Carriage Services Inc. Q1 2017 Earnings Conference Call

April 27, 2017

Corporate Speakers:

- Viki Blinderman; Carriage Services, Inc.; Senior Vice President, Principal Financial Officer and Chief Accounting Officer
- Mel Payne; Carriage Services, Inc.; Chairman and Chief Executive Officer
- Ben Brink; Carriage Services, Inc.; Senior Vice President, Chief Financial Officer and Treasurer

Participants:

- Alex Paris; Barrington Research Associates, Inc.; Analyst
- Chris McGinnis, Sidoti & Company, LLC; Analyst

PRESENTATION

Operator: Good day, ladies and gentlemen and welcome to the Carriage Services First Quarter 2017 Earnings Conference Call. All participants will be in listen-only mode.

After today's presentation, there will be an opportunity to ask questions.
(Operator Instructions)

As a reminder, today's conference call is being recorded.

I would now like to turn the conference over to Viki Blinderman, Senior Vice President and Principal Financial Officer. Please go ahead.

Viki Blinderman: Thank you and good morning everyone. We are glad you could join us. We would like to welcome you to the Carriage Services conference call.

Today, we will be discussing the Company's results after the First Quarter of 2017 which was released yesterday after the market closed.

Carriage Services has posted the press release, including supplemental financial tables and information, on its Investors page of our website.

The audio conference is being recorded and an archive will be made available on our website. Additionally, later today, an audio archive of this call will be made available and active through May 1st. Replay information for the call can be found in the press release distributed yesterday.

On the call today from management are 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 question-and-answer period.

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

I'd like to call your attention to the risks associated with these statements, which are more fully described in the Company's report filed on Form 10-K and other filings with the Securities and Exchange Commission. Forward-looking statements, assumptions or factors stated or referred to on this conference call are based on information available to Carriage Services as of today.

Carriage Services expressly disclaims any duty to provide updates to these forward-looking statements, assumptions or other factors after the date of this call to reflect the occurrence of events, circumstances, or changes in expectations.

In addition, during the course of the morning's call, we will reference certain non-GAAP financial performance measures. Management's opinion regarding the usefulness of such measures together with the 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 Securities and Exchange Commission.

Now I would like to turn the call over to Ben Brink.

Ben Brink: Carriage Services' first quarter results reflected another solid operating and financial performance by our managing partners and their teams. Overall, total revenue increased 7.6% over the year ago period to $68.1 million, Adjusted Consolidated EBITDA increased 3.3% to $20.5 million, Adjusted Net Income increased 1.8% to $8.1 million, and Adjusted Diluted Earnings per Share decreased 4.3% to $.45. The decrease in our Adjusted Diluted EPS can be attributed to the increase in diluted shares outstanding due to accretion from our 2.75% convertible notes compared to the first quarter of last year.

After receiving feedback from the investment community, we made the commitment in the fall of 2015 to simplify our already transparent Non-GAAP trend reporting to reduce the amount of adjustments and add backs. We are happy to report that this is the first quarter is a long while where we have no add backs to EBITDA. As a reminder, going forward we will only include in our Non-GAAP adjustments large, one-time, non-recurring items that are not a part of our normal course of business.

Funeral

Same store funeral revenue of $42.7 million was an increase of 3.3% year over year, same store field EBITDA increased 4.8% and field EBITDA margin improved 60 basis points to 41.5%. Revenue and field EBITDA from businesses acquired within the last five years increased 66% while field EBITDA margins remained flat at 43.4%.

Our funeral home managing partners and their teams continue to demonstrate the operational discipline within our Standards Operating Model. The high value personal service these professionals provide to our client families everyday resulted in an increase of approximately 2% in the average revenue per contract and an increase of 3% in the average revenue per cremation contract over the first quarter of last year.

In our acquisition funeral portfolio, the businesses we have owned for over one year showed an acceleration in their operational and financial results in the first quarter as revenue increased 13%, field EBITDA increased 24.6% and field EBITDA margins increased 430 basis points.

The results of this group, coupled with the 190 basis point difference in the field EBITDA margin between our same store and acquisition funeral businesses, continues to demonstrate the execution of our Strategic Acquisition Model to affiliate with the best remaining independent businesses, acquire larger businesses in larger strategic markets that have the ability to grow revenue above 2% annually once integrated onto the Carriage platform.

I also want to note that we have disclosed for the first time the amount of revenue and EBITDA that flipped from the acquired portfolio to the same store portfolio on our trend reports for the quarter. That supplemental information can be found at the end of our press release. Additional disclosure can also be found at the end of the 5 quarter trend report in the financial section of our investor relations website.

Cemetery

Our total cemetery revenue was essentially flat year over year at $11.7 million while cemetery EBITDA fell 10.2% from the first quarter of last year to $3.6 million. Overall performance in our cemetery segment was impacted by three businesses within our portfolio related to "**First Who, Then What**" which negatively affected preneed property interment sales for the first quarter. Our Managing Partners and Regional Support Leadership Teams made difficult and correct decisions to upgrade their "Who" sales leadership talent and we expect improved performance throughout the rest of the year.

The majority of our cemetery portfolio continued their long term high performance as our at need cemetery revenue increased 6% and the average revenue per property sale increased approximately 19% in the quarter. The increase in the average revenue per property sale was principally driven by sales of cemetery interment rights products that we have developed throughout our cemetery portfolio over the past 3 years.

Overhead

Overhead expenses for the first quarter decreased 20.9% to approximately $9 million. The decrease in severance and retirement expenses were the primary drivers of the improvement in Overhead expenses.

Overhead expenses in the first quarter were approximately $1 million more than we had anticipated as we made strategic hires in our regional operational leadership, information technology department and the continued build out of our corporate development team. While we had planned for these additional hires throughout the year, they occurred much faster than we originally thought they would. We also incurred expenses related to a tax consulting project that we anticipate will lower our cash taxes by $2 million over the next two years.

Free Cash Flow

Adjusted Free Cash Flow declined to $6.4 million during the quarter. The largest variances in adjusted free cash flow for the quarter were the cash payments to our first group of Good To Great five year incentive award recipients and the timing of the last payment made on a previously expensed retirement agreement.

Trust Funds

Our discretionary trust funds returned 3.1% in the first quarter versus 3.7% for our benchmark and 6.1% for the S&P 500. Our overall investment strategy remains the same and we continue to find better relative value for new investment ideas in equity securities versus the high yield fixed income market.

Rolling Four Quarter Outlook

Based on our current outlook for the business we are reiterating our rolling four quarter outlook of Adjusted Diluted Earnings per share of $1.73-$1.77. This does not include any pending acquisitions.

And with that, I'll turn the call over to Mel.

Mel Payne: As is our custom, I'd like to read out the high-performance hero managing partners for the quarter.

Bob Prindiville	Bright Funeral Home & Cremation Center; Wake Forest, NC
James Bass	Emerald Coast/McLaughlin Mortuaries; Ft. Walton Beach, FL
Wayne Lovelace	Lotz Funeral Home; Vinton, VA
Patrick Schoen	Jacob Schoen & Son Funeral Home; New Orleans, LA
Curtis Ottinger	Heritage Funeral Home; Chattanooga, TN
John Bresnahan	Devanny-Condron Funeral; Pittsfield, MA
Bryan Hardwick	Bryan & Hardwick Funeral Home; Zanesville, OH
Andy Shemwell	Maddux-Fuqua-Hinton Funeral Homes; Hopkinsville, KY
Ashley Vella	Deegan Funeral Chapels; Escalon, CA
Justin Luyben	Evans Brown Mortuaries; Sun City, CA
Joseph Newkirk	West Contra Costa Group; Richmond, CA
Cliff Pope	Havenbrook Funeral Home; Norman, OK
Nicholas Welzenbach	Los Gatos Memorial Park; San Jose, CA

And last, but not certainly least, Winnie, The Winner, Hurston, Houston Support -- who is my Executive Assistant and without whom I could not do what I do. She's awesome.

With that I'd like to turn it over for questions.

QUESTIONS AND ANSWERS

Operator: (Operator Instructions)

Alex Paris of Barrington Research.

Alex Paris: Good Morning everyone. I've got a number of smaller questions, but before I get started, I just wanted to make a comment and I have a follow up question on the comment. First of all, Mel, I wanted to tell that I read your 40 page shareholder letter over the weekend and I've got to tell you I've never read a 40 page annual letter from any CEO in the industry.

And, I do appreciate you taking the time to outline where the company has been, where it is and where we hope it's going, going forward. I think I have a better understanding and I appreciate it. And I'd recommended it to any investor who wants to learn more about the ups and downs of this industry and the economy's impact on any commercial enterprise over the last 25 years. There certainly have been their share of challenges.

Mel Payne: Thank you, Alex --that's an incredible comment coming from you, personally. I appreciate it. It was a labor of love, for sure. But I got the impression over the last five years in particular, that there were fragments that were missing in the story of Carriage and its evolution that were key to a deeper understanding of what we're doing here. And just how unique and different it is.

And without that understanding I don't know how anybody could want to own our shares and keep them over five or 10-year periods, like I do. And so this was an attempt to do that and I hope people do read it and get something out of it.

Alex Paris: Well I especially appreciated the candor. You outlining the mistakes that you make, because we all make mistakes -- but more importantly what you've learned from them and what changes you have made to the organization to make it better, stress tested as you said and better positioned for the future.

My take aways, incidentally -- and you might want to expand on this or correct me, and not necessarily in this order – it's the people, its the entrepreneurial partnership you have with your key people at Carriage Services. It's the process, it's these three models that have evolved over time and its capital allocation -- whether that's a financial or, you know, the acquisition approach, the improvement of the overall portfolio through divestitures, when necessary. What am I missing? Or does that capture it?

Mel Payne: No, you're not missing anything. What I have learned and created in the form of these ideas -- I got the impression over the last five years in particular that people thought, decentralization, partnership, these are just good words, fun words, feel good words. They're not. These are serious things. And it's not for everybody. And so, it is very Darwinian, very disciplined, very analytical and very high-performance all the time.

I was just looking at the last two years, in particular. And a consensus estimate -- I saw in looking at our CNBC thing, we missed five out of eight quarters over the last two years. And, if you go back to the first quarter of '15, until now, we missed five out of eight quarters. But I was thinking about who was here then? What we were doing then? How uncollaborative and uncooperative a lot of the company was then, compared to now, it is night and day.

We have accelerated the Good to Great Journey in the last two years, beyond what I could have imagined was possible. And I think the same thing will happen over the next two or five years as well. I think it will actually accelerate. But without reading this and understanding it more deeply, I don't know how anybody would want to own our shares. And I'm just thrilled with your takeaway, Alex and I appreciate it more than I can express.

Alex Paris: Well, thank you --and, I read it twice, just to make sure I didn't miss any of the key points. So, we, too, are in it long term -- that's always been our approach to investment. I do have some questions regarding the short term though. Again, not in any order -- but, adjusted EBITDA. Congratulations on getting adjusted EBITDA equal to consolidated EBITDA, I know that's been a goal of yours.

Mel Payne: -- laugh. Free at last. Free at last.

Alex Paris: I'm curious and maybe Ben can answer this? If you were operating under the previous methodology. What would be the ad-backs this quarter? I mean adding those consulting fees and things back any more? What did you all --

Alex Paris: -- becoming a better company?

Ben Brink: Right, exactly. So, it was a hodge-podge of things between consulting fees, severance expenses and some other one-time items that we probably would have added back in the past. And the way we look at it is between $0.5 million and $600,000 -- that would have been in our non-GAAP line for this quarter under the previous methodology.

Mel Payne: The way I looked at it, Alex, if 30% has never been achieved before by anybody and we did it without any add back noise, that ain't so bad.

Alex Paris: Without a doubt. It signifies also a much higher quality of earnings?

Mel Payne: Yes. When we went out, Ben, Viki and I, a couple of years ago for the first time -- maybe at your conference? We met with a guy and he put an arrow straight through my heart. He said, Mel, you're a student of Warren Buffett? I said, yes. He said, now if Warren Buffett were to look at your reporting right now, he'd be very critical.

I'm going, oh -- I think you're right. So, I'm wondering who's going to say something -- I hope he says something about -- I told Ben make sure you find him and ask him now how are we doing --

Alex Paris: -- very good (Inaudible - microphone inaccessible) it was substantial. It was a substantial add back, just looking at last year, it was over $5 million of add backs. So what should we expect then, over the balance of the year? Should consolidated continue to equal adjusted? I guess you can't always foresee what might be one time in the future, but it should be--

Ben Brink: -- yes, Alex, as of right now, we don't see anything on the horizon that would require any add backs on the EBITDA line. So, I would expect it to be similar going forward, or the same.

Alex Paris: Great. And then I got to ask about Cemetery, Cemetery, by my count you had at least 19 consecutive quarters -- and that's as far as my model goes back on quarters of growth in Cemetery revenue.

Q4 was down, I think 2.8% year-over-year, Q1 was down at a lesser rate – it was kind of flat down 8/10 of a percent. I know you touched on it, but the issue is, is it just a small number of the Cemeteries within the portfolio?

Ben Brink: Yes. What's been good, as we went through the first quarter and identified these areas where we could have improvement, where it was really down to really three locations and businesses that we can pinpoint.

And the leadership in those businesses and the regional teams made the tough decisions as we said on the comments. And we feel good about the people we have in place and moving forward and we expect improved results.

Mel Payne: Alex, this is Mel. I pulled away from operations over the last year. Mark Bruce is our new COO and he's been playing that role for the last year or so while I dabbled in other things -- Investor Relations and acquisitions. But I am so impressed, because I've stuck my head over there to see what was going on. And I quickly took it back, because I don't want to interfere with what I see going on.

Because everything I see going on is pretty awesome. And the decisions they're making, the dial downs and to the various businesses, where this under performance was concentrated. What they're doing about it -- because it always comes down.

Our cemetery business has some large cemeteries and we have a lot of not-so-large ones. So when the large ones don't perform, it moves the meter either way. I think what you will find over, if not the next quarter, the rest of the year and thereafter is, they brought in some real top talent.

Now in our world, if you can't perform or find A players -- and now we know what they are and what they look like and the performance to expect from them, you don't belong here. And so this is how it is, it's Darwinian, it's high performance and I think you'll be very surprised at the difference in our cemetery performance. We want to get as good in the Cemetery business broadly speaking everywhere, all the time, as we are in the funeral business. And I have no doubt we will get there.

Alex Paris: I would point out that overall performance was a bit masked by the slight decline in Cemetery, I was just looking at the --

Mel Payne: It was.

Alex Paris: Your performance in Funeral versus your -- the larger competitor in the space and you significantly outperformed this competitor, both in contracts as well as in revenue growth.

Mel Payne: That is correct.

Alex Paris: Last question, and then I'll give it up to someone else. Just a bookkeeping question, I guess. Ben, for purposes of calculating the fully diluted shares I have the schedule from the filings, do we use the share price as of the last day of the quarter to determine how many shares we're adding to the denominator? Or is there some sort of average price approach, or what have you?

Ben Brink: No, it's the price at the last day, last trading day of the quarter. And as we move through the year, its an average of each of the quarters, right? So it will be whatever the price is on last day of the quarter will be used for dilution for that quarter.

Alex Paris: And then related, I know that none of us like the result of this low interest piece of -- just because of the confusion of it and the dilution of it I guess, for that matter -- but you had talked in the past about potentially refinancing the stats. Is that something still on the table, something you are considering for 2017?

Ben Brink: I wouldn't say it's necessarily on the table for 2017, I think we've done a lot of work over the past 9 months or so to better understand what our options are around the entire capital structure and to make sure that we are positioned and have the financial flexibility to execute our plan going forward.

So those talks are ongoing and we feel confident about where we are with that.

Mel Payne: Let me add to that, Alex.

I think you properly painted the picture. Looking back over the last five years, if there is one regret that I have, it’s that one. Going along with that idea, which was a very stupid idea. It led to a lot of confusion, it led to a dilution of the economic value as was quickly pointed out to me by a long-term shareholder.

I regret it. Having said that, it does have certain benefits, with all its confusion, in the short term. And over the intermediate term, we're looking very hard at how to, because -- we leave all the non-GAAP noise behind and then we have this, you just can't seem to escape certain stupidities that were put in place.

So that's how strongly I feel about this being a mistake. I take responsibility for it and we will do something about it, we just don't want to say when.

Alex Paris: Sure enough. Thank you so much. Congratulations.

Mel Payne: Thank you sir.

Operator: (Operator Instructions)

Chris McGinnis of Sidoti. Your line is now open.

Chris Ginnis: Good morning. Thanks for taking my questions. Just to echo Alex's comments about the shareholder letter although, I got it a little later and didn't have the luxury of the weekend, but I too learned a lot, I think -- so thanks in helping us understand it in a different light.

Mel Payne: So Chris, I’ve got a question for you. And everybody who gets around me, this is what I do. On a scale of zero to 10, you were somewhere before you read it and then there was somewhere after you read it. On a scale of zero to 10, can you tell me what the difference was?

Chris McGinnis: In understanding the --

Mel Payne: -- Well you read it. So, after you read it, you realized there were a lot of things you didn't know or understand. So, you would have been like what you knew after you read it, you’d have been somewhere on the scale of 0 to 10.

Chris McGinnis: Maybe three to four after reading that, or maybe a five -- I think I still have a lot --

Mel Payne: That's a jump of 66.67%.

Chris McGinnis: To help me understand it a little bit more, I had three questions and very close to Alex's kind of takeaways, but one was just on the talent throughout the organization.

Maybe can you just talk about it on a corporate level, but also on a local level it sounds like if it's 18 to 24 months to get to the other side that you talk about, can you maybe just walk through how you cultivate especially on the local level the talent across the organization and how do you go out and seek them? You mentioned in the note, or in the letter that you are attracting better talent because of your position in the market. Can you give us an update on that. And how you go about cultivating the talent in the organization?

Mel Payne: That is a wonderful question Chris. And there are two parts to the answer. We have managing partners and sales managers in our business. These are the people that have the most important jobs in the company. And then you have the support teams here in Houston and we have one layer, I guess, you could call it in the field -- we call it Director of Support.

But the whole idea of Carriage is a partnership idea and the only management that occurs in the company should be at the individual business unit level. And the concept over the last 13 years of this model has led to declustering of markets. We declustered Roanoke, we declustered Chattanooga early on. We declustered certain businesses in California, continue to look at others. Big clustering in Springfield, Ohio -- Massachusetts. So what happened in Naples, Florida, we declustered.

What happens is you break clusters into smaller more locally defined markets where you have a piece of real estate -- might have the same brand name --but it’s a submarket with very different and complex dynamics compared to the bigger market. So what you want is to get entrepreneurial people who want to get more market share from their competitors.

So we have learned how to profile that kind of person. Now we have learned this through experimentation, testing, all kinds of interview process -- we tried everything, okay? There is no silver bullet, but we have become much better at attracting the type of people who are hungry to lead and grow and get recognized for high-performance in this model, which is not easy to achieve these standards. To grow your volumes and market share, this is not easy in this business.

We have found a very high batting average, increasingly attracting that kind of person. Now if you get somebody that has been in one of the other companies that has the opposite model, top-down performance management system, which is common in America.

And they're afraid to take risk, they're afraid to take -- to try new things -- they're afraid of failure, they're waiting for orders from above, they want an initiative to work on, it gives them something like a security blanket. They will never get to the other side.

They may be a good manager of a budget, but they're not an entrepreneurial person who wants to grow their business and will take no prisoners in trying out new ideas and being innovative at how they do that. And we often get the question, well how do you grow market shares? I couldn't possibly tell you how, I tried all that and it doesn't work.

The only thing it works is getting the leadership right and then you don't have to manage them or worry about them, you just sit back and watch it and it's almost like turning on a light switch. You can see it, you got a good business, and you get the right person and if you have the wrong person, the thing lights up almost immediately.

Now that's in the individual businesses. Now if you look at the incentive programs that we have and the good to great 5-year program, the annual program, these are -- everyone told me not to do this. The generosity of sharing what they produce locally is huge, I mean, huge. Everybody said, don't do that. Everybody that told me not to do that is no longer here. But the players who create the value, love it.

And so this is what we're looking for. And we found that the word is out. Now the good thing about Carriage is we don't be millions of these -- we just need one at a time and a good business. So it makes it easier for us as a small company to find good businesses and put great managing partners in them if they're not already there. And they turn into meter movers and then you have this flywheel effect throughout the portfolio. This is what's happened over the last 13 years and particularly, over the last five.

Here in the home office it's different. You got to find people who are team players, who are collaborative, who like to win and they view our businesses in the field as their customer and they want to make their life easier. So they can focus on winning locally in the market share battle.

And when you find people here in each department who don't have silos, they all buy into the vision of high performance and being the best at what they do which is supporting our businesses. Then you have a wonderful partnership that has a powerful impact on performance.

And it takes fewer people, because you eliminate complexity and stupidity, silos, the lack of collaboration and cooperation, wrote about that at the end of my shareholder letter. Bob Axelrod, the professor from Michigan, wrote about this. I mean this is what we do.

We collaborate and coordinate towards the idea of always getting better tomorrow compared to how good we are today. And when you put these two ideas together, it's basically magical. And we're just getting started. That's why I wrote a 40 page shareholder letter.

Your question is one of the best questions I ever got. Thank you.

Chris McGinnis: Hopefully the next two aren’t as bad or just as good and not too far away, but thanks for that. That does help a lot.

And going off your last comment, when you think about the transition over say the last 10 years roughly in putting together the operations in place. When you look over the next 10, how do you think that changes? And what I mean is, I know you have your standards in place, but are there other components that you're looking at today that you think need to be added to get to that next phase, even though your numbers have been great?

And I'm just wondering with your relentlessness for excellence, how do you add to it? And going forward, outside of the next 5-year plan that you have out there, but --

Mel Payne: You're batting 100% on this call, Chris; that's another great question.

The weakest part of the company in the past 5 or 10 years, but even the last two years has been the industry understanding of who we are. And being able to target very specifically those businesses in the best markets, the bigger better businesses that have a bigger, higher performance revenue and earnings profile over the next 5 or 10 years is to have a team in place that understands it and can explain it.

Because if you can't explain it to the bigger, better operators the way I wrote about it, then you're just -- you're pretending to be a player that understands Carriage and you're not. And so I'm just a slow learner to have Shawn Philips in charge of explaining the company now along with Gabe.

And if you think about what I just said on your first question, Shawn was the regional partner in the west for quite a while, then he became the regional partner in the central. And before that he was with Alderwoods a long time, used to be Loewen Group and before that SCI, not an independent.

So he is an operating guide and an operating leader and he has been here since October of '07. So he has been on a learning journey, I'm talking big time, with this idea. He can explain to the bigger better operators and owners, which he is doing.

And Gabe has been in most of our support departments. And now they've added two other people to this team, Bill Hudson and Mike Kelly. Bill came over from Matthews Aurora and Mike was one of our DoSes -- Director of Support. Before that he was a managing partner. Very successful.

So we have got real operating players that understand every aspect of our company explaining it. And I just walked back this morning, this is the missing piece over the last 5 or 10 years, that I expect to accelerate the growth with bigger better players, because when they understand who we are, now they got a tool.

They got a shareholder letter that really explains it. And who we are not? Than they have an easy choice to make. So over the next 5 or 10 years, stay tuned to the growth and acquisitions. The size and the quality and the margins that will produce in the company, I can't tell you how to model that out, but I can tell you it's going to happen.

Chris McGinnis: In last question and you obviously indicated on of your last observations, talking about your EBITDA margin and the success you have had there. And I'm truly asking, what does it mean? To us or to me at least, it means that your operating on all cylinders, with the continued growth of it and the expansion, but what does it mean to you? And what are you trying to translate to us, I guess, when you ask that question?

Mel Payne: You're hitting it out of the park. What does it mean, I have been waiting. Thank you, Chris. You read the shareholder letter, starting at the end of '03, I had this idea, we had this offsite retreat with 17 former owners and best managers at that time. These are the people that I learn from, these were the ones I was watching all those years, why is it, it doesn't matter what their budget is.

They seem to do well, regardless of what their budget is and it doesn't matter what the cremation rate does, death rate, the flu season, that’s just a bunch of noise to these people. How do they do that?

Well, I didn't just sit here in the home office, I'm wondering about it, I went out there all over in the businesses. I learned this from bottom up Chris and the people I really wound up learning the most from I listed in the shareholder letter.

These were the people I learned from and after that 3-day offsite retreat, where we fleshed out this beginning version of Standards Operating Model, which is what's been hilarious is to get questions about how in discipline and lack of control we have over operations, but it’s the opposite of that.

So after 3 days, we went to a Mexican restaurant, and one of our former owners who is listed, says Mel, where did you come up with this idea? In a book? I said, no. Although, I understand some book has been written about beyond budgets, I have ordered it, I came up with this by observing what you do, year-after-year-after-year-after-year and all I did, was just convert a purely financially desirable outcome into a high operating performance standard that you could relate to.

Getting more volumes over time, I mean that's a no-brainer over a high fixed cost distribution piece of real estate. This is not complicated; it is very difficult to do.

And so the way this is evolved over the last 13 years is pretty magical and every step along the way except for the people that were really turned on to it. I'd been told it won't work or you shouldn't do this or you shouldn't do that. My only regret looking back over the last 13 years is every time somebody smart told me that, I should have speeded it up right away in the opposite direction.

That's the beauty of where we are, what does it mean, it means, I don't know anybody else that’s done anything like this. And I think it means that even though we didn't get to this sector first, SCI did and they do a wonderful job with their competitive advantages of scale and buying power and all that, it's obvious. But we couldn't do that, no one could duplicate that. So we literally had to invent a new methodology of consolidating a highly fragmented industry.

And there were years, maybe 5 or 10 years at a time when I thought I had made a bad debt for my career. I didn’t think this idea, I’d live long enough to see if this idea work out. But it has worked out and what does it mean now, it means that this idea in my view is a superior idea about how to consolidate this particular fragmented industry.

In the future, I can’t talk about 70s, 80s or 60s, because I wasn't here. But I think it’s a superior idea. And I think it also is a superior idea for other industries and other companies. But no one wants to take the risk of something so novel and kind of weird and be told by so many people it won't work, it does.

And it's a beautiful thing. And it just is going to get better and better. That's what it means to me and it's not just me, it means that to everybody in the company.

Chris McGinnis: Thank you again for taking and time and congrats again on a great quarter. Good luck with the next quarter.

Mel Payne: I appreciate it. Wonderful questions. Anything else?

Operator: Thank you. And there are no further questions at this time.

I'd like to turn the conference back over to Mel Payne for closing remarks.

Mel Payne: I will end this call hopefully on a funny note. I was kind of hoping someone would ask me this as a fun question, but you didn't, so I'm going to ask myself. My dream question would have been -- but I'm glad nobody asked me this – Mel, did you ever figure out what you all can be the best in the world at?

And I would say, absolutely. We figured out that you should never have an offsite retreat and ask a dumb question like that, because if you do, that means you're going to get bad real fast almost overnight. So what we can be the best in the world at is never having stupid retreats again.

Thank you very much for your interest and listening in on this call. Thanks.

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