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Q2 2020 Carriage Services Inc Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. And welcome to the Carriage Services Second Quarter 2020 Earnings Webcast. (Operator Instructions)

As a reminder, this conference is being recorded.

I would now like to hand the conference over to the Carriage Services management. Thank you. You may begin.

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

Thank you, and good morning, everyone. This is Viki Blinderman, the Chief Accounting Officer of Carriage Services.

Today, we'll be discussing the company's record second quarter results for 2020. Our related earnings release was made public yesterday after the market closed. Carriage Services has posted a press release, including supplemental financial tables and information on the Investors page of our website. This audio conference is being recorded and an archive will be made available on our website later today through August 3. 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 and followed by a question-and-answer period. Before we begin, I would like to remind everyone that during this call, we will make forward-looking statements. Certain statements on this call, including financial estimates, assumptions or statements about our plans, future results, expectations or beliefs may constitute forward-looking statements under applicable securities laws. We make these statements on the basis of our views and assumptions regarding future events, business performance and other factors at the time we make them, and do not undertake any obligation to provide updates or revise any of these forward-looking statements after the date of this call, whether to reflect the occurrence of events, circumstances or changes in expectations, except as required by law. These forward-looking statements are subject to a number of risks and uncertainties, and actual results may differ materially from the results expressed or implied in light of a variety of factors, including factors contained in our annual report on Form 10-K, quarterly reports on Form 10-Q and in our other filings with the SEC.

Please note that a reconciliation of non-GAAP measures that may be referred to on this call to equivalent GAAP measures can be found in our earnings press release that was issued yesterday and on the company's website.

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

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

Thank you, Viki. A great blessing of my life is that I found my way into the funeral and Cemetery business at age 48 when I cofounded Carriage. It has been incredible life journey, career journey and indeed, a labor of love, a love affair with our wonderful people ever since that has involved my entire family. I like my son and my daughter, who are big shareholders.

The work our people do is more than meaningful. It is noble, and it is necessary beyond description. It is, therefore, only appropriate at this earnings release, this call and this transformative year of high performance be dedicated to all of our wonderful leaders and employees in the portfolio of businesses of Carriage, who have risen to the challenge of two once-in-a-lifetime crises over the last 4 and counting months. Our managing partners, sales managers and their teams of employees, dealing with the fear and uncertainty of the coronavirus pandemic and the constantly changing mandated behavioral and social restrictions family-by-family on the front lines of this battle against an invisible enemy have been and are continuing to do no less courageous, even heroic, work than the front line army of doctors, nurses and first responders across America. Speaking for all of us, including our Board who are honored and privileged to serve you, our people, we thank you and salute you.

The second quarter earnings release published yesterday after the market was not about our record quarterly and first half performance. The release is full of substantive content about our company and represents no less than a statement about the evolution of a radical idea, we call our Standards Operating Model, which when well led, executed and supported, which is obvious in the second quarter and the first half, has the capacity to unleash human performance potential beyond what would normally be thought possible. When the current environment normalizes, we welcome all of you who have a curiosity and an interest to learn more about us and this idea, to visit our home office as our special guest, or even better, a range of visit to 1 or more of our businesses to witness up close and personal, the uniqueness and what our company is all about, where it matters most in our local businesses.

With that, I'll turn it over to Ben.

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

Thank you, Mel. And thank you to everyone for joining us on the call today. Today, we will discuss a record-setting performance for Carriage in the midst of an unprecedented operating conditions brought on by the coronavirus crisis, and the stay-at-home and other social distancing measures put in place to curb the spread. Over the past 4 months, our teams across the company have moved quickly to creatively adapt and embrace change in order to continue to serve their families and their communities, no matter the circumstances. They've remained vigilant in putting the safety of our employees and client families first, while providing the high-value personal service that they have always been known for.

To deliver the type of operational and financial results in the face of these challenges is a testament to the leadership and professionalism we have across our company, and demonstrates the commitment from everyone here at Carriage to make 2020 a year of transformative high performance.

While we hope you take away from our comprehensive press release and this call is that our results in the second quarter are not a onetime occurrence in the middle of a pandemic, but rather they are indicative of the growing earnings and cash flow generation potential of our portfolio of Funeral Homes and Cemeteries. The foundation for these results and for our transformative high-performance expectations has been laid over the course of the last 21 months through a series of difficult leadership decisions, an evolutionary update to our Funeral Home and Cemetery Standards Operating Model that prioritize compound revenue growth, improved alignment of our incentive compensation structure throughout the entire company and the successful acquisition and integration of 4 high-quality Funeral Home and Cemetery operations late last year that allowed Carriage to reach an important stage of critical mass. We view our second quarter and year-to-date results as a start of our Good To Great Journey Part II, and we remain extremely excited for the future of Carriage.

Now on to the results. For the second quarter, Carriage reported the following record-setting performance metrics. Total revenue increased 14.4% to $77.5 million, total field EBITDA increased 22.6% to $33.2 million, while total field EBITDA margin improved 290 basis points to 42.9%. Adjusted consolidated EBITDA was $25.4 million, an increase of 32%, and adjusted consolidated EBITDA margin expanded 440 basis points to 32.8%. Adjusted diluted earnings per share was $0.45, which was an increase of 45.2% compared to the second quarter of last year.

Our year-to-date results included the following record-setting 6-month performance metrics. Total revenue of $155 million, an increase of 13.3%, while total field EBITDA increased 14.2% to $63.3 million. Adjusted consolidated EBITDA of 48.3%, an increase of 20.3%, while adjusted consolidated EBITDA margin improved 190 basis points to 31.2%. And while not quite a record, our adjusted diluted earnings per share for the first 6 months of the year increased 14.5% to $0.79.

In our same-store funeral segment, revenue increased 2.3% in the second quarter while the expense control we experienced in April continued for the rest of the quarter, which led to same-store funeral field EBITDA increasing $2.5 million or 15.9%, and funeral field EBITDA margin increasing 500 basis points to 42.3%. The increase in revenue was driven by a 12% increase in the number of families we served in the quarter. Early in the quarter, the volume increase was primarily related to COVID deaths in hotspots in the Northeast and in New Orleans. For the balance of the quarter, the increase in same-store funeral volumes were related to a long-term trend of local market share gains, we believe we have made since the beginning of 2019, in conjunction with the changes to our Standards Operating Model to focus on 3-year of compound revenue growth through local market share gains.

Volume increases in our same-store funeral segment were offset by an almost $400 decline in our average revenue per funeral contract to approximately $5,200. The worst of the decline in average revenue per contract occurred in April, and we saw improvement in averages as we moved through the quarter, and they continued to be about 4% to 5% lower here in July. The decline in average revenue per funeral contract was due to reduced service opportunities related to COVID, social distancing restrictions and an almost 300 basis point increase in our cremation rate for the year. The increase in cremation rate can be tied to the increase in COVID-related deaths we experienced early in the quarter, which were mostly direct cremations, and our focus on increasing market share by serving more families in our communities. We do not believe a long-term trend of 1% increase in our annual cremation rate has changed due to the coronavirus crisis, and believe we have significant opportunity to improve our average revenue per cremation contract through our continued focus on cremation conversion.

The ability to leverage a 2.3% increase in same-store funeral revenue into a 15.9% increase in same-store funeral field EBITDA was remarkable, as indicative of the operating leverage that is inherent in our Funeral Home businesses. Upon a deeper review of our portfolio, the margin improvement in our Funeral Home businesses was broad-based as we experienced a high degree of expense management, no matter if their business was in a COVID hotspot, at a normal level of quarterly revenue or if they were negatively impacted from the coronavirus restrictions. This broad base of transformative high performance can be directly correlated to the challenge we issued all of our managing partners earlier this year to improve margin performance, and the announced change to reduce the Being the Best annual incentive for any managing partner whose business did not achieve the EBITDA minimum standard.

Based on our analysis of our portfolio and witnessing the rapid change that has occurred in our local businesses, we believe the focus on expense management and the change in behaviors we've experienced in the second quarter are sustainable into the future.

In the second quarter, our same-store Cemetery segment revenue declined 11.6% to $11.7 million, same-store Cemetery field EBITDA declined 23.6% to $3.7 million, and Cemetery field EBITDA margin declined 490 basis points to 31.7%.

Year-to-date, same-store Cemetery revenue declined 7.7%. Same-store Cemetery field EBITDA declined 19.4% to $6.8 million, and Cemetery field EBITDA margin declined 440 basis points to 30.1%. Our Cemetery performance was negatively impacted due to the decline in preneed property sales from the stay-at-home and other social distancing orders put in place during the early stages of the coronavirus crisis. A large portion of our decline in preneed property sales was due to our inability to host families and celebrate the Ching Ming holiday at our Rolling Hills Memorial Park in Richmond, California in early April. We were encouraged to see the performance in our cemeteries improve throughout the month of April, and that momentum has continued through the end of the quarter, where June Cemetery revenue and field EBITDA were up year-over-year.

Even as we -- and even as we've begun to see new restrictions put in place in many jurisdictions where we have large cemetery operations, our teams continue to find new and creative ways, including leveraging new technologies to serve our cemetery families, and we remain encouraged by the current cemetery preneed property sales trends this quarter.

We believe the reduction in preneed property sales in the quarter are deferred rather than lost sales, and we look forward to serving those Cemetery customers in the near future. We are also excited to welcome Carlos Quezada to our leadership team. We look forward to working with Carlos to take our Cemetery sales performance to the next level with higher growth rates at higher and sustainable field EBITDA margins versus our historical performance.

With our most recent acquisitions of 3 large funeral and cemetery combination businesses, we believe this is the right time for this leadership position at Carriage as we see significant opportunity for improved performance across our entire Cemetery portfolio.

At the beginning of the year, we outlined a 3-year milestone scenario and stated that the first 6 months of 2020, we'll be focused on integration of the 4 large acquisitions we made at the end of last year and the first part of January. Given the size and scale of our acquisition activity in such a short amount of time, we knew it was critically important to successfully integrate these businesses early this year. While we could never have predicted the unprecedented operational challenges brought on by the coronavirus crisis, we are proud of the results of these businesses. And as a whole, they are ahead of our expectations for the first 6 months of the year. In each of these businesses, we have seen positive momentum and performance improvement almost on a monthly basis, particularly in the areas of cemetery, preneed property sales and field EBITDA margins, which was evidenced by the 500 basis point improvement in acquisition funeral field EBITDA margin to 41.2% and the 590 basis point improvement in acquisition cemetery field EBITDA margin to 35.4% in the second quarter compared to the first quarter.

We remain excited for the future opportunities for these acquisitions, and we will continue to focus for the remainder of the year on integrating each of them onto the Carriage platform, which will lead to improved organic growth rates and higher and sustainable field EBITDA margins. We expect these businesses to be significant contributors to Carriage's improved organic growth rates at higher levels of adjusted consolidated EBITDA and adjusted free cash flow margins in the years ahead.

Our discretionary trust fund had a return of 22.3% in the second quarter, which brought our year-to-date performance to negative 5%. Since Carriage began to actively manage the majority of our premium trust assets in the fall of 2008, our compound annual return is 12.8%. Over the course of our 12 years of managing these assets, we have always taken a long term and patient view of our investment portfolio and had been most active in times of significant market dislocation. We have used periods such as the 2008, 2009 financial crisis, the downgrade of the U.S. credit rating in August of 2011 and the energy crash in late 2015 to make significant reallocations within our portfolio that have led to higher long-term capital appreciation and higher recurring annual interest and dividend income. In each of these periods, the successful repositioning of our trust fund portfolio translated into corresponding increases in reported financial revenue and EBITDA here at Carriage.

The execution of our most recent repositioning strategy in the midst of the coronavirus crisis market crash has positioned our preneed trust portfolio to be more resilient in the short term and produce higher capital gains and significantly higher amounts of recurring annual income over the long term. Over the course of the past 4 months, we've invested over $62 million of capital in our trust fund portfolio and grew our recurring annual income by 68% to $14 million annually, a record high amount. This $5.7 million increase in recurring annual trust fund income will lead to sustainable annual increase of $3 million in reported financial revenue, an increase in financial EBITDA margin to 95% and contribute an additional $0.10 of earnings per share annually to Carriage.

We began to see the increases reflected in our reported second quarter cemetery trust earnings, which increased 45.8% compared to last year, primarily from the significant increase in earned income from our cemetery perpetual care trust. This type of increase will be consistent throughout the rest of the year and into 2021.

On a pro forma basis, including non-GAAP add backs for acquisition costs, severance expenses and COVID-related natural disaster costs, overhead for the first 6 months of the year was flat at $15.7 million. Overhead as a percentage of revenue continued to fall and was 10.1% through June. The strong operating performance in the second quarter allowed us to fully accrue for both field and corporate incentive compensation through the first 6 months.

An important component of our decision to partner with the 4 large acquisitions made at the end of the year, was the ability to support these businesses without a large increase in our overhead platform. Our ability to leverage our overhead platform in the future will be a key driver of growth in our adjusted consolidated EBITDA margin.

We are blessed to have an amazing team here at our Houston support center, who have been able to provide first-class support to our businesses, drive digital transformation and produce a timely set of financial statements pretty much from the comfort of their homes. We will continue to make the necessary investments in this team and infrastructure to support our growth and accelerating competitive advantage for many years to come.

Our strong operational performance in the second quarter translated into a 90.1% growth in adjusted free cash flow to a record of $17.9 million, and adjusted free cash flow margin improved 920 basis points to 23.1% in the quarter. For the first 6 months, adjusted free cash flow grew 60% to 35 -- $30.5 million, and adjusted free cash flow margin improved 580 basis points, 19.7%, both of which were also records. This exceptional free cash flow performance is indicative of our ability to generate high and sustainable amounts of recurring cash flow that provides Carriage with a significant amount of finance flexibility. We expect our free cash flow growth and expansion of our free cash flow margin to only accelerate once we execute a senior note refinancing transaction in the second quarter of next year, depending on market conditions. We are confident in our ability to execute this transaction, given the continued momentum in our operational performance over the next year, our rapidly improving credit profile, current credit market conditions and the trading performance of our current 6.625% senior notes since issuance.

We expect this refinancing to translate into a minimum of $8 million annual cash interest savings to Carriage. Our strong free cash flow performance in the second quarter also allowed us to continue with our deleveraging program as we paid down a total of $24.4 million of debt in the quarter, including cash we held on our balance sheet at the end of the first quarter.

Our total debt outstanding was $508.5 million at the end of the quarter, and our total debt to pro forma adjusted consolidated EBITDA leverage ratio was approximately 5.5x. Current total debt outstanding is approximately $498 million, which brings our pro forma leverage ratio closer to $5.4 million as we sit here today. We will pay down debt at a faster pace over the second half of the year as we execute on our previously announced divestiture program. We expect to sell 14 to 16 businesses or properties for approximately $15 million of proceeds. The bulk of these transactions will occur before year-end. We have already divested 3 businesses in the quarter and have purchase agreements or letters of intent on 4 additional properties that will close in the third quarter.

We have increased our adjusted free cash flow and adjusted free cash flow margin ranges in our updated 2020 post-COVID outlook to $46 million to $50 million and 14.7% to 15.7%, respectively. We expect debt to be approximately $475 million, and our total debt to adjusted consolidated EBITDA ratio to fall below 5% by year-end. Over the next 12 months, we expect to generate over $50 million in adjusted free cash flow and have our leverage ratio fall close to 4.5x by the end of June of next year.

We introduced our adjusted free cash flow margin metric in our previous release as we believe it is the most important metric to illustrate Carriage's transformation into a superior shareholder value creation platform. Over the course of the next 2.5 years, using 2019 as our base year, we expect adjusted free cash flow to grow by 71% and our adjusted free cash flow margin to increase by approximately 540 basis points. The growing amount of free cash flow and improved free cash flow margin will give us the necessary flexibility to allocate capital to grow the intrinsic value -- per share value of Carriage. Our focus over the next 12 months will be to continue to pay down debt and improve our credit profile ahead of the senior note refinancing next year.

We also continue to make select investments in high-return on invested capital internal growth projects, primarily focused on cemetery inventory development and funeral home remodels. Given our improved free cash flow performance in the second quarter, we expect to spend $13 million to $14 million in capital expenditures this year, split evenly between maintenance and growth, which will be slightly higher than our previous expectation.

Additionally, this high amount of free cash flow, coupled with our lowest cost of capital balance sheet post the refinancing transaction will provide Carriage the maximum amount of financial flexibility and allow us to pursue additional value creation, capital allocation opportunities. The acquisition landscape remains highly favorable to Carriage, and once this period of uncertainty caused by the coronavirus crisis is over, we will believe there will be a number of owners of high-quality funeral homes and cemeteries that will be looking to find the right succession planning solution for their local business.

The additional financial flexibility will also allow us to resume making opportunistic share repurchases should our shares continue to trade at what we believe is currently a significant discount to their intrinsic value. We are also pleased to announce the decision by our Board of Directors to increase our annual dividend by $0.05 to $0.35, beginning with the next payment in September. We will continue to have a strong and growing dividend as part of our shareholder value creation, capital allocation strategy.

In our press release, we provided an updated 3-year milestone scenario and introduced an updated rolling 4-quarter outlook. Based on our strong performance in the second quarter and expectations for continued high performance for the rest of the year, we increase our 2020 post-COVID outlook to $91 million to $95 million of adjusted consolidated EBITDA, 30% to 31% of adjusted consolidated EBITDA margin, $1.50 to $1.60 in adjusted diluted earnings per share, and $46 million to $50 million of adjusted free cash flow.

We expect to reach the important milestone of 30% adjusted consolidated EBITDA margin here in 2020, which would be a record for Carriage and a threshold that has never been achieved by another publicly traded death care consolidator. The increases in ranges for our 2021 and 2022 roughly right outlooks are entirely due to the increased amount of recurring cemetery perpetual care income that will drive higher financial revenue and EBITDA over those years.

We have reintroduced our rolling 4-quarter outlook as it syncs perfectly with our goal over the next year to show the true earnings power of Carriage for a full 4 quarters and improve our credit profile, leading up to an expected senior note refinancing transaction next June. Over the next 12 months, we expect total revenue between $312 million and $320 million, adjusted consolidated EBITDA of $95 million to $100 million, adjusted consolidated EBITDA margin sustainably between 30% and 31%, adjusted diluted EPS of $1.65 to $1.75, adjusted free cash flow growing to $50 million to $54 million, adjusted free cash flow margin continuing to expand to between 15.8% and 16.8%, and total debt-to-EBITDA leverage ratio falling close to 4.5x.

As a reminder, none of these outlooks include any acquisition activity. We firmly believe all of these milestone ranges are achievable over the next 2 to 3 years as we control our own high-performance destiny.

Our second quarter performance was nothing short of amazing and was entirely driven by the execution of our managing partners and their teams. We believe the success of Carriage is predicated on strong local leadership empowered to make the best decisions for their business. Our belief has vindicated by the extraordinary results our teams produced in the second quarter. The transformative high performance, Good to Great flywheel effect is in full motion here at Carriage, and we look forward to reporting our progress to you going forward.

And finally, I'll leave you with this. Our amazing teams across the country care for families are dealing with the most tragic effects of coronavirus. So when it comes to COVID, I encourage you to stay vigilant, stay healthy, practice social distancing and wash your hands. And with that, I'll open up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Alex Paris from Barrington Research.

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

Congratulations on the Q2 beat and raise, what a difference 3 months makes.

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

Thank you, Alex. It's a big difference.

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

Yes. I want to dive a little deeper into the 2 metrics that have seemed to be most influenced by COVID recently, funeral averages and preneed cemetery sales. There's a lot of information in your prepared comments. But I believe you said funeral averages on a same-store basis were down 7% in the quarter, improved throughout the quarter, but were still down 4% to 5% in July. Is that -- did I hear that correctly?

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

Yes, Alex, that was correct.

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

Okay. Good. The -- and I'm wondering what impact COVID had on that. And maybe it starts with COVID volumes. Have you disclosed or will you disclose orders of magnitude? How many COVID cases you handled at Carriage services? And what their -- it sounds like their choice of disposition was direct cremation. Obviously, that in and of itself would have an impact on averages. But maybe a little bit more color there, please.

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

Yes. No. So Alex, I would definitely say the volume increases we saw early in the quarter were really primarily related to the increase in deaths from COVID. Like I said, in the hotspots and the Northeast, New Orleans, a lot of that increase in April and in the early part of May was due to those COVID-related deaths. While we track that number, we don't feel it's appropriate to release the exact number of that -- of COVID families we've served. As we went into May, into June, we continued to see that high level of volume increase, contracts volume increase in our same-store portfolio. And like I said, that was really driven by local market share gains that we believe we've been gaining over these past couple of years.

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

Alex, It's Mel. We did all kinds of breakdowns of the portfolio. We had 22 businesses and hotspots. Those were in the 5 states; Massachusetts, Connecticut, New Jersey, New York and Pennsylvania. And they had a big quarter starting in April, that's 22 businesses. But if you looked at how much revenue those businesses increased as a group, it was very substantial. And they brought 107% of the additional revenue, mostly -- well, all from additional volume because their averages were down over 1,000 on average per funeral. They brought all the additional revenue, 107% to field EBITDA. So their margins went way up like 1,000 points. But then we had a large group of nonhotspots that had volume increases and their averages were down, but down maybe 20% of the COVID places. And they brought 117% of the additional revenue into field EBITDA. And we saw other businesses, large groups that didn't have revenue increases from volumes, and some of them had revenue declines. It's just a natural thing for a large portfolio. Some places were slow. But we had the expense management. And so they -- we actually had a group that had revenue decline of meaningful amount, and they increased their margin 500 basis points. So what we saw was very broad improvement. And we did see normalization in the total average, up close to 98%, 99% at one point. But then COVID is spreading to Texas and other places and other restrictions, and so now the average is back down as a group. But we don't expect the outcome to be any different. We see broad performance and lots of feedback across the portfolio from our managing partners, our directors of support, that this is a different kind of company than it was 18 months ago, 21 months ago. And that COVID is not the reason we are outperforming, it's all these other things. And we're outperforming in spite of COVID, is the best way I could describe it.

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

That's awesome. So just to be clear, you said you were back up to 98% or 99%, said another way, your funeral averages were down 1% to 2%. But because of resurgence in some of these states in the month of July, it was down 4% to 5%.

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

Yes, it's gone back down, but we don't expect the outcomes to be any different. We're seeing volume increases broadly, and we don't think it's a -- we know it's not all COVID related. We've done a lot of things here to improve our competitive position. And our people realize -- these standards drive behavior and incentives and disincentives drive behavior. And over the last 21 months, we've got a lot of great behaviors in place compared to what we had at that time. And so when you get a lot of great who's in place with the right incentives and right disincentives, good things happen.

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

And then I would assume in March, were all taken by surprise by COVID. Here in June and July, early July, the resurgence of COVID in some of these states is not new to the funeral directors, and they're a little bit better prepared for it. So I would think intuitively that they should be able to weather that storm of increased social gathering restrictions better this time than even last time and last time worked out pretty well.

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

You hit the nail on the head. We had a conference call with the Standards Council on Monday to go over the press release because there's a whole page dedicated to them. And we have 4 or 5 in California then -- 4 in California. Of course, they were the first ones to deal with this. I think we've got 3 in Northern California, 1 in Southern California. And this is exactly what they said. You could have been articulating their firm conviction that, look, we've been here before. We learned a lot. Now we're more prepared than ever. Let's go back to Work and get it done. And so I think you'll find that same attitude throughout our portfolio.

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

That's great. All right. So that helps me with regard to funeral averages. Same-store Cemetery was down 12%, same-store field EBITDA in Cemetery was down 24%. Now just to be clear, did you say June -- same-store revenues in June, same-store field EBITDA was up year-over-year?

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

Yes. So Alex, all the decline really happened in April.

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

April.

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

We saw performance really come back strong in May. It was about even where we were in last year. And then June, we're up about $0.5 million in revenue and EBITDA in our same-store cemeteries.

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

So I'm looking at it here, Alex. In April, we were down $2.1 million same-store revenue in the Cemetery. And in May, we were just up a little bit. Just call it flat. And then in June, we were ahead $600,000. So -- and that's the trend we see.

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

Got you. So that (inaudible)

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

When Carlos gets here, that trend will become our big time friend.

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

Yes, absolutely. Carlos Quezada has an impressive background, having been most recently at Service Corp. in this area, in the Cemetery area.

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

He's got a very impressive background. And when you meet him and talk to him, you'll see why he's going to be a perfect fit here. And while we are all excited about it, every single one of us.

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

Great. I look forward to it. And then within Cemetery, preneed Cemetery sales, obviously impacted by potential customers' inability to come out to the cemeteries. And this was exacerbated by a really, really tough comp against the Ching Ming holiday last year, is that right?

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

Yes.

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

And has that been improving in May and June and July?

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

Yes. That's what I was coming on. In April, we were $2.1 million in the hole. May was about flat, same-store Cemetery revenue. And then June, we're actually up $600,000, which is 15%. So we don't expect to go back to an April deficit. We expect to dig out of the hole and get ahead by the end of the year, like a lot.

You want to find these little thinkers around here right now.

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

All right. And then a couple of my questions were answered in the overview comments. I just -- I got one little bookkeeping sort of question for Ben. Does you roughly right range for 2020 with regard to the GAAP numbers that are in the back of the press release, pretax income, net income, tax expense, include or exclude that $14.7 million impairment on goodwill in the first quarter and its corresponding impact on tax expense in the first quarter, which was actually a tax credit in the first quarter?

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

I have multiple people motioning and yell at me. It's -- Alex, I'll follow with you on that question.

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

If you want to know more about technical accounting, you should call me. I'm just kidding.

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

Congratulations on the quarter and the guidance raise.

Operator

(Operator Instructions) Your next question comes from the line of Chris McGinnis from Sidoti & Company.

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

Great results, so congrats on that. Can you maybe just talk -- some of the questions, it was just ask, you mentioned the market share gains that you're seeing and that's really kind of driving some changes fundamentally. Can you talk about what maybe the changes in those markets that you made around the ability to drive that market -- those market share gains?

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

Okay. Yes. I think, Chris, really pointing back to the changes we made, the update we made to the Standards Operating Model in late 2018 and implemented at the beginning of '19 to focus on 3-year compound average revenue growth, eliminating a very rigid standard of average revenue per contract there in 2019, allow people the freedom and the flexibility to continue to grow their local market share. And again, talking about change -- a long-term change in behaviors that we have witnessed in Carriage that's certainly one of them.

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

So Chris, Mel, yes, I mean, you'd have to go back and read the '18 shareholder letter, that talks about the diagnosis of all the low performance and the declining trends and what were some of the obstacles and how the Standards Council -- we went through an updating and rebooting of all the standards. And what we did was we eliminated a standard, called average revenue per contract, that was causing a lot of our funeral homes and managing partners to not seek or even to take lower average business like cremations, where they at least had an opportunity to turn it into something better. So they were not -- they were leaving a lot of market share in the market. When we eliminated that, and then we changed the incentives earlier this year about the margin and then in the meantime, we've made a lot of changes in the managed partner ranks over the last 21 months as well as the directors of support who support them. So you had a lot of talent come into this company that are high performance and a lot of changes in incentives and performance standards. And when you combine all that, we got a lot of entrepreneurs out there, figuring out what to do. So we don't have to go figure out it what to do. Because when we figure it out, you don't get buy-in and you don't get the results that you're seeing right now.

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

Sure. Sure. Okay. No, that makes a lot of sense. And I do remember the '18 letter because that's when my daughter was born. I think it was the same week. So...

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

Yes, I mean, this is not -- this didn't happen overnight. And we got an incredible group of talented entrepreneurial people in charge of these businesses. And I think probably Wall Street doesn't have a great understanding of just how entrepreneurial this business can be at the local level. And they're coming up with ideas of how to grow market share that we couldn't dream up in 1 million years. I mean we just recently -- I heard about 1 business up in Kentucky, blew away their community because the family, now who died, his favorite holiday was Christmas. So they had Christmas in June. Whole place was decorated with Christmas decorations, blew away the community. Well, you can't come up with ideas like this up here at Pentagon and push it down. But when they come up with ideas like that, word gets around.

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

Sure. And I guess in the same vein, just on the expense side, obviously, very helpful driving the margin improvement. Can you just talk about maybe some of the things that they are -- where they're saving the money at the local level to drive that?

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

So here's what we've noticed, we've noticed -- I mean, we had -- the business is a very social people business in the local communities. And for that reason, you have a lot of older people, maybe retired police chief or school principal as part timers. And a lot of these mandated restrictions did not allow people over 65 because they were in vulnerable groups, for example, California. And so they were mandated not to work. And so a lot of our people were able to get the service done beyond expectations without the same amount of SMB. And also our directors of support, we're able to support our analytical group without travel and entertainment. So you had a lot of performance happening without the same degree of cost. And we believe that, that will lead to -- plus you had all the focus on cost management. We believe that will lead to a higher level of total portfolio margin performance in the future.

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

Okay. And I guess, as those restrictions ease, not everything is going to be brought back online is what, I guess, is kind of what to expect.

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

Look, when your managing partner owns the business and they see what they can do, they're going to do what's best for the business.

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

Sure. Sure. And then just one last question around the acquisition and improvement in EBITDA there. And I think you said it was ahead of your expectations. What's driving the performance of those acquired assets? And maybe performing as well as they are. Just -- has something changed under your kind of guidance with them?

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

About everything changes. We take a great family franchise, and we put our framework on it and support and a lot of things change. And what doesn't change is the local people. But the performance, I mean, we have all these support services. We heard from every single business. They don't know how they would have endured this crisis without being part of Carriage. And so being part of us turned out to be a blessing. And I've heard that over and over from the former owners, from the managing partners. This has been a blessing for them. And at the same time, they're turning into great partners. They want to contribute. They see what the standards are, and they don't want to be a weak partner. They want to be a strong partner. So it's a win-win.

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

And Chris, I'll -- my follow-up is, when we talk about these acquisitions because they all have been one of kind of 4 combined, but really, Fairfax stands out in the size and the scale of that business, and you're starting -- we're starting to see end of the first quarter and here into the second quarter, really starting to see the emergence of the earning power of that business, and that has a real big effect on the margins in our acquisition portfolio.

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

Yes, Rest Heaven in Dallas area is really kicking in, Lombardo in Buffalo is kicking in. The one that's been the slowest is the one we expected to be because of all the restrictions in Northern California, but it will come around as well.

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

Great. And I guess, just given the increased cash generation, the ability to kind of reduce your leverage, I know it's early still, but just expectations about maybe when you would step back in the market on the M&A side again?

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

I think it's very important, Chris, that you do what you say you're going to do. We're going to delever. Next year, we're going to pay our debt down fast. And that's what we said we were going to do. And so as we pay it down and refinance, we will have moderate leverage. I have no problem maintaining moderate leverage. But I don't really see us being back in the market before we do what we said we're going to do.

Operator

Presenters, I am showing no further questions at this time. I would now like to turn the conference back to Mel Payne.

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

Thank you very much. There's one last piece of business I would like to attend to. We want to wish our very best to Bill Goetz. He was here 6 months. He made a difference. He made a lot of friends. He's a great guy. He was the first one to reach out to me yesterday by text to congratulate me and Carriage on our quarter. And I really appreciated that, and I texted him back, "Bill, whatever you do, don't sell your Carriage shares." He texted me back, "Don't worry, Mel, I won't."

With that, we'll let it go and look forward to reporting our third quarter. Thank you.