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CSV - Q4 2013 Carriage Services Earnings Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Carriage Services 2013 full-year earnings webcast conference call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time.

(Operator Instructions)

As a reminder, this conference call is being recorded. I would now like to introduce your host for today's conference, Chris Jones, representing Carriage Services. Please proceed, sir.

Chris Jones - ***Carriage Services, Inc. - IR***

Thank you and good morning, everyone. We're glad you could join us. We would like to welcome you to the Carriage Services conference call. Today we will be discussing the Company's 2013 full-year results, which were released yesterday after the market closed. Carriage Services has posted the press release, including supplemental financial tables and information on its website at CarriageServices.com.

This audio conference is being recorded and an archive will be made available on Carriage's website. Additionally, later today, a replay of this call will be made available and active through March 10. Replay information for the call can be found in the press release, which was distributed yesterday.

Speaking on the call today from management, are Mel Payne, Chairman and Chief Executive Officer; and Bill Heiligbrodt, Vice Chairman. Today's call will begin with formal remarks from management followed by a question-and-answer period.

Please note that during the call, management 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 annual 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 based on information available to Carriage Services as of today. Carriage Services expressly disclaims any duty to provide updates to these forward-looking statements, assumptions, or other factors after the date of this call to reflect the occurrence of events, circumstances, or changes in expectations.

In addition, during the course of this morning's call, management will reference certain non-GAAP financial performance measures. Management's opinion regarding the usefulness of such measures, together with the reconciliations of such measures to the most directly comparable GAAP measures for historical periods, are included in the press release and in the Company's filings with the Securities and Exchange Commission.

Now, I'd like to turn the call over to Mel Payne, Chairman and Chief Executive Officer.

Mel Payne - ***Carriage Services, Inc. - Chairman & CEO***

Thank you, Chris. I'm honored to be here today with Bill to discuss this press release. I must say that I've seen a lot of press releases, but this is the first one I've ever see like this. The fact that it's about our Company and where it's been, where it's going, was a lot of fun to write about.

With that, I'd like to turn it over to Bill.

Bill Heiligbrodt - ***Carriage Services, Inc. - Vice Chairman***

Thank you, Mel. I'm going to start here and review financially where we are and where we were throughout 2013. To start with, I'd like to say on behalf of all the dedicated employees of Carriage Services, it's certainly my pleasure to speak to these record 2013 results. It's truly a pleasure for me to be able to do this.

Adjusted basic non-GAAP earnings per share for 2013 were $1 per share, a 24% increase over 2012. This doesn't totally tell the whole story, so let me add a couple of comments in that regard.

Last year, 2012 benefited from larger special items net of tax. If those numbers were comparable for each year, our earnings per share growth would have been much higher. That difference is more reflected in our basic GAAP earnings per share for 2013, which were $0.83 per share, compared to $0.58 in 2012, and shows growth of more than 40%.

Also, we successfully discontinued and sold certain non-strategic businesses during 2013. Those sales added over $10 million to our cash flow, and would have added $0.02 earnings per share if included in 2013.

There is a great deal of important information available in our earnings release that Mel reflected on, that fully explains and highlights 2013, and I therefore, won't simply repeat; however, I would like to comment on acquisitions, a major part of our business plan. After reviewing and considering a very large, and I want to emphasize a very large number of potential businesses in 2012, we selected, selected and completed only one. It was a very good strategic business and most important addition to our Chattanooga, Tennessee presence, Heritage Funeral Home.

Also, a first for Carriage, we began construction in 2013 of two new locations in Texas: One in College Station, and the other in Katy, Texas, two fantastic growth markets in our state. Both of these new locations should be completed in 2014.

Our free cash flow for 2013 was over $33 million, a 60% increase. With that cash flow, the amount of expended on acquisitions and new locations in 2013, we were able to reduce our debt by almost $20 million. Of course, that improved our credit profile, enabled us to reduce our capital cost to an all-time low in 2013.

Yesterday, our stock price closed at just under $21, $20.71, to be exact. We were as high as $21.63 per share during 2013.

In November 2011, we began our Good to Great transition, which Mel Payne has explained many times over the past few years. We officially launched our Good to Great Journey in January 1, 2012.

Our stock price during the period, November 2011 to January 2012, ranged between $5 and $6 per share. The growth from that level to where we are today, is fully depicted in the chart on page 2 of the press release, showing a total return of 949% to our shareholders from 2009 to year-to-date 2014.

The obvious, absolute growth from January 1, 2012 to yesterday, in market value and stock price, has been almost four times. To me, personally, it's been a true pleasure to be part of the journey from Good to Great, as I am sure it has been for all the employees of Carriage. Our future is very bright, and we have only just begun this journey. There's more to come. Stay tuned.

With that, I'd like to turn it over to Mel Payne, our Chairman and Chief Executive Officer, to move us farther into our journey and into 2014. Mel?

Mel Payne - ***Carriage Services, Inc. - Chairman & CEO***

Thank you, Bill. It is an amazing journey and it's dynamic, ever-changing; the only constant around here is change. We embrace it and try to make the most opportunity of it.

Over the last six months, beginning in mid-August 2013, underneath the covers of a little public Company, we have undergone yet another rapidly transformative phase, based on a broader and deeper understanding among our executive and senior leaders and Board members, of the high-performance ideas and concepts that define Carriage as an operating and consolidating Company, culminating in an announcement of the five milestone events in the press release, and I will touch on them briefly.

The record year, Bill has already covered that, but the one part that is special, it warms my heart, is that we finally hit $1 per share. I've known forever that we had a lot of earning power in this platform and within the people and businesses. It's been unleashed over the last two years, and it's been a miracle and a wonderful thing to witness. So, I thank all of them.

The second highlight in the press release is our agreement reached this week to acquire six businesses from SCI that are being divested because of their acquisition of Stewart Enterprises. We will enter two large strategic markets, one in New Orleans, which was the home of Stewart, and, Washington, DC area, both large, very attractive for Carriage, where we had no presence. There are four businesses in New Orleans and two in Virginia, which I will mention more about in a minute.

It is subject to FTC approval; however, we've been through such approval four other times, so we know this path well. We think we will -- our goal is to be the first buyer of these divested properties to get FTC approval, based on our track record, our financial standing, and our ability to compete against SCI, historically. So, we're looking forward to an early approval and to an acquisition sometime in the second quarter, hopefully sooner in the second quarter than later.

The financing strategy and execution timeframe has been planned out. Bill could cover that more in Q&A, if you have any questions about it, but I think it's pretty clear.

The fourth milestone event was to announce two full years of outlook, 2014 and 2015. We've never done that before, and I want to take just a minute to explain why we would do that now.

After 23 years of building Carriage into a platform that is a platform to support operations, independent operations across America, funeral homes, and cemeteries, so that they get better, and also to consolidate this highly fragmented industry by affiliating only with the best remaining independents. We have built something that, in my view, cannot be duplicated, because the ideas and concepts are so unique. We were at a sweet spot in the evolution, because now, when we increase operating performance just modestly, it has a compounding impact on our free cash flow and our adjusted earnings per share.

So, we don't eat up that which we create through hard work in our field businesses by lots of new overhead, and lots of stupid stuff, because we are very flat and very entrepreneurial and our people are very motivated to achieve. You will hear me talk about that a little more in a minute. So we felt like with this acquisition from SCI, and the change in the landscape in the industry, it was a good time for us to put out a little bolder outlook, because this is what we expect to happen.

But what I want to make sure everyone understands is that we don't do quarterly estimates, here. We don't even do annual estimates. What we do is rolling four quarters, and it's a roughly right range of what we expect the Company to look like, operationally and financially, over tim, always being updated by quarter, always looking out four quarters.

In this case, we looked out two years, because we wanted the public to see a full year of the acquisitions that we will be making from SCI, as well as acquisitions that are not signed up yet. But the pipeline that we have is getting bigger, quality, more visible, and I will touch on that next. So, we don't want it to be construed that these are forecasts, but roughly right ranges over time.

The last major milestone event I'm thrilled about is Bill. Dave DeCarlo, who joined our Board May of 2011, is now joining the Company full time, just as Bill joined the Company full time September of 2011 after joining our Board in 2009. So with Dave coming in, Bill and I have taken a fresh look at the organization.

We've also taken a fresh look at how we've been working as a cohesive team across the platform, regardless of formal reporting structures, over the last three, four, five months. It's really wonderful thing to witness and a lot of fun to be here on a daily basis and be part of.

We have a young senior leadership team that is on fire. Bill, Dave, and I, in addition to the duties we have primarily, which I outlined in the press release, our duty also is to grow and develop this young leadership team, because they are good and they are getting better at an accelerating rate.

It's a lot of fun for us to mentor them, and it keeps us energized. As Bill said, we can't wait to get to work every day, they will be all over what's going on. It's a lot of fun.

So, these are the five milestone things. One of the traditions we have been doing over the last two years, is calling out by name the managing partners and businesses that have been what we call high-performance heroes each quarter. Today, I will name the funeral home managing partners and businesses that achieved our annual Being the Best pinnacle award, by achieving over a three-year period, ending in 2013, and average standards achievement of 70%.

Now, when we invented the standards model, we knew it wouldn't be easy. These are performance standards, drivers of what makes a high and sustainable performance in a funeral home or a cemetery over many years. This is not like going to school and getting 100, and that's an A.

If you could achieve 70% over a three-year period, that's unbelievable in this business. So we celebrate these people, because they are winning leaders and winning teams of employees across America. I am honored to call out their name.

We call this the Being-the-Best Pinnacle of Service Award. These are our winners. We will go on a rewards trip with each winner and their partner or spouse in April 24, at beautiful place in California. Can't wait, because we view this as like getting together with a family of winners.

Let me call out their names. Ken Pierce, Alameda Group in Oakland, California and Alameda, California, Two Chapels. Ken is unusual because this is the third year he has achieved 100% of standards in a row.

He's a three-peat. He's also got a goal of running a marathon in every state. He's up past 40. He's competitive. He wins.

He won't settle for less. This is what being a managing partner and high-performance and our Company is all about.

Ryan Denton, Steen Funeral Home in Ashland, Kentucky. Patty Drake, James E. Drake-Whaley-McCarty Funeral Home in Cynthiana, Kentucky. Patty is also 100% standards achievement winner, and it is not her first time.

The rule, the thing to remember is if you find the managing partner with red hair, hire them, because, they won't take any prisoners. They want to win the market share in their market, and Patty has been doing it for a long time for us. Thank you, Patty.

Ken Summers, PL Fry and Son Funeral Home in Manteca, California. Awesome business, and he's been a pinnacle winner many times over the years. Mark Cooper, Seaside Funeral Homes in Corpus Christi Texas. Mark is an amazing managing partner. This is one of our biggest and best businesses in Corpus. It's a combo, and then another separate funeral home and small cemetery that's run like a combo.

Mark's done a miracle with this business since we bought it January 1 of '07. He's been a consistent winner. Thank you, Mark.

Dorn Rademacher, Relyea Funeral Home and Cremation Society of Idaho in Boise. Dorn also has been a consistent winner over many years.

Kyle Incardona, Hillier Funeral Home, Bryan, Texas. Now Kyle is another 100% standards achievement winner for 2013. We are building Kyle, because when he joined the Company from Stewart five or six or seven years ago, after he adjusted to our model, he just began to take this business and crush all the market competition and grow it. So, we are building him a huge, wonderful, state-of-the-art funeral home in College Station, which will be probably on the front of an annual report one of these days,

Bill. It looks like Texas A&M. We don't owe him any money because of that, but it's going to be an awesome place and Kyle has been an unbelievable (inaudible) leader for us.

Nicholas Welzenbach, Higgins Mortuary, Antioch, California. Matthew Simpson, Deegan Funeral Chapels, Ripon and Escalon, California, two chapels. Bob Pollard, Lotz Funeral Home, Roanoke, Virginia. Scott Griffith, Bergin, Lyons Funeral Homes, Waterbury, Connecticut. Did you get your kitchen fixed up, Scott, because of the stock price? I hope your wife is satisfied with that. Scott's been a consistent winner.

Michael Page, Allison Funeral Home, Liberty, Texas. Same, consistent. Randy Valentine, Dieterle Memorial Home, Aurora Illinois, the same. Tom O'Brien, O'Brien Funeral Home, Bristol, Connecticut. Tom is one of the original partners of Carriage. He and [Bondu Haim] joined the Company before we went public, took stock in the Company, and has been one of my great friends and partners.

When I did something wrong he always told me. I tried to do better, so that the next time I wouldn't be -- he wouldn't be quite as tough on me. It's a wonderful business.

Andy Shemwell, Maddux-Fuqua-Hinton Funeral Homes, Hopkinsville Kentucky. Andy's father, Jimmy, was one of the early partners, and he and his brother now are running these two businesses.

Steven Mora, Coneja Mountain Funeral Home in Camarillo, California. This is a business we bought out of the Alderwoods divestitures in '07, and Steven has done a wonderful job, has been a consistent pinnacle winner.

Chris Duhaime, Funk Funeral Home, Bristol, Connecticut. Again, Chris is a managing partner. His father, Ron, is on our standards council, and along with Tom O'Brien, who was one of our early partners. Chris is the chip of dad's block and a wonderful managing partner and leader.

Jeff Moore, Sterling-White Funeral Home, Highlands, Texas. Robert McCrary, Kent-Forest Lawn Funeral Home in Panama City, Florida. Robert is another 100% standards achievement winner, Panama City, a great business. Greg Brudnicki, the former owner, is now the mayor of Panama City, and it's a fabulous business and he's been a fabulous partner.

Frank Forastiere, Central Springfield Group, Springfield, Massachusetts. Frank was an original standards council member, and involved in designing the standards format and has been a wonderful partner. What's happened up there is something to behold. David Feeney, Feeney Funeral Home in Ridgewood, New Jersey. Again, across from Manhattan, a longtime winner of Pinnacle and a dear friend.

We also have -- those are the Pinnacle winners. We also have three people who haven't -- all of these winners had to be in those businesses for the three years. We have three people who all achieved 100% of their standards in 2013, who haven't been here three years.

We'd like to celebrate them, because we know next year will be the third year for at least two of them. There's no doubt, because they are winners in their markets, that is Jim Terry, James J Terry Funeral Home, Downingtown, Pennsylvania; Cesar Guttierez, Heritage-Dilday Memorial Services, Huntington Beach, California; and David Williams at Rader Funeral Homes in Daleville, Virginia.

Those are our winners for 2013. Those are the performance heroes. There are many more, but these are the ones who were truly outstanding.

Now, I want to get something done that is very special to me and Bill and Dave DeCarlo, who is coming in to the Company and is listening to this call. Dave will be here full time starting Monday. As we looked at the divestitures SCI was making, we looked at a lot of businesses across the country.

At the end of the day, we settled on these two markets, New Orleans and Washington, DC, because we not only like the markets and weren't there, we like the individual businesses that were there. We like the potential of what we could do with these businesses in the future.

So I want to now welcome the businesses and the leaders and employees of the six businesses we will be buying. Those are, Everly Community Funeral Care in Falls Church, VA; Everly-Wheatley Funeral Home, Alexandria, Virginia; Garden of Memories Cemetery and Funeral Home in Metairie, Louisiana; Greenwood Funeral Home, which is a large funeral home on Greenwood Cemetery, which is a historic cemetery in New Orleans. We leased this property from the cemetery, and we view our partnership with the cemetery as critically important to our success in New Orleans.

We've made contact and friendship with Judge McKay, who is the President of the Board, and we look forward to working with him and his team. Schoen Funeral Home in New Orleans, and then Tharp-Sontheimer-Tharp Funeral Home in Metairie.

These are the six businesses I can see up on our screen that many of the employees in these businesses are listening in to this call. I am speaking to you. We are going to inject into your businesses a sense of entrepreneurial life and optimistic support that will make you highly successful against the competition in these markets.

We are thrilled to be affiliating with you, and we cannot wait for approval of this transaction so we can go to work. We will not wait until then to actually be in touch with you, planning and developing a strategy, that when executed over time, will grow your business at sustainable, high levels of profit margins, which is what we are all about.

Our Company has turned consolidation upside down, and made you and your teams at the business the most important element in our Company. I welcome you to the Carriage family.

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

QUESTION AND ANSWER

Operator

(Operator Instructions)

Alex Paris from Barrington Research.

Alex Paris - ***Barrington Research - Analyst***

Congratulations. I have a number of questions. I will try to give you some order here. Historical financials have been restated to reflect -- to exclude the operations that are sold, correct?

Mel Payne - ***Carriage Services, Inc. - Chairman & CEO***

That's correct.

Alex Paris - ***Barrington Research - Analyst***

So, the dollar in basic, adjusted EPS would have been $1.02 had you not divested those?

Mel Payne - ***Carriage Services, Inc. - Chairman & CEO***

That's correct.

Alex Paris - ***Barrington Research - Analyst***

Again, that's right in line with my estimate of $1.03. I will come back to that. So, you started off the year within the funeral operations, with really, really strong same-store revenue growth, unsustainably high. I know this is not a quarterly business. Over the long run, I think we can expect somewhere between 0% and 1% growth on a same-store basis. The second half must have been down to finish the year at roughly flat, is that the case?

Mel Payne - ***Carriage Services, Inc. - Chairman & CEO***

Yes. The second half, and I told Bill, in the first half, I'm going, okay, his is too good to be true. And having been following this kind of thing for 23 years, it won't stay that way. So, sure enough, the volumes weakened, because they were so strong in the first half. We did have weakening averages, funeral averages. One of the challenges for the industry, is of course, cremation and direct cremation within that category.

One of the things that Dave DeCarlo is going to focus on, I mention it generally in the press release, is the cremation trends. And what we are doing in terms of training and the quality of the staff and the mindset required to deal with these trends. And I'm very -- and the products that go along with it. I'm excited that Dave is going to focus on this, as well as the rest of our team.

But, your analysis is correct.

Alex Paris - ***Barrington Research - Analyst***

To that point, you had a nice increase in at-need contracts for the year after several years of flat. I think you are up over 1%. But, the revenues were below that, and that's reflective of cremation, also the economy, or no?

Mel Payne - ***Carriage Services, Inc. - Chairman & CEO***

I wouldn't -- look, we were improving during the recession, the panic, the crisis in 2009 when we bought in 15% of the stock at an average of $3 a share. The economy didn't affect us, and it won't affect us now. This is all about execution locally, with the quality of leadership and staff.

So, what we are going to do -- what we do is controllable by us. It really is not a function of external circumstances, other than the secular trend toward cremation. So, we are going to focus on that this year like never before. It's not easy. I promise you we will get better at it.

Can't tell you exactly which month, but I don't like that trend in the second half and neither does anybody else in our Company. So we are going to do something about it.

Alex Paris - ***Barrington Research - Analyst***

To that point, your selection of the two new markets through the SCI acquisitions, the New Orleans area and the DC area, I'm assuming those are attractive to you based on demographics, but also the ratio of cremation to traditional burial?

Bill Heiligbrodt - ***Carriage Services, Inc. - Vice Chairman***

Yes.

Alex Paris - ***Barrington Research - Analyst***

What was -- with regard to the SCI acquisitions, I think it said you paid $54 million for six businesses. Are you willing to give aggregate revenue for those businesses, or the average margin for those businesses, or the contribution that you expect from those businesses in the next 12 months? And is that included in guidance?

Bill Heiligbrodt - ***Carriage Services, Inc. - Vice Chairman***

Alex, that's all in the guidance, and it's not just dollars and cents per deal, it's a combination of the whole effort and the combination. That's why I think it's important for you to look at the projections -- or not projections, at the estimates that are in our financials.

We've had a wonderful history of earnings-per-share growth, as a result of these same plans, and I think that's what Mel is saying. It's not just what those revenues were and such.

Obviously, we are not interested in markets that aren't strategically good demographically, and included in that analysis are markets that we will be able to, we think, provide above-average growth in this industry. And that is certainly the case here.

I will say, for someone that's done a lot of these acquisitions over the last 50 years in my business career, I think the work done by our team here to ensure that on these acquisitions, is nothing less than spectacular. I think it is very special, taking into account that we are taking these businesses and putting them into a Carriage culture from another consolidator. When I've looked at that work, personally, I am very pleased with where we are and where this goes.

If I want to say something, this is a secret and you are going to have to kill me to get it. When you look at those results, you are going to start seeing it, okay? Thank you.

Mel Payne - ***Carriage Services, Inc. - Chairman & CEO***

One additional point, there, Alex. Take the acquisition we made in Chattanooga at the end of the year, Heritage, two wonderful submarkets in the overall Chattanooga market. We already had three locations, but these were growth corridors that we didn't have a good presence. And we bought a wonderful business, Russell Friberg, the former owner. But now we have two chapels, and they are very traditional compared to the average of our portfolio. So, the average revenue and the cremation rate, very attractive, and when we look at new businesses in strategic markets, that's what we are looking for.

In this case, although it was one business, you had two separate sub-markets with two separate managers, Curtis Ottinger is our managing partner in the East Brainerd Chapel, which is the larger, older Chapel. He's doing a great business. And then Ben Friberg is the managing partner in the newer chapel in Fort Oglethorpe, Georgia, one in East Chattanooga, Tennessee; the other in south of Chattanooga, but a growth community.

So, this is the kind of profile we are looking for in an acquisition, and we are finding that the remaining large independents like this find Carriage and how we operate with our framework, including Curtis and Ben. They love it. They really love it. You are going to see a lot of performance, not only out of them, you are going to see it out of these businesses in New Orleans and Washington.

Alex Paris - ***Barrington Research - Analyst***

Can you comment on multiples paid? Are they in line with historical averages?

Mel Payne - ***Carriage Services, Inc. - Chairman & CEO***

I would say on multiples, we don't really want to talk about that. I don't know -- the multiple we want to pay, and the way I look at this, is five years from now, it's going to look like we paid a low multiple.

Bill Heiligbrodt - ***Carriage Services, Inc. - Vice Chairman***

Alex, these businesses are accretive based on all of our projections to earnings per share, just like all the acquisitions have been. In addition to this acquisition, we do have another acquisition under contract that we are continuing to work to close, okay?

So, as always, anything we do, we take the shareholders' interest into consideration at the first level, and we are all making these acquisitions accretive. So, that's our plan. That's the projection.

Mel Payne - ***Carriage Services, Inc. - Chairman & CEO***

To add to what Bill said about the process of how we went about this, we had a team of six operating and operating support go into these markets and businesses, spend time, three different visits with the people and the history, the deep history of the business. And then Dave DeCarlo and I were the outside team traveling around the market, looking at the bigger picture trends, as well as possibility of increasing in those strategic markets by affiliating with other independents.

These are both highly consolidated large markets over the last 30, 40 years. So, to have Carriage in there provides a different element, a more entrepreneurial element for other independents to affiliate with the future, and we fully expect that to happen.

Alex Paris - ***Barrington Research - Analyst***

Thank you very much.

Operator

Clint Fendley from NewBridge Group.

Clint Fendley - ***NewBridge Group - Analyst***

Good news there on Dave, and I know he has a lot of expertise on the cemetery segment. Given your acquisition, here, in New Orleans, does that represent any increased focus on that segment for you guys going forward?

Mel Payne - ***Carriage Services, Inc. - Chairman & CEO***

Well, that's a good question. You notice I didn't call out any cemeteries on the Pinnacle Award winners. That's because we suspended -- we are revisiting our standards operating model on the cemetery. We didn't have enough high-performance, because our portfolio is a lot smaller, to really properly define high-performing operating standards that would separate the winners from not-so-good performers.

We do want to grow in the cemetery business with combinations. We like the combination business, and the one in New Orleans is a nice combination we can grow.

So, Dave has an entree to not just cemetery owners, but many, many owners around the country. And he and I will devote time to what we call some of the larger owners and transactions, because I think we have a framework now that is attractive. We are going to focus on combos, but funeral homes are still our sweet spot and that will continue to be the case.

Clint Fendley *- NewBridge Group - Analyst*

That's helpful. I'm sorry, I joined the call a little bit late. I was wondering if, Bill, when we look at some of the operational responsibilities that you guys have, is Bill still going to be -- Bill, are you still going to be responsible for the M&A activities there at Carriage?

Mel Payne *- Carriage Services, Inc. - Chairman & CEO*

The way we are going to do that, Clint, like I said before, you probably missed it, the last six months have been unbelievable. When Bill first joined the Company, he and I split things up two different groups and said, I will focus on this, you focus on that, we will stay out of each other's way except when we can help each other.

With Dave coming in, we've taken a fresh look at how this works, and now, it's a much more dynamic, cohesive team with Bill, Dave, and I now comprising what is called the Operations and Strategic Growth Executive Committee. So, operations and acquisitions will report up to the three of us, as a team. And it will be much more collaborative and dynamic on a daily basis than in the past.

Clint Fendley *- NewBridge Group - Analyst*

Okay. Thank you. A question then on the guidance. I wanted to understand, do you guys intend to give a rolling four-quarter outlook for two years now, going forward? Or was this just a preliminary, far-off type look at 2015?

Mel Payne *- Carriage Services, Inc. - Chairman & CEO*

There were so many things going on, and with SCI buying Stewart in the landscape and the industry changing, and this being a big deal for us with some other independents coming down the pipeline, we thought it would be worthwhile putting out two years. But, this will not be a normal thing we do. We will still do the rolling four quarters, updated every quarter.

Clint Fendley *- NewBridge Group - Analyst*

When I looked at the numbers this morning, and squeezed out the fourth-quarter results from the annual that you provided, I noticed the total overhead looked significantly lower here, for the fourth quarter. I'm wondering, is that a realistic run rate going forward?

I know, obviously, we'll have the acquisitions all folded in there. But could you maybe quantify that some of the improved results that you guys have had there?

Bill Heiligbrodt *- Carriage Services, Inc. - Vice Chairman*

Yes. The answer is yes, Clint, to everything you said. We saw -- we had some increase in overhead, as we call it, early in 2013. We moved quickly to relook at that, to make sure we had a return on that overhead. And just as Mel mentioned, the work done on the acquisitions, our overall operating departments in the Company met and strategically worked together. There is a plan to make sure that any expenses of overhead are looked at exactly the same as an acquisition, that they add value to the Company.

That was done; it was a great exercise for us and the results you are seeing. I expect that to start leveling out more, and I think that procedure going forward is going to be an extremely worthwhile occurrence for the Company as a whole.

Mel Payne - ***Carriage Services, Inc. - Chairman & CEO***

What's interesting, Clint, is that exercise was part of what I said was transformative over the last six months. Because now, and it's true with Bill and I and Dave, as well as all the other senior leaders. We have developed a theme for this year called Carriage Services 2014, Being the Best: One Team, One Vision.

The idea behind this is we all own the performance of the Company, and we all own everybody else's overhead, or their region, or their lack of performance, we own it. Everybody is encouraged now to look at their overhead and own it and make sure we get a return on it.

If we are not getting a return on it, we expect them to do something about it. If they don't, the other members of the senior team -- they let them know. So, it's a very healthy thing that people have to get a return on their overhead, as well as their operating businesses, and everybody owns it.

Clint Fendley - ***NewBridge Group - Analyst***

Last question here. We saw last year, you guys divest some properties, and Bill, obviously some new locations for the first time in a while. Should we expect more of that?

Mel Payne - ***Carriage Services, Inc. - Chairman & CEO***

First time ever, that I know of. We divested a couple of properties that, honestly, didn't fit the strategy going forward, and we got good offers for them. So, if that happens, it won't be probably to that degree all the time.

Bill Heiligbrodt - ***Carriage Services, Inc. - Vice Chairman***

I was speaking to new locations, especially of the kind we are doing here. These are very quality locations.

Clint Fendley - ***NewBridge Group - Analyst***

It sounds like a nice location there in College Station. Bill, are you sure those Aggies are going to do business with someone from UT?

Mel Payne - ***Carriage Services, Inc. - Chairman & CEO***

Listen, Bill picked it out.

Bill Heiligbrodt - ***Carriage Services, Inc. - Vice Chairman***

Since building that, I'm half maroon.

Mel Payne - ***Carriage Services, Inc. - Chairman & CEO***

His loyalties are shifting. I do want to say, this is an unusual -- and I'm going to say something about that quickly from an operational standpoint. We have an excellent operational person there. We have a lot of excess land there as well.

It was interesting, at a recent meeting, that we don't even have anything but steel and concrete in the ground, and he's already being approached on pre-need sells for that location. That's pretty strong, okay?

Clint Fendley - ***NewBridge Group - Analyst***

Excellent. Thank you, guys.

Operator

Bryan Engler from Great Lakes Advisors.

Bryan Engler - ***Great Lakes Advisors - Analyst***

Can you help me out with the estimates you guys put out into the future? How much of the revenue growth is coming from acquisitions? Not just the SCI, but just in general?

Bill Heiligbrodt - ***Carriage Services, Inc. - Vice Chairman***

Most of the growth is coming from acquisitions and new locations. As we've talked about, in our planning, obviously, we are looking more in the neighborhood of something in the 0% to 1.5% growth range in same-store sales volume.

Bryan Engler - ***Great Lakes Advisors - Analyst***

What about down into the profits? How much of the incremental EBITDA that comes, flows down, is coming from the acquisitions versus improvement in business that you already own?

Bill Heiligbrodt - ***Carriage Services, Inc. - Vice Chairman***

It's a combination when we get into there, because that 1.5% is, depending upon how it flows through, has a very large compounding effect, and that amount could actually produce double-digit earnings per share growth.

So, it's like a building block and we've talked about this before. As a matter of just a model, if you say 1.5%, or let's say 0% to 1.5% same-store, and then if you can turn that into, let's say, overall, including cemeteries in our particular business, and financial, and that turns out 8% revenue growth, we get a leveraging off of that somewhere in the 15% to 20% range.

If you look this year, our revenue growth overall, was slightly over 7%, and our earnings per share on a basic basis was 24%. So, we did better. I think that's the wonders of this business, is that small revenue growth makes big changes at the bottom line. That's what we tried to explain, and I know we've talked to you about this.

Mel Payne - ***Carriage Services, Inc. - Chairman & CEO***

Listen, what we do here, internally, is educate the managing partners in charge of each business that through their standard achievement, which includes the profitability of the business, but especially the revenue growth, doesn't take a lot. Because when you have 1% to 2% revenue growth in one of these businesses, and you've maintained your cost, managed your cost, your EBITDA margin goes up. And it only takes $300,000 of [field] EBITDA to equal $0.01 a share from our existing portfolio.

So, it's literally every single person can move the EPS meter across the portfolio, and they all know that.

Bryan Engler - ***Great Lakes Advisors - Analyst***

That's helpful. One last question on the guidance. You guys had a fabulous year in 2013 with the investment portfolio. It was up some 14% or so. What are you assuming the contribution would be in your guidance going for the next two years?

Mel Payne - ***Carriage Services, Inc. - Chairman & CEO***

Well, we did have a fabulous year, and we are off to another fabulous year. Our portfolio is designed specifically to report higher recurring financial revenue and earnings over time. And all I can tell you is that it's an unusual portfolio, high fixed income, as a ratio of total assets.

But, we have a lot of hedges in there on the fixed income if the rates were to go up. The hedges really are warrants on the too big to fail banks that came out of the crisis. And what is turning out, is that we are getting huge unrealized gains in that warrant portfolio, along with 8 or 10 core equities.

We like to pick stocks here and spend a lot of time on finding winners, and so I expect that to continue. How much of that will translate into reported revenue and earnings, it's hard to say at this point.

Bill Heiligbrodt *- Carriage Services, Inc. - Vice Chairman*

The actual numbers in the projections are modest. Should be attainable-type situations. To the extent that we performed in the past, it would be a benefit to those numbers that you are looking at.

Bryan Engler *- Great Lakes Advisors - Analyst*

Are you saying that the investment income that is in your earnings per share forecast range, investment income will be about the same as it was this year?

Bill Heiligbrodt *- Carriage Services, Inc. - Vice Chairman*

It's up slightly.

Bryan Engler *- Great Lakes Advisors - Analyst*

Okay.

Bill Heiligbrodt *- Carriage Services, Inc. - Vice Chairman*

Just because we are physically bigger.

Bryan Engler *- Great Lakes Advisors - Analyst*

Sure. Understood.

Bill Heiligbrodt *- Carriage Services, Inc. - Vice Chairman*

Any real performance change will be a benefit to those numbers.

Bryan Engler *- Great Lakes Advisors - Analyst*

Okay.

Mel Payne *- Carriage Services, Inc. - Chairman & CEO*

We haven't changed the profile of that portfolio that much since August of 2011, toward the end of 2011. And we just added a little bit more equity to the portfolio over the last couple months. But, it will still look the same, and I agree with Bill. It should incrementally improve year over year.

Bryan Engler - ***Great Lakes Advisors - Analyst***

Okay. I'm struggling a little bit. Even if the S&P is not up 32%, if it's a more average year of 10% or 12%, you are comfortable that your forecast is a fair one?

Mel Payne - ***Carriage Services, Inc. - Chairman & CEO***

Absolutely.

Bryan Engler - ***Great Lakes Advisors - Analyst***

That's helpful. Bill, help me out a little bit, I'm not very good with the stock-comp expense calculations. The shares that the Company repurchased in January, was there a stock-comp expense in Q4 associated with that, that will not be there going forward?

Bill Heiligbrodt - ***Carriage Services, Inc. - Vice Chairman***

No. Small. Very small.

Bryan Engler - ***Great Lakes Advisors - Analyst***

Okay.

Bill Heiligbrodt - ***Carriage Services, Inc. - Vice Chairman***

Those were performance options that had to have huge performance to obtain them.

Bryan Engler - ***Great Lakes Advisors - Analyst***

I understand. So, there's not much of an impact in Q4, and there's not much of an impact going forward, is what you are saying?

Bill Heiligbrodt - ***Carriage Services, Inc. - Vice Chairman***

Yes. No impact going forward that I know of, related to those stock options.

Bryan Engler - ***Great Lakes Advisors - Analyst***

Right. I meant the absence of an expense.

Bill Heiligbrodt - ***Carriage Services, Inc. - Vice Chairman***

Right. That's correct. Obviously, we will be awarding new options some time during this year.

Bryan Engler - ***Great Lakes Advisors - Analyst***

Sure. Okay. When you talk about basic shares versus diluted, are those -- were those options in the diluted share count in Q4?

Bill Heiligbrodt - ***Carriage Services, Inc. - Vice Chairman***

I don't believe they were. What we were worried about and what we talked about was the potential dilution if they were exercised. That's why we wanted to keep the share count as flat as we could for the shareholders, and that's one of the things that we try to do here. To the extent we are dealing with potential share increases from employees, we like to hope that we will have the opportunity through repurchases of some kind, to keep that flat.

In this particular case, we chose to try to buy those stock options back from the employees, which we accomplished, at a very reasonable price to the Company, which ended up saving the Company money, plus share count. We did not want all of those shares to get into our earnings per share calculations. Thank you.

Bryan Engler - ***Great Lakes Advisors - Analyst***

Just refresh my memory, because I don't recall, how many shares in aggregate were repurchased?

Bill Heiligbrodt - ***Carriage Services, Inc. - Vice Chairman***

1.6 million.

Bryan Engler - ***Great Lakes Advisors - Analyst***

You funded that with your bank debt?

Bill Heiligbrodt - ***Carriage Services, Inc. - Vice Chairman***

We funded it with our free cash flow, our bank debt, and our financing mechanisms, okay?

Bryan Engler - ***Great Lakes Advisors - Analyst***

Okay. Thank you very much, guys.

Operator

David Woodyatt, Keeley Asset Management.

David Woodyatt - ***Keeley Asset Management - Analyst***

Could you comment on what the possibilities might be for additional acquisitions from Service Corp. And also comment on current state of your acquisition pipeline outside of Service Corp?

Bill Heiligbrodt - ***Carriage Services, Inc. - Vice Chairman***

I can do that quickly. We looked at all the acquisitions at Service Corp, and we ended on the markets that Mel mentioned. We considered all, in terms of both our normal requirements plus price, and this is where we came out. We feel this is the best place for us to be right now with our shareholders, absorbing these six businesses.

We want to do it correctly, is our next task. We don't know right now of any future divestitures. I guess you'd have to ask the FBI that, not me. Obviously, anything that comes into this market we are going to look at if it's a benefit to us.

As far as our regular pipeline, last year, I've never done as many analysis as we did last year. We are trying to be sure that we are improving our overall business, businesses, and our business composition through our acquisition program. We're trying to be selective. We are also being selective as it relates to price and other matters.

So, out of that, we did not accomplish everything we wanted to. There were some acquisitions that people, frankly, felt they just couldn't part with at the time, even though we were the choice acquirer. This year, we have, again, we had one really good basic acquisition that's out there, plus we have a pretty full pipeline. And we have some really good strategic businesses across the country that we are focusing on.

So, David, we are not changing anything we've done since 2011. We are still in the same mode, still doing the same thing. I think our ability and our position to accomplish more there is probably greater. We have one competitor out of the market in Stewart, and we have a pretty clear definition now of how the FTC is going to look at others' positions in the market.

So, I think Mel mentioned this and called it a sweet spot. I think there certainly is a sweet spot for people that want to divest of their business, and we should be the acquirer of choice there. That's what I believe, that's why I'm working hard and interested in coming to work here. So, it's a really good position to be in.

Mel Payne - ***Carriage Services, Inc. - Chairman & CEO***

This is Mel, David. The landscape out there is paying attention to the consolidation of the consolidators. They are paying a lot of attention to Carriage. Dave DeCarlo is joining us full-time because we see the quality and the size of the acquisition landscape really improving at a rapid rate, and we want to be able to focus on that and take full advantage of it.

One of the reasons for putting out the full two years, even though it has some acquisition -- a lot of acquisition activity beyond the SCI divestitures, it's because we see, visibly, individual businesses and owners being interested at this particular time, and especially being interested in how we do it.

Bill Heiligbrodt - ***Carriage Services, Inc. - Vice Chairman***

Thank you, David.

Operator

Our next question, our final question will come from the line [Shakaya] Harris from Honeygo Capital.

Shakaya Harris - ***Honeygo Capital - Analyst***

I was just wondering for -- as you look forward in the M&A market, how much capacity do you have from a leverage standpoint at this point?

Bill Heiligbrodt - ***Carriage Services, Inc. - Vice Chairman***

We have a lot of capacity, enough to do more than the two years, unless we come up with something very significant, out of the ordinary, like these that we just talked about. In terms of what we did in 2012, in terms of that, you can get a pretty good feel for what that did for our earnings per share.

We have the ability to easily do, and we are planning in our planning, in terms of our new capital structure, which I'm going to say is not complete yet. We don't have to pay for these acquisitions as yet. We have plenty of capacity, even if we wanted to just fund these acquisitions under our existing credit. What we are doing is taking that to the next step. We don't know exactly how that's going to unwind.

That's what -- in the press release, it mentions plan, that's what it is right now. There's many opportunities there. What we are fairly certain of, there won't be any increase in capital cost, we don't think. And what the future brings -- the immediate future, and we are planning on coming out of this plan with enough capacity to more than fund the next two years.

One of the benefits of that is not only what we come up with financially, but the fact that we have so much increased, new, free cash flow. So, all of that together spells a lot of opportunity for everyone, as we look forward.

Shakaya Harris - ***Honeygo Capital - Analyst***

Great, thank you. I was also wondering, for the outlook that you've given for 2014 and 2015, I was trying to understand the level of M&A activity that's been embedded in that. I know that you have the $55 million acquisition from SCI that's embedded in that. And historically you've talked about wanting to acquire $40 million of businesses per year.

So, in that 2014, 2015 outlook, just from acquisition value perspective, what is embedded in that beyond SCI?

Bill Heiligbrodt - ***Carriage Services, Inc. - Vice Chairman***

It has approximately -- I'm not going to give you exact amounts on that, because I'd have to go back and look exactly at the details. It would be roughly one-half year of normal acquisitions, of benefit, which we had planned on around six businesses, somewhere in the $6 million to $7 million price range. So, something less than $40 million spread half over the year.

Mel Payne - ***Carriage Services, Inc. - Chairman & CEO***

I think, if you look at two full years, you probably got another $25 million in revenue from acquisitions, but that's annualized in revenue. We bought $25 million of revenue in 2007 alone. So we are looking at nice, quality sized businesses out there. I don't think that's a stretch.

Shakaya Harris - ***Honeygo Capital - Analyst***

That $25 million annualized revenue is outside of SCI, that you are referring to?

Bill Heiligbrodt - ***Carriage Services, Inc. - Vice Chairman***

That's correct. Outside of SCI, we have a transaction currently for, what is it, another $2 million right now that's pending in revenue. So, that would be typical.

Shakaya Harris - ***Honeygo Capital - Analyst***

Got it. Okay. My last question was just on the refinancing of the convert. If I understood that refinancing is completed mid-2Q, let's say. It seems like you should get roughly $0.06 to $0.07 of EPS accretion for 2014.

When I look at the guidance, the EPS guidance that you gave on the 3Q call versus EPS guidance that was given on 4Q, for 2014, I was a little bit surprised that convert accretion was not reflected in EPS guidance. I was wondering if you could help me understand (multiple speakers).

Bill Heiligbrodt - ***Carriage Services, Inc. - Vice Chairman***

We are planning the financing as it relates to the acquisition, not to the exact specific type of financing at this time. We are still considering those plans, so we haven't finished that part of our transition here.

So, you know the markets, and obviously, there is the possibility of a lot of accretion coming into Carriage from a replacement in the convertible issue. There are other considerations that we have to take into effect, so we are considering all of that.

The acquisition that we did, again, I'm going to emphasize, was of a range that we could close it under our existing credit. Therefore, we have the benefit of doing the job properly to make sure we are doing the right thing here.

Mel Payne - ***Carriage Services, Inc. - Chairman & CEO***

Let me see if I can give you a -- we didn't give -- I don't like the word estimate, personally. I have a huge negative reaction to it, and that's why in this particular press release, I emphasized what we try to do is rolling outlooks that are roughly right most of the time, not precisely wrong all the time. Managements that do that tend to do stupid things to make sure they are right, precisely. I don't like that, never have liked it, and won't get on that treadmill.

The reason that we didn't put any accretion in there from refinancing the [tides] is we wanted to wait and see the visibility of the acquisition landscape and the amount of financing that we would actually need, rather than put a refinancing of the tides in there prematurely. We wanted to cover the big picture, when we finally did see the visibility.

Now, we see it clearly. Now is the time to have a plan. Now is the time to execute a plan. We think that will happen in the very near term.

Shakaya Harris - ***Honeygo Capital - Analyst***

Great. Thank you very much.

Mel Payne - ***Carriage Services, Inc. - Chairman & CEO***

All right. Thank you very much. It's been a great call. A lot of great questions, and we look forward to reporting our good to great journey as it continues. Thank you much.

Operator

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