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Carriage Services, Inc. - Special Call

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## CORPORATE PARTICIPANTS

**Carl Benjamin Brink** *Carriage Services, Inc. - CFO, Senior VP & Treasurer*
**Melvin C. Payne** *Carriage Services, Inc. - Founder, Executive Chairman, CEO & COO*
**Viki King Blinderman** *Carriage Services, Inc. - Principal Financial Officer, CAO, Senior VP & Secretary*
**William Goetz**

## CONFERENCE CALL PARTICIPANTS

**Alexander Peter Paris** *Barrington Research Associates, Inc., Research Division - Director of Research and Education & Business Services Analyst*
**Christopher Paul McGinnis** *Sidoti & Company, LLC - Special Situations Equity Analyst*

## PRESENTATION

**Operator**

Ladies and gentlemen, thank you for standing by, and welcome to the Carriage Services Conference Call. (Operator Instructions) I would now like to hand the conference over to your speaker today, Viki Blinderman, Senior Vice President and Chief Accounting Officer. Please go ahead.

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**Viki King Blinderman** ***Carriage Services, Inc. - Principal Financial Officer, CAO, Senior VP & Secretary***

Thank you, and good morning, everyone. Today, we'll be discussing the several points as noted on the press release made public yesterday after the market closed, which are the acquisition of Fairfax Memorial Park and Funeral Home, the company's Milestone Two-Year Scenario and Bill Goetz joining us as President and Chief Operating Officer and as a member of Board of Directors. Carriage Services has posted a press release including related supplemental financial tables and information on the Investors page of our website.

The audio conference is being recorded, and an archive will be made available on our website later today through December 10. Replay information for the call can be found on the press release distributed yesterday.

On the call today from management are Mel Payne, Chairman and Chief Executive Officer; Ben Brink, Chief Financial Officer, and for the first time, Bill Goetz, President and Chief Operating Officer.

Today's call will begin with formal remarks from management followed by a question-and-answer period. Please note that during the call, we'll make forward-looking statements in accordance with the safe harbor provision of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical information should be deemed to be forward-looking statements. These statements include, but are not limited to, statements regarding recently closed and pending acquisitions, the effects and timing of those acquisitions, the anticipated financing of the acquisition, the anticipated cost savings, operational improvements and other benefits related to the acquisitions and the effect of such acquisitions on the company's financial performance, our Milestone Two-Year Scenario, any projection earnings revenue, asset sales, cash flow, debt levels or other financial items, any statements of the plan, strategies and objectives of management for future operations, any statements regarding future economic and market conditions or performance, any statements of belief, and any statements of assumptions underlying any of the foregoing.

Forward-looking statements contained herein regarding the performance of our acquisition and same-store businesses include assumptions related to future revenue growth. We can provide no assurances that our acquisition and same-store businesses will generate the revenue growth discussed today or any revenue growth at all.

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-K and other filings with the SEC. Forward-looking statements, assumptions or factors stated or referred to on this conference call are based on information available to Carriage 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.

Furthermore, during the course of the morning's call, we will reference certain non-GAAP financial performance measures.

Management's opinion regarding the usefulness of such measures, together with a reconciliation of such measure to the most directly comparable GAAP measures for historical periods are included in the press release and the company's filings with the SEC.

Now I'd like to turn the call over to Mel.

**Melvin C. Payne** ***Carriage Services, Inc. - Founder, Executive Chairman, CEO & COO***

Thank you, Viki. There is so much great news about our company to discuss today that it is difficult to even know where to begin. So let me start with the introduction of Bill Goetz, Carriage's new President and Chief Operating Officer. Before I turn the call over to Bill for his own introductory comments to all of you on this call, including a very large number of Carriage leaders and employees across the country, I want to cover a few key points about my search for a new COO, after stepping back into this role on October 31, 2018.

First, I initially expected to begin the search in the first quarter of 2020 and to have a new President and Chief Operating Officer in place prior to year-end 2020. I certainly had no intention of turning over a work in process operating performance turnaround that had not yet clearly turned around to a new Chief Operating Officer. But our operational performance turnaround advanced more rapidly than anticipated over this past year, and especially over the last 2 quarters. And I got lucky when my son, Preston, introduced me to Mark Magruder, who is the founder of a boutique executive search firm who came highly recommended from several successful searches (inaudible) of Preston's best friends.

After deciding to use Mark, I warned him early that I had experienced 8 strikeouts in 8 at bats with the big 3 or 4 of national executive search firms and they might just be taking on an impossible mission.

Secondly, Mark followed perfectly the methodology of the title of our senior leadership team that meets each Friday at 10:00 a.m. We call this team the 4L team, and it was constituted at the end of last year. Each L has a special meaning in the following sequence: Number one, the first L stands for listening to each other and especially to the managing partners of our portfolio of businesses. The second L stands for learning from each other, and especially from our managing partners. The third L stands for leading, 4E leaders, which is our leadership model develops strong followship from other leaders, and especially from our managing partners. And finally, the last L stands for loving. Loving being part of a truly unique high-performance culture that is not easy to join. And once in, it's difficult to contribute to, and therefore not meant for most people.

In other words, Mark understood the strong servant yet high-performance leadership characteristics needed by our next President and COO, which is why I thought this search might be an impossible mission.

Third, Bill Goetz was first on the list of candidates presented by Mark in September. And because he was already in Houston, he was the first candidate that I met with on Saturday, September 28. After Bill and his wife [Joey] joined my wife, [Karen] and I for dinner a week later, on October 5, Karen said to me when we got home and I quote, "Bill is perfect, and you'll never find anyone better than him. Plus, Joey is wonderful. And as a couple, our managing partners will love them as part of the Carriage family."

Nevertheless, the process continued with multiple candidates while Bill was separately vetting numerous opportunities running companies owned by private equity firms. I knew it was time to bring this successor leadership search in for a successful landing after recently receiving written assessments on Bill from 12 managing partners and a former owner from our Northern California portfolio of businesses through 7 questions I had developed for all candidates that had been interviewed. The first 3 questions and the last question were as follows: Number one, do you believe Bill has the capacity and ability to learn about funeral and cemetery operations. Number two, do you believe Bill has the capacity and ability to adapt to a small company with a unique business model and collaborative, high-performance team culture. Number three, do you believe Bill has the right leadership characteristics that align with our 4E Leadership Model. And the seventh and last question, rank Bill on a scale of 0 to 10, with 0 being don't hire and 10 being, he's the perfect candidate, hire him now. If I had to sum up the responses to Bill's visit with some of our best field operating leaders, I would simply say it was love at first sight, just like my wife had predicted it would be. So I am truly honored and excited to introduce Bill Goetz as Carriage's President and Chief Operating Officer. Bill, welcome to the Carriage family as our new leadership partner.

**William Goetz**

Great. Thank you, Mel, for that introduction. And my comments are going to be short. This is day 2 on the job for me. So as Mel said, I have a lot to learn about Carriage and the industry. But I can't tell you how excited I am to be a part of the Carriage team, and I'm also very humbled and honored to be a part of this team and have a chance to work closely with the entire team.

Mel mentioned, as I was going through the process to look at opportunities, I had some other opportunities come my way. And I just thought I'd share briefly why Carriage seemed like the perfect fit for me. First and foremost, it was really the culture. And as we all know, culture is really about the people. But I can tell you is that I visited both the team here in Houston, but probably more importantly, the team in Northern California, how impressed I was with the passion and the purpose that the team at Carriage has. And it is truly a leadership culture, and that's what I was really looking for. That stood out first and foremost.

Secondly, at this point in my career, I was really looking for what I'll call meaningful work. And I've worked for 3 great companies that provided great products and services, but at this point, I was looking for something more. And obviously, what Carriage does each and every day for families as they go through a terrible event in their life. I was just blown away by the services that they deliver and how they deliver those services with compassion. And then the third reason for Carriage for me was really about the opportunity. So I spent a lot of time looking at the macro trends in the industry that are very positive, if you know the industry, but also probably more importantly, I looked at Carriage's position and their model in the market and felt like they have the best model and will be able to continue to capture that opportunity that is out there for them. So obviously, Mel and the team have had a unbelievable run here in the business over the years. But I looked at it as the best days ahead -- the best days are ahead for Carriage. So those are really the reasons I joined. I'm so excited to be a part of the team. And I'll turn it back over to Mel.

**Melvin C. Payne** ***Carriage Services, Inc. - Founder, Executive Chairman, CEO & COO***

Thank you, Bill. We're honored to have you and it's going to be a lot of fun. We'll celebrate a lot of success. We'll hit some bumps on the road. We'll learn from that too. Next thing I'd like to cover is Fairfax Memorial Park and Funeral Home, which we announced yesterday. There's a lot of substance in the press release, I covered a lot there in describing this wonderful legacy business and its history, the owners and the current leadership. I met Mike Doherty, as I said, about 10 years ago, at a conference and his wife and my wife. And so we've been with them over the years from time to time and enjoyed their company. And the more I learned about Fairfax Memorial Park and Funeral Home, the more I could only dream about someday, maybe, maybe, they would be one of our partners. When I first started Carriage, I started hearing about some of these legacy businesses and large businesses in L.A. and here and there. And for a lot of years, I thought, maybe I just missed out on any chance to get one of those. And we don't have another business like Fairfax in our portfolio. And when our people saw what it looked like under the covers and performance, and even more importantly, what it could look like in 5, 10 and 15 and 20 years. And we did forecast and all this. We did base case upper case, blah, blah, blah. We couldn't come up with a case to just one like too good to be true. And so this is a real honor for us that Mike and his board chose us earlier in their process. We got a chance to go up and make a presentation. So I would like to extend our thanks and congratulations to Mike Doherty and his wonderful team of leaders and employees, Fairfax Memorial Park and Funeral Home for becoming by year-end, the newest member of the elite group of being the best businesses that comprise the current Carriage family. And we are truly honored that Mike and his fellow board members and legacy shareholders chose us as their succession plan very early in their process.

And we will work hard with Mike and each of the leaders and employees of this signature legacy business in the Washington, D.C., Northern Virginia area to justify the trust they have placed in us. I would also like to specifically thank the Carriage team that made the presentation with me in Washington, D.C., to Mike and his fellow board members, and those team members were Shawn Phillips, Chris Manceaux, Peggy Schappaugh and Steve Metzger. And I would also like to give special thanks to the sixth member of our team, James Schenck. James is President and CEO of Pentagon Federal Credit Union, PenFed, and is a board member of Carriage since 2016, and has an intimate knowledge of Fairfax Memorial Park and Funeral Home from his time at the Pentagon where he monitored the degree of professionalism and care provided by area cemeteries to our brave soldiers killed in the Iraq and Afghanistan wars.

James' contribution was extremely important to the Board of Fairfax, to me and to Carriage's leadership team. Thank you so much, James.

And lastly, but very importantly, I would like to thank Dewayne Cain, former owner of Rest Haven Funeral Home and Cemetery, which joined the Carriage family on October 28, 2019, after 50 years of visionary leadership by Dewayne. Dewayne told me after first meeting all of the wonderful Carriage team here in Houston, and especially after meeting our integration team after our closing in Dallas, that he wanted to be the best ever testimonial for Carriage, as a unique and very different family succession solution to the owners of the very best remaining independents in the U.S. So I asked Dewayne to practice this Carriage testimonial on our last conference call hosted from Dallas, which everyone thought was wonderful. So when Mike Doherty expressed the desire during our Washington presentation to check us out from our similarly concerned prior owners viewpoint before a binding agreement was reached, I asked him to please call Dewayne. Mike had actually listened at the beginning of their process to our conference call recently from Dallas when Dewayne practices Carriage Testimonial. Dewayne, you have your testimonial down, and the rest, as they say, is history. I look forward to Dewayne and Mike and I sharing time together in the near future. Thank you, Dewayne, for being a dream partner and a dear friend. And lastly, before I turn the call over to Ben, I want to cover the subject of shareholder value creation from flexible and opportunistic versus formulaic capital allocation. For those of you who might be somewhat new to the funeral and cemetery operating and consolidation sector, a little history might put our recent bold acquisition moves using additional leverage into a bigger -- a better big picture perspective. Number one, Carriage was founded in 1991, just as the number of domestic public consolidation companies exploded to 5 when Carriage went public in August 1996. Starting in the early 1990s, an [acquisition] mania, gained traction and momentum on Wall Street, as each company began to be judged by analysts and investors by the size and increases in their annual acquisition spending budgets rather than by traditional metrics like EPS, free cash flow and balance sheet leverage. This was not my background, but of course, I went along with the flow. All 5 public companies use bank revolving credits to fund rapidly increasing annual acquisition spending followed by secondary share offerings to pay down maxed out revolving credits. Then the process repeated itself at a higher speed and bigger amounts and the stock prices kept rising. The supply of common stock available to investors exploded. And was covered by 11 or 12 sell-side analysts at the peak of the consolidation mania in '98, early '99. None of the 5 public U.S. companies, including Carriage, focused on free cash flow from operations, flowed by savvy even wise long-term capital allocation. The inevitable crash came in early '99 when CSV shares briefly hit an all-time high of $29.25 during a year when Carriage had negative free cash flow of over $10 million. Go figure.

Three, after surviving a 5-year period of financial and organizational restructuring, we committed to becoming a good operating company defined by the right fundamental metrics using an innovative new standards operating model. Starting in late 2006, SCI began to consolidate all the remaining public consolidators, except Carriage, beginning with Alderwoods, then Keystone; and finally, Stewart Enterprises in 2013. SCI had previously acquired ECI, at the beginning of '99. So SCI hugely shrunk the supply of public shares available to investors in our niche death care sector of buying all the other public consolidators. Then SCI and Carriage began to acquire our own shares through buyback programs without becoming over leveraged. Shrinking the public death care common share supply even more.

Notably, there has not been a public common share offering either initial or secondary in the U.S. in 20 years since Stewart Enterprises did a large secondary offering in August 1999. Both SCI and Carriage have substantially grown revenue through acquisitions since the end of 2006. In Carriage's case, we have more than double revenues from just over $150 million in 2006 to about $320 million next year. Both SCI and Carriage have grown consolidated EBITDA margins and free cash flow much faster than revenue to support the increased dollar amounts of leverage as well as share repurchases and dividends. Also notably, no lender to a public U.S. death care company, to my knowledge, has lost money, either principal or interest on the increased dollar amounts of leverage employed over the last 20 years. And in fact, the credit profiles of both SCI and Carriage have improved dramatically over this time frame, including during the great recession and market panic and crash in 2008, 2009, when there was no credit for nobody, we produced our own cash from operating free cash flow. Specific to Carriage, we have repurchased our shares aggressively during 5 different time frames over the last 13 years, starting with the market crash in September 2008 when I was accused of driving the company over a cliff, and we had no maturities for the next 6 years and bought the shares out of free cash flow. We allocate cash to repurchase shares, whenever the price of our shares seems disconnected on the low side to the intrinsic value per share based on free cash flow fundamentals and the underlying trends of our portfolio of businesses.

Our share repurchases since 2008 total about 8 million shares from the flexible allocation of $102 million of cash capital, equal to an average price per share of $12.68. We also have made balance sheet moves at specific times over the years to align each component and its terms for better long-term execution of our operating and growth models. Most recently, the balance sheet recapitalization we executed in May '18, initially seemed ill timed because of its much higher interest cost, which together with simultaneously declining operating performance trends, dramatically reduced our earnings and free cash flow and led to a steady stock decline beginning in the second quarter of 2018, and then a crash in the fourth quarter of '18 to a low of $14.50 on Christmas eve and a year-end close of $15.50. We publicly announced the operating performance trend issues and operating leadership changes on November 1, 2018. Together with the beginning elements of a turnaround plan. And then we subsequently repurchased 1.5 million shares during the fourth quarter of '18 and the first quarter of '19, for a total capital allocation of $25.3 million, equal to $16.87 per share.

I also personally acquired an additional 150,000 shares during the fourth quarter of '18 at an average cost of $16.40 per share. Allocating precious cash capital to repurchase shares in late 2018, early 2019 was the opposite of what we stated as leverage policy when we initially issued our 8-year unsecured 6 5/8th notes in May of '18, and was only done knowing that we had the underlying cash earning power that would soon be unleashed to support the additional leverage.

Similarly, a sudden and large amount of capital being allocated to our recent acquisition activity is being done with conviction based on hard-earned and learned experience and knowledge that the last 15 months culminated by our recent best-in-class strategic acquisitions will have positive even transformative shareholder and credit profile consequences in the years ahead.

So what will be the next opportunistic allocation of our much higher level of free cash flow over the next 2 years. That's a no-brainer. As the 2-year roughly right scenario in our press release shows by rapidly paying down our debt used to first repurchase shares and then recently make 4 large transformative acquisitions, we will greatly enhance the predictability and sustainability of our fundamental metrics of EPS and free cash flow, which over time, we assure will increase the value of our remaining outstanding shares, while simultaneously improving the credit profile for our banks and bondholders by deleveraging our balance sheet.

In summary, and with perfect time sight, the dramatic balance sheet and operating leadership changes in 2018 position the company to make the recent bold acquisition moves we have covered in our press release yesterday and conference call today. We are confident that we are now entering a long-term value creation up cycle for Carriage, as we will over the next 2 years, and finally reach a critical mass in total revenue, consolidated EBITDA margin and free cash flow. But most importantly of all, we will have achieved a reputation for being the best succession plan solution for the best remaining independent businesses in our industry, an achievement that I could only have dreamed about when cofounding Carriage on June 1, 1991.

I will now turn the call over to Ben for his formal remarks that will put some meat on the bone of this big picture skeleton that I just described. Ben?

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**Carl Benjamin Brink** ***Carriage Services, Inc. - CFO, Senior VP & Treasurer***

Thank you, Mel. And thank you, Bill, for your comments. I'm excited to have you as part of the leadership team and look forward to working with you in the future. Given the significance of the Fairfax acquisition and the timing of the 4 high-quality acquisitions in a 3-month time frame, we believe it is important to provide investors with a roughly right scenario to highlight the significant operational and financial performance milestones we expect over the next 2 years. This scenario anticipates continued momentum in Carriage's existing operations, the full operational integration over the course of the next year of Fairfax, the 2 recently completed acquisitions of Lombardo Funeral Homes in Buffalo and Rest Haven Funeral Home and Memorial Park in Rockwall, Texas, and another large combination business in Northern California that we intend to close in early January. This scenario does not include any other acquisition activity and assumes that all excess free cash flow is used for debt pay down.

For next year, 2020, we anticipate total revenue to be $318 million to $322 million, total field EBITDA to be $129 million to $133 million, total field EBITDA margin to be 40% to 41%, adjusted consolidated EBITDA of $94 million to $98 million, adjusted consolidated EBITDA margin of $29 million to $30 million, adjusted diluted earnings per share of $1.62 to $1.72, adjusted free cash flow between $46 million and $48 million and year-end total debt-to-EBITDA ratio of approximately 5x.

Today, we currently have a pro forma debt ratio at the end of the third quarter of 4.8x. And we previously, at the beginning of the year, had an adjusted consolidated EBITDA, fourth quarter outlook of $77 million to $79 million, so quite a progress over this past year.

In 2021, we expect to achieve the important operational and financial performance milestones for Carriage. Total revenue over $325 million, adjusted consolidated EBITDA of approximately $100 million with adjusted consolidated EBITDA margin above 30%, adjusted diluted earnings per share close to $2 and a total debt-to-EBITDA ratio below 4.5x. The achievement of these milestones will demonstrate the continued momentum in our existing businesses. The successful integration and the beginnings of the organic growth opportunities of the 4 large, high quality acquisitions, and our ability to rapidly delever through the growth of recurring free cash flow. The achievement of these milestones will also demonstrate that the disciplined execution of Carriage's 3 core models, the Standards operating model, the 4E Leadership Model and the strategic acquisition model, over time, will produce superior long-term shareholder returns, driven by the combination of the 4 financial leveraging dynamics that exist within our business. I will take a moment to review each of these value creation dynamics in the context of the exciting announcement of today as well as our continued focus on a strong finish to our Carriage Services 2019 back to the future a new beginning Part 2.

The successful execution of our strategic acquisition model will see Carriage partner with the best remaining independent funeral home and cemetery businesses in large demographically attractive strategic markets across the country. We expect these businesses to have higher-than-average organic revenue growth rates that can be leveraged into even higher growth rates in field EBITDA at high and sustainable field EBITDA margins. Based on our evaluation of Fairfax Memorial Park and Funeral Home, we can think of no better example of this concept. By leveraging our consolidation platform, we will ensure that field EBITDA from Fairfax and the another announced acquisitions will substantially add to adjusted consolidated EBITDA and be increasingly accretive to earnings per share over time. Additionally, adjusted free cash flow after our mostly fixed interest costs and our annual maintenance CapEx of $9 million to $10 million will grow at a faster rate than overall revenue, which will directly benefit existing shareholders through disciplined capital allocation over the long term.

One of the primary goals that Mel mentioned, of our balance sheet recapitalization in May of 2018, was to provide us the necessary financial flexibility and capital structure leverage to execute our strategic acquisition model over time. We are pleased to announce that we received commitments from our credit facility bank group to increase the size of our revolver to $200 million and allow for a higher maximum leverage ratio covenant throughout 2020. We thank them for their continued support of Carriage. We expect initial total debt to pro forma leverage ratio of approximately 5.6x at year-end 2019, falling to 5x at year-end 2020 and be under 4.5x by year-end 2021. We believe our ability to rapidly delever through growing and reincurring free cash flow generation along with the opportunity to acquire 4 large businesses and growing strategic markets, allow for Carriage to have a higher leverage profile in the short term.

In the long term, we believe the credit profile of Carriage will continue to improve as we demonstrate a more consistent financial profile with a larger company at a almost $100 million annual EBITDA, all with an improving organic growth rates at higher sustained field and consolidated EBITDA margins than we've historically achieved and with a lower debt-to-EBITDA leverage ratio.

Fairfax, along with the other 3 acquisitions we've previously announced, all share common characteristics regarding local operating leverage. All of them are large businesses in growing markets that have the ability to grow market share through the reputation they've built and on the high-value personal service they provide to client families each and every day. This modest growth in organic revenue can be leveraged into higher growth in field EBITDA at sustainable and expanding field EBITDA margins over time. This is especially true of large-scale cemetery and combination businesses where operational synergies between the funeral home and the cemetery provide greater opportunities for organic growth at higher margins. We are also excited about long-term opportunities to invest capital, primarily cemetery inventory development in these large cemetery operations at very attractive rates of return.

Finally, by leveraging Carriage's overhead and support platform, we're able to successfully acquire and begin to integrate Fairfax, Lombardo, Rest Haven and 1 additional combination business, all within a span of 3 months. Over time, we're also able to leverage our overhead platform to ensure revenue grows at a faster rate than regional and corporate overhead costs. Given the size and revenue profile of Fairfax and the other acquisitions over a small number of actual facilities, this dynamic of overhead leverage will be even more prevalent in our results in the coming years.

We also believe that the addition of such high-quality businesses will provide Carriage the additional benefit of challenging consistent improvement in our support platform as the best ideas in Carriage are always driven by our managing partners and their teams in local markets. As you can tell, these are some exciting times here at Carriage. None of this excitement would be possible without the tremendous progress we have made over the past year, and we cannot thank our managing partners, their teams, along with our home office support staff for all their hard work and dedication. We look forward to finishing 2019 strong with continued focus, building momentum into 2020, while successfully integrating these 4 wonderful businesses.

We also look forward to reporting our year-end results in late February, and keeping everyone up-to-date on the closing dates of the remaining 2 transactions over the next few weeks. And with that, I'll open the call up for questions.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) And our first question's from Alex Paris from Barrington Research.

**Alexander Peter Paris** ***Barrington Research Associates, Inc., Research Division - Director of Research and Education & Business Services Analyst***

Congratulations on the acquisition and the addition of Bill Goetz.

**Melvin C. Payne** ***Carriage Services, Inc. - Founder, Executive Chairman, CEO & COO***

Thank you very much. We appreciate you asking on the last call when we would put out a near-term scenario. I think we delivered a Christmas present early.

**Alexander Peter Paris** ***Barrington Research Associates, Inc., Research Division - Director of Research and Education & Business Services Analyst***

Yes. No, I appreciate it. Bill, I look forward to getting to know you. I'm not going to put you on the spot this morning on day 2. But just looking at your background, the very, very high-quality companies, Sysco, Ecolab, and most notably, from my perspective, Cintas in your background. I covered Cintas for more than a decade. In fact, I covered the entire uniform rental and laundry business. And that Cintas had a very special and unique culture as well.

**William Goetz**

Yes, appreciate that, Alex. Look forward to meeting you.

**Alexander Peter Paris** ***Barrington Research Associates, Inc., Research Division - Director of Research and Education & Business Services Analyst***

Yes, same here. So I'll just kind of move into a couple of questions about Fairfax. This looks like one of the largest acquisitions I've ever seen you guys make. I've been covering the company for 7 or 8 years now since 2012. And then looking at the other acquisitions that you've made over the last 3 months. They share the common characteristic of being larger in the strategic markets, faster growth rate, higher margin. My first question is, do you care to quantify the revenue and EBITDA contribution of any 1 of the 4 or the 4 in the aggregate. I think we could perhaps do the math based on this new roughly right scenario kind of come out where it is. But just wondering...

**Melvin C. Payne** ***Carriage Services, Inc. - Founder, Executive Chairman, CEO & COO***

Yes, I think you can look at the number I put in there, Alex, of about $50 million in the aggregate and put a high margin on that, and you'll get pretty close.

**Alexander Peter Paris** ***Barrington Research Associates, Inc., Research Division - Director of Research and Education & Business Services Analyst***

Got you.

**Melvin C. Payne** ***Carriage Services, Inc. - Founder, Executive Chairman, CEO & COO***

And you are right, we have never -- we don't have a business in our portfolio as big as Fairfax. And I've had a chance over the years of bidding on some big ones like Fairfax, in some cases, even a little bigger, but the problem with those in almost every case, is they were being divested as part of a bigger group. And in every case, the prices were very high. And in every case, I would put seal teams to do -- we call them [seal] teams, due diligence teams, we name them seal teams, check out a park and I try to put somebody on each seal team who had a familiarity with that market in that business. In some cases, they worked there and ran the business at some point. And in all of those cases, I thought that the -- these wonderful large businesses had a future that wasn't nearly as bright as it's past. So you're bidding on a business whose best years were behind it rather than ahead of it. And I can tell you in the Fairfax case, you could say that the past is wonderful, but the future will be an accelerated version of the past. That's very rare to find in this industry. So -- and the same would be true of the other 3 businesses, they were just -- they're big, but they're smaller than -- but the same characteristic is true, you're absolutely right.

**Alexander Peter Paris** ***Barrington Research Associates, Inc., Research Division - Director of Research and Education & Business Services Analyst***

So going forward with Fairfax, I know there's a number of ways to grow their market share. I'm wondering about capacity utilization, you're already serving 900 funeral calls per year out of that facility. Is there additional capacity within that facility? Or do you anticipate putting up satellite locations?

**Melvin C. Payne** ***Carriage Services, Inc. - Founder, Executive Chairman, CEO & COO***

There absolutely is additional capacity. They have a huge funeral home. It's awesome. I don't know, 20 -- 24 -- 25,000 square feet, something like that. It's huge, and they have more capacity there. But there's also the -- there's also a possibility of brand extension with another chapel absolutely, along with a lot of inventory project -- product in the cemetery. It's just prime for -- it's in an unbelievable place -- in an unbelievable position, and the trends are just -- I've never seen anything quite like it. I mean, I could spend another hour here just telling you what the opportunities are that are going to be there in the next 3 years and right next door. But we just feel very lucky and very honored and very proud to be having this wonderful business in our portfolio. It will be an engine for growth for years to come.

**Alexander Peter Paris** ***Barrington Research Associates, Inc., Research Division - Director of Research and Education & Business Services Analyst***

That's great to hear. Couple of questions to back up what you just said that. How does the funeral average is, maybe this is for Ben. What are the funeral averages look like compared to Carriage Services' own corporate average. What's the cremation mix? What's been the historical growth rate or what have you?

**Melvin C. Payne** ***Carriage Services, Inc. - Founder, Executive Chairman, CEO & COO***

You mean -- this is Mel. I -- Ben didn't get to make -- to visit with us up there, and he's never seen the property. Their averages are high. This is in a very affluent area, very affluent area. It came up in discussions in the early years of Carriage. I was always wondering how you deal with bad debt. People are not wanting to ask for money at the time of our service. Well, they don't have any bad debts at Fairfax. The averages are very high, both on the cremations and the burials.

**Alexander Peter Paris** ***Barrington Research Associates, Inc., Research Division - Director of Research and Education & Business Services Analyst***

Got you. And that would assume...

**Melvin C. Payne** ***Carriage Services, Inc. - Founder, Executive Chairman, CEO & COO***

Much higher than ours. Much higher than ours on average.

**Alexander Peter Paris** ***Barrington Research Associates, Inc., Research Division - Director of Research and Education & Business Services Analyst***

Okay. Would that mean a similar cremation mix to the rest of the portfolio, lower or higher?

**Melvin C. Payne** ***Carriage Services, Inc. - Founder, Executive Chairman, CEO & COO***

I think it's a little lower, but maybe similar...

**Carl Benjamin Brink** ***Carriage Services, Inc. - CFO, Senior VP & Treasurer***

Yes.

**Melvin C. Payne** ***Carriage Services, Inc. - Founder, Executive Chairman, CEO & COO***

Little bit lower.

**Alexander Peter Paris** ***Barrington Research Associates, Inc., Research Division - Director of Research and Education & Business Services Analyst***

Great. And then you said, Ben, the Rest Haven and Lombardo are closed, you're going to close Fairfax here by year-end. I think the press release said. And then the letter of intent that you talked about on the last conference call, when is that -- when expected to close soon, I think?

**Carl Benjamin Brink** ***Carriage Services, Inc. - CFO, Senior VP & Treasurer***

Yes, we're expecting to close that first part of January and have an update on the agreement here in the short term.

**Melvin C. Payne** ***Carriage Services, Inc. - Founder, Executive Chairman, CEO & COO***

We're looking at the second week of January, but we're not -- that's not a date certain yet.

**Alexander Peter Paris** ***Barrington Research Associates, Inc., Research Division - Director of Research and Education & Business Services Analyst***

Okay. Got you.

**Melvin C. Payne** ***Carriage Services, Inc. - Founder, Executive Chairman, CEO & COO***

We'd like to get it. So we get the first quarter. The first quarter ought to be pretty good.

**Alexander Peter Paris** ***Barrington Research Associates, Inc., Research Division - Director of Research and Education & Business Services Analyst***

Okay. And then net debt, Ben, at the end of next year, you said, is it net debt $520 million to $530 million or is that just long-term debt?

**Carl Benjamin Brink** ***Carriage Services, Inc. - CFO, Senior VP & Treasurer***

So this is total debt. We would expect then to have a ton of cash as we pay down debt. So this is total debt at year-end or really kind of after we close the last transaction early January. We're expecting total debt to be between $520 million and $530 million, and that will fall close to $490 million by the end of 2020.

**Alexander Peter Paris** ***Barrington Research Associates, Inc., Research Division - Director of Research and Education & Business Services Analyst***

End of 2020. Okay, great. Very exciting. Congratulations. I'd like to see the big bold moves. I'd like to see the increasing growth rate and the increasing predictability of the business. So congratulations guys, I appreciate it.

**Melvin C. Payne** ***Carriage Services, Inc. - Founder, Executive Chairman, CEO & COO***

Alex, thank you for your patience. This is what we've been waiting for.

**Alexander Peter Paris** ***Barrington Research Associates, Inc., Research Division - Director of Research and Education & Business Services Analyst***

Well, patience rewarded, I appreciate it.

**Melvin C. Payne** ***Carriage Services, Inc. - Founder, Executive Chairman, CEO & COO***

And we ran into your friend in Vegas recently and he approved of Bill. He's a tough guy to get his approval. And he said, Mel, I didn't think you could do it, but you got the right guy.

**Alexander Peter Paris** ***Barrington Research Associates, Inc., Research Division - Director of Research and Education & Business Services Analyst***

Way to go. I know the guy you're talking about, and that goes a long way.

**Melvin C. Payne** ***Carriage Services, Inc. - Founder, Executive Chairman, CEO & COO***

I know you do.

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**Operator**

(Operator Instructions) Our next question is from Chris McGinnis from Sidoti & Company.

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**Christopher Paul McGinnis** ***Sidoti & Company, LLC - Special Situations Equity Analyst***

Congrats on the announcements, and Bill, look forward to working with you in the future as well. I just wanted to ask a little bit just around the integration of the acquisitions. And how do you expect to -- it's a lot happening, obviously, in some big -- obviously, the big acquisition. So can you just maybe talk about the integration process you're going to go through to be able to hit the numbers that you have out there?

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**Melvin C. Payne** ***Carriage Services, Inc. - Founder, Executive Chairman, CEO & COO***

Yes, this is Mel. Look, if there's one area that we've gotten really like, I don't know if we were on a scale of 0 to 10, maybe a 3, 15 months ago, 18 months ago, I would say we're an 8 or 9 today, if not 10. Lombardo is already integrated. Our teams went up there, and they were awesome. They just -- I mean, the collaboration, we moved some groups around under different leadership. And now the collaboration, the communication, the coordination, collaboration and the effectiveness when they get there, all I hear coming back from the field is nothing but accolades, and that was at Lombardo. Joe Lombardo called 3 weeks after the closing, and I have promised him he would have no regrets. When he was here, he was looking [2 years] and didn't want to make the job (inaudible) all these issues and concerns and once he came down here and met our people, including all the departments where the integration teams would come from, he called Shawn Phillips 3 weeks after the closing and told Shawn, "tell Mel, I have a regret." And Shawn said, "Joe has a little regret, Mel." I said, "Oh, man, what is it?" He said, he told me, he made a mistake, you should have done this 3 years ago. Best thing you ever did. So that one is integrated. Our integration teams at Rest Haven were the same. I kept getting calls every day from our people on the ground in charge of integration, co-mingling with their people. They were just like they've known each other forever. They hit it off. It just went smoothly. Dewayne was just so complementary. Our people were so complementary of his operation, he's first class -- his people were first class. His systems were first class. And so that one has gone extremely well. And then the one in California, we have key people. We know this business and some of the best people they ever had left that business because it went into turmoil under its current owner and now they work for us. So it's not like we don't know what to do, and we even have the right people on the bench. We wanted to put them there to take over. We know who's there now. We know what the problems are. I don't think that one's going to be a big integration risk. It's one big property, and it's an awesome property. And then Fairfax, it'll be a slow integration over a period of a year. It's a family business, and there will be change. I didn't promise them there wouldn't be change. But it will be a little slower, but I don't expect it to be any kind of problem at all. So we don't view, even though the amounts are large, and it's a big jump for the company, case by case, when you look at it, this is not going to be a big risk.

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**Christopher Paul McGinnis** ***Sidoti & Company, LLC - Special Situations Equity Analyst***

I appreciate that. And then just in the release, you talked about a possible kind of pause in M&A as you integrate. Is this the highest that you feel comfortable on your leverage ratio in the next year? Or would you take that higher if another pristine property came up. Can you just talk a little bit about your ability...

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**Melvin C. Payne** ***Carriage Services, Inc. - Founder, Executive Chairman, CEO & COO***

Yes, let me talk about that. Look,I got into this -- I'm a credit guy, okay? My background is credit. Anybody who will come spend time with me will know that. I'm a credit guy first. I learned from the masters of the universe, private placement at Prudential, before Michael Milken ever invented high-yield public debt. So that's my background. And I know credit. I know credit. I know how to analyze companies, I know how to derive where the cash comes from to support the credit. You simply didn't make bad loans at the Pru private placements. They bought no investment-grade credits. The privately placed everything, 10- to 20-year fixed rate unsecured small growing private companies, and their track record in the '70s when I was there was just -- it was amazing. And so that's where I learned credit. And so when I went to the banking industry, it became 1 or 2 AAA banks, I had all the most difficult credits in the bank, world-scale project financings and blah, blah, blah, joint ventures. This is my background. So when I got into this business, I had to learn the business. And I learned that the funeral business is an incredible cash flow business as long as you have a healthy business. The cemetery business can be a healthy cash flow business too, but you have to get to the right scale and size and get a permanent portfolio of long-term receivables rolling over to create the cash. Otherwise, you're selling and building working capital. So I think Carriage now will have a portfolio of these large businesses throwing off a lot of cash. And we've had some underperformers. They're coming up. We will take no prisoners. Of course, there would be some pruning over the next year of some of the underperformers, we'll pay down our debt. But the next thing we can do to create the most value, both for bondholders and shareholders is pay down debt. And that's what you see in the 2-year scenario. Now, this industry is so strong. I tried to cover some of that in my 20-year history. The fact that there haven't been any common share offerings, all the common shares have struck, I don't know, probably in half or more, the debt has gone up, but the free cash flows and EBITDA have gone up a lot more to support it. So nobody feels at risk. Nobody has lost money. This industry is so stressed test and resilient, the recession to black swan events caused by international something or another. It's -- look, we had the highest 6 months pre-need cemetery sales in the first half of '09, at the very height of the great recession, when everybody said it couldn't be done. And so we know about this business and how to produce cash. And now we have a portfolio that ought to be very predictable and very much increasing free cash flow, and we could deleverage the balance sheet very rapidly over the next year or 2. If some big deal comes along, we will figure that out at that time, but we're not anticipating that right now.

**Operator**

Thank you. At this time, I'm showing no further questions. I would like to turn the call back over to Mel Payne for closing remarks.

**Melvin C. Payne** ***Carriage Services, Inc. - Founder, Executive Chairman, CEO & COO***

Thank you for your questions. Thank you for your interest in our company. This has been a big announcement at the end of a very big year, but I will tell you, none of us here are not thinking about how exciting the next year will be. We will report in the first quarter, full year, and we look forward to talking to you again. Bye.

**Operator**

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.