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Full Year 2018 Carriage Services Inc Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Carriage Services 2018 Prerelease Earnings Call. (Operator Instructions) As a reminder, this conference is being recorded.

I would like to introduce your host for today's conference, Ms. Viki Blinderman. Ma'am, you may begin.

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 company's preliminary and unaudited results for 2018 as well as our Rolling Four Quarter outlook for '19 and discussing certain operating changes since our last conference call.

Our related press release was released yesterday after the market closed. Carriage Services has posted this press release, including 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 February 25. Replay information for the call can be found in the press release distributed yesterday.

On the call today from management, besides myself, is Mel Payne, Chairman and Chief Executive Officer; and Ben Brink, Chief Financial Officer.

Today's call will begin with formal remarks from management followed by a Q&A period.

Please note that during the call, we will make forward-looking statements in accordance with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

I'd like to call your attention to the risk associated with these statements, which are more fully described in the company's reports 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 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.

The financial results discussed are preliminary and unaudited, and these results are subject to change upon the completion of the company's Form 10-K for the period ended -- ending -- ended, sorry, December 31, 2018, including the effects of any subsequent events and audits by the company's independent registered public accounting firm for 2018 consolidated financial statements. As a result, the company's actual results may vary.

In addition the preliminary unaudited financial data should not be viewed as a substitute for the full financial information prepared in accordance with GAAP, which will be filed with the SEC at a later date. 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 measures 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. I will reserve my [color] commentary about everything that has happened underneath the public covers of Carriage over the last 4 months, and how these actions will affect our future performance, until the question-and-answer session at the end of our call. Ben?

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

Thank you, Mel. First off, I want to introduce our Rolling Four Quarter outlook for 2019. We expect adjusted consolidated EBITDA between $77 million and $79 million, adjusted diluted earnings per share of $1.34 to $1.44 and adjusted free cash flow between $37 million and $40 million.

Our 2019 results will benefit first and foremost from improved operating performance versus 2018; a reduction of overhead and noncash stock compensation expenses of approximately $6 million, $4 million of which will be lower overhead expenses; full year results from acquisitions we made in the third quarter; and a lower share count due to the common stock and convertible note repurchases we executed during the fourth quarter.

In the fourth quarter, we took advantage of the decline in our share price to repurchase 1.1 million shares for $17.7 million at an average purchase price of approximately $16 per share. We also repurchased $22.4 million base amount of our 2.75% subordinated convertible notes and privately negotiated transactions, which leaves $6.3 million of those notes outstanding.

The repurchase activity in the fourth quarter capped off a busy 2018 in regards to our capital structure, in which we repurchased 95% of the convertible notes that were outstanding, which, in effect, reduced potential future dilution from the notes by 3.4 million shares, along with a net issuance of 1.7 million shares of common stock after our open market repurchases in the quarter. Going forward, we expect diluted share count will be right around 18 million shares, only 300,000 shares higher than our reported diluted share count in the first quarter 2018 before we executed the various capital structure transactions.

We expect our bank covenant compliance ratio -- leverage ratio to be 5.1x as we exit 2018 and our pro forma leverage ratio of 4.9x based on the midpoint of our Rolling Four Quarter adjusted consolidated EBITDA outlook.

Our expectations for $37 million to $40 million of adjusted free cash flow in 2019 includes $23.5 million of cash interest expense, $5 million for dividends paid and $10 million for maintenance capital expenditures. We expect to have total capital expenditures between $16 million and $18 million, with the majority of growth capital to be invested in Cemetery inventory projects. Free cash flow will also benefit from our expectation of paying no federal tax payments in 2019 due to a tax method change related to deferred preneed revenue, we are in the process of implementing. We also expect that this will put us in a net operating loss position for tax purposes in 2019 and 2020. I'm really proud of our tax team for all the work they've done on this.

Now I'll turn to our preliminary 2018 results and provide a little update on our thinking regarding write-downs and divestitures from our last call.

For the year, adjusted diluted EPS is estimated to be $1.19, a decline of 14% compared to 2017; adjusted consolidated EBITDA is expected to be $70.5 million, an increase of 2.6% versus last year; and an estimated adjusted consolidated EBITDA margin of 26.3%.

During the quarter, we booked $1.4 million of severance charges, a $1 million reserve for a potential legal settlement and related expenses, a $4.5 million noncash charge due to the cancellation of previously issued equity performance awards and an additional $1 million charge related to goodwill and other impairments.

The impairment charge is significantly less than we anticipated when we discussed it on our last call due to our belief that it is most appropriate to allow all of our businesses to operate for a time period under our rebooted and updated Standards Operating Model before we make decisions regarding write-downs and divestitures. Consequently, we don't anticipate divesting any businesses in the near term and any potential future divestitures will have an immaterial impact to our financial results.

Finally, I want to take this opportunity to thank all of our management partners, their teams, our Standards Council members, our operating leadership and everyone here at the Houston Support Center for all of their great and hard work over these past 4 months to set us up for improved operating results here in 2019.

It's an exciting time here at Carriage, and we look forward to sharing all the results with you as we move through the year. And with that, we'll open the call up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Alex Paris with Barrington.

Huang Howe ***Barrington Research Associates, Inc., Research Division - Senior Investment Analyst & Research Analyst***

This is Chris Howe sitting in for Alex. My first question, just digging into the press release here. The growth that you saw from 2012 to 2016, as we look at part 2, can you perhaps share some high-level overview of what your financial expectations are in terms of reaching the levels of growth and exceeding those levels of growth perhaps that you saw over the 5-year period ending in 2016?

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

This is Mel. No, I can't give you anything like that. I can only tell you that what I wrote to our people in the Field, and I had a choice to make, I could either try to interpret for Wall Street and analysts some version of that, that might be more understandable or I could show you what I actually wrote our people, and this is the fourth memorandum that I've written since October 1, each one has gotten progressively more interesting. I never could have foreseen, at the middle of September when all this started, how things would play out, all the feedback I would get from our Field. And the standards themself that we have now updated and rebooted are very focused on same-store compounded revenue growth over multiple years, both in the Funeral Home and Cemetery, rather than more rigid outdated standards that were demoralizing the entire organization. And it's a term I've used here over the recent past, we had some standards that had got grown outdated, and frankly, the leadership had weaponized them, and that had demoralized our entire organization. That has been eliminated. And what we have now is a highly motivated, excited group of managing partners, sales managers and everybody else that supports them, ready to go with more focus on compounded revenue growth of existing operations. And I've told the team here that the last 4 months will turn out to be a blessing in disguise because the amount of work and the documentation of that work in our company is something really I haven't never seen in my career and it's amazing. And so I think you'll -- I'm not going to give a model forecast of what the next 5 years are going to be like. I was told not to put that in there by our attorneys, I didn't listen to them. I knew I'd get the question. It's okay. And I think we'll have similar growth. And I think we'll have similar results. Whether the stock price will do what it did last time, I don't know, but I don't think it's going go down. That's why I bought 150,000 shares way before any of this became clear of how it would work out.

Huang Howe ***Barrington Research Associates, Inc., Research Division - Senior Investment Analyst & Research Analyst***

That is helpful. My next question is in regard to the game changer, the funeral service and guest experience that continues to evolve. Can you perhaps add some additional color into this? And where it's at now? And the evolution of it? And where you hope it will go over this next 5-year period?

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

Yes. We've got some very -- I mean, we've got some fantastic entrepreneurial, innovative people in our businesses. And they weren't being listened to. They weren't being empowered. That's not true anymore. And some of the best are on the Standards Council. And so Kyle Incardona whose one of our best and most innovative, and got 2 chapels, Brian and College Station, Texas. And they're fabulous businesses. I bought that little business in '94. What it looks like today is unbelievable. And it's because of Kyle. Kyle believes, and I share that view, that if you want to be the best at this business, we consider it a high-value personal service business, even though cremations are having less revenue per service, that doesn't mean it's not a high-value personal service business. It's in the mindset of your employees and your leaders. And we've always been focused on being the best in the market. It's a service of a client family who suffered the loss of a loved one. What we haven't been focused on is the guest experience, that's anybody but the client family and their relatives. It's everybody else at every point of contact. From the first phase to the last phase, there is so many opportunities to make a lasting impression on the visitors, the -- we call it guest experience. It's going to require a change in mindset. But Kyle has proven that it works, in growing this business like, I mean, like a runaway train, and it will work. And so we eliminated what wasn't working and what was demoralizing people. We eliminated the 2 people standards that were being tied to the rigid average revenue per contract of each Funeral, which had grown outdated 3 or 4 years ago. And nobody thought enough about change and lost touch with our businesses to do a fresh thinking on it. Now we have something that is a little subjective, but it won't stay that way because if you're really good at this standard, you will also be able to grow your revenue at higher compounded rates over time, and this won't be even questionable. Either you can do it or you can't. And now we have a portal that's unique and designed for people to share. We don't have these ideas here in Houston. The ideas are out there. This is now a way to share those ideas that really work amongst the managing partners in this portal. And to really communicate across the company what's working, what's not working and how your people are responding and this kind of thing. So I think this will have -- it is a work in process. I think it will take time, but I don't think it's going to take years. I think this will be infectious when people see that this actually works. And you have your people going out of their way to practice random kindness, courtesy to somebody who doesn't expect it, they're just there as a visitor or a guest, I think it's going to make a huge difference over time. But you won't be able to model it, that's the problem.

Huang Howe ***Barrington Research Associates, Inc., Research Division - Senior Investment Analyst & Research Analyst***

That's great to hear. And following up on that, this, in combination with you mentioned before, the future of recruitment of a President and COO. Is there anything else beyond the past 4 months that is still remaining that will further strengthen Carriage's position moving forward as part of the restructuring?

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

I'm not completely clear on your question. It's very clear that I don't have anybody in the company.

Huang Howe ***Barrington Research Associates, Inc., Research Division - Senior Investment Analyst & Research Analyst***

No. Just as far as the past 4 months, everything is complete and Carriage is in position moving forward. There's nothing remaining as part of the restructuring that still needs to be completed.

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

No, I think the updating and rebooting, the elimination of the problem on leadership, we will update that -- our strategic criteria for acquisitions. We haven't done that yet. That will be next. It'll be so easy now that we have these rebooted standards. And we'll look back at the history of every business that we have an opportunity to acquire over 10 years and look at their compounded revenue growth and whether it's declining or accelerating over the last 10 years because that's going to be, along with all the other work we do on demographics, competitive standing and so on, [in] mix changes, that's going to be something that really differentiates the valuation of what we buy, even more clearly and precisely than we've ever done. And -- but in terms of positioning our portfolio, I mean, there are a lot of people out there who are new in some of the businesses that have been declining, and I'm hearing from them. I've heard from them. And they don't want to be sold. They want to make a comeback. They want to be a hero. They want to perform. They want to grow. And that's why when we went into this we weren't sure how many dispositions we might make and what the size of the write-down would be. Now I'm going, wow, I can't believe the response. And the response on these rebooted standards has been overwhelming. The amount of feedback I've gotten has been unbelievable. Make a great study at Harvard Business School over 4 months, [except] nobody would believe it. And that's why we're all excited about what lies ahead. Now that doesn't mean that everybody is going to be at peak performance right out of the gate. No way. This will take time, but it will grow, it will be effective. I do think it'll be a similar process and growth in performance, like we had in '12, '13, '14, '15 and '16. It was only after I promoted a bunch of people that weren't ready that it began to be changed and I backed out, and I just -- my bad. So that's -- I expect this thing to over the course of a year because last year we had a great December and a great January because of the spike in [flu deaths]. And then from then on, the rest of the year, we began to [leak] performance. I don't expect that to happen this year. I expect just the opposite.

Operator

And our next question comes from the line of Komal Patel with Goldman Sachs.

Unidentified Analyst

This is Jack on for Komal. Could you talk specifically about how you updated your Funeral and Cemetery standards to account for the -- sorry, secular shift down towards cremation from burials? I think you had mentioned that you're going to have a special meeting in November to sort of make those standards more relevant. So any additional color on that would be super helpful.

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

Yes. We -- I hosted a Carriage University Day on Thursday, November 29. It was an entire day, morning until late afternoon. And it was only the Field leadership above the managing partner, our directors of support, I think we have [a 3] regional partners, 4 analyst, operational and planning analyst here. And then all those support teams in Houston from all the support departments, HR, Legal, IT, Accounting. The accounting lieutenants had some of the best ideas about how to update the standards. I just love their ideas. And so I spent the whole day, we called it Carriage University, explaining the idea of a Standards Operating Model, the concept, why it needed to be decentralized, but decentralized only worked with discipline and performance when they were relevant. And the last time they'd been updated was 2011. So with the changes in cremation and from burial and all that, the average revenue per contract, which was a combined average of cremation and burial, had grown very difficult to achieve. And unbeknownst to me, it had become completely -- the other 2 people standards, that's where you get your average revenue per contract, family by family, is your people. So they were losing out on not only that, they were losing on the 2 people standards. So that's 35% of 100%. I mean, if you're below 50%, you're below minimum. And so that's the kind of thing that was going on. So we got -- we eliminated the 2 people standards in the ARPC, and we replaced it with -- the volume is still very important. And -- so the 3-year average, your volume standard this year has to be the 3-year average of the last 3. So if you're going up you have no problem. But if you're declining, 3 years ago it was higher than the most recent year, you won't be able to make it unless it turns back up. We changed that weighting from 30% to 15%. And then we put in 1, 2, 3, 4 categories of 3-year compounded revenue growth. And we use as the base, '15, '16, we added those together, that's the base year. So now we have '16, '17 and '18 compounded, and '19 will be another year. So if they get 0% to 1% compounded revenue growth over 3 years, they achieve 10% of up to 35%; if it's 1% to 2%, 25% credit; 2% to 3%, 30% credit; and over 3%, 35% credit. What I can tell you that gives you 15% on the volume, which is 3 years, and up to 35% on the compounded revenue. If you can compound revenue in this business, Funeral business, anywhere from 1% to 2%, you can compound the Field EBITDA at 2% to 4%. If you could compound revenue at 3% or over 3%, of course, the Field EBITDA compounding goes way up too. So we got smart a little late but not too late. And we did the same thing in the Cemetery, except we have a little bit of increase in the compounded revenue growth, they get 10% credit if it's 2% to 3%; and 3% to 4%, they get 25%; 4% to 5%, 35%; and 5% and greater, because we want some performance upside out of our Cemetery portfolio, especially the big ones, they get 45%. So on market share and revenue growth in the Cemeteries, it's now up to 70%. The operating margin range is 30%, and that's a 5-point range depending on the size and history of that business. We eliminated all that other stuff and made this very simple. This is about growth of what we already have. People who can't grow will have to look at whether that business belongs here. Certainly, if they're declining they won't stay here. Which is one of the problems we had before, no one was being held accountable on these outdated standards. When you update and reboot and get people that are highly motivated and skilled reenergized and then you put minimum standards of being held accountable, wonderful things happen because they know you're serious. I hope that helps.

Unidentified Analyst

Yes, it's super helpful. And just -- I think you had mentioned them on the Cemetery side as well, so you just touch on that side. Just wanted an update on how were, sort of, preneed Cemetery sales in 4Q and sort of tracking in early 2019? We know that was certainly like one of the major focuses as well in the near term.

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

Yes. I reorganized who has got the big cemeteries. And that will be Kevin Doherty. Kevin had the Central Region. Well, Kevin came from SCI. He's got a lot of background in Cemetery operations and sales. And we have another Director of Support who was not in my view as well organized and focused. Not her, it was who had been directing her. So these 2 are going to be our Cemetery high performance duo. And I expect them to be high performance heroes by the end of this year. I wouldn't pay a whole lot of attention to what happened in the fourth quarter. Our cemeteries were not hitting on all cylinders while all this was going on because I was paying more attention to the

Funeral homes, which is 75% of our revenue and earnings. But that didn't last, so we came to that last. But it's going to be -- I expect broad performance out of our 10 largest cemeteries. And we get broad and high performance out of those, they are what I call big meter movers. That's why we have CapEx, that's been mentioned, allocated for them. Whether that was January or the first quarter or the second quarter, I will tell you by the end of the year they'll be [hunting] .

Unidentified Analyst

Got it. And just last one for me. Do you know you completed 3 acquisitions in the third quarter? What have you seeing so far in terms of performance there? And then were there any additional in 4Q as well?

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

What we did there, we almost had to get lucky that they were already fully integrated because the operating leadership, they weren't on top of that, and some of the integration over the last few years was horrible. That's what I found. That is over. And I don't know whether they didn't explain to people what these standards were and what was required and how fast integration would have to happen. But some of this dragged on and dragged on and I got tired of trying to explaining it. That is over. So what we got now is a bunch of people that understand everything that needs to happen. There's a sense of urgency and purpose. There's a sense of, look, we blew it, we disappointed a lot of people. Especially me. I've disappointed a lot of people because I had wrong people that disappointed me, and therefore, you got disappointed and people gave up on me and the company. I'm okay with that. But that's just not acceptable going forward. And you might be able to tell, I'm in this thing. I'm having a lot of fun with our people. Everybody understands what the deal is. I've never seen such alignment come together so fast, so broad and so deep.

Operator

And our next question comes from the line of Chris McGinnis with Sidoti & Company.

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

I guess, just to follow up, Mel, on that -- on the last question around the acquisitions and the M&A and the people in place. So has the integration team been changed? Or -- because I remember, I guess it was 1.5 years ago, almost 2 years ago, I think the M&A team itself was changed. Can you maybe just -- and then how quickly is that the kind of adoption of the standards expected to be when going forward on the M&A side?

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

Look, I don't want to play games. I've been very disappointed at integration. And I wasn't involved in it. And that includes some of the recent ones. And that can't be true because what we can't do here, whether it's a new acquisition or existing business, it has allowed so many and we have so many high-performing businesses to subsidize those that aren't. That just won't cut it. So the integration team, in terms of the normal things like HR, IT, it's been wonderful. It's been operations. It's been operations. Been horrible. And I think the same thing on the M&A team. They were new. I've talked to them. They have a lot of materials about it. I had to go out and turn down some businesses that we never should have be even looking at in the first place, spent a lot of time and effort on it. And then I saw what it was, and so I've had to redo all of that. And now it's tight, its right, and it ain't going to get wrong anytime soon. But we got the teams in place now. Everybody is aligned, everybody knows what we did wrong, everybody knows what we're now going to do right. And anybody that does anything wrong is going to stand out like a sore thumb. There's no place to hide.

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

And then just, I guess, just a follow up on some of the earlier questions around the adoption of new standards and why they were brought in. So did the issues around the old standards appear after the strength of -- the beginning of 2018? And it just highlighted because it sounds like maybe there were rumblings before this, and so I guess. Could you just walk us through a little bit of how it came out to you and become apparent that there were some issues around the standards that needed to be changed.

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

Yes. I've been thinking this for a couple 3 years. I get a standards achievement report every month. And I've been looking at them and I'm going -- but once I backed out of operations, which was really more toward the end of '15, even though I still had the role. If things were going along okay in '16, if you look the 5 years it was unbelievable. But there were signs, there were small symptoms in some of the smaller businesses in particular. And then I kept hearing more and more about the -- this average revenue per contract and the people standards. And those symptoms began to emerge in '17, but not in such a material way. Our bigger businesses were basically still doing really fantastic. And they were covering up in terms of consolidated numbers, some of the demoralization and some of the smaller groupings of our Funeral homes in particular, and our cemeteries began to show some signs on the sales side. So it started, I'd say, pretty seriously. I began to notice things in the last half of '17, but we still ended the year okay. But in the first quarter, I was really pumped up after January. And then I began to see, even though January was so spectacular, I was surprised about February and March. And then I was surprised it kept continuing in the second quarter. I almost made a move then, I decided not to in terms of -- not exactly what's happened now but in the third quarter it just got worse and worse. And we had a meeting in June with all the MPs, I thought it went really well. I thought we'd get some real performance uplift and turnaround in the last half or even the third quarter. It went the other way. And that's when I said I've had enough.

Operator

(Operator Instructions) Our next question comes from the line of Duncan Brown with Wells Fargo.

Duncan Brown ***Wells Fargo Securities, LLC, Research Division - MD and Senior High Yield Health Care Analyst***

Provided a little color on Q4 on the Cemetery side of the business. I wonder if you could give us some details on the Funeral side. Anything on volumes, pricing or perhaps any changes in cremation mix we should be aware of?

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

Yes. Nothing too specific. I would say, in terms of trends in cremation rates, about where we'd expect. Trends in volume, about where we expect. Mel pointed about the tough comparisons between December of 2017 and January of last year. And margins aren't declining where they were in the third quarter, and certainly, we've seen them stabilize. So progress, but nothing to scream too loudly about in the fourth quarter.

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

Yes, I saw an improvement from August, September, even October. You'll remember in the release yesterday, the October 1 memorandum was really a -- we got a serious problem here. And I put out there for all of our people a diagnosis of a problem analytically over a period of 7 years from 2011 as a base year, and it became very clear. But we just weren't sure what the problem was. And -- but -- so August was terrible. September, October was maybe a little better, and then November jump layup. December versus last year, I mean, was a tough comparison, but -- yes, there's more than hope. I think there's a trend that will become our friend increasingly throughout this year. I wouldn't -- everything I've put in the prerelease, I wouldn't have done that if I didn't feel that way.

Duncan Brown ***Wells Fargo Securities, LLC, Research Division - MD and Senior High Yield Health Care Analyst***

Okay. And then if you look at the four quarter rolling outlook, obviously expecting EBITDA growth to well outpace top line. My sense is some of that's from a reduction overhead. I wonder if you could give us a little -- I think I heard $4 million reduction, if you could confirm that one way or the other? And then maybe give us a little more color on where those costs are coming from, especially with all the changes sounds like you're making in terms of integration teams and things like that?

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

Yes, it's -- I mean, it's pretty simple. Its people and operating expenses that as we took a look at, where were run rate in 2018, 2017, we felt that we could cut back on and save and tighten the belts in 2019. That's really where those are coming from.

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

I think we took a thorough review of all -- of every department, every business, and this was something that hadn't been done in a while. I think we got better by shrinking the cost. I think we got better by having the people left. Be more aligned, and productive, and collaborative. And restore, what I consider, a high-performance culture across the platform. And I think the people in the Field sense it. They sense here, we're all together. And before, that wasn't true. When we're all together as one team with one vision, they tend to want to produce and perform at a higher level also.

Duncan Brown ***Wells Fargo Securities, LLC, Research Division - MD and Senior High Yield Health Care Analyst***

Okay. So just to go back to the cost side it -- I mean, it sounds like it's a sort of broad-based. It's not necessarily from one part like HR or something like that, is that the right way to think about it?

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

I mean there were some concentrations, Ben and Viki mentioned it.

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

Yes. I mean, look, as I said, nothing specific, right? Changes in people and just getting cleaner on operating expenses across the board. It really was looking, like Komal said, really digging deep in all of our overheads, expenses, our teams, what have we done over the past couple of years? What do we look like going forward? For instance, as an example, right? In our IT department we've had a lot of investments in infrastructure, in different software over the past couple of years, in people. And now it's really into a take that and grow with it. We're really excited about that area specifically. So...

Duncan Brown ***Wells Fargo Securities, LLC, Research Division - MD and Senior High Yield Health Care Analyst***

Okay, that's helpful. And then last one for me. I wonder if you could just state the company's sort of current leverage targets? Time to expect to reach that? And then also that in the context of, perhaps, your share repo activity and goals going forward?

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

Yes. Our long-term goals are still in that -- the operating company in that 4 to 4.5x leverage range, that hasn't changed. Obviously, we're delayed based on operating performance and the share repurchases we did here at the end of the year. Can't quite give you a time frame when that 4.5 looks like yet. I think we'll have a better idea as we get further into 2019. But that is our -- certainly our intention.

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

This is Mel. Look, we issued high-yield bonds back in May, $325 million. And at that time, I could not have foreseen what was about to happen. And so when it did happen, and that's when we made a policy of 4 to 4.5x. More because -- not 3.5 to 4, which I think SCI has a policy, which is probably a more -- look, better comfort level for bondholders who generally think a smaller company with more leverage is more risk. That's not how I look at it. But I knew that there were a lot of common stock investors as well who were nervous about 5x EBITDA leverage. And when you start declining in your performance then it really gets more uncertain for them and higher risk in perception. So when we got into this, there's a book to all the outsiders about Will Thorndike. And he profiles 8 companies over many decades. All of them are famous. And from time to time those companies were able to create a lot of shareholder value when the market served up, an intrinsic value that was disconnected from the market value. And they were very aggressive moving at that time. And so when this happened, even though we had recently established a policy of 4 to 4.5, I couldn't believe it that -- I mean, I just couldn't believe that -- I wasn't sure how it would turn out. But I knew one thing, I knew the company wasn't worth $15 or $16. And I knew that we could (inaudible) again get the free cash flow and that's what we did. So I think this is one of those things that comes along every once in a while, sometime a long while. Same thing happened in '08, '09. And this time, as opposed to '08, '09, we got a much better company. And once we diagnosed the symptoms of the illness, I mean, big [a shout-out, Ben is still in shock] . This thing is getting healthy fast. Yes, there's work to do. But I think if we look back on this and say, wow, I can't believe we did that. We created a lot of value for our shareholders that will for now be next 5 years, whatever our performance is we'll be spread over fewer shares. And we got rid of the upside on that dumb convert that was a mistake in '14 by getting rid of it. So I am thrilled from a shareholder value creation point of view that we made these moves. And some people might consider it reckless, not us. We have total faith in our people being able to run their businesses. And now we've downsized the overhead. We've gotten better. We're going to create a lot of cash flow. I was looking for free cash flow yield just on our outlook, I mean, that's ridiculous. So we're excited. And we're going to get back to a lower leverage policy because we have the flexibility and the cash earning power to do so. We will get back there. I promise.

Operator

And our next question comes from the line of Dan [Belison] with Columbia.

Unidentified Analyst

It's [Dan Belison]. My question has less to do with numbers and more about understanding your customer value proposition and the strategy or what's changing in your strategy of the business better. I understand the incentive in operating standard changes, even the personnel changes. But when you looked down at a highly decentralized level, can you please share more in layman's terms about what the actual issues have been in the business and what's changing? Some examples for -- what have your competitors been doing better than you. Are there pricing changes that are needed to be made? Is there an unexpected increase in cremation rates? Have you been losing out on cross-selling opportunities? What's from a strategy and business perspective? And I know you have lots of different businesses and maybe one in Texas has a different problem than one in South Carolina. But when you kind of group the issues together, what is the biggest needle movers?

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

Yes. Dan, I think, for us, and I think as we look at it, the reboot of the standards does 2 things. One, focuses our managing partners with their teams on compound revenue growth, not on the components of revenue growth, but how can we grow our businesses. And that's across the board. That's taking every -- and that ties -- then it ties into the updated standards of servicing guest experience. How each and every time we engage with a client family, would it be a client family, other people in that family or friends or other relatives that are coming to the service, how can we show them each and every time that high-value personal service, so that, that next customer is looking at our Funeral Home saying, "Man, that is a type of service that I would want." And I think as we take away that average -- that focus on average revenue per contract as a standard, not as a -- it's still going to be top of mind, that people are making decisions about how I can raise my average revenue per contract. We are making decisions about how we can provide a great service, a great guest experience each and every time, so that more people are looking at our Funeral Homes as a place to remember their loved ones.

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

Yes. This is Mel, Dan. It's hard for me to answer your question because each business and each community in which we operate is uniquely different. And they tend to be not similar enough so that you could come up with centralized solutions and feed it down. And that works broadly across the entire portfolio. Our whole strategy is to create standards, and these standards are performance standards, high-performance standards. They're not easy to achieve. Certainly, not easy to achieve 100%, that's why 50% is a minimum. Now that they're updated and relevant, the main issues that our people have been facing were these rigid standards that caused them to behave and operate in a way that wasn't consistent with long-term opportunistic growth in all market share, including low -- relatively low versus burials, cremations. And so it -- the standards we had in place were up -- they were posing a disincentive and they were causing, in too many cases I find out, people to pass on opportunities to grow market share and have an opportunity to have a guest experience. And so I think the answer is, and this came from all the feedback that came back to us, we've changed this in a way that we took away all the reasons somebody can't grow their business at a higher rate of revenue, how they do that locally is case by case, and they figure it out. Now when they can't figure it out and can't make these standards that becomes obvious. [First do what they want] . But I think we got a lot of great talent out there. We've had too much turnover. I think the people we got in place are really good in almost every business. There will always be upgrades on that and not wholesale. And I think this whole change and this whole reboot will have results that will make investors happy over time. And I -- we're not going to get into trying to say, we don't do any pricing here. We don't do any this or that. We don't do any centralized stuff that we hand down. And so they're going to have to figure this out. And that's the whole reason we look at the leadership in each -- we look at them as partners. We look at them as partners. And what we could do to help our partners to be successful. Now we got these standards. These are there standards, created by their best peers. Not me, not Ben, not Viki, this is theirs. And they're not easy to achieve. Now we have to do a better job of supporting them like social media, various IT things like this portal. Yes, there'd be training, selective training on cremation, how do you better handle cremation families? And that's especially a problem in the Northeast because it came there last, and you could see a difference across the company depending on the geography and how soon these trends are hitting them. And that's what we -- that's what this is all about. It really is a new beginning for our company.

Unidentified Analyst

Okay. So now just to sum up. Please correct me if anything I'm interpreting is wrong here. But it sounds like the changes in the standards that you've made and the issues that you were dealing with in the past were more focused around passing on smaller pieces of business, turning away cremation business and not having a greater focus on customer service. Is that right?

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

Yes. I think that's a good executive summary. When this thing started trending down, one of our long-term investors and a friend reached out to me and they said, Mel, if you could estimate why these declining trends are happening and say, look, how much of it is secular stuff happening in the industry trends that you can't control, outcomes you can't control, and how much of it is self-inflicted company. And at that time, this was right at the beginning, maybe even before at the beginning, I think, I said, 85% to 90% is under our control. Now once I got into this and today, I have a totally different view. I think 99%, it was us. 99%, it was us.

Unidentified Analyst

Got it. And Mel lastly, we've spoken a lot in the past about capital allocation, your balance sheet. You've spoken about previously on the call, looks a little bit different than what you would ideally want it to look like today. How has that or how is that going forward going to change some of your capital allocation decisions? Is M&A completely off the table for now until you lever back down? And do your hurdle rates change in some of the other investment opportunities that you have whether it's buying back stock or reinvesting back into the business while leverage is this high?

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

Yes. No, I think that's a fantastic question, Dan. It's an unusual period of time. We left what was a good policy to get less leverage, 4 to 4.5x. But what that was predicated on the company still continuing to produce and grow and that didn't happen. So we reallocated, we reprioritized capital allocation. I'm really happy with how it turned out. And now we want to execute operationally. We don't want to have this much leverage. That doesn't mean that if we see this thing really -- as I put in my letter to a lot of our people doing a snap back come back, I don't mean in a week or month. That we wouldn't entertain the right quality, reputational-enhancing acquisition. If it were going to do something for the company strategically, but it would have to be big and high-quality to fit into that category we would do that. But I have to get comfortable that we first have the cash flow power. And I have that comfort right now. But I want to see it as it lays out. But we want to be flexible, Dan, over this year. I think this year is going to be a transformative year for our company. But I don't want to be stupid though.

Operator

And I'm showing no further questions at this time. And I would like to return the conference back over to Mr. Mel Payne for any closing remarks.

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

Thank you so much. Well, this was everything we expected and more. So we really appreciate the questions, and we look forward to reporting our progress as we move through the year. Thank you so much.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program, and you may all disconnect. Everyone, have a great day.