like to introduce your host for today's conference, Mr. Chris Jones, representing Carriage Services. Sir, you may begin.

Chris Jones: Thank you, (Lauren). Good morning, everyone. We're glad you could join us.

We'd like to welcome you to the Carriage Services conference call. Today we will be discussing the company's 2015 third quarter results, which were released yesterday after the market closed.

Carriage Services has posted the press release, including supplemental financial tables and information, on its website at www.carriageservices.com. This audio conference is being recorded and an archive will be made available on Carriage's website.

Additionally, later today, a telephone replay of this call will be made available and active through November 8. Replay information for the call can be found in the press release, which was distributed yesterday.

On the call today from management are Mel Payne, Chairman and Chief Executive Officer; Dave DeCarlo, President; and Ben Brink and Viki Blinderman, Co-Chief Financial Officers.

Today's call will begin with formal remarks from management, followed by a question-and-answer period. Please note that during the call, management will make forward-looking statements in accordance with the Safe Harbor Provision of the Private Securities Litigation Reform Act of 1995. I'd like to call your attention to the risks associated with these statements, which are more fully described in the company's report filed on Form 10-Q and other filings with the Securities and Exchange Commission.

Forward-looking statements, assumptions or factors stated or referred to on this conference call are based on information available to Carriage Services as of today. Carriage Services expressly disclaims any duty to provide updates to these forward-looking statements, assumptions or other factors after the date of this call to reflect the occurrence of events, circumstances or changes in expectations.

In addition, during the course of the morning's call, management will reference certain non-GAAP financial performance measures. Management's opinion regarding the usefulness of such measures, together with the reconciliation of those measures to the most directly comparable GAAP measures for historical periods, are included in the press release and the company's filings with the Securities and Exchange Commission.

Now, I'd like to turn the call over to Mel Payne, Chairman and Chief Executive Officer.

Melvin Payne: Thank you very much, Chris. I would like to apologize in advance to all of you on the call for the length of the call. As I know, many of you are busy with other calls, reports, et cetera, and must allocate your time wisely, as do we.

But if you have to leave the call early, I highly encourage you to circle back and listen to the replay or get a printed copy of the call, which would be available on our website. There will be a lot of substance on this call, as we are considering it along with our press release as a new beginning for how we discuss, present and report the performance of our company.

With me today are Dave DeCarlo, Vice Chairman and President, who will provide an update on our acquisition strategy and the industry landscape as well as Viki Blinderman and Ben Brink, Co-CFOs. Ben and Viki will be alternating our calls. So since Viki handled the last call, Ben will provide color on our record financial performance for the three and nine months ending September 30, 2015. Then we will cover the nine areas that we believe public investors would like to have clarified for the future, all of which we listed in our press release.

To start off, I'll provide a historical perspective on Carriage's evolution to this plan. As such, historical knowledge is absolutely vital to understand, if you are a long-term investor, wondering whether for Carriage as a shareholder value creation platform, the best is yet to come.

As the Co-Founder of Carriage in '91 and the only CEO we've ever had, my dream and vision for Carriage, which is captured in our mission statement and five guiding principles, was to build a high-performance culture company, populated by high-performance 4E leaders and employees that just happen to be in the funeral and cemetery industry.

Beginning in 2003, we created a highly innovative new business model and a framework for operating and consolidating the funeral and cemetery industry that evolved through utilization of simple high-performance culture concepts over the next eight years into the being the best idea that Carriage is today.

So at the end of '11, we launched Carriage Services 2012 - A New BEGINNING, which was the first year of a five-year timeframe themed Carriage Good To Great Journey. The annual theme for this fourth year of our Good to Great Journey is high performance through passion and partnership.

It should be obvious to many of you by now that our 4E leaders and employees across the company are in complete alignment with that original dream and are creating the Being The Best, good to great vision with our high and sustainable performance, as reflected by our 2015 three and nine months performance ending September 30.

This is important, what I'm about to say. Please notice that on the first page of our press release, there is only one brief mention of our funeral and cemetery segments. Otherwise, you would not know what industry we are in. As the entire first page is about the financial results of what our high-performance leaders and employees have achieved this year by outstanding execution of our standards operating model.

Our standards operating models for both funeral homes and cemeteries were designed in 2003, around our fifth guiding principle, related to decentralized decision making on local managing partners of each business to achieve high and sustainable operating and financial performance standards that do not change with the passage of time.

I will have the honor, consistent with our tradition, of calling out by name at the end of this call 14 managing partners and support team leaders that were Carriage high-performance heroes in the third quarter.

I learnt by working with world-class leaders, visionaries and innovators in the late 1970s and the mid-to-late 1980s, that words in the form of ideas, concepts, high-performance standards, recognition, mission, vision and guiding and principles matter greatly; the people with exceptional talent, especially those who are part of high-performance teams.

This historical experience and insight laid the leadership foundation for the creation over the last 12 years of what we refer to now as Carriage's high-performance culture. It took many, many years for us to get all the linkages within our high-performance culture framework working extraordinarily well most of the time.

We had to focus relentlessly on getting the right people on the enterprise bus, while acting decisively to get the wrong people off the bus. Then make sure that the right people were in the right seats on the bus, before we could produce high and sustainable operating and financial performance in our portfolio of businesses across the country, supported effectively yet efficiently by our operational and support teams.

At this point, in my comments, I'm giving everyone on this call a heads up, as the next four sentences are the deepest, most relevant takeaways, as to why Carriage has become a superior value creation investment platform.

It is because the leadership and people, qualitative elements of Carriage's high-performance culture, are driving a historically high and trending higher quantitative results overtime, which notably are no longer highly correlated to whether we make frequent acquisitions, just the right ones; or to when baby boomers start to die; or as much as in the past to short-term uncontrollable vagaries of our industry such as death rates, timing and degree of the flu season, cremation versus burial mix trends, quarterly seasonality, economic cycles, market cycles and volatility, et cetera, et cetera, et cetera.

After 24 years, we have reached a unique position for our company and our industry, as reflected by our nine month adjusted consolidated EBITDA margin of 29.5 percent, which we have been defining for a long time as our approximate cash earning power, and we have changed it now to our sweet spot sustainable cash earning power.

This nine month 29.5 percent margin compares to a company all-time high of 27.3 percent for the full year '14. And while we had set an internal stretch goal of achieving a normalized and sustainable adjusted consolidated EBITDA margin of 30 percent by the end of 2016, a margin never before reached in the history of deathcare consolidation by any mature deathcare consolidation company using current accounting methodology. We have almost reached this good to great milestone this year, much sooner than we could have predicted even at the beginning of the year.

I am therefore incredibly honored to take this opportunity to personally dedicate our remarkable third quarter and year-to-date Good To Great performance and sweet spot earning power milestone to the Richard

Rainwater, a legendary entrepreneurial investor from Fort Worth, who died at age 71 on September 27 2015 from a rare neurodegenerative disease.

I worked with Richard in the mid-80s over a four year period on various projects and transaction strategies, first while I was at Wedge Group and he ran Bass Inc, and later starting in 1986 when he formed Rainwater Inc and I launched my entrepreneurial career without a safety net, but with his very strong encouragement.

I was inspired by the brilliance and the boldness of his ideas, including his appetite for contrarian industry cycle risk strategies, but most of all, by his innovative and collaborative style of surrounding himself with mostly young, like-minded entrepreneurial talent and leaders.

In August of 14, after learning of his incurable illness, I wrote Richard a letter requesting a visit with him in order to express to him personally my thanks for the wonderfully positive and transformative impact that he had on my life and career, as he had on so many others. I was able to visit with Richard, his son Todd and a small administrative and medical support team in Fort Worth on September 30, 2014, for a private meeting and a lunch afterwards.

I expressed sitting in front of him, at his desk, my sincere gratitude for having been infected with the Richard Rainwater big idea way of thinking that has evolved within Carriage, since 1991 into Being The Best, Good To Great vision of Carriage, a journey of a lifetime that will never be finished.

Richard responded to my personal note of gratitude and to my gift of our 2013 Good To Great Annual Report cover and shareholder letter by giving me a five minute man hug, because his disease prevented a verbal response. I will forever cherish my relationship memories of Richard Rainwater, as well as my last visit with him. With his background about the evolution of the idea of Carriage, as a high-performance culture entrepreneurial company, it just happens to be in the funeral and cemetery industry.

I have some wonderful news for existing and prospective long-term investors. The high-performance culture concepts that today comprise Carriage are aligned with an owned 100 percent by the nine remaining members of our operations and strategic growth leadership team, including seven younger members who are like-minded entrepreneurial leaders yearning for learning and learning fast.

And we'll ensure that the continuation of Carriage's never ending Good To Great journey is not dependent on me or Dave even being here. Although, we certainly have no intention or desire not to be here, because it's just so much fun to be on the playing field for these young leaders and our Carriage army of 4E operating sales and Houston Support leaders and employees across the company.

That said, I would now like to turn the call over to Ben Brink to review our amazing performance numbers, which are so good, they would have made even Richard Rainwater, a math guy jump for joy. Ben?

Benjamin Brink: Thank you, Mel. Carriage's third quarter results continued the trend of broad-based high-performance by our managing partners and their teams. Here are the highlights.

Our same-store funeral home businesses continue to demonstrate the operating leverage inherent within our portfolio. Year-to-date this group has increased the number of families they served by 1.4 percent, while increasing revenue by 3.8 percent and increasing Funeral Field EBITDA 8.1 percent or $2.8 million. That equates to 77 percent of incremental revenue fall into EBITDA leading to a 150 basis point increase in EBITDA margin year-to-date.

In our 2014 Annual Report, we publicly stated that the only way to close the $5,400 GAAP in the average revenue per contract between the families we serve that choose a burial service versus a cremation is a continued focus on the quality of people and leadership within each business.

Through that focus, we have seen a 6 percent increase in the average revenue per contract from families, choose incrimination as an option. This has been driven by improved engagement with our cremation families and by operating differentiating service and merchandise options.

Our acquisition funeral home businesses had a tremendous third quarter and served as a perfect example of the financial and operating performance that can be achieved, when we acquire businesses through the disciplined execution of our strategic acquisition model.

While we tend to focus on year-to-date numbers, I think it is appropriate to focus on the year-over-year comparisons of the third quarter, as it is the first quarter, where we have a full year-over-year comparison from the six businesses we acquired in the SCI Stewart divestiture process.

For the quarter acquisition funeral home revenue increased 15.7 percent, while Funeral Field EBITDA increased 26.1 percent. Excluding the performance of the one acquisition we made in February this year, Funeral Field EBITDA increased 21 percent year-over-year. Field EBITDA margins for our acquired funeral home businesses increased 320 basis points in the quarter to 38.4 percent, consistent with the margin improvement we've seen on year-to-date basis.

The third quarter performance of our cemeteries continued the trend of improved operating momentum that we have experienced over the last four quarters. Year-to-date our same store cemetery portfolio has increased revenue by $1.6 million, while increasing EBITDA by almost the same amount and increasing margins 360 basis points to 31.5 percent.

Since announcing our new beginning in 2012, Carriage is focused on developing dynamic and winning cemetery sales team led by 4E sales managers and managing partners. Our results in the third quarter and over the past few years speak to this success of that focus and those teams. While we believe that we have and will continue to make smart investment in people, back office systems and high-quality cemetery inventory to ensure this success is sustainable.

Year-to-date our overhead has decreased by $1.5 million. Our overhead as a percentage of revenue has decreased from 15.6 percent to 13.6 percent. Our expectation is that overhead as a percentage of revenue will continue to decrease to approximately 13 percent, after the first quarter of 2016, as our financial results will reflect the full impact of the recent changes made to the operations and strategic growth leadership team.

Over the long-term, overhead as a percentage of revenue will continue to incrementally decline, as we leverage our support and consolidation platform to ensure the majority of incremental EBITDA falls to Carriage's bottomline. All of these incredible operating results led to our year-to-date adjusted diluted earnings per share increasing 12 percent to $1.09.

In the third quarter of last year, Carriage benefitted from the reversal of a $1.7 million tax accrual related to the resolution of an IRS audit. This reversal contributed approximately $0.10 to adjusted EPS last year. Excluding this tax accrual benefit, our third quarter 2015 earnings per share would have increased 47 percent, while our year-to-date EPS would have increased 25 percent.

On a pro forma basis, the share repurchase activity and changes to our overhead structure that have occurred in 2015 would have added $0.10 per share to our year-to-date earnings. The impact of these will be fully reflected in our results beginning next year.

Year-to-date, our adjusted consolidated EBITDA has increased $8.7 million to $53.3 million representing a 19.5 percent increase, while our adjusted consolidated EBITDA margin has increased 280 basis points to 29.5 percent.

Like Mel said, as we started our new beginning in 2012, we had an internal stretch goal to achieve a 30 percent adjusted consolidated EBITDA margins by the end of our publicly stated five-year Good To Great journey. Through the contribution of every employee here at Carriage, I am happy to say, we are going to give that goal a run for its money here in 2015 and should achieve a 30 percent adjusted consolidated EBITDA margin in 2016.

For the first nine months of the year, our adjusted free cash flow has increased 24 percent to $38.8 million. Over the last 12 months, Carriage generated $46.1 million of adjusted free cash flow, which equals $2.48 per diluted share and equates to an adjusted free cash flow yield of 11.6 percent as of yesterday.

In the fourth quarter, Carriage will have exhausted our net operating losses and become a full cash payer for federal income taxes. We will have a tax payment of approximately $10 million in the fourth quarter and we anticipate having cash tax payments equal to 90 percent of our effective tax rate going forward.

Due to the increase in cash tax payments and based on our current roughly right outlook, we expect normalized annual adjusted free cash flow to be between $40 million and $44 million. Based on our forecast for shares outstanding, this will equate to free cash flow per share between $2.40 and $2.50.

Given these outstanding operating results and the trends we currently see in our business, we are increasing our rolling fourth quarter adjusted diluted earnings per share outlook to a range of a $1.65 to $1.69. This is an $0.08 increase from our previous outlook.

It's important to note that we will no longer include forecasted acquisition activity in our rolling fourth quarter outlook. We will only include acquisition candidates signed under letter of intent that we are confident will close within the next 90 days. The current outlook includes one acquisition and only includes the shares that we have repurchased year-to-date.

As noted in our press release, Carriage has repurchased approximately 1.2 million common shares for $27.3 million at an average purchase price of $22.67. While not fully reflected in the shares outstanding reported on our trend reports, the share repurchase have reduced our actual shares outstanding by 6.5 percent to 17.3 million shares. We currently have $17.7 million available under our current repurchase program.

We view share repurchase activity as consistent with our commitment to allocate capital in order to maximize per share value over the long-term. We also view the recent volatility in the public market as an opportunity to purchase shares well below what we view as the intrinsic value of Carriage.

As Mel mentioned in his opening comments, we would like to take this opportunity to provide clarification and additional color regarding nine items that have consistently been discussed when we have met with shareholders this year.

The first of these is our capital structure. During the past three years, Carriage has undertaken a number of transactions to improve our balance sheet and to take advantage of the current slow interest rate environment. These transactions have led to a reduction in our cost of capital and a reduction in our cash interest expense. It is our belief that our free cash flow, coupled with the $137 million available on our credit facility is sufficient to execute our vision over the next five years.

We anticipate working with our current bank group to extend the maturity of our credit agreement for another five years some time in early 2016, which will ensure that the credit facility insures prior to our convertible notes. This will also allow us to lock in our current low cost capital structure that combined with our rapidly improving operating results will be an important component for Carriage to continue to build long term shareholder value.

The next subject is our leverage. Our outstanding operating performance along with the growth in free cash flow in 2015 has enabled Carriage to reduce our total debt to adjusted consolidated EBITDA leverage ratio from 5x at the end of 2014 to 4.7x at the end of the third quarter. This reduction in our leverage ratio has occurred while we have been making strategic investments in growth capital expenditures across our portfolio and executing our share repurchase program.

We have consistently pointed to our adjusted consolidated EBITDA as the approximate cash earning power of the company, as well as the most appropriate measure for investors to judge the intrinsic value of Carriage. There's also the method by which our bank group measures our senior debt leverage ratio under our credit agreement.

The almost 20 percent increase in adjusted consolidated EBITDA has led to an equal increase in the borrowing capacity of Carriage. Also, the improvement in our adjusted consolidated EBITDA margin has led to an increased amount of incremental revenue being converted into free cash flow.

We are comfortable operating our business at the current leverage ratio and it is our expectation that leverage will remain in a range of 4x to 5x over the next five years.

Next subject is our convertible notes. When we issued the 2.75 percent convertible notes in March of 2014, we saw an opportunity to replace the high costs 7 percent tied to convertible security with a lower cost and more shareholder-friendly convertible note. It also allowed Carriage to finance the acquisition of six businesses from the SCI, Stewart divestiture with subordinated financing, while maintaining sufficient liquidity under our credit facility.

Over the life of the security, the low cost of the convertible note will be an important part of enabling Carriage to generate high amounts of free cash flow, increasing our book value per share, while improving the financial flexibility of the company.

On a GAAP basis, share count dilution from the convertible note is capped at 20 percent of our shares outstanding or approximately 3.7 million shares. The dilution reported in our financial statements occurs slowly after our share price trades above the conversion price of $22.56 with the full 20 percent only reported when our share price hits $53.

An important feature of the notes allows Carriage to settle any conversion in cash, common shares or both, which can be used in the future to manage actual share count dilution. Carriage has a demonstrated history of managing our shares outstanding through repurchases, at the debts of the financial crises in 2008, again in 2011 and with our current program.

While certainly not the primary reason why we began our current repurchase program, the 1.2 million shares repurchased in 2015, represent a third of the potential dilution from the convertible notes. The 1.2 million shares are also equal to the GAAP diluted effect from the convertible notes if our shares were trading at $28.

The next topic is our capital expenditures. We have experienced an increase in growth capital expenditures during 2015, as we have taken advantage of opportunities within our own portfolio to make strategic investments in important growth markets. The largest of these expenditures have come from the construction of three new funeral homes.

Two of those businesses, Schmidt Funeral Home in Katy, Texas and Hillier Funeral Home in College Station, Texas are now opened and serving families and their communities. We expect to open the third new funeral home in Fort Walton Beach, Florida before the end of the year. These are three exceptional businesses that are led by managing partners and along with their team exhibit the best of our high performance culture. We here at Carriage are excited for the future of these services in these growing markets.

We have mostly completed $5 million of capital expenditures at our businesses in the New Orleans market that were acquired through the SCI, Stewart divestiture process. These businesses continued to perform above our expectation and we are confident these investments will only enhance their ability to continue to win market share in New Orleans.

Our current expectation is to complete $29.5 million of capital expenditures in 2015, which will include approximately $20 million of growth CapEx. We expect the amount of capital expenditures to decrease in 2016 to a range of $15 million to $18 million, split approximately 50-50 between maintenance and growth. All of these figures exclude real estate transactions.

On that note, over the next 12 months we expect to monetize approximately $9 million in excess real estate within our portfolio. Our largest real estate transaction in 2015 has been the purchase of previously leased Everly-Wheatley business we acquired during the SCI, Stewart divestiture.

It was important for us to control the real estate of this great franchise, especially as we look to build the portfolio of similar businesses in the Northern Virginia, Washington, D.C. market that we have been strategic to Carriage. We intend to continue to purchase currently leased properties when it makes both financial and strategic sense over the long-term.

The next topic is our non-GAAP reporting. Our non-GAAP is intended to provide investors with a transparent view of the recurring earning power of

Carriage. Over the past five years, the dynamic nature of our high performance culture has led to a number of severance and consulting charges that we view as non- reoccurring in nature.

Carriage has also completed a number of balance sheet transactions that have led to large one-time costs. Taken together, these have produced a higher number of non-reoccurring item that have been added back to GAAP earnings than what we expect to occur in the future.

The last topic I will cover is our financial revenue and EBITDA. Our recognized financial revenue and EBITDA are not correlated to short-term market fluctuations due to the long-term nature of the underlying preneed contracts, which have an average maturity of 12 to 14 years and the reoccurring nature of the income we earned in the investment portfolio.

We prioritize an investment strategy that focuses on recurring income that consistently accrues to the underlying preneed contracts. The recurring income is also earned through cemetery perpetual care trust accounts and is used to offset maintenance expenses in our cemeteries during the current period.

The permanent nature of the trust fund assets, since we don't have to be concerned with redemption requests, provides us with the ability to take advantage of short-term market volatility, which we were able to do during the third quarter. Since we took direct control of the preneed trust investments in late 2008, Carriage has realized approximately $115 million of net income in the trust funds, while substantially increasing our GAAP, financial revenue and EBITDA.

While we don't anticipate any large increases in financial revenue in future years, we believe current results are sustainable due to the recurring income generated by our current investment strategy as well as the net income already realized in the trust and accrued to outstanding preneed contracts that have yet to be recognized in our operating earnings.

And with that, I will turn the call over to Dave DeCarlo. Dave?

David DeCarlo: Thank you, Ben. I would like to discuss today two items. First, providing you with a perspective on our activity in the acquisition landscape of our industry, and then in conjunction with that, the status of our new marketing plan we rolled out this past May.

We, which includes Mel and our corporate development team, have visited or met hundreds of funeral homes and cemetery owners over the past two years. As a result, our potential candidate list of owners, we would like to partner with, has grown to 98.

And one way we measure our performance in the corporate development department is to see how many non-binding confidentiality, as we call them CAs, we mutually sign to share information with these candidates, which indicates we are both serious about partnering. Of the current 98 on the list, we have received 35 signed CAs or 35 percent.

Although these CAs are a critical first step that will hopefully lead us to a letter of intent, LOI, each candidate always has unique factors that can prevent us from achieving an LOI. Such as conflicts among family members, the dynamics of competition in the markets, declining market shares, non-alignment with our Carriage model, higher price expectations, demographics trends, et cetera, all factors at which we analyze to determinate a fair and reasonable valuation of the business.

Now, let's talk about how we obtain these CAs. Basically CAs come to us through two channels, either brokers or through our own initiative. Of these 35, I want to give you a breakdown of where they originated in their status.

First, from the brokers. We received only 11 in this time period. And our level of interest, two for sure, one maybe. We had no interest in the other eight. The current status of those three firms that we are interested in, we purchased one in February 2015 that was the Parchman Funeral Home in Clarksville, Tennessee and we have one, where we signed a letter of intent that Ben mentioned is in our 90-day forecast. And we're still negotiating with one that came in a month ago. We're still in negotiations with that firm.

However, there is a caveat to the broker channels, and that is through our knocking on doors campaign, which I want to explain. As you can see, very few properties are coming through brokers and that is why in 2013 Mel and I decided to determine the markets we wanted to be in, and we hit the road knocking on doors of independent funeral home and cemetery owners in those markets that we wanted to partner with.

Since then we have developed good relationships with many of them. In fact, through these relationships we were able to initiate and motivate seven of those firms to sell. Although, they ended up signing with a broker before they came to the final table and we received the CA from their broker.

The status of those seven is, we were interested after we looked at the data. We were interested in four of them and three of them we had no interest. The current status of those, we were outbid on two of them and the other two of the four are in process.

Now, with respect to the ones we received through our own initiation through our market research and knocking on doors, we have received 15. Our level of interest after looking at the CAs, the 10 we were interested in and five we no longer have interest. The current status of those 10 is one we were outbid on; two we're too priced, I should say, priced too high for our fair and reasonable depth; and there is seven that we're still negotiating. So that's the story on CAs in our activities in the consolidation of our industry.

Now, I'm going to move to the second item and that's our new marketing plan, which I have said before, we still feel that Carriage's decentralized operating model is still the best-kept secret in the industry. But with the new marketing plan we have developed and rolled out in May, both prints and videos basically explaining why Carriage is the best solution for succession planning in the industry is getting a lot of attention and traction, and the independents are realizing that Carriage is for real.

Because we are clearly explaining and showing them through testimonials, that when owners partner with Carriage, they will continue to run their businesses like owners, they are still the boss, they set their own prices, they choose their own vendors and they determine their own destiny. Plus they and their teams are part of exceptional incentive plans as well as 401(k) plans, employee stock purchase plans and great medical benefits.

Another big plus is that our Houston support group handles their back office distractions, such as legal, HR, IT, et cetera, that distract them from doing what they do best, and that's serving families; all of which alleviate their concerns of what happens after the sale of protecting their reputation and legacy and their community, their employees and their heritage of the family they' serve, because with our model, as I said, they control their own destiny.

In summary, we feel our decentralized operating model is of a significant competitive edge over our competitors, and we will be happy to mail you our video and the three initial print ads to see why we're excited, not only for our acquisition activities, but now we have a more efficient and effective way to explain the unique culture of our services. If you're really interested, either by email or U.S. mail, simply contact Viki or Ben for this information. Thank you.

Melvin Payne: Thank you, Dave. I'll end the formal comments by accumulating what Dave said. What he's created for the independent landscape out there is nothing that's ever been done before. And someone in the business can take a virtual tour and be like talking to our individual managing partners across the country with testimonials and how they view the company, former owners and et cetera, so that they get comfortable believing that what we say we are, we actually really are. And that breaks down a lot of barriers and perceptions that have been out there for a long time.

If you want to think about how we're viewing Carriage over the next five or 10 years as far as the M&A side, we would like to get in a position, and I think we're closer than ever, of never having to go through broker. The businesses were too small to involve investment bankers. Some times they have lawyers, financial advisors. But what we would prefer is to have the Berkshire Hathaway model, where we're going to pay as Charlie Munger said, a fair price for a good business.

Now, good business, we know how to qualify and quantify what that looks like now, based on our 10 strategic criteria each weighted to come out with a final ranking, which determines in a large part the valuation. Our valuation methodology is not cookie cutter. It's very specific to each business and the unique characteristics of the business and the market and the competitive standing, and it's not complicated.

We don't need very complex, precise things to show us the way. So what we want to do is pay a fair price that means a good price for a good business. That will become a better business, when it joins Carriage and all the support we have.

So we want to be the Berkshire Hathaway of deathcare, where people want to join us, but it's not easy for them to meet the criteria and the same with talent. I think we're closer than ever. It's a very exciting time for us. And I'm going to quickly call out, which I normally do at the end of the call, but they deserve it on this quarter at this point.

Third quarter high performance heroes: James Bass, Emerald Coast, McLaughlin Mortuary, Fort Walton Beach. Your new place will be ready by yearend James, you deserve it. Scott Griffith, Bergin, Lyons Funeral Homes, Waterbury, Connecticut; Bill Martinez, Stanfill Funeral Homes, Miami, Florida; Curtis Ottinger, Heritage Funeral Home, Chattanooga, Tennessee; Patrick Schoen, Jacob Schoen & Son, New Orleans, Louisiana, a repeat performer from the second quarter, one of our new businesses there and its looking good Patrick; David Rogers, Garden of Memories Funeral Home, Metairie, Louisiana, another one in the New Orleans market, second straight quarter, high-performance hero, way to go David.

Central region, Roger Allen, LaGrone-Blackburn-Shaw Funeral Homes, Amarillo, Texas, another repeat winner from the second quarter; Mark Ratliff, Carman and Robertson Funeral Home, Flatwoods, Kentucky; Jeff Seaman, Dwayne Spence Funeral Homes, Ohio, way to go Jeff; Thomas Omick, Sullivan Funeral Homes, Marshall, Texas.

In the west region, Michael Nicosia, Ouimet Bros Concord Funeral Chapel, Concord, California; and Chapel of San Ramone Valley in Danville, California; Matthew Simpson, Fry Memorial Chapel, Tracy, California, another repeat performer from the second quarter and Nicholas Welzenbach, Los Gatos Memorial Park, San Jose, California, that is the heart of Silicon Valley; way to go Nicolas. And finally, (Houston Support), Sunny Weiner. Sunny is sunshine all the time; and Winner, you could say a sunshine winner. She wins and she shines, thank you Sunny, and she heads our payroll.

Thank you for that, will not take your questions.

Operator: Ladies and gentlemen, at this time, if you have a question, please press the star then the number one key on your touchtone telephone. If your question has been answered or you wish to remove yourself from the queue, please press the pound key.

Our first question comes from Alex Paris from Barrington Research. Your line is open

Chris Howe: Hi this is Chris Howe sitting in for Alex Paris.

Melvin Payne: Hi Chris.

Chris Howe: Howdy, how are you?

Melvin Payne: Couldn’t be better.

Chris Howe: Congratulations on a good quarter.

Melvin Payne: It is a good company, not just a quarter.

Chris Howe: I agree. And just a few questions, I guess, now that you're excluding acquisitions from guidance unless there is a signed of letter of intent, I wanted to see if you'd be able to provide any color around the recently signed LOI. Was this an average size deal? When do you expect to close on this?

Melvin Payne: It's a nice business, really nice business, dominant, growing market. I'd say, it's not a huge business, but it's our sweet spot. It's going to be additive. And I am sure you want to know how much, right?

Chris Howe: That would be helpful.

Melvin Payne: I think you're going to have to wait and see. It's a fantastic business, fantastic family, and they're going to be great partners.

Chris Howe: And I guess, just to piggyback on some of Dave's comments about the acquisition strategy that's laid out, I guess the confidence still remains very high in the aggregate value left in the immediate acquisition pipeline?

Melvin Payne: Look, Dave and I are joined at the hip and been out with him, we've traveled the country. We're in a very unique spot here. I'm sorry not everybody knows the landscape out there, but there are still a lot of great independent businesses. But we don't just go out trying to buy them and try to use our low cost to capital to pay up, so that they sell for money.

We want to be paying a fair price when the alignment is there for them to be a motivated transfer of their ownership to Carriage, but still feel the ownership because of their involvement. We're a succession planning solution, not an acquisition company looking for deals.

That's what we did in the '90s and it was a train wreck at the end of the day. So we're going to be patient. We're going to be disciplined. We're going to build these relationships only with the best remaining independents in America. And we're going to be selective, because they all know who the other great businesses are. And if you start diluting a quality of who you are and become something else, then you're not who you say you are.

We want to be the best succession planning solution there ever has been and make a good business better, because they join us. And that's the kind of feedback we get all the time from our existing owners. You can go on the website and look at the videos that Dave has now produced.

If anybody wants to get excited about what we are and also understand what we're not, it's easy to check us out. We'll give you names of people to call anywhere in the country anytime. All you got to do is call. They will tell you what they think. And they will tell other independents what they think. There is no shortage of acquisition candidates over the next five or 10 years to grow this company. It's just a shortage, and we're not going to do it, so someone can model it over a quarter or two. I decided that, but that was a bad practice and we've stopped it.

Chris Howe: OK, thank you for the color. I appreciate it. And just one last quick question. Just a bookkeeping question, what type of tax rate is expected in Q4 and I guess moving forward from there?

David DeCarlo: I think our tax rate will be consistent with what it has been in the past couple of quarters at approximately 40 percent.

Chris Howe: OK. Thank you.

(Crosstalk)

Chris Howe: Thank you.

Melvin Payne: Thank you.

Operator: Our next question comes from Bilal Yehia from Raymond James. Your line is open.

Bilal Yehia: Hi guys, thanks for all the color on the call. Just had a few quick ones that you kind of touch on, I was hoping you would elaborate. Concerning the CapEx spend kind of slowing down and the split going 50-50 in '16. Can you explain why the delta between your maintenance and your kind of actual CapEx number is what it is and how you guys are thinking about that benefit in out years?

Benjamin Brink: Yes, I mean I think we -- on the maintenance CapEx side, we've kind of always been in the range of that $7.5 million to $9 million. And I think we'll be in that range again next year. The growth in CapEx this year was kind of a one-time event, where we had a number of projects that have been in the works for a couple of years, that kind of all came to end during the middle of this year, so we're getting through that. We have identified a few other larger strategic growth projects that we'll wrap up next year. And we expect CapEx to kind of normalize even after 2016.

Melvin Payne: We added all to do it all over again with less growth CapEx. We had some concern by some investors that we were spending too much on growth CapEx, but these are unusual situations in really wonderful markets growing great businesses, great leadership. If you don't get out in front it, someone else will come in and take advantage of it.

So we know it was the right thing to do. We don't have a whole bunch more of those, so the growth side will diminish on the funeral homes and be more normalized, so we'll have a lot more free cash flow without that internal build available to create value for shareholders.

Bilal Yehia: Great. And then kind of just comparing your rolling outlook in 2Q versus where it stands today, obviously now you only have the one deal in there, previously you had deals. And I guess your EPS number does not include incremental share repos, if I have it correctly. So can you just kind of walk through the moving parts there of the delta, primarily on the consolidated EBITDA line and the EPS line?

David DeCarlo: It's really driven by the performance of the operating business, as we continue to see the momentum and the trends moving forward. The addition of the acquisition we intend to make in the next 90 days, and in the respect of our share repurchase program, where we've already done the $1.2 million year-to-date. Those are kind of the three drivers of it. I can't speak to the specifics of it.

Benjamin Brink: I'll mention one more thing on the overhead. It's been amazing really to see what's happened in this company. You never know how the future will lay out when you launch a big theme, a big idea theme like Good To Great over five years, and you populate the leadership with a lot of young leaders come in, But over the last three years and nine months, we started that operations and strategic growth leadership team at the beginning of '12, we've had 23 people come on that team, now we have nine left.

And I will tell you, the company is like so much better with the nine we got who are all going to be here for the rest of the journey and after, because we're ready to find another five year theme at the end of next year. It never ends. But this team is the real team and it's the reason Dave and I don't have to worry about a succession plan. The future of the company is within this team and within the company.

We're both younger and energized because of them. And we're not going anywhere. We're having the time of our lives. This thing is going to be a value creation machine over the next 10 years as we affiliate with the best remaining independents and we get better operationally.

You can see it in the numbers. The data don't lie. And this is not an accident. This has been in the making we've written about it, it's just come to fruition and has become very clear this year, especially over the last six months. And the trend, is our friend, I don't see any rain or storms in our landscape. I only see it just continuing to get better. So that's where I am personally with it.

Capital allocation, we're going to be opportunistic, just like we been with the share repurchases. It makes no sense to me, for the company reselling in 21 and chain, so we've bought in the shares, I hope we can buy them more. If you got any out there, sell them to us, we'll buy them. Makes no sense, the company is getting too good too fast. This is not complicated. I don't need rocket science to figure this out.

So we just want people to understand where we're going with a long-term. We're not in it for a quarter or two. We're in it for a very long time, and so is this team and so is the rest -- the thing about Carriage is, this is not just here. If you are interested in a long-term investment, call around the company and talk to the people in the company, in the businesses. We'll give you their numbers or you can find them on our website, call them, ask them. Any more questions?

Bilal Yehia: I actually just had one last one, and that was a very thorough answer. It's impressive to see with that M&A kind of the long full quarter move along in such a positive trajectory. Kind of just quickly, when you guys begin to include deals and you're talking about the 35 signed CAs you have out there, do you only kind of look for the next 90 days?

Melvin Payne: Say that again now?

Bilal Yehia: So when you guys are talking about the 35 signed CAs that you have out there on your 98 potential candidates …

Melvin Payne: Oh, yeah

Bilal Yehia: … M&A. Are you guys only including deals you think will close in the next 90 days?

Melvin Payne: No, no, no. That's a pipeline. We're only including in the outlook, deals that have an LOI that we are certain will close within 90 days. The other CAs are outside, being reviewed, being analyzed. They are not in any outlook, it won't be, unless they get signed and we're going to closer them within 90 days.

Bilal Yehia: Got it, makes sense. Thanks a lot. Good quarter.

Melvin Payne: Thank you. Good company.

Operator: Once again, ladies sand gentlemen, if you have a question at this time, please press star then one on your touchtone telephone.

Our next question comes from Adam Bilko from Aakon Capital. Your line is open.

Adam Bilko: Hello everyone, thank you for taking my question. I was just wondering if you could talk about the industry structure and its profitability. I mean, isn't the market structure in a way that basically 20 percent of the funeral houses make 80 percent of the profit? And then I have a follow-up.

Melvin Payne: So Adam, I read your piece yesterday, man, and you need to come here and spend some time. That concept you put out there is about the opposite of what we see. Sorry to give you the bad news. But we don't need -- well, I don't even know what industry structure even means. We have no idea about the industry. We are here getting better and playing our course, just like we've got course. I don't care what the rest of the industry is doing. It has nothing to do with Carriage.

What we do is try to find the best businesses in the best markets. That's not easy. But when you find them, you will be able to grow future revenues at 4 percent or higher. If you can do that, we know what they will make under our standards operating model within a range, you will be able to grow the field EBITDA at a higher rate of growth than the 4 percent revenue growth.

If you look at the acquisition portfolio we have right now today, everything we bought in '11, '12, '13, '14 and one this year, they are growing at much higher rates of growth, both revenue and field EBITDA than our same-store portfolio, which we bought mostly in the 90s. However, even the same-store portfolios are growing at good rates of revenue and higher rates of EBITDA.

So I don't know what it means. We don't get 80 percent of our profits from 20 percent of our businesses, that's some other industry or some other company I know nothing about. We're getting a lot of profit across the portfolio from all of our businesses or we would know them.

Adam Bilko: I was just wondering to what extent do you think that basically Carriage Services revenue can grow organically in the future. I mean, if you don't include any acquisitions in, I don't know, next five years?

Melvin Payne: Well, we are going to include acquisitions. I mean that's a theoretical question, it just won't be true. I mean, our same-store revenues are up. If you look at the nine months, same-store funeral revenue up 3.8 percent, our same-store funeral EBITDA up 8.1 percent, our same-store cemetery revenue up 5.3 percent, our same-store cemetery field EBITDA up, what, Ben, 15-16 percent?

Benjamin Brink: Yes.

Melvin Payne: Yes. And the acquisition portfolio is even better. Now, this is all spelled out in the press release. This is easy.

Adam Bilko: OK, thank you.

Melvin Payne: You're welcome.

Operator: At this time I am showing…

Melvin Payne: All rght…

Operator: … no further questions. I would now turn the call back over to Mr. Mel Payne.

Melvin Payne: The way you have a great quarter is you have a great company. We're not great yet, but it was a really good quarter by a really good company, getting better fast. That will not continue -- I mean that will not change. All of us here want to grow the per share in-transit value overtime.

We want to do that in three ways. Being the best operating company of what we got, buying really good businesses at fair prices, having them become better overtime to join our others, controlling our overhead; getting smart and efficient at better supporting these businesses overtime; but most of all being smart investors with our capital.

We are all in this for the equity value growth over the next 10 years, every single one of us. We are spending a lot of time in our company, teaching valuation methodologies and value creation strategies in everything we do and every job we have.

It's working. It's going to just keep getting better and better. We want to create value per share like Berkshire Hathaway over the next 10 years, that's what our goal is. And we want to have companies join us and not want to join anybody else, but only the good ones.

If we keep doing what we're doing, these kinds of ideas, then vision of our company will come true just like night follows day. We hope you join in the journey. It's getting to be a lot of fun, more fun than we've ever had before. And I don't expect it to cease anytime soon. Thank you for calling.

Operator: Ladies and gentlemen, thank for your participation in today's conference. This concludes the program.

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