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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Carriage Services Third Quarter 2019 Earnings Webcast Conference Call. I would now like to turn the conference over to your speaker today, Viki Blinderman. Please go ahead, ma'am.

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

Thank you, and good morning, everyone. Today, we will be discussing the company's third quarter results for 2019. Our related earnings release was made public yesterday after the market closed. Carriage Services has posted the press release, including supplemental financial tables and information, on the Investors page of our website. The audio conference is being recorded, and an archive will be made available on our website later today through November 3. Replay information for the call can be found in the press release distributed yesterday.

On the call today for management are Mel Payne, Chairman and Chief Executive Officer; Ben Brink, Chief Financial Officer; and myself; and our special guest today, Dewayne Cain, Founder of Rest Haven Funeral Home and Cemetery.

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 expectation.

Furthermore, during the course of the morning's call, we will reference certain non-GAAP financial performance measures. Management's opinion regarding the usefulness of such measures, together with 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 SEC.

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

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

Thank you, Viki.

After a full year of dramatic operational changes that have renewed, revitalized and reenergized our company at all levels, especially in our wonderful Funeral Home and Cemetery businesses, we have returned to execution of our 10-year growth strategy and vision of affiliating with only the best remaining independent businesses in the best remaining strategic markets in the country. On October 9, we partnered with Lombardo Funeral Homes in Buffalo, New York, whose founding by Joseph Lombardo, Sr. dates to 1907. Under the visionary leadership of Joseph P. Lombardo since 1984, Lombardo Funeral Homes is run from a single funeral home serving about 40 families annually to 4 funeral chapels serving approximately 2,000 families this year and is currently the largest funeral service provider in Western New York. Joe, welcome to the Carriage family of elite funeral and cemetery businesses.

Institutional investors, those of you on this call, often ask us about the competitive dynamics in our industry related to why the very best independent family business owners would choose Carriage other than other consolidation companies with deep financial pockets. I'm not sure that our answers to investors are often any better than 50-50 at cleaning up this mystifying matter.

So today, on this earnings call, and a historical first for our company, I'm extremely honored to introduce Dewayne Cain, Founder and Visionary Leader of Rest Haven Funeral Home and Cemetery in Rockwall, Texas, which has gone into a premier funeral home and cemetery combination business serving the Dallas-Fort Worth Metroplex. From its primary Rockwall location, Rest Haven over the years expanded to full-service funeral homes in nearby Rowlett and Royse City and included its own on-site Northeast Texas Cemetery (sic) [Northeast Texas Crematory], Flower-Box, Pet Memories and Care Center. The entire portfolio of Rest Haven businesses currently provide the same attentive personal service to over 3,000 families statewide each year.

We closed our partnership affiliation with Dewayne and Rest Haven yesterday. And last night, my wife, Karen, and I and a large contingent of the Carriage's senior leadership team hosted Dewayne and his wife, Ann, and his Rest Haven leadership and advisory team at a celebratory closing dinner. Dewayne called me recently to let me know that he wanted to help our company grow by explaining to other high-quality funeral and cemetery business owners why he chose Carriage as a succession plan solution over the large number of other consolidation companies that wanted to acquire Rest Haven. I immediately accepted Dewayne's offer and suggested he could begin this important new role for our company by explaining his reasons for choosing Carriage to all of you listening on this call.

Dewayne, my friend and new partner, the floor is yours.

Dewayne Cain

Thank you very much, Mr. Payne.

I first met Mel Payne in my offices several years ago, and it was during that time that I learned what his philosophy was for acquiring funeral homes and improving the performance of those funeral homes. And I can tell you, Mr. Payne, that I was impressed then, I am still impressed now.

Approximately 12 months ago when I decided that it was time for my wife and I to consider a successor, we made that aware to the market, and we had approximately 5 firms that showed an interest and submitted a bid. After much thought and consideration and prayer, we chose Carriage to be the company that would build upon the reputation that we had spent 50 years establishing.

In concluding, I would like to say something sincerely from my heart, and that is that I feel blessed and honored to have Mel Payne as my friend and Carriage as my partner.

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

Thank you, Dewayne. That message and those words mean a lot to us, personally and as a company, and they were clearly from the heart.

Last but not least in my formal comments, I would like to wish my dream girl wife and dream business partner, Karen, a happy 36th year anniversary, another Carriage historical first. Karen literally did the heavy lifting of raising our son and daughter for the first 15 years of Carriage while I was in the field running the business from our best funeral home and cemetery operators who were the gift that just keeps on giving. Thank you, sweetie girl, for being my partner and for being the mother of our children when I could not be there. I love you.

Viki?

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

All right. We're going to continue on a high note. I'm really honored right now to announce the High Performance Hero Managing Partners for the third quarter of 2019. Ben Friberg, Heritage Funeral Home & Crematory in Fort Oglethorpe, Georgia; David DeRubeis in Cody-White Funeral home in Milford, Connecticut; Courtney Charvet, North Brevard Funeral Home in Titusville, Florida; John Appel, Garden of Memories Cemetery in Metairie, Louisiana; Brian Binion of Steen Funeral Homes, Ashland, Kentucky; Deanna Kelly, Havenbrook Funeral Home, Norman, Oklahoma; Brian Sisson, Jay Chapel Funeral Director, Madera California; Jenny Chen, Grant Miller Chapel, Oakland, California; Alan Kerrick, Dakan Funeral Chapes, Caldwell, Idaho; Trent Nielson, Hennessey Valley Funeral Home & Crematory in Spokane Washington; and Nicholas Welzenbach for 2 businesses, Darling & Fischer Funeral Homes in Los Gatos, California and Los Gatos Memorial Park in San Jose, California. Congratulations to you all.

Now I'm going to turn the call over to Ben.

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

All right. Thank you, Mel. Thank you, Dewayne. And thank you, Viki.

Our third quarter operating and financial results demonstrated tremendous progress in gathering momentum as we finished Carriage Services 2019: Back To The Future - A New Beginning - Part II. At the beginning of the year, we communicated to investors that the following milestones will be the most important keys in determining whether the rapid and evolutionary changes made in the fourth quarter of last year are being executed across our entire company. They were a return to organic revenue growth, significant progress in field and consolidated EBITDA margins towards what we achieved in the 2015 and 2016 time frame and a return to our growth strategy by partnering with the best remaining independent businesses in large strategic markets. Our results in the third quarter and our recent acquisition announcements demonstrate the incredible progress we have made in all of those areas in just one year.

Consistent with how we presented our previous quarterly results, in our press release and in my remarks for our third quarter and year-to-date performance, we refer to both our trend reporting and pro forma results normalized for the restructuring expenses that began in the fourth quarter of 2018, the loss of a large cemetery contract at the end of the third quarter of last year, the increase in interest costs from our balance sheet recapitalization completed last May and the effects of 2 smaller divestitures that occurred during the most recent quarter. I will primarily refer to the pro forma results as we believe it provides investors with the most accurate picture of the significant operational and financial improvements that have taken place in the first 9 months of the year and is the most accurate reflection of the true earning power of Carriage.

In the third quarter, total revenue increased 5.5% to $66 million. Total field EBITDA increased 12.8% to $25.7 million. Total field EBITDA margin improved 260 basis points to 39%. Adjusted consolidated EBITDA increased 13.3% to $17.3 million. Adjusted consolidated EBITDA margin improved 180 basis points to 26.2%. And our adjusted diluted earnings per share improved 92.3% to $0.25. The primary difference between the normalized $0.25 and our reported adjusted diluting earnings per share of $0.28 for the quarter is related to the tax effects caused by a $4.1 million GAAP loss related to the divestiture of 2 businesses in the quarter.

There are a couple of items I want to highlight regarding our total field EBITDA performance from the third quarter. In reviewing our results from 2018 to 2019 -- or 2017 to 2018 time period and in previous calls, we have acknowledged that we lost approximately 300 basis points in our total field EBITDA margin performance. And our goal throughout our year renewal in 2019 would be to recapture the majority of that margin performance as we head into 2020. The 260-basis-point increase in the total field EBITDA margin we achieved in the third quarter versus last year demonstrates that we've made good progress on that goal. Given this improvement in margin performance, we were able to leverage a 5.5% increase in total revenue into a faster growth rate of 12.3% in total field EBITDA. What was even more encouraging was that our total field EBITDA margin performance improved each month throughout the quarter in what is typically our weakest quarter from a seasonality perspective. Again, this shows the diligent work our operating teams have undertaken to drive continuous improvement throughout our portfolio and to make the tough decisions necessary to ensure we have a strong finish to 2019 and increasing momentum in all of our businesses as we head into 2020.

For the first 9 months of 2019, our total revenue has increased 3.2% to $202.5 million; total field EBITDA increased 5.9% to $81.5

million; total field EBITDA margin has improved 110 basis points to 40.3%; adjusted consolidated EBITDA increased 10.4% to $57.3 million; adjusted consolidated EBITDA margin improved 190 basis point to 28.3%; and our adjusted diluted earnings per share has increased 31.9% to $0.95.

Pro forma net leverage, including cash on hand at the end of the quarter, fell to 4.8x from 5x at the end of the second quarter and 5.2x at the end of the first quarter. We continue to believe that we will be close to the 4.0x leverage within the next 12 months.

On our Investor Relations website, we published a 5-year trend report that includes a column representing our performance over the trailing 12 months. And another sign of continued progress we have made so far in 2019, our reported trailing 12-month adjusted consolidated EBITDA of $74.2 million is an all-time record for Carriage, not bad for a year of renewal and an important milestone when you put into context where we were when we had this call at this time last year.

Our third quarter results in our Funeral Home segment continue to demonstrate that the evolutionary changes we made to our Standards Operating Model at the end of last year have taken hold as our managing partners and their teams focus on driving compound annual revenue growth versus a rigid standard of average revenue per contract growth and a continued focus on our service and guest experience with each opportunity we have to serve our client families. Our expectations with the changes made to the Standards Operating Model were that we would serve more families at a slightly lower contract average, particularly as it relates to client families choosing cremation, that will lead to higher growth rates in year-over-year revenue versus prior years and even faster growth rates in funeral field EBITDA as the powerful dynamic of operating leverage inherent in our funeral home businesses kicks in. All of these expectations proved true in the third quarter performance of our funeral homes.

For the third quarter, our same-store funeral homes served 490 more families than last year, an increase of 6.6%, which led to an increase of 3.2% in revenue to $41.5 million and an 8.7% increase in same-store funeral field EBITDA. Field EBITDA margin improved 190 basis points to 36.2%. On a year-to-date basis, our same-store funeral revenue was down $800,000 or 0.6%, and field EBITDA was essentially flat at $48.2 million. Our year-to-date same-store funeral results are impressive considering after the first quarter, we were down $3.6 million or 7.4% of revenue and down $2.4 million or 11.6% in field EBITDA compared to the prior year.

We also continue to make progress in the performance of our acquired funeral home businesses in the third quarter. We leveraged 4.5% growth in acquired funeral home revenue and to a 8.5% increase in field EBITDA, while field EBITDA margins improved 120 basis points to 35.3%. On a year-to-date basis, acquired funeral field EBITDA margins have improved 280 basis points to 37.2%.

Consistent with our expectations, on a consolidated basis year-to-date, our average revenue per funeral contract has declined slightly less than $100 to approximately 5,400, and the cremation rate has increased 110 basis points to 53.3%.

In my second quarter comments, I stated that our Cemetery performance that while we won't sit here and guarantee 11% year-over-year revenue growth, we do believe that we have set the stage for a long-term sustainable revenue growth and consistent margin performance in our cemeteries. I'm happy to report that our high-performance cemetery sales and operating teams proved me both very wrong and very right with another exceptional performance in the third quarter.

For the quarter, revenue in our Cemetery segment grew 15.6%; field EBITDA grew 47.6%; and field EBITDA margin expanded 750 basis points to 34.6% versus the prior year. This performance was broad-based with the majority of our Cemetery achieving year-over-year improvement in both revenue and operating margin performance.

The 750-basis-point improvement meant that we converted 83% of the $1.7 million increase in Cemetery revenue in the quarter into field level EBITDA, which is another great example of the operating leverage in our business and the tremendous progress Carriage has made over the past year.

On a year-to-date basis, Cemetery revenue has increased 9.1%, while field EBITDA has increased 20.1%, and Cemetery field EBITDA margins have increased 320 basis points to 34.6%, which is within striking distance of an all-time high margin performance in our cemeteries of 34.9% back in 2015.

Our quarterly and year-to-date results in our Cemetery portfolio is a direct correlation to the hard and diligent work our operating teams have done over the past 12 to 18 months to upgrade local sales leadership leading to higher performing sales teams across the company. Couple this top sales talent with smart capital investments and differentiated Cemetery inventory and incremental improvements in our Cemetery sales infrastructure, and these are the types of results that can be achieved. We remain excited about our Cemetery performance, and we believe we've only scratched the surface of building a consistent and first-class Cemetery sales organization.

For the quarter, overhead expenses grew $1.3 million or 17.2% versus the third quarter of last year. Year-to-date, overhead expenses when normalized for severance and litigation expenses has increased 1.5% and represents 12.5% of revenue. The large increase in overhead expenses for the third quarter compared to last year are due to the lower performance-based compensation accruals we have last year based on declining operating trends and lower corporate expenses we booked in our third quarter of last year due to the decisions we made during the initial phase of our renewal program that took place at the end of last year. We expect these year-over-year variances to normalize in the fourth quarter and expected based on the evolutionary changes we made here at in Carriage in the back half of 2018.

I'd like to echo Mel's statements regarding acquisitions. We'd like to take this opportunity to welcome Joe Lombardo and his entire team at Lombardo Funeral Homes in Buffalo, New York to the Carriage family. In meeting Joe and reviewing his business he had built, we couldn't have been more impressed with the passion and dedication at which Joe has shown in growing his business into the leading funeral service company in the greater Buffalo area. Since our acquisition, we have been equally impressed with the entire team of Lombardo and have sincerely appreciate their excitement in joining Carriage and for all of their work in making this transition as seamless as possible.

We're also proud and excited to announce the acquisition of Rest Haven Funeral Home and Cemetery in Rockwall, Texas, that closed yesterday. Over the past 50 years, Dewayne Cane, his wonderful wife, Ann, and his great team have grown and created a businesses that today works at premier funeral home and cemetery business in the Dallas-Fort Worth Metroplex. We couldn't be more excited at Rest Haven and our partnership with Duwayne in our first entrance in the Dallas-Fort Worth market, a strategic market for Carriage. We look forward to working with his teams over the coming weeks and months to ensure a great integration process.

It is important for investors to put both these acquisitions in the context of what has occurred to Carriage over the past year and for our overall growth strategy. We have made clear that we intended to restore our operating results to a level of performance where we feel confident in allocating capital towards best-in-class acquisitions like Joe and Dewayne's businesses. Carriage is first and foremost an operating company. We believe that being the best at operating funeral homes and cemeteries will lead to us having the opportunity to partner with the best remaining independently-owned businesses in the country. We believe that like owners of these great businesses are considering succession planning solution and take the necessary time to learn about all of their options, they will find in Carriage a strong and well-defined corporate culture predicated on the belief and the value of Funeral Home Cemetery service, on the belief that local, decentralized decision-making is the right model for consolidation in our industry and in the belief that these transactions are just the beginning of truly long-lasting partnerships versus just acquisitions. These are both great businesses and large strategic markets for Carriage. And we have as much to learn from Joe, Dewayne and their teams as they do from us. We can't thank them enough for trusting their businesses to us, and we look forward to our long-lasting partnerships with both.

Given our conviction and the continued improvement in our operating performance, the announcement of these 2 most recent acquisitions and the pending acquisition we currently have in our letter of intent, we are raising our rolling fourth quarter outlook to a range of $85 million to $88 million of adjusted consolidated EBITDA and a range of $1.55 to $1.65 in adjusted diluting earnings per share. We anticipate closing the acquisition currently under letter of intent in the first part of January, so only 3 quarters of performance for that business is reflected in this outlook. This outlook does not include any potential divestitures, but we do expect to announce over the next 2 to 3 quarters. We expect any divestitures to be de minimis to overall operating results.

Our outlook for adjusted free cash flow of $38 million to $41 million over the next 12 months is a much lower growth rate versus the rest of our -- the outlook due to our expectation that we'll return to being a full cash taxpayer in 2020 at a rate of 70% of our GAAP normalized effective tax rate of approximately 28.5%.

And before I finish, I want to leave with you one more example of the incredible progress Carriage has made over the past year.

At the end of the first quarter, we reported a trailing 12-month adjusted and consolidated EBITDA of $68.6 million. And now just 2 quarters later, we're announcing a rolling 4-quarter outlook of $85 million to $88 million. This kind of performance turnaround does not happen without the tremendous dedication of our managing partners, their high-performance teams and our home office support teams. We cannot thank you enough for all of your hard work so far this year and for the momentum that has been generated as we close out 2019 and head into 2020. We look forward to reporting those results to you all early next year.

And with that, we will open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Alex Paris of Barrington Research.

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

Congratulations on a great quarter, a great rolling 4-quarter outlook. I wanted to say welcome aboard to Dewayne, thanks for being on the call. And happy anniversary to Mel and Karen.

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

Thank you, Alex, and thank you for all of your support.

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

So also, I am very happy to see the activity on the M&A front for a couple of reasons. First, it signals that what you've done operationally is largely complete or at a point at which you're comfortable on restarting M&A. And then with the M&A, specifically focusing on these best remaining businesses that are large in the best remaining markets with the potential to grow. And I wanted to dig a little bit more into Dewayne's business, Rest Haven, if you don't mind.

I see that Rest Haven, through its 3 funeral homes, cemetery and ancillary businesses, served 3,000 families last year. My question is just to get sort of an idea in terms of size, what is pricing versus the corporate average at Carriage Services. Price -- revenue per call is what I'm asking

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

I'll answer that. Dwayne is one of the great innovators in our industry. He is in a couple of lines of business that we are not in. I've been intrigued by these lines of businesses. And I guess Dewayne follows -- when he gets intrigued by something, he goes and experiments and tries it out and studies it and does a lot of trial and error until he gets it right. So he's in the pet memories business. We've looked at that around the country. We haven't found many people who have successfully figured out the emotional connection between a pet that is dearly loved by a family and the family itself when they have a family member die. Dwayne has that figured out. And he's put in place a large Pet Memories business that has been growing very rapidly in the Dallas-Fort Worth area beyond the Rockwall area.

He also is an innovator in software. He's into -- he created his own proprietary software for online cremations and has spread that business to 3 or 4 locations. So we get -- Dewayne, is it 3 or 4 now? And that's quite a growing business. The averages there are, as you would imagine, smaller. And so we've decided on a reporting methodology, which I haven't seen any example of, but we've all talked about it, because these are 2 new lines of business for Carriage. The overall revenue right now in those 2 lines of business are not the greater share of revenue, and the average revenue per unit of volume is small. So we're going to break that out in our normal reporting so it doesn't get co-mingled with our normal funeral and cemetery business, including normal cremation business, which Dewayne has a great crematory business in the Rockwall area that is separate and distinct.

And so we will be putting more clarity on the various businesses, Alex, as we report and integrate. And you will get to see that and probably could ask us questions when we have more clarity on our answers in 1 or 2 quarters. But the great majority of the revenue here is core funeral and cemetery accommodation businesses and the 2 funeral homes and the cremation business that he's got in the local area.

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

Good. I appreciate that additional color, and I'll be patient for the rest of the detail.

Next question and related, I've already had conversations with Ben and Lombardo, which is also an awesome acquisition, in my opinion. I wanted to ask a little bit about the LOI. Is this is a big one as well in keeping with recent activity, Lombardo and Rest Haven?

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

Yes. This is a big one. It's Primo combination business in the midst of our best portfolio of cemeteries in Northern California. We've known about this business for 25 years. When we first went into California and up 97, Mark Wilson, who owned our largest cemetery and then later acquired our second largest cemetery in San Jose, these are our 2 biggest and best cemeteries. This one is right there in the middle of that. It's just the prime -- when I ask our people about it to check it out -- and so we have some people who are there. It's -- I guess I can say this. It's part of the StoneMor portfolio, and they're divesting and under the control of a new Chairman and Executive Chairman, and he's restructuring that company, shrinking it. We think he's doing a great job. So we went through the possible divestitures. And out of everything in that company, this was the premier business, And our people are just gaga over having it in our portfolio. And it will close in very early January. It's a large cemetery, first-class funeral home operation, and it will fit into our Northern California portfolio. It won't miss a beat.

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

Great. So last question, I think, right now for Ben, I guess. Ben, you're providing the year-over-year comps because it's more relevant on a pro forma basis. Are you making available the pro forma quarters from last year and this year? Is it available on the website or anything just for forecasting?

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

Is the question related to the acquisitions?

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

No, it's more of the pro forma look backs. Alex, we currently don't have them posted on the website. We do list them, the results in the press release. We will go ahead and post those on the website. Thank you for that suggestion this afternoon.

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

Good. That's very helpful. And then last question. When can we expect -- given your progress on the operational restructuring and the restarting of your M&A activity as we had hoped, when should we expect a new long-term roughly right scenario outlook from Carriage Services?

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

That is a great question, Alex, and thank you for asking it. We've discussed this internally. And with all this recent activity and what's to come, we will put out a roughly right scenario at least through 2023, maybe through 2024, either at the beginning of the year or after the first quarter. It won't be later than the first quarter. When we have the fourth quarter -- because the fourth quarter, we still were making a lot of operational moves in the third quarter. And everybody in the company is totally focused on trying to achieve a normalized sustainable performance even though the third quarter, the second quarter were huge improvements. It's not good enough for a company and the people in the businesses and the home office who want to be the best at this and want to return to our prior level of performance in '15, '16. We want to try and get real close to that normalized level in the fourth quarter. And then if we need to tweak anything, we'll do that, including some de minimis divestitures, as Ben pointed out. But we want to really go forward in 2020 with a clean, very high, broadly, deeply performing portfolio of funeral homes and cemeteries and really make this next 5 years the sweet spot for value creation for this company after 28, 29 years. We want the next 5 years to be the time when an investor really will look back and say, "I should've bought the shares, and I'm sorry I didn't because they did what they said they would do." And I think we're very close to being -- having that vision laid out for you.

Operator

(Operator Instructions) And our next question comes from Chris McGinnis of Sidoti & Company.

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

Congratulations on the quarter and on the other accomplishments that were talked about prior. I just wanted to ask about the guidance or the rolling 4 quarter, the outlook. How much of that is maybe operational improvement versus the acquired assets over the last 1.5 weeks?

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

I think -- I don't -- I can't really break down the percentage off of the top of my head, Chris. I can get back to you on that. But it does include some operational improvement from where we have been this year. We do expect the momentum to continue, and I think it's a conservative look at bringing these 3 acquisitions into the Carriage family, taking into account the integration process that we know we have to go through with these businesses and ensuring that we have -- we're putting out outlooks that we know we can hit.

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

I'll go a little bit more on the land then, Ben. I think if you look through the fourth quarter and what's going on in our portfolio business by business, case by case, and you -- we get a lot of feedback on a realtime basis from across the portfolio, business by business, and there are things going on out there. Our people really want to do better. They really want to contribute to this idea that Carriage can perform at a level that historically has never been achieved in this industry, and that would be a 30% consolidated EBITDA margin. And that's really our goal and milestone, is to get to that point and beyond. And I think Ben mentioned it. At the end of the first quarter of '19, because of the prior flu season and things we couldn't control, pushed the prior year performance way up. But for the last 2 quarters, we've made up that deficit. And in the fourth quarter, we expect to make a lot more of it up. So if you were to look at the existing portfolio that at the end of the first quarter, at a trailing 4 quarters of $68 million EBITDA. And you were to look at that same portfolio for all of 2020, not the fourth quarter, for all of 2020, I think you could probably get up close to $78 million in EBITDA. So that's $10 million increase on our existing portfolio. And then you begin add on the fabulous new businesses that have joined our company to get to the $80 million -- $85 million to $88 million or whatever it was Ben, gave you as a range. And by the way, that range is not high in the sky. We're done with being overly optimistic.

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

You had some great EBITDA contribution in the quarter 2, so the improvement there was pretty significant. Just to touch on the Rest Haven acquisition and some of the other services that it offers, does that open up expansion for you as well? I mean, I know, look, the focus is likely on just traditional funeral, but it sounds like they have some other innovations that maybe you haven't had in your portfolio prior to this. And does that open up options for you as well?

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

Yes. Absolutely. Dewayne and I talked about that as recently as this morning. We're going to learn a lot from studying these new lines of business. I mean I had other people pitch me on this and that over the years, but none of them had the credibility and the track record that Dewayne Cain has. And so we're going to -- look, a long time ago, I had this idea that we couldn't be the biggest, and we just wanted to be the best. But I had no idea what that meant, and it should've been a surprise to me over time what it meant was you have to affiliate with the best and learn from them. And that's what we just did with Dewayne and his businesses. But we're learning about the pet business. We're learning about the online cremation business. But we'll also -- this is a big, new strategic market for us, as is Buffalo. And so when you come into a market like that we've never been in before, you assume the reputation of the business and the owner and the people you affiliate with. This truly is the kind of industry where you're known by the company you keep. And if you can only keep the best company, that's who you become in that new market. And we fully expect this to lead to other opportunities to grow with other businesses and to really lead to some possibilities that we can expand upon Dewayne's pet business and the online business as well.

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

And then just one last question. Sounds like the Rest Haven and Lombardo may have been a little bit more sort of long time to close the deal or are you working on that for a long time, where the LOI sounds a little bit different? Can you just talk -- I don't know it's too early for you guys to talk about just how that came about on the LOI?

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

Yes. I would rather delay that. I will only say that we work very closely with Andrew Axelrod, Chairman of StoneMor, and we think he's doing a great job to clean up that situation. And Chris, as we close that business and announce the acquisition, we'll speak more to that then.

Operator

And our next question comes from Duncan Brown of Wells Fargo.

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

I had to hop on the late apologize if this has already been addressed, but sounds like certainly back doing more M&A, and the pipeline sounds relatively robust. I was wondering if you could help us think about, remind us sort of leverage targets, where you want to be and then also sort of plans for funding if you get -- if you continue to clip more deals.

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

Yes. What we communicated in the process for the balance sheet recapitalization was that our targets was to operate the company between 4 and 4.5x leverage. I think given our current outlook and the plans we have both in closing these great acquisitions and the one we have under LOI, I think that 4.5x is still it a realistic target over the next 12 months. That'll come both through operational improvement and through internally generated free cash flow. I think if you -- Doug, if you look at just the progress you made around leverage this year, at the end of the first quarter, in our pro forma basis, we were at 5.2x. And in 2 quarters, we're almost down a 0.5 turn. We're at 4.8x. I think that's just right there encapsulates how quickly we're able to pay down debt and delever, and then that's how we look at it so far. I think going forward, our primary method of funding acquisitions would be through our revolver and line of credit. The rates there are fairly attractive, but we're going to balance that depending on what comes our way, if anything.

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

Yes. This is Mel. I'll just add to that. We've had an interesting year. It's been challenging, and it's been inspirational to see our people respond to all those challenges, and we're going to come out of this better than ever and performing higher than ever. And so I think we're going to be highly selective. We do want to make sure our equity investors are very comfortable with what we're doing and are not weary of the leverage that the company has. But there is a point here that -- and I think we're 28.3% adjusted consolidated EBITDA margin through 9 months. I would expect that to go up between now and year-end based on the fourth quarter. Our goal in the beginning of the year, which did not make public, was to hit a 29% consolidated EBITDA margin on an adjusted basis. I think we'll come close to that. And so when you have the approximate cash generation per dollar of revenue, 29%, 30%, you can run the company on a sustainable basis with a little more leverage, but we don't want to be considered high leverage or high risk. So we want to get back down closer to 4, and yet there are kinds of businesses that we're seeing here don't come along very often in this business. These are unique, one of a kind, and you just don't find them. And so when you do find them and you do have aligned motivations, you want to -- you find a -- you want to find a way to do it because these are investments that will earn for decades great returns, and I think the returns will increase over time and not diminish. And so these are very unique to find in what that is typically a rather mature business. And so when we find those, we're going to know who they are, and we're going to try to get them in our company. And they will get the leverage down after that through free cash flow.

Operator

Thank you. And ladies and gentlemen, this does conclude our question-and-answer session. I would now like to turn the conference back to Mel Payne for any closing remarks.

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

Thank you. These were great questions today. Thank you, Dewayne, for honoring us with your presence and comments. Thank you, Karen, for putting up with me all these years. I'm surrounded by a great team at Carriage. Believe me, they've been stress-tested, and they're ready to go. So bring it on out there. We're ready for game time, and we look forward to reporting our full year early in the year. Thank you very much.

Operator

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