



# Carriage Services 1<sup>st</sup> Quarter 2024 Earnings Webcast Transcript

## **WEBCAST DATE:**

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**Operator:** Good day and thank you for standing by. Welcome to the Carriage Services First Quarter 2024 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 first quarter results. In addition to myself on the call this morning for 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. Forward-looking statements inherently involve risks and uncertainties and only reflect our views 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 thank you all for joining our first quarter earnings call. We are excited to share our outstanding performance, but before we do, I want to express our heartfelt gratitude to the entire Carriage family, whether in the field or our support center, each of you has played a crucial role in driving these results. Your unwavering dedication and relentless passion for delivering an elevated service to all families having instrumental in our success. We deeply appreciate your continued support and commitment to our shared goals.

Before we start, I hope you had an opportunity to read our 2023 shareholder letter and proxy statement, both reaching information related to our five-year strategic objectives and our core initiatives for 2024. Setting the stage for a transformative vision of the Carriage of the future.

Now let's dive into our financial highlights. We are proud to report that our strategic objective plan is well underway and the progress in executing the individual initiatives to grow revenue and reduce cost to starting to produce positive results.

For the first quarter, our total revenue was \$103.5 million, a substantial increase of \$8 million or 8.4%. This is a significant milestone for Carriage history as it marks the first time we have surpassed the \$100 million mark in a single quarter. This remarkable performance was primarily driven by the exceptional results of our pre-need cemetery team and the successful integration of Greenlawn, our most recent acquisition.

These achievements underscore our strong financial position and ability to deliver on our strategic objectives. Looking at each of our revenue segments, we see that total funeral home operating revenue increased to \$66.6 million, an increase of \$1.2 million or 1.8%. Despite the expected decrease in total funeral operating volume of 1.9% as part of the post-pandemic normalization, our targeted improvements to our pricing strategy have made a significant positive impact. We have seen an increase in total funeral operating average per contract of \$219 per contract or 4% compared to the same quarter last year.

This result of our pricing strategy is a testament for our confidence in its effectiveness and we believe we will continue to make additional progress throughout the year. Regarding our cemetery operating revenue, we ended the quarter at \$27.6 million, an increase of \$6.3 million or 29.4% compared to the same quarter last year. This is another significant milestone for Carriage achieving a record first quarter in pre-need cemetery sales.

The pre-need cemetery team delivered an impressive 38.4% growth compared to the same period last year. We couldn't be prouder of this achievement, which is the direct result of our entire sales organization, hard work and dedication towards sales excellence. For total financial revenue, we ended the first quarter at \$6.9 million, an increase of \$868,000 or 14.3%, driven primarily by the impressive growth in pre-need funeral commission income, which increased by \$570,000 or 177% compared to the same quarter last year.

Our pre-need funeral strategy continues to produce positive results and we continue to be very excited about our potential future performance to our exclusive strategic partnership with Precoa and the National Guardian Life Insurance Company. We remain committed to our growth strategy, and we will continue to explore opportunities to enhance our financial performance.

Regarding adjusted consolidated EBITDA for the first quarter, we finish with \$33.6 million, an increase of \$5.8 million or 20.9%. The combination of a higher average revenue per contract and the continued execution of our cost management initiatives delivered great success demonstrated by our total funeral field EBITDA margin of 41.3%, an increase of 100 basis points in total cemetery fill EBITDA margin of 43.3%, an increase of 430 basis points.

While our corporate overhead experienced an increase of \$6.1 million during the first quarter, 90% of it was non-recurring and related to male separation agreement. Adjusted diluted EPS in the first quarter grew to 75 cents per share, an increase of 19 cents or 33.9% while interest rates remain high, we are now at a comparable level to previous quarters, and even though we're paying high interest rates, we continue to be focused on committing most of our free cash flow towards debt payments as evidenced by the \$25 million of debt that we paid down this quarter.

Kian will share more on this later on this call. We are very proud of these results as this makes five out of the last six quarters of outperforming expectations. While we had a solid first quarter, we remain diligent about capital location and continuing to execute our strategic initiatives while being mindful of how seasonality and normalization post-pandemic may impact our volumes in the near term.

March had the greatest decline in volume in the first three months of the year, so we will closely monitor those levels going forward. Therefore, we reconfirm our 2024 outlook. As we gather more information leading into the end of the second quarter, we should have more insight to share, Kian we'll also cover more on this in this call.

In closing, we are very excited about the future at Carriage. With our strategic initiatives well underway and the hard work and dedication invested over the past year, we are well-positioned for sustained innovation in financial progress. What we're building is not just about near-term achievements, it's about establishing a foundation to deliver lasting value to our shareholders for years to come. Thank you for your interest 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. Before I dive into a review of our financials, I wanted to reinforce Carlos's earlier comments regarding the recent disclosure of our new purpose statement and the relentless focus and alignment to our five-year strategic objectives. This is important to mention since every decision we make, whether large or small, is aligned with our strategic vision and objectives in mind. This discipline and focus on achieving our outlined goals and executing on our vision is the foundation to generating long-term shareholder value.

Now turning to our financials, since Carlos provided an overview of our key financial metrics for this quarter, I will review a few additional financial highlights around overhead, cashflow and leverage, and I'll also provide some color on completing our recent non-core divestitures and an update on our 2024 outlook. First, I'll start off with corporate overhead where we continue to be laser-focused on spending and cost-saving opportunities.

This quarter when adjusting out special items related to the review of strategic alternatives, which concluded in late February, along with the accounting treatment of Mel's transition agreement, our overhead cost total approximately 12.7 million or approximately 12.3% of revenue, which continues to track lower than our previously stated 13% target for the full year 2024.

Next, let's discuss cash flow for the quarter. When normalizing cash flow from operations for one-time items, our cash flow from operations increased 171% to \$221 million up from \$18.9 million in the same quarter last year. This solid cash flow from operations translated into robust adjusted free cash flow. As a reminder, we are transitioning our adjusted free cash flow calculation to a traditional calculation, which will include all capital expenditures.

We have provided a reconciliation table at the end of our press release that provides a bridge between our historical reporting methodology that includes maintenance capital expenditures only, and the more traditional methodology that includes all capital expenditures. We'll continue reporting both methodologies for the remainder of 2024 before converting exclusively to the traditional methodology in 2025 and beyond.

For the quarter with maintenance capital expenditures lower than the prior-year quarter, our historical calculation for adjusted free cash flow increased by \$3.9 million and increased by approximately \$4.7 million when including all capital expenditures over the same period.

As you may notice from these numbers, capital expenditures are tracking down 29% relative to the same period last year, which again highlights our focus on disciplined capital allocation without compromising our organic growth initiatives. This 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 \$25 million on our credit facility, reducing the outstanding borrowings to \$154.1 million by quarter end. Of note, included in the \$25 million pay down this quarter was approximately \$10.9 million in gross proceeds from two non-core divestitures that were directly funneled towards paying down our credit facility.

We are especially proud of the fact that our capital discipline and capital allocation strategy has allowed us to pay down approximately \$62 million on our credit facility since we closed the Greenwall acquisition at the end of the first quarter last year. The combination of decreasing leverage and increasing our EBITDA

has resulted in a decrease in our leverage ratio slightly below the five times threshold ending at 4.99 times net debt to EBITDA as defined by our bank covenant compliance ratio.

I would like to note here that our bank leverage ratio does not allow us to add back the entirety of our special item expenses, in particular expenses related to our review of strategic alternatives, and as a result, our leverage ratio may seem higher than a normal leverage ratio calculation. Despite the pay-down interest rates continue to hover around the same weighted average interest rate of 8.9% on our credit facility for the quarter as compared to 7.9% in the same quarter last year.

However, we will receive a 25 basis point relief on our interest rate spread now that our leverage ratio has landed below five times. Lastly, I will turn to our full-year 2024 outlook, which remains unchanged despite this quarter's outperformance and our two non-core divestitures closed in the quarter.

As a reminder, our 2024 outlook already included our two non-core divestitures since we already had line of sight into these transactions at the time of our last earnings call in late February, our 2024 outlook includes for total revenue, the range is \$380 to \$390 million for adjusted consolidated EBITDA, the range is \$112 to \$118 million. For adjusted diluted earnings per share, the range is \$2 and 20 cents to \$2 and 30 cents. And lastly, for adjusted free cash flow, which is aligned with our historical methodology of maintenance capital expenditures only, the range is \$55 to \$65 million.

Though our first-quarter financial performance is a solid start to the year, we are remaining prudent in reaffirming our 2024 guidance range due to the unpredictable COVID pull-forward effect that Carlos mentioned earlier, which may be combined with historically lower seasonality in the second and third quarters.

We will reevaluate our performance and observed macro trends versus our guidance ranges on our next earnings call, I will conclude my remarks by reiterating my earlier point that as a management team, we are pleased that our disciplined approach around capital allocation and executing on our strategic objectives has translated into continued momentum in our first quarter 2024 results.

The results speak for themselves with increased revenue, EBITDA and cash flow paired with reduced overhead and leverage with the distraction of the review of strategic alternatives behind us, and an emphasis on enhancing our finance and accounting organization with key additions, especially Kathy Shanley, our new superstar Chief Accounting Officer who brings more than 30 years of industry experience and best practices.

2024 is a transformational year for Carriage with critical initiatives to execute on as we position the company to return to its focus on opportunistic growth through acquisition in 2025 and execute on our five-year strategic and financial objectives. 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 speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, please press star one to ask a question. We pause for just a moment to allow everyone an opportunity to signal for questions. We'll go first to Alex Paris with Barrington Research.

**Alex Paris:** Hi guys, and thank you for taking my questions, congratulate on the strong start to the year. I got a few clarifying questions here, starting first with the funeral segment. Revenue's up 1.8% driven by, according to the press release, a 2.6% decline in contract volume and a 4.1% increase in the average



revenue per funeral contract.

I think Carlos just said the total funeral volume was down 1.9% press release said down 2.6%. First of all, what's the difference between the two figures you're quoting?

**Carlos Quezada:** Yes, so one of those numbers includes a consolidated view, and the other one is post divestitures, so it's kind of on what we call an operating revenue perspective, so that's on a go-forward basis.

**Alex Paris:** So, the 1.9 excludes the impact of the divestitures,

**Carlos Quezada:** That is correct, that's current operating volume and more collective of recurring activities.

**Alex Paris:** And then the increase in average revenue per funeral contract, how does that break out between traditional funeral and a cremation?

**Carlos Quezada:** Yes, absolutely. We had for the first quarter an increase on burial contract of 3.2% and on cremation contract of 4.5%, totaling 4% for all total contract improvement on our pricing.

**Alex Paris:** Good, that's helpful. And then again, just to dig into that comment that you made Carlos, that March was the most significant decline year over year in volume year to date and I know we're still dealing with the headwind of the COVID pull-forward effect, and you had previously said that's going to kind of be present for the full year. Do you expect that will diminish in the coming quarters and then for the full year, do you expect volumes to be comparable to last year's volumes?

**Carlos Quezada:** Yes, so great question, Alex. So, what we experienced is January and February we had a little elevated death rate potentially from some flu seasons or something related to more deaths because we're expecting a little bit more of a decline on a volume year over year perspective or basis.

However, March came a little slower than we thought on volume. And so that's why we wanted to just be mindful. Our projection is to continue to have a slow decline on volume rest of the year progressively down through the fourth quarter. So, we are around 1.9% by now, we believe by December we should be just maybe 50 basis points or around those lines.

That's our hope in projections. We'll see margin between 1 to 2%, but we're continuing to work through market share gains to continue to make up if we can and where we can for whatever volume we lose from post-COVID-19 normalization.

**Alex Paris:** And then related to the divestitures completed in the first quarter, I think you had previously said the impact is \$5.5 million to revenue and \$1.5 million to EBITDA. And then you've got proceeds of roughly \$11 million, are those all pretty much in line where you had expected them to be? And I realize that's already included in the full-year guidance.

**Kian Granmayeh:** That's correct, Alex, so this is Kian. So, what we did is when we were looking at the upcoming year and our 24 guidance, we had already eliminated, as you mentioned the \$5.5 million of revenue and \$1.5 of EBITDA. So, our 24 guidance is already reflective of that adjustment out.

**Alex Paris:** And then are there others that you think might represent similar characteristics in terms of being a non-core asset ripe for divestiture in 2024?

**Steve Metzger:** Yes, so Alex, this is Steve. We've got a couple of things we're working on now that are

real estate transactions solely, so nothing big on the business front. We'll continue to take a look at opportunities when we do that, we weigh everything including potential impact to our effective tax rate. So as those things come through the door, we'll take a look at them, but nothing right now of substance to report.

**Alex Paris:** And then the last question I have for now is on debt. You paid down \$25 million on the credit line, you're at roughly \$153 million, now your leverage ratio is 4.99. I think you had a year-end target of 4.75, are all those still in line with your thinking?

**Carlos Quezada:** We feel comfortable landing within that kind of 4.75 to five times range. We've kind of done our model analysis and kind of looked at the scenarios and just based on various factors on performance and Steve mentioned the potential divestitures of non-core assets we're going to land comfortably within that 4.75 to five times range.

**Alex Paris:** And then I think a longer-term target is 3.5 to 4%. When do you expect to kind of fall within that range, the end of 2025, or do you have a target?

**Carlos Quezada:** So, we just kind of look at our next milestones as we look at year-end 25, the next milestone for us is getting to 4.5 times where our interest rate spread decreases significantly by 125 basis points, and then getting down to 4.25 times where we can kind of get back into acquisition mode.

And we kind of anticipate getting into that level by the back half of 2025. And then getting kind of below that four times is probably as we turn the corner going into 2026, is when we kind of realistically expect to kind of get to that level.

**Alex Paris:** Great, thank you. That's all great color, I'll get back into the queue, thanks.

**Carlos Quezada:** Thank you, Alex.

**Operator:** We'll go next to Liam Burke with B Riley.

**Liam Burke:** Good morning, Carlos, Steve, and Kian. I just need clarification on an earlier question. On funeral home, you had contract revenue for burial up 3.5% and contract revenue for cremation up 4.5%.

**Carlos Quezada:** 3.2% on burial, 4.5% on cremation, and that's on a year-over-year basis.

**Liam Burke:** Hopping over to your momentum in pre-need sales, have you fully staffed the sales force, or can we expect further build out an additional momentum here?

**Carlos Quezada:** I believe we'll continue to experience sustainable momentum throughout the year. You have hiring months and others as you know Ching Ming, which is a huge Asian celebration starts in March, continues through April, and then you have summer, which are a little bit more difficult due to the summer vacation time.

A lot of families are not home. But over on a year-over-year basis, we should be able to continue to experience significant growth on bringing cemetery sales, including property and merchant and services. They have done an incredible job. We slow a little bit of momentum middle year last year, mainly because we upgraded a few of our sales leadership in the cemeteries that took place last year.

The development of those leaders, the activity leading up to the level of activity we need to deliver this type of sales, have been in place since then, and the strategy and plan to continue this momentum is in place. So, we feel very encouraged that between the leadership team we have in place led by Shane Pudenz, in addition to our CRM and marketing efforts for lead generation will continue to grow over the next few quarters.

**Liam Burke:** Great, thank you. And getting back acquisitions, I know you stated that where your leverage level would be, where you'd be comfortable to ramp up acquisitions, but is there anything that you would see over the transom between now and then?

**Steve Metzger:** That's a good question, Liam. I actually, timely, so, we just spent some time last week with a business that we're interested in partnering with when the time is right. And so just keeping those relationships active is important to us and a key focus that we continue to look at while we continue to pay down our debt. So, we keep those conversations flowing and make sure that people are up to date on where Carriage is, and we'll continue to do that until we get to four and a quarter.

**Liam Burke:** Great, thank you.

**Carlos Quezada:** Thank you Liam.

**Operator:** We'll go next to George Kelly with Ross, MKM.

**George Kelly:** Hey everybody, thanks for taking my questions. Maybe I'll start with just a quick follow-up to the comments and the prepared remarks. And then I think there was a question earlier, but just to follow up on the trend you saw in volume through the quarter, I'm curious if you could comment on what you've seen so far in April.

And then secondly same topic is, if you were to compare the January and February volume growth that you saw with March, I think you said it turned negative in March. I'm just curious how great that difference was between sort of where you started and where you ended the quarter.

**Carlos Quezada:** Yes, it was about 200 basis points variance between January, February, and then compare that to March which is within the range. And it's just that March happens to be a very large month for us typically coming from pre-need cemetery sales. So, we made up some of it through it, but from a funeral bowling perspective, it was enough for us to kind of like pay attention.

As it relates to your question on April, it remains on the same line. The really good news is that our efforts on enhancement to our pricing strategy continues to deliver great momentum and we continue to have that ability to make up if not all a significant amount of that declining volume.

That in addition to our continued integration of our most recent acquisition, which is Greenlawn, which as you know have three funeral homes that are continuing to perform better and better as we continue to integrate them into our company.

**George Kelly:** And then next question is on the pricing and cost efficiency measures that you're sort of working through the system. I'm curious with respect to each one, if you were to take pricing on one side and cost efficiencies on the other on the four wall on the funeral side, like what inning are you in each of those initiatives?



**Carlos Quezada:** Even though we had a very significant bump on pricing in December and then now reflected on our first quarter of this year, we just launched in last month really. What it is our new strategic pricing review, which is going to be reviewed by business on a quarterly basis.

And the intention of this review is not to increase price just for the sake of increasing price. It is to have a conversation with our leaders in the field who know best. The communities, the competition, the right pricing for the businesses, and of course what type of merchandise they need to be selling. However, the review does have a significant amount of information that in reflection to the performance of the previous month or quarter should be able to lead them to best decisions.

And also, is not just about price increase, it's about a strategies to continue to present better to families presenting all options to every single family so that I can have a very comprehensive and customized life of celebration to which one of their loved ones. And so, it's a combination of the two right. Strategic review process through a very thoughtful data analytic process, plus how can we become better at presenting to families to elevate our average revenue per contract? That's on the pricing side.

As it relates to cost, which was the second part of your question, we have been able to do a lot of good work in getting our costs down. We have mentioned in the past that some of the things we want to do with Carriage is find that fine balance between the empower partnership as per our purpose statement and decentralization and our ability to maximize our scale.

And so, we are continuing to centralize some of the items that are not influencing the market leader ability to grow market share, to continue to establish relationships in the community and continue to grow their brand locally. And we're continuing to think about those things in terms of whether it's utilities, whether it is IT decisions, whether it is HR related centralization options.

But what we are very encouraged by right now, we have started a full-blown process to review our supply chain and procurement practices that will lead to some significant benefit as soon as we finish that process.

That will include negotiation with vendors, how we elect, vendors moving forward, our payment terms with each one of them, and of course discounts and rebates that may benefit and will benefit the company moving forward. So very excited about where we are on a stage on cost initiatives, but even more excited about what's to come from that perspective.

**George Kelly:** And would you anticipate seeing the benefits of that exercise you're going through right now in the next maybe by year end or when would that start to hit?

**Carlos Quezada:** I believe some will be realized before the end of the year and some will take a little bit more time. They're more comprehensive, larger scope, and most likely will be realized in 2025. But there'll be some low hanging fruit that we have already identified and are starting to quantify. Most likely we should be able to share some of that on our Q2 release that will be realized during 2024.

**George Kelly:** And then just one last quick one for me, Steve, you mentioned that there's potentially some real estate that you guys are considering monetizing. Can you share a little more detail on what that could look like? And I'm assuming that there's no revenue tied to that, or maybe that's an unfair assumption anymore and I guess the magnitude. Could that be larger, smaller than the divestitures that you've already completed so far this year?

**Steve Metzger:** It's a great question, George. So, on the real estate front, from time to time we'll recognize that we've got a business that quite frankly sits on very valuable real estate that is more valuable than what that business is. And so, once we run the numbers on that to see if there's any way to kind of bridge the GAAP between that value, we'll make a determination if it makes sense to try and market that real estate.

It's not often, we don't have a lot of these opportunities, but we do have a few and we're working on one right now that it's going to be a seven-figure proceeds transaction for us whenever we're able to finalize it. So again, not something that I would say is frequent for us, but we do take a look at that from time to time to make sure we're aware of what those real estate values look like.

Generally, when we're looking at those opportunities, it is in a market where we can then funnel those calls to a nearby business. So, we're not losing out on any of the business when we sell the real estate.

**George Kelly:** Understand, thanks.

**Operator:** As a reminder, if you would like to ask a question, please press star one. We'll pause for just a moment. This does conclude the question-and-answer portion of today's call. At this time, I would like to turn the call over to Carlos for any closing remarks.

**Carlos Quezada:** Thank you for joining, as we conclude our call today, I want to express our gratitude for your continued support and belief in our vision and purpose statement. Our strong performance this quarter is a clear indication that our strategic initiatives and five-year objectives are right on track. We're confident that these efforts will continue to enhance performance in the future, driving sustained growth in creating added shareholder value. Thank you and have a great day.

**Operator:** This does conclude today's conference call. You may now disconnect.