Carriage Services 4th Quarter 2023 Earnings Webcast Transcript

WEBCAST DATE:

Thursday, 22nd Feburary 2024

Operator: Good day and thank you for standing by. Welcome to the Carriage Services Fourth Quarter and Full Year 2023 Earnings Conference Call. Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today, Steve Metzger, President. Please go ahead, sir.

Steve Metzger: Morning everyone and thank you for joining us to discuss our fourth quarter and full year results for 2023. In addition to myself, on the call this morning from management are Carlos Quezada, Chief Executive Officer and Vice Chairman of the Board of Directors and Kian Granmayeh, Executive Vice President and Chief Financial Officer

On the Carriage Services website, you can find our earnings press release which was issued yesterday after the market closed. Our press release is intended to supplement our remarks this morning and include supplemental financial information, including the reconciliation of differences between GAAP and non-GAAP financial measures. Today's call will begin with formal remarks from Carlos and Kian and will be followed by a question-and-answer period.

Before we begin, I'd like to remind everyone that during this call we'll make some forward-looking statements, including comments about our business, projections and plans as well as 2024 guidance. Forward-looking statements inherently involve risks and uncertainties and only reflect our view as of today. These risks and uncertainties include but are not limited to factors identified in our earnings release as well as in our SEC filings, all of which can be found on our website. Thank you all for joining us this morning, and now I'd like to turn the call over to Carlos.

Carlos Quezada: Thank you, Steve, and welcome everyone to our 2023 fourth quarter and full year earnings discussion. We're excited to dive into our achievements and plans, so let's jump right in. First off, a heartfelt thank you to every Carriage team member. Your dedication and hard work have been instrumental in providing outstanding service to countless families. Your efforts, passion and commitment truly matter. We are grateful for your contributions. Now let's talk about our financial highlights.

We are thrilled to report significant progress in executing our focus strategies to grow revenue and reduce cost. For the fourth quarter, so our revenue grew to $98.8 million, an increase of $4.9 million or 5.2%, and for the full year, it grew to $382.5 million, an increase of $12.3 million or 3.3%. The very solid cemetery sales performance are two most recent acquisitions and our targeted efforts to better leverage our pricing power to improve average revenues per contract help make up for approximately $13.3 million of funeral home Ad need revenues despite the pull forward from COVID that led to a modest declining volume.

Looking at each of our revenue segments, we see that total funeral home operating revenue experienced a reduction of $1.6 million or 2.4% from last year's quarter and by $2.2 million or 0.9% for the whole year. This decline is driven by lower volumes due to the pull-forward effect. As for total cemetery operating revenue, we ended the quarter above last year by $3.7 million or 16.1%, and for the full year we grew by $12.2 million or 13.5%. This fantastic performance is due to the amazing job of our pre-need cemetery sales teams knocking it out of the park, with pre-need cemetery sales production increasing by $3.9 million or 25% for the quarter when compared to last year and by $12.1 million or 19.6% for the full year.

Lastly, total financial revenue took off with an increase of $3.1 million or 59.5% compared to last year's quarter and $3.8 million or 17% for the full year. This boost in financial revenue is equally balanced between our investment strategy and the results of our new pre-arranged funeral sales program. Regarding adjusted consolidated EBITDA for the fourth quarter, we finished with $32.4 million, an increase of $3.8 million or 13.2%, and for the full year we delivered $113.2 million, an increase of $3.9 million or 3.5% compared to last year.

We grew our adjusted consolidated EBITDA margin during the fourth quarter by 230 basis points to 32.8%, and for the full year, we grew by ten basis points to 29.6%. Our focus on cost savings deliver excellent results, including a decrease in total overhead of $3.8 million or 7% for the year. We saw adjusted diluted EPS in the fourth quarter grew to $0.77 per share, an increase of $0.13 or 20.3%. And for the full year we ended at $2.19, which is $0.19 above the top ten[?] of our guidance.

However, compared to the previous year, we experienced a decrease of $0.42 or 16.1% driven by the high interest rate environment's impact on a revolving credit facility. To put things in perspective, we paid $10.4 million more in interest expense during 2023 than in 2022 with our debt remaining at a similar level. When converting this to EPS, the impact is approximately $0.48 per share.

Debt repayment continues to be at the forefront of our near-term goals, and we intend to continue to pay down our debt with free cash flow until our leverage ratio is under four times. Kian will share more regarding our debt and leverage later on this call. We are very proud of these results, especially after outperforming our guidance for EPS, EBITDA and revenue for 2023. Even though we did revise our outlook due to a lower than expected third quarter, we met up for it in the fourth quarter.

When comparing our original full year 2023 guidance, we finished the year within our initial ranges in all categories except EPS, which was down due to the higher interest rate environment. Now that we have gone over the past, let us focus on the future. We are excited to announce that we are embarking on a transformative journey with our new purpose statement, creating premier experiences through innovation, empowered partnerships and elevated service. This purpose statement is our commitment to every aspect of our business. It focuses on continuous innovation, partnership and service delivery, and is rooted in three core pillars.

The first pillar is disciplined capital allocation. Our focus is to invest our capital in a disciplined manner that identifies areas with the most significant potential for returns, ensuring our resources pave the way for sustainable success. The second pillar is purposeful growth. Growth is not a mere increase in size, but a deliberate journey towards enhancing our revenue and financial metrics through strategic, thoughtful, and data-driven planning. This approach sharpens our focus, enabling broader execution and driving impactful results. It's about growing not just in scale, but in significance, organically and inorganically.

The third pillar is relentless improvement. We understand that lasting success comes from an unwavering commitment to excellence. Every day offers a new opportunity to refine our processes, improve our systems, elevate our services, and surpass our previous achievements. This indication to continuous improvement is at the heart of our purpose statement. Together these three pillars are not just strategies; they are our pledge to relentlessly pursue excellence, to innovate with intention, and to lead with a level of service that redefines what is possible.

Speaking of possibilities, we hope you had the chance to explore our newly revamped website and visual identity. We have brought our purpose statement to life, giving our Carriage logo a fresh, innovative look and [inaudible] focused on driving an exciting new future.

We're also excited to share a new role focused on leading our continuous improvement lean management program. This data-driven approach will result in refined processes and improve systems that will enhance productivity and identify potential cost savings and other opportunities. It represents our commitment to becoming more efficient and effective in our operations and is aligned with the relentless improvement focus of our purpose statement.

This approach to continuous improvement is something we're optimistic about. We believe it will pave the way for better processes and outcomes. As we continue to pursue our vision, we look forward to sharing our progress and learnings with you in future updates. It's a journey of growth and learning and we're excited to see where it leads us. As part of our relentless improvement approach and driven by our passion for service excellence, we're pleased to introduce a new role within our team, the Director of Customer Experience.

This role is pivotal to our passion for service program, focusing on training, rollout, and development of hospitality concepts within our teams. In addition to creating key performance indicators to measure customer experience and our delivery of wow moments playbook. Our objective is clear as a company that prides itself on being driven by service and supported by a team, fueled by both passion and compassion.

In these service-driven times, the importance of customer experience cannot be overstated. It is the cornerstone of differentiation and customer loyalty in a competitive landscape. We aim to set ourselves apart by delivering a customer experience beyond expectations. This commitment to elevating our service delivery ensures we meet and exceed our industry's evolving standards and demands. It's more than a program, it's a promise to lead with excellence and make every custom interaction an opportunity to demonstrate our unmatched dedication to service.

This program paired with our ERP and customer facing system called Trinity, along with our customer-centric approach, will deliver an enhanced experience that we believe will drive organic growth and increased market share. We are truly excited about the future at Carriage, the dedication and hard work we have invested over the past year, coupled with the strategies outlined today, positioning us for a future mark by innovation and continuous progress. This isn't just about near-term achievements; it's about establishing a foundation that will deliver lasting value to our shareholders for years to come. Thank you for your attention and support. With that, I will now turn things over to Kian.

Kian Granmayeh: Thank you Carlos, and good morning to everyone on the call. Since Carlos provided an overview of our key financial metrics for this quarter and for the full year 2023, I will review a few additional financial highlights for the same periods, and I'll also provide color around our 2024 outlook and guidance ranges provided in our earnings release yesterday.

First, I'll start off with corporate overhead. We are very proud of our downward trend in corporate overhead throughout the year. This quarter when adjusting out special items related to the review of strategic alternatives, our overhead costs total approximately $10.7 million and for the full year, similar overhead costs would amount to $47.9 million or approximately 12.5% of revenue, which is lower than our previously stated 13% target for the full year 2024. The general decrease in overhead expense we experienced is primarily a result of lower incentive compensation relative to prior quarters in previous years, but also our relentless focus throughout 2023 on discipline spending, which included optimizing and reducing overhead costs.

Second, I would like to discuss our cash flow from operations, which increased to $13.7 million this quarter, up from $11 million the same quarter last year. This increase is a direct result of our fourth quarter outperformance that Carlos discussed earlier, and ultimately how those results flow down to net income. For the year, cashflow from operations increased by $14.6 million or 24% from the previous year to $75.6 million. Additionally, our solid cashflow from operations translated into robust adjusted free cash flow.

For the quarter, with maintenance CapEx more or less in line with the prior year quarter, our calculation for adjusted free cash flow increased by $2.7 million or 44% after adding back special items. In the future, we look to align our adjusted free cash flow calculation with a standard view of free cash flow inclusive all capital expenditures, not simply isolating maintenance CapEx, which brings me to my last note on the cashflow statement.

Our capital expenditures for the year decreased by $8 million down to $18 million when compared to the previous year. This is a direct result of our capital allocation strategy and discipline. The strong cashflow generation, along with our well-defined capital allocation strategy brings me to my third highlight, the reduction in outstanding borrowings under our variable rate credit facility. This quarter, we were able to pay down an additional $8.2 million on our credit facility, reducing the outstanding borrowings to $179.1 million by year-end.

Though this amounts to a $11.6 million year-over-year decrease in the amount drawn under the credit facility, we have to take into consideration that the green loan acquisition, which closed at the end of the first quarter of 2023, resulted in a peak amount drawn under the credit facility of $213.6 million at quarter end. Therefore, over the next three quarters through year-end, we paid down $34.5 million on the credit facility, a considerable amount to pay down the supported with our cashflow generation and capital discipline.

Looking at leverage, by using our bank covenant compliance ratio as defined by our credit agreement, we have steadily lowered our leverage ratio ending the year at 5.13 times net debt to EBITDA. Despite the paydown, interest rates continue to hover around the same weighted average interest rate of 9% on our credit facility for the quarter as compared to 6.3% of the same quarter last year. For the year, our weighted average interest rate for our credit facility was 8.6% compared to 4% in 2022, a primary driver behind the $10.3 million of additional interest expense year-over-year that Carlos mentioned earlier.

Now I will conclude my remarks by turning to our full year 2024 outlook that we provided in our earnings release yesterday. Before I dive into our guidance ranges, I would like to highlight that our 2024 outlook is proforma for divestitures of non-core businesses that we have line of sight to a potential close in the first quarter of the year. This includes two separate transactions that would remove approximately $5.5 million of revenue and $1.5 million of field level EBITDA in 2024. The sale proceeds in turn would be used towards paying down our credit facility. With that disclaimer behind us, let us review the 2024 guidance ranges.

For total revenue, our range is $380 million to $390 million. For adjusted consolidated EBITDA, our range is $112 million to $118 million. For adjusted diluted earnings per share, our range is $2.20 to $2.30.

And lastly, for adjusted free cash flow, our range is $55 million to $65 million. Overall, we expect 2024 to be a continuation and extension of our performance in 2023, focused on organic growth driven by our key strategic initiatives around pre-need sales, both on the funeral and cemetery sides, continued integration and optimization of recent acquisitions alongside continued capital and spending discipline.

Through the course of the year, we will continue to be laser focused on reducing our leverage to a level that positions Carriage to pursue acquisitions opportunistically again in 2025. As a management team, we have been deliberate in our discipline approach around capital allocation decisions and executing on our strategic initiatives, and we are pleased to see how those decisions led to positive financial results in the fourth quarter and for the year. We are excited to continue that momentum into 2024. With that, I'll pass it back to the operator for questions.

Operator: Thank you. We will now conduct a question-and-answer session. If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speaker phone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, you can press star one to ask a question. We'll pause for a moment to allow everyone the opportunity to signal for questions. And we'll take our first question from Alex Paris with Barrington Research. Please go ahead.

Alex Paris: Thank you. Good morning, guys, and thanks for taking my questions. I want to first start off by congratulating you on the strong finish to the year, and then a separate congratulations to Mel Payne on his transition from Executive Chairman to Special Advisor i.e., semi-retirement. That's about as close as you'll see him get to retirement. I think the -

Steve Metzger: Thanks, Alex.

Alex Paris: Sure. I think I'd like to start with the strategic review. You talked about it in the press release. I'm wondering what additional color you can add. It started nearly eight months ago. You've gone through a process and the board has obviously decided that the shareholders will be best rewarded through an independent publicly traded company, which I would agree. So just any additional color you can get in that strategic review process to start.

Steve Metzger: Sure, Alex. This is Steve. I think first and foremost, we're very proud of our board and our outside advisors on the financial and the legal side. It's been a very thorough process over the past eight months. Very thoughtful process. We were obviously flattered as a company by the interest, but ultimately, I think the board did not believe that the offers presented offered the same value to shareholders as the current strategy and opportunities that lie ahead for us as an independent publicly held company do. So, we put a little extra color in the 8K just to kind of highlight the amount of time and effort that went through the process. But the board is as excited as management is about the prospects that lay ahead for us that were outlined in the press release.

Alex Paris: Great. That's helpful. So, referring to the strategic plan going forward, new purpose statement and things like that and this includes the strategic plan. I'm presuming that we're talking about the high performance and credit profile reduction plan that was originally announced in December of 2022 that focuses on organic growth, debt reduction, et cetera. What would you call out there, what additional color you can give us as to a going forward strategic plan?

Carlos Quezada: Yeah, it is - thank you, Alex and good morning. It is a continuation of that program]with some additional concepts that I actually mentioned on my prepared remarks. We are going into this journey to try to improve a lot of the processes and systems that we have, not just to accelerate bringing Carriage to a level of innovation and through technology and the way we approach things that we deliver better performance than before, but also should deliver productivity improvements and a reduction on cost over time. That's one aspect of it that's here at the support center as well as in the field.

However, we also included on the remarks the significant focus on customer experience as the demands of the industry continues to change from the dynamics of customer changing their preferences for final placement or choices for funeral and service - funeral services and cemetery. We also want to adapt and get ahead for the most part than anybody else as it relates to customer experience.

We have been working probably a little bit over a year and a half to build that. We have heard me talk about passion for service while playbook and this is the time to finalize that approach to formally launch it and to start capitalizing on that opportunity. So we do believe that in addition to what we have on what we call the HP-CPR plan, this added addition to the plan are creative and significant from a revenue growth opportunity as well as cost savings opportunity.

Alex Paris: Great. That's helpful. And then before I get into - I got a couple questions about Guidance. Guidance at the midpoint calls for revenue growth of 1%, adjusted EBITDA growth of 2% and adjusted EPS growth of 3%. But you said in the prepared comments that it's that guidance is proforma for the divestiture for the two transactions you expect to execute in the first quarter. My related question is, are there any other non-core businesses that are excluded from the guidance that you think you might sell this year? And just in general, are there other non-core businesses that you have identified for potential divestiture in the 2024?

Carlos Quezada: On our guidance, Alex, only the ones that Kian mentioned on his prepared remarks are proforma to the guidance. We don't have, however, identify other non-core businesses that we may see if we want to divest from over the next few months. I wouldn't have any offers or specific plans to that, but we do have a list, a target list, let's just call it, of businesses that we believe no longer fit the criteria of the high-performance nature, culture of Carriage and will work hard to make that happen. And of course, all the proceedings from that will be to pay down our debt and continue to lower our leverage ratio.

Alex Paris: What is the approximate gross proceeds on these two transactions anticipated? It was $5.5 million in revenue and $1.5 million in EBITDA.

Carlos Quezada: Approximately, $11million, $12 million.

Alex Paris: And then related question, of the other non-core businesses on the target list that may or may not be divested, what sort of gross proceeds can come out of that portfolio, do you think? Or set another way, what sort of revenues and adjusted EBITDA are we talking about?

Kian Granmayeh: Yeah, I think to Carlos's point, so we haven't identified any offers yet. What we look at, we have that list identified, but what we really focus on when we're talking with other people about potential divestitures is what are the tax implications? What are the multiples and does it make sense for us? Obviously, you'd be losing some EBITDA, but you've got to get cash in to pay down debt. So until we have those numbers in front of us, a little bit tough to say that we have targeted proceeds that we're looking to close on this year. It really has to be the right deal that's presented on these businesses. Those conversations are ongoing. So we may have some more color in the quarters to come, but at this point, they're not far enough along to really be able to pinpoint that.

But to confirm also Alex, we would not divest from assets where the valuation multiple of the sale is lower post tax than the leverage ratio we're getting to make sure that we find a way to really make a dent on our debt.

Carlos Quezada: Got you. So between the $11 million or $12 million in gross proceeds, I'm sure there's some tax implications there. And then your expectations for free cash flow in 2024, do you have a net leverage target for year end? I know you had in the past with the high performance and credit restoration plan. Where would you think that we finished out the year in terms of that based on current guidance for revenue and EBITDA?

Kian Granmayeh: Yeah, Alex, on that point what we're focused on is the capital discipline and continuing to lower our leverage and our leverage ratio as a whole. A lot of that is dependent on kind of how things look for the course of the year on the EBITDA side. But right now we're at - using our bank coverage, our bank leverage ratio, we're at 5.13 to end the year. We look to continue that strength and that pay down through the year looking to get sub five through, let's call it in the second half of the year and then looking to make more progress as we get to the end of the year.

Alex Paris: Got you. And then I guess my last question I'm got to ask you, and I'll let somebody else ask questions is Kian, any color as to the cadence of the quarters? This year we have full year guidance. I think Service Corp said on their conference call last week that for them, Q1 has got to be the last of the tough comps and Q2, Q3, and Q4 should be more normalized growth for them. And they're taking into account the pull-forward effect of COVID as well as maybe interest rates peaking and coming down over the time. And then again, specific to them, the end of certain capital projects. So thoughts about maybe first half versus second half, however you want to say?

Kian Granmayeh: Alex, I know you asked me that question, but when it comes to kind of a long-term seasonality, I think Carlos is better equipped for that. So let me kind of pass it over to him and let him give you some context, if that's okay.

Carlos Quezada: Sure. Thank you, Kian. So I'll break it in a couple of parts. When it comes to pull forward, we believe it will take probably at least three more quarters, if not four, for fully wash off the pull forward effect. We have been experiencing a continuous decline year-over-year on volume throughout 2023. And we think it's got to take a little bit of time to get to a level where it's flat and then start to grow on a year-over-year basis. We have been able to then account for, and I'm happy to talk about later on, a little bit more on that as it relates to our average revenue per contract. We believe we can sustain that to 2024 making up for some, if not most of that volume drop. And so that's the one piece on pull forward.

I do believe seasonality, meaning the typical Q1 being the highest quarter of the year, Q4 being the second highest of the year, Q2 being the third highest of the year, and then Q3 being the fourth highest of the year will be pretty much the same. So, seasonality for this industry, in my opinion, will come back to play in 2024 offset here and there by the pull forward effect. So, I do expect some sort of normalcy from that perspective. And our ability to compensate through strategies that we have created, two that I mentioned is continue focus on pricing power and our cremation offerings to make sure that we capitalize on every cremation opportunity that comes as a recommendation that leaves our business with some sort of service offering merchandise that increase that's arbitrary per contract.

Alex Paris: Great. Thanks for the additional color, everybody, and I'll get back into the queue. Thanks.

Steve Metzger: Thank you, Alex.

Operator: Once again, if you would like to signal for a question, please press star one. We'll now take our next question, and that will be coming from John [inaudible] with [inaudible] Company. Please go ahead.

John: Good morning, guys. Good morning, guys, and congratulations on a good quarter. I guess I'd like to start with the pre-need sales success seeing in cemetery. I'm curious what's driving that and were there any sales incentives that were put in place that were successful?

Carlos Quezada: Absolutely, John. So our cemetery strategy, which started probably about three, three and a half years ago, really three years, it's building up on its foundation. From the moment of recruiting more sales managers, getting the right who in the right place creating the program, including our lead management system, our CRM, which we call Sales Edge that we launched about a year and a half after. We initiated this program, is starting to - that foundation that we work from the beginning as we started to ramp up our sales premium cemetery sales teams is starting to really become very consistent. When you add to that also that we integrated a marketing module to our CRM, our marketing team led by Alfred White has done an incredible job in integrating lead generation through different sources from websites and other type of lead generation programs that is helping.

But the most significant piece, just to be very transparent with all of you, is of course the integration of this - of the most recent acquisitions on cemeteries. We acquired two different businesses last year. One has a cemetery - salon cemetery in Charlotte and the other two cemeteries, which are combos in Bakersfield. And so the integration of those three cemeteries have also helped. We have been able to create new inventory on one of the three cemeteries, which already started to show tremendous success last year, and we are actually creating a significant amount of new inventory on the other two.

And so those also help as a side note, as we change our same store acquisition comparison to be more fairly compared to our peers last year, Q1 will be the last year for Greenland as part of being same store. And after that really is all just, I'm sorry, acquisitions, everything will be same store until we get new acquisitions. So, this is also an impact of the latest integrations and we're very, very excited about performance and we believe there's a lot more to come from that in the near future.

John: Great. That's very helpful. And the growth of the EBITDA and EBITDA margin in the quarter, I think you attributed to a combination of cost savings and I think overhead reduction if I heard you properly. I'm curious where you stand on the price cost recovery as you are absorbing some higher vendor costs in the previous quarters. Are you at equilibrium? Can you kind of delve down a little bit deeper into that?

Carlos Quezada: How happy to. Happy to do it? So when you think about the structure of Carriage being highly decentralized, we did talk about pricing and trying to pass on those increases we received through 2023, starting somewhere around March of last year from vendors and services and other types including salary and benefits that were increased at the beginning of the year post all the stress from COVID-19. And so, we did struggle at the beginning to pass on those increased costs to the families, to the consumers, to the client families because of that decentralization. So it took us some time to figure it out what was the right approach to pricing, to find a way to leverage our ability to influence that pricing through information. through the managing partners who have and will remain to have the decision on the pricing power for the company.

And so, in November, we found a formula that really help out, and we are able to make some significant changes with the support of the field leaders. They did an incredible job as a consequence to that, in the month of December, after just a month of full implementation of this, I'll share that our total contract average for all Carriage increase by 5% or $274 on the burial side increase by 1.6% or $155 and on the cremation side increase by 4.9% or $175.

We believe not only this increases our sustainable, but there's a little bit more to increase as we move forward throughout 2024. And it is a great way to keep our cost. We should be our cost structure and making sure we deliver with an increased customer experience, higher value for that in exchange for those dollars to every family that go to a Carriage funeral home or cemetery.

John: Great. That's very helpful, in fact. And I guess one last question I'll let somebody else get into queue. Regarding the guidance, is it safe to assume that you've embedded incentive compensation into 2024 as guidance because it sounds like that was down sizably in 2023, and what kind of assumed tax rate are you putting into that 2024 guidance?

Kian Granmayeh: Hey, John, this is Kian. So let's answer the tax questions. The tax questions, we're just kind of using our annual, kind of our typical annual assumption on taxes, which is anywhere between 29% to 30% and then on the incentive comp, so yes, we do have that embedded within our on our cost, which ultimately hit EBITDA. So that is embedded in our assumptions for the outlook.

John: Great. Thanks, Kian. I'll get back into queue.

Kian Granmayeh: Yep.

Steve Metzger: Thank you, John.

Operator: Our next question is coming from Liam Burke with B. Riley.

Liam Burke: Yes. Good morning, Carlos. Good morning, Kian.

Carlos Quezada: Morning.

Kian Granmayeh: Morning, Liam.

Liam Burke: Carlos, your funeral home EBITDA margins were down year over year, which is fine, but your sequential improvement was pretty dramatic. I mean, 200 basis points plus if you look into some of the cost cuts, that's impressive. How do you see that momentum and that kind of staging going into 2024, that kind of improvement?

Carlos Quezada: We do see that as a very positive momentum going into 2024. There will be - we have our normal round of various increases in the field and the Houston Support Center in February, but we're already planning what it's going to take to make that up so we can continue the same momentum throughout the year. So we're fully ready, prepared and plan into continuing the same momentum through the next four quarters.

Liam Burke: Okay, great. And then Kian your financial revenue on EBITDA was sort of off trend. Could you give us some color on that?

Kian Granmayeh: Yeah, of course, Liam. So that's really a result of three things, and I'll just kind of take through them. So, one is in - embedded within financial income, we also have what we call general agency commission fees and also PC income, which is our perpetual care income from our trust. So, on the pre-need funeral side, on the insurance side, we received commissions. We're seeing that growth. If you remember over the summer of 2023, we announced an exclusive arrangement with National Guardian Life from Precoa, and we started implementing that in different regions, our western central regions now are fully implemented and we are looking to finalize the Eastern region. So we did see some of that come to fruition in 2023, and we'll see more of that come through in 2024.

On another topic related to our - what we call our general agency commission fees, which is fees related to selling insurance policies, we did kind of have a change in recognition policy in 2023. It's an outdated policy we've had for probably 15, 20 years that since selling these policies was such a small part of our business, we would just defer the recognition of those fees, those commissions 100% for over a 12-month period. We changed that recognition policy as a result of us signing this exclusive agreement in summer 2023, and now our policy is an 80%, 20% recognition, so 20% will defer and 80% will recognize.

So that adjustment is also reflected in there for 2023. And then on the perpetual care income side, our trust funds just in general have generated from the fixed income side, have generated a considerable amount of income and also from the dividend payers. So that income flows through our income statements. So we saw some growth there as well as we continue to rotate into income paying securities.

Liam Burke: Well again, I guess my question is just to follow up on that, is that typically the trend we can expect for in 2024? I mean, understanding -

Kian Granmayeh: We will -

Liam Burke: I understand that you can't predict your income from the trust, that's fine. But -

Kian Granmayeh: Yep.

Liam Burke: I mean, there are other things embedded in that number that are pretty much a little more consistent.

Kian Granmayeh: And so, I'll talk about the PC income side and I'll pass it over to Carlos when it comes to the pre-need funeral strategy side and what to expect in 2024. On the perpetual care income, we do continue to - we do have line of sight on what dividends look like for our securities that we own in our portfolio and also from the dividend payers. So, we do expect with a slight rotation in our portfolio that we will continue to grow our perpetual care income. So you will see slight growth on the perpetual care income side. With that, I'll pass it to Carlos on the preneed funeral.

Carlos Quezada: Thank you. Liam, on the funeral side, as you know for the most part, Carriage never had a very specific focus to drive PR[?] range funeral sales through insurance. Even though we did sell them individually based on each managing partner deciding to sell some through some local or national-based partnerships. After we partner with Precoa and the National Garden Life Insurance Company, we created a whole very holistic plan where it is just one insurance company supporting and backing Carriage for this paper.

And with Precoa, as it relates to our ability to then display sales through all of different - through our different funeral homes across the states where we operate. And so, the problem we have, the schedule of integration that we have led to a significant improvement in addition to the 80% recognition from what Kian just mentioned. But it is just beginning because our schedule started really in September to - for integrating with the West being the first region from Carriage to being integrated into this new program.

December had some of the central starting to roll in and then really finalizing in Q1 of this year with the East region. So it will be only until the second quarter of this year when we'll have full integration of all of our businesses within this new partnership. So, I highly expect we will be able to continue to grow on a year-over-year basis from our general agent commission and reflected on financial income as PAF for years to come until we catch up to a point where year-over-year comparison will be more on the mid-single digits. But in the meantime, we'll be, in my opinion, probably somewhere around 10% to 15% year-over-year.

Liam Burke: Great. Thank you, Carlos. Thank you, Kian.

Steve Metzger: Thanks, Liam.

Operator: Our next question is coming from George Kelly with Roth MKM.

George Kelly: Hey, everybody. Thanks for taking my questions. So first an accounting question, Kian, just maybe to follow up on the prior question about the change in accounting recognition in financial income in or financial revenue this quarter, just wondering if you could quantify, sounds like you changed practices and maybe there was kind of a lump amount that was - that hit 4Q. So, could you quantify that?

Kian Granmayeh: Yeah, so for a go forward basis let's call it January 1st, 2024, we'll be working off an 80% recognition, 20% deferral. And that's just based off of kind of historical rates that we've used or that we've seen in our data when it comes to cancellation of those policies. So that 20% is what we're going to go with in terms of the deferral. On a look back basis within our financial income, there is a, let's call it a catch up when it comes to the 2023 period of about $1 million that is added in that period.

George Kelly: Okay. Okay. That's helpful. And then -

Kian Granmayeh: As a result of the policy change.

George Kelly: Understood. Thank you. And then second question for Carlos. You mentioned in response to one of the earlier questions just about pricing and how it took a while and you finally kind of settled on a formula in November that worked. Just curious if you could give more detail on what exactly that means, what changed in November? And then second part of the question is just curious what kind of pricing you're anticipating in fiscal year 2024 or what's baked into your guidance. Is it fair to say that it's kind of a low to mid-single digit pricing bump across, if you were to just look at like a blended average across your businesses in fiscal year 2024?

Carlos Quezada: Yeah, absolutely. Happy to address that, George. So on your first question, what we notice is that a data-driven approach to pricing brings more attention to our managing partners. So, what we are doing is creating a framework where it shows market share trends for a few years for each business. Then we have the pricing over the last three years to see what pricing impact has been increased or not over the last three years. Add as much competitive pricing as we can, and that information is available. So we can add that up. And then have a normal market share also as a percentage for the market. And then we have a normal sit down with financial data including EBITDA margins and things of that nature to come to conclusions that based on the data become quite evident to the side.

And so those conversations that the Director of Support, Regional Partners and our FP&A team here at the Houston Support Center are having, are bringing significant awareness and understanding of how pricing matters and how we cannot absorb increases coming from inflation or merchandise cost or whatever it is from our vendors and others. And so, it's making a significant impact. Nothing other than awareness through a very specific pricing review process.

However, we do lead the final decision to the MP because it is very sensitive. We do not want to price ourselves out of the market. And so, we listen to what they say, how they're thinking about their business, how - what is their value proposition, which is something all of them are working on and defining what it is that this funeral makes it different than others from a value perception perspective. And it is making a significant impact. So that's on your number one question.

And then number two, I do believe that for 2024, we will be right in the middle of single digits for year-over-year increase on our average revenue per contract. Maybe a little bit higher on the cremation side because we have a very specific approach to cremation, maybe between 7% to 8% on the cremation side. And the approach to cremation is very simple. When you think about our burial mix and cremation mix of Carriage, we have about 70% cremation. Over that 70% cremation, 69% almost 70% too is direct cremation. Direct cremation being the lowest average per contract that we have. And so, our focus is got to be on that direct cremation volume and see how many families can we convert to what we call cremation offerings.

We have created a very specific strategy to educate families with literature and offerings that include, reclamation with a service, reclamation with a pool visitation or IV or merchandise, different approaches customized by business through the support of the managing partner. And we believe this will lead to a significant increase on conversion ratio between cremation with something sort of service. And so, we're very excited about that. This has started officially in the month of January, and we believe we will see the benefits of that as we report in Q1.

George Kelly: Helpful. Thank you very much.

Steve Metzger: Thank you, George.

Operator: And this concludes today's question and the answer session. I'll now turn the floor back to Carlos Quezada for any additional or closing remarks.

Carlos Quezada: Thank you everybody for attending the call today. We're super excited about the future at Carriage. Our ability to now manage pricing power, our continuous improvement program, our program on customer experience, and being able to gain market share and better pricing from a perceived value from families is very, very exciting. Our brand-new purpose statement as the driver and the three supporting pillars under the purpose statement, it drives a focus and a way to continue to grow over the next years and provide shareholder value.

We're very excited also about our focus on continuing to pay down our debt and really deliver on our promise we made to our high-performance grade profile restoration plan to deliver on the leverage ratio that it is ideal for Carriage.

In closing, I would like to say something regarding Mel Payne. Mel retirement marks a culmination of over 33 years of exceptional leadership since founding Carriage Services, a journey categorized by visionary foresight, steadfast commitment to being the best and a heartfelt dedication to this noble profession.

Under Mel's guidance, the company has become one of the industry leaders setting high performance standards and fostering a culture of honesty, integrity, and quality in all we do. This transition to retirement signifies not an end, but the onset of a new chapter for Mel to explore. The legacy left behind is a testament to a career dedicated to excellence, inspiring those who follow to continue building on this foundation. As Mel steps into the next chapter, the hope is for it to be filled with joy, peace, and fulfillment, reflecting the richly deserved rewards of a remarkable career. With that, we thank you and we're happy to report our Q1 results as we continue to grow in 2024.

Operator: Thank you. This concludes today's webcast. We thank you for your participation. You may now disconnect your lines at this time.