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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Carriage Services 2017 Third Quarter Earnings Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to turn the conference over to your host, Ms. Viki Blinderman, Senior Vice President, Principal Officer and Chief Accounting Officer.

Viki King Blinderman - *Carriage Services, Inc. - Principal Financial Officer, CAO, SVP and Secretary*

Thank you, and good morning, everyone. We're glad you can join us today. We would like to welcome you to the Carriage Services Third Quarter 2017 Conference Call. Today, we will be discussing the company's results for the third quarter, which was released yesterday after the market closed.

Carriage Services has posted the press release, including supplemental financial tables and information on its Investors page of our website. The audio conference is being recorded, and an archive will be made available on our website later today through October 30.

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; Mark Bruce, Chief Operating Officer; and Ben Brink, Chief Financial Officer.

Today's call will begin with formal remarks from management followed by question-and-answer period. Please note that during the call, we will make forward-looking statements in accordance with the Safe Harbor provision of the Private Securities Litigation Reform Act of 1995.

I'd like to just to call to your attention to the risks associated with these statements, which are more fully described in the company's report filed on Form 10-K and other filings with the SEC. Forward-looking statements, assumptions or factors stated or referred to on this conference call are based on information available to Carriage Services as of today. Carriage Services expressly disclaims any duty to provide updates to these forward-looking statements assumptions or other factors after the date of this call to reflect the occurrence of events, circumstances or changes in expectations.

In addition, during the course of this morning's call, we will reference certain non-GAAP financial performance measures. Management's opinion regarding the usefulness of such measures, together with a reconciliation of such measures to the most directly comparable GAAP measures for historical periods, are included in the press release and the company's filings with the SEC.

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

Carl Benjamin Brink - *Carriage Services, Inc. - CFO, SVP and Treasurer*

Thank you, Viki. For the third quarter, Carriage Services revenue increased 1.5% to $61 million. Total Field EBITDA declined 5.9% to $23 million. Adjusted consolidated EBITDA declined 17.4% to $14.1 million, and adjusted diluted earnings per share declined 46.5% to $0.23 a share versus the third quarter of last year. Year-to-date revenue increased 4.2% to $193.1 million. Total Field EBITDA remained flat at $77.8 million. Adjusted consolidated EBITDA declined 6.5% to $51.2 million. Adjusted consolidated EBITDA margin declined 310 basis points to 26.5%. And adjusted diluted earnings per share declined 23.4% to $0.98 per share. Third quarter and year-to-date results were negatively impacted by a decline in Cemetery preened property sales, declining margins in our Acquisition Funeral home portfolio and higher-than-expected overhead expenses. Year-over-year results also compared unfavorably due to an increase of over 1 million in our GAAP diluted share count related to dilution from our outstanding 2.75% convertible notes and the absence in the favorable $1.1 million discrete tax adjustment we had in 2016.

In our same-store Funeral segment, year-to-date revenues increased 1.9% on an almost 1% increase in the number of families we served, while same-store Field EBITDA increased 2.2% to $46.1 million, and Field EBITDA margins remained flat at 38.6%.

Our Acquisition Funeral Home revenue has increased 42.9%, while Field EBITDA has increased 30.5% in 2017, primarily due to the 6 Funeral Home businesses we added in the second half of last year and the continued growth in the businesses that partnered with Carriage between 2013 and 2015.

Year-to-date, Acquisition Funeral Home EBITDA margins declined 360 basis points to 38.5%, primarily due to the margin performance of some of the businesses that were acquired last year. In the remainder of our Acquisition Funeral Home portfolio or the businesses that joined Carriage prior to last year, we have seen revenue growth of 2% and Field EBITDA growth of 4%, with Field EBITDA margins of over 43%.

We are confident that these businesses will show improved Field EBITDA margins as we move into 2018. Based on our history of integration, the current revenue trends in each business and the progress that we have seen already been made.

Revenue in our Cemetery segment has declined $1.6 million, while Cemetery Field EBITDA has declined 17.7% or $2.2 million. The declines in Cemetery revenue and Field EBITDA are entirely related to the 10%, or almost $2 million, decline in Cemetery preneed property sales.

Our year-to-date Cemetery performance also compares unfavorably to 2016 due to approximately $300,000 of preneed sales loss at 5 Cemeteries in Texas and Florida that were impacted by the hurricanes as well as our inability to duplicate the almost 400,000 in private estate sales we had last year. Over the course of the year, we have conducted a thorough review of our Cemetery portfolio and believe we have made the necessary changes in local sales leadership and have the right inventory in place to demonstrate significantly improved Cemetery sales in 2018.

Financial revenue and EBITDA declined year-to-date due to lower realized cemetery perpetual care income and a lower value per maturing preneed funeral contracts in the third quarter. I will now turn the call over to Mark Bruce, Carriage's Chief Operating Officer, for further discussion of our operating results. Mark?

Mark R. Bruce - *Carriage Services, Inc. - COO and EVP*

Thank you, Ben. Our consolidated results for the 3 months and 9 months ending September 30, 2017, do not meet our expectations for high performance. We're encouraged by the underlying trends around our same-store Funeral operations and progress in our Cemetery sales and acquired Funeral portfolios.

Same-store Funeral operations. Year-to-date, we have more businesses growing same-store Funeral volumes, which is a number of families served in a particular business, which we define as market share. This represented year-to-date as same-store Funeral revenue is up $2.28 million and same-store Funeral EBITDA is up $992,000.

Normally, when we have this kind of revenue growth, we expect more margin expansion. So let me explain.

The main focus for our Standards Operating Model is market share, which we believe is tied to having the right Who people in every role of the business, and when well led, produces revenue growth and high and sustainable operating margins.

Over the past 18 months, we looked at our existing portfolio of same-store businesses for opportunities to organically grow revenues. We then began a process of declustering businesses in 10 markets. This -- that is, we added a Managing Partner into a business that may have been part of a group of 2 or more businesses and previously led by a single Managing Partner. We have found that the introduction of a Managing Partner into a specific business is the best way to grow market share. In making these investments, we understood that we may miss, in the short term, salary and benefits and EBITDA standards as we work to grow contract volumes and revenues. We've made these investments across our portfolio with impressive, not perfect, results, and believe that these decisions have clearly led to our improvements in year-to-date contract volume and revenue growth as we see evidence across our portfolio of local market share gains, driven by our high-performance Managing Partners and their teams.

From a standards perspective, which is how we look at our businesses, through September, we've approximately 57% of our same-store Funeral businesses achieving market-share standard compared to 44% in the same period of 2016.

This translates, as described in the earnings release, on a comparative basis, adjusting for 2 small divestitures we made last year and the decision to end a contract with a local coroner in a major metropolitan market, our year-to-date same-store Funeral contract volume and revenue have both increased 3.1% versus 2016, and we believe is a result of having more 4 (inaudible) leader managing partners in more businesses. As we stated in our 2015 shareholder letter, we expect acquired businesses to convert 35% to 40% of incremental revenue into EBITDA, and over time, develop the attributes of our same-store businesses and convert 60% to 70% or more of incremental revenue into EBITDA.

While our newly declustered businesses may convert incremental revenue into EBITDA at margins more akin to acquired businesses, we expect this to be short term and trending over time to be consistent with our same-store performance.

Acquired Funeral operations. Current performance weakness in our acquired Funeral portfolio is directly attributable to 3 businesses acquired in 2016 and not yet fully integrated under our Being The Best standards operating model. These are new metrics, and it takes time for local leaders to internalize, practice and continuously improve as their performance is now being measured against high-performing peers. Progress is being made in these businesses which have strong local presence and great people. We have every expectation of improved performance in 2018.

Cemetery sales. Consistent with our focus on First Who, Then What, in late May of this year, we added executive level Cemetery sales leadership talent, with Kevin Doherty joining our team as a regional partner for the Central. In addition to Kevin's Funeral operating skills, he possesses 3 decades of Cemetery sales experience at all levels and was most recently a senior leader for a public funeral cemetery company. In addition to his duties in the Central Region, Kevin is involved in all Carriage cemeteries, and he has assisted in the assessment and upgrading of Cemetery sales leadership talent over the past 90 days, resulting in the placement of new sales leadership in all 3 regions of the company: 3 in the central, 2 in the West, 1 in the East.

We are encouraged by the progress being made by the sales leadership at Rolling Hills, our largest cemetery, as a number of preneed and determine right sales by our family service and advanced planning teams are up over 2016 performance on a comparative basis for the 3 months ending September 30, 2017.

We believe that the momentum and addition of sales leadership talent started in the second half of 2017 positions us well for 2018, and that our performance at Conejo Mountain Memorial Park, Bunkers & Woodlawn cemeteries, Garden of Memories in Metairie, Kent-Forest Lawn Cemeteries, Rolling Hills Family Service, Rolling Hills Specific Rim and Los Gatos Memorial Park will no longer have to carry our underperforming cemetery sales teams.

To conclude, while consolidated results did not what our expectations for high performance, we're encouraged by the underlying trend throughout our same-store Funeral operations and progress in our Cemetery sales and acquired Funeral portfolios.

Now, as is our tradition, it's my honor to recognize the following High Performance Hero Managing Partners leading us during the third quarter on our Good to Great Journey that never ends. Frank Forastie, Forastiere Funeral Homes, Springfield, Massachusetts; Sue Keenan, Byron Keenan

Funeral Home & Cremation, Springfield, Massachusetts; Ken Duffy, John E. Day Funeral Home, Red Bank, New Jersey; Todd Muller, Muller-Thompson Funeral Chapel & Cremation Services, Naples, Florida; Rohaema Smith, Baird-Case Funeral Home & Cremation Service, Tamarac, Florida; Randy Valentine, Dieterle Memorial Home & Cremation Ceremonies; Montgomery, Illinois; Jeff Moore, Sterling-White Funeral Home, Crosby, Texas; Andy Shemwell, Maddux-Fuqua-Hinton Funeral Homes, Hopkinsville, Kentucky; Joseph Newkirk, Wilson & Kratzer Mortuaries, Richmond, California; Alan Kerrick, Dakan Funeral Chapel, Caldwell, Idaho; Ken Summers, P.L. Fry & Son Funeral Home, Manteca, California.

Ben?

Carl Benjamin Brink - *Carriage Services, Inc. - CFO, SVP and Treasurer*

Thank you, Mark. Overhead expenses have remained essentially flat on a year-to-date basis at $27 million or 14% of revenue. Over the past few years, we have made the decision to simplify our non-GAAP reporting, which makes year-over-year comparisons a little more difficult. Our year-to-date overhead expenses included approximately $1.6 million of termination consulting and other onetime expenses that we have -- would have historically included in non-GAAP add-backs. We have experienced increased overhead spending in our support departments during the first 3 quarters of the year, particularly in building out our Corporate Development team and specific improvements to our information technology platform. We believe that these were important areas for investments that will enable us to provide best-in-class support to our local businesses and their teams, along with improving our ability to execute our strategic acquisition model over the coming years. As we move into the fourth quarter and into 2018, we expect a rate of growth in our overhead to moderate and a long-term trajectory of lower overhead cost as a percentage of revenue to continue.

Our year-to-date adjusted free cash flow has declined $9.8 million to $24.9 million. The decline in adjusted free cash flow can be attributed to an increase in cash overhead expenses, increased maintenance capital expenditures and an increase in cash taxes through the third quarter.

During the third quarter, we repurchased approximately 675,000 shares at an average purchase price of $24.28. We have repurchased 22.6 million shares or 14% of our shares outstanding since the second quarter of 2015. Yesterday, our Board of Directors authorized an additional $15 million, which brings our total availability under our share repurchase program to $26 million. Additionally, our board continues to demonstrate our commitment to a balanced approach to shareholder value creation by announcing a 50% increase in our dividend to $0.30 cents annually.

We currently have 4 businesses under signed letter of intent, which we anticipate closing within the next 90 days.

With these acquisitions, we will enter into 1 new state and 3 new strategic markets for Carriage. We are focused on executing the specific integration plan for each business and look forward to having these high-quality businesses join the Carriage family over the coming months.

Based on the closing dates of these 4 acquisitions, we are raising our rolling 4 quarter adjusted diluted earnings per share outlook to $1.73 to $1.77.

In late August and early September, large portions of our operations in South Texas and Florida were impacted by the Hurricanes Harvey and Irma. I want to publicly express the gratitude of the entire senior leadership team to all of our employees who worked so hard to support their local communities and our employees throughout the storms. Given the magnitude of the storms, we feel blessed that the impact to our employees and our businesses wasn't any worse. We experienced no significant structural damages to our facilities, and the largest business disruption came in our cemeteries in Corpus Christi, Texas, and Fort Lauderdale.

In total, we expect that we'll incur between $750,000 and $1 million for insurance deductibles, cleanup and repairs in supporting our affected employees. We expect the majority of this spending to be complete by the end of the year.

And finally, I would like to acknowledge all of the employees at the following businesses who exemplify Carriage's high-performance culture while dealing with natural disasters and other tragedies in the third quarter. They are truly our super High Performance Heroes for the quarter.

The businesses are: in Florida, Baird-Case Funeral Home in Fort Lauderdale; Baird-Case Funeral Home in Tamarac; Conrad & Thompson Funeral Home in Kissimmee; Evergreen Cemetery in Fort Lauderdale; Fuller Funeral Cremation Service, Naples; Fuller Metz Cremation and Funeral Services, Cape Coral;Harvey-Engelhardt Funeral & Cremation, Fort Myers; Lakeland Funeral Home and Memorial Gardens in Lakeland, Florida, Lauderdale Memorial Park in Fort Lauderdale; Muller Thompson Funeral Chapel in Naples; North Brevard Funeral Home in Titusville; Oaklawn Memorial Gardens in Titusville; Stanfill Funeral Homes in Miami; and Sunset Memorial Gardens in Fort Lauderdale. In Texas, Allison Funeral Home in Liberty; Bradshaw-Carter Memorial & Funeral Services in Houston; Crespo & Jirrels in Bayton; Cypress Fairbanks Funeral Home in Houston; Rose Hill Memorial Park in Corpus Christi; Corpus Christi Funeral Home; Seaside Funeral and Memorial Park in Corpus Christi; Schmidt Funeral Home in Katy, Texas; and finally, Bunkers Mortuaries in Las Vegas, Nevada. Thank you all for all of your amazing work.

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

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

Thank you, Ben. Very proud of our people, our leadership, leaders in our businesses' support center and our employees across the country, especially those who've dealt with such adversity in the third quarter.

I do want to leave -- just say a couple of things that are personal. Haven't said much on this call, and you can see why, we have great people that are leading the company. And this quarter has been unusual in the fact that we had our board meeting yesterday. We had a board dinner the night before; I chaired the dinner. I announced to -- we always have our senior leadership team and our board together. I announced that I would have very little participation in the meeting the next day for the first time. And in preparing for this meeting, we send out board books, of course, and I have always had a board letter introducing the major topics for that quarter. This was the first quarter in the history of the company I never inserted a board letter. My assistant was fielding calls, I happened to walk in and it was one of our board members going, we didn't get Mel's board letter. She said he didn't do a board letter for the first time I worked for him, 11 years. And I happen to be standing there, and I say, look, Wendy, tell whoever that is, I didn't do a board letter because I wasn't sure anybody was reading them and it was a test. And of course, they all laughed about that. The meeting started 8:00 the next morning, that's yesterday. I entered the meeting at 11:30, for the last 30 minutes. And I'm told by my board it's the best meeting we ever had. I'm going. Thank you. I just got a promotion. That means I only have to come for 30 minutes. That's where this company is. And I wanted all of you to know about it. With that, I'll open it up for questions.

QUESTIONS AND ANSWERS

Operator

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

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

So the quarter's performance, to me, and correct me if I'm wrong, looks like just kind of a continuation of the trends in Q1 and Q2. A small number of cemeteries affecting Cemetery performance, a small number of funeral homes affecting Funeral Home margins for the most part. This is just taking a little longer than you or I expected to get turned around. You have increased guidance going forward. I know a component of that is due to the LOIs. But you are expecting improvement in your current operations, correct?

Carl Benjamin Brink - *Carriage Services, Inc. - CFO, SVP and Treasurer*

Yes, Alex. That's correct. I think you hit the nail on the head. The third quarter was a continuation of trends that we had seen earlier in the year. I think what you should take from the call and then particularly in Mark's comments is that the underlying trends that we're seeing are -- there is a lot of very positive things that we're seeing. And we expect, moving forward, that we will return to our previous level of performance expectations. And that's reflected in the rolling 4 quarters and it's what we see in our business today.

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

Got you. And then -- because it looks like over the last couple of quarterly conference calls and our private conversations that the issues have been identified and addressed. It just takes a little while to work itself through the system.

Carl Benjamin Brink - *Carriage Services, Inc. - CFO, SVP and Treasurer*

Exactly, exactly. I think Mark and the entire operating leasing team, and he can speak to it if he chooses, is that we know where the -- what with issues are. We've identified them. We've made changes where we feel like we've had to make changes, and we're allowing those individuals who own those businesses to continue to improve and perform and support them as best as we can. And Mark, do you have anything else?

Mark R. Bruce - *Carriage Services, Inc. - COO and EVP*

That's exactly correct, and it takes time to get traction...

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

Just a little editorial commentary, Alex. Mel. I wrote all last year, and especially in the shareholder letter, about adjusted consolidated EBITDA margin per dollar revenue is how we -- is a metric we pay a lot of attention to here. And it approximates roughly the cash earning power of the enterprise and our consolidation and operating effectiveness as a company. I wrote about it because we achieved 29.7%, and I said, look, this is an industry and company milestone that has never been done before. So when Dan and Viki would go out in -- on roadshows and come back, I'd say, what did people say about that? They'd say, well, how much will it increase over the next year or 2? And I told everybody as this year went on, I said, I think we've actually spoiled miss-to-market because people began to think this is not that difficult to do. And if you're going to have the passage of time and more acquisitions, it's just going to go higher. Well, this is not easy to operate at this kind of level in this industry with these businesses. And if somebody went out and toured around, this is not easy. And yes, sometimes we take longer, we surprise ourselves on integration of a really good franchise. And it just takes longer in some cases and then we hit a patch, but there's nothing broken. There's nothing broken about the idea, the concept, the leadership, the people. And I said it in the press release yesterday, I said it yesterday. Our board said it to me after the meeting. The company is in great shape. In the next 5, 10 years, we'll look -- the outlook is incredible. So that's where we are.

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

Good. I appreciate that additional color. Moving on to the LOIs that you signed up. I know you guys have been working hard on these. You did note in the press release that these 4 LOIs are in addition to the 3 previous LOIs. What's the status of those 3 previous LOIs. I realize there's a lot of moving parts in closing an acquisition. Sounds like the new 4, you have a certain level of conviction that you're going to close those within 90 days. Have the other 3 gone away? Or it's a just too difficult to time them at this point?

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

No. After the last conference call and mistakenly mentioning 3 LOIs, I can't remember what I said about them, but I got a call from a big investor that you know, well, Mel, a couple of months have gone by and I haven't seen a press release on any of those LOIs. I said, well, I don't think they're going to close. I kind of got upset about some things going on, and there has to be mutual alignment to close a transaction. But this is going to be a long-term mutually rewarding relationship with both parts -- both parties as partners. That's how we view it. Contributing in these metrics. They have to own the metrics and understand the obligation to perform. If that's not true, you shouldn't close. At the peak of the market in the '90s, I did something really stupid. I had a broker call me, he's not active anymore or I wouldn't bring this up. But he had been an intermediary on a large business in the west. And I was so grateful because this is an incredible business today and had a reputation. And I thought he had something to do with the owner picking us. Well, it turned out afterwards, he had nothing to do with it. He was just hired for a small fee to present it. Well, he called me and said, "Mel, I'm going to write a book about -- for the industry, how to sell your business. And since I just did this big transaction with you, I'd like you to write one of those things on the front, saying how great it is and how great I am and all this." So I said, "Okay. I'm so grateful." I did -- I should have asked for a draft of the book. It came out and the title of the book was Exit Laughing. And it was about how the seller can snooker the buyer. All the tricks of the trade to cover up issues, trends, this and that. And it was just -- it was a skunky, sleazy thing, and I promoted it. I learned the hard way, if you don't have alignment and if you don't understand what's going on in these businesses with family members, especially the bigger family generational one, you shouldn't close until you do. That's the case here. That doesn't mean they won't close. It means we're still working on that -- on family dynamics and mutually rewarding alignment and accountability and responsibility for performance. So we don't have the integration problems, like what you're seeing. They haven't gone away. I do expect them to come back, but they won't come back with the same attitude.

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

Got you. So looking at the 4 new LOIs again, how would you -- you said 1 was in a new state, 3 were in new strategic markets. How would you characterize size? Average size? Larger? I know you go for a larger acquisitions these days?

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

Two are larger and 2 are growing. We hope to be larger.

Mark R. Bruce - *Carriage Services, Inc. - COO and EVP*

Alex, I think they fit exactly with the profile of businesses we've been targeting over a long period of time with our strategic acquisition model. And I -- as we close and announce them, you'll get further color.

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

I think all of these are very exciting. They're very exciting markets, lots of opportunity, lots of competitive positioning where the businesses we're affiliating with, in our view, have the advantage.

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

Great. And then just a couple of follow-up questions on the income statement. You singled out some termination costs, consulting costs, other onetime costs that would have in the past been part of adjusted EBITDA, but they are not added back in adjusted EBITDA today as adjusted EBIDTA and consolidated EBITDA start to look more like one and other. Can you do that for the quarter as well? You said 1.6% for the 9 months (inaudible)

Carl Benjamin Brink - *Carriage Services, Inc. - CFO, SVP and Treasurer*

Yes, 1.6% for the year, and I'll get back to you on the quarterly number. It's been trending down over the years. So I'll get back to you on that number.

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

Okay, good. And then last question. Can you quantify the impact of the hurricanes on Q3 results revenues and earnings, or not?

Carl Benjamin Brink - *Carriage Services, Inc. - CFO, SVP and Treasurer*

Yes. So I think any expenses that we've incurred or we kind of expect to incur were included as a non-GAAP add-back. That includes cleanup costs, any money we used to support our employees, and that we will continue to do, and any insurance deductibles. The -- I think in terms of business interruption, we had about $300,000 of lost revenue in 5 cemeteries in Texas and Florida as what we estimated as kind of business interruption, and -- so that was really the impact. I think, overall, it's probably going to be -- probably close to that $750,000 number of expenses we're going to have through the end of the year related to the hurricanes.

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

And you just take those expenses as incurred and it's an add-back to adjusted, right?

Carl Benjamin Brink - *Carriage Services, Inc. - CFO, SVP and Treasurer*

Correct, yes. That's something -- we figure this is something we don't normally get hit with Category 4 hurricanes, so this is a nonrecurring item.

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

Very legit, I agree.

Carl Benjamin Brink - *Carriage Services, Inc. - CFO, SVP and Treasurer*

Exactly, exactly.

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

So my takeaway is, we have raised guidance, we have an increased share repurchase, we have raised dividend. Q3 was a continuation of Q1 and Q2. And there's reasons to be optimistic about the future. We'll be watching closely.

Operator

Your next question comes from the line of Christopher McGinnis of Sidoti Company.

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

I just also want to say, thanks for including all the, kind of, the extra color in the release last night to kind of highlight strengths of what's working at the company and then kind of highlighting a little bit more of kind of just the issues around the 2 separate, kind of, incidents that are going on. Just a couple of questions. One, just on the Managing Partner comment around the -- adding it in those 10 regions or those 10 kind of instances. Can you just talk maybe a little bit about what the intention is there? And how does the managing partner change the dynamic that's currently in those regions?

Mark R. Bruce - *Carriage Services, Inc. - COO and EVP*

It changes the dynamic in a very -- this is Mark, in a very specific and powerful way. They now become an advocate solely focused on growing the number of families served in a specific business. The market share is everything with respect to the operating leverage of these businesses. That's where the revenue comes from, that's where everything is produced. So the ability to attract and serve more families through every individual operating business is our opportunity to organically grow revenues and -- by extension of high, sustainable margins.

Carl Benjamin Brink - *Carriage Services, Inc. - CFO, SVP and Treasurer*

Yes. Chris, we have -- Mark and the team have a -- he doesn't want to talk about it, but they have a very long track record of doing exactly this, which is taking businesses, declustering them, making more profits centers, empowering more Managing Partners to focus on 1 individual location and grow that business over a long period of time. We expect in those businesses, and we've seen it here, that you will have short-term increase in costs around salaries and benefits with people because you have that new leader in place. But I'm not trying to toot their our own horn here, it's about 100% of the time you will see growth in that business once we -- in both business, once we decluster them. So we're excited about the changes that have been made there.

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

Just a little more there. Chris, I appreciate, that's a great question. There are 2 major thoughts about consolidation. One thought is that there are a lot of places in America, and as you get bigger and more dense on a market, you cluster your buying power. You really go for efficiency and higher margins. We thought that was a way to do it as well in the '90s. And I wrote about all of this in the last shareholder letter. And then when it got to the crash in '99 and the early 2000s, getting into 2003, we were losing market share by overmanaging businesses in bigger markets and smaller markets using a budget and control model. So we went in a different direction at the end of '03. And I wrote about that. And I wrote and recommended people could read research on this concept called Beyond Budgeting written in 2003. There was also an article in the Harvard Business Review in March of '03 about this. Just read that article, you will see. It says this concept has been tried in Scandinavia primarily, not in America. And that, over time, it leads to more profit centers, being more entrepreneurial and growing organically rather than maximizing profits through scale and top-down ideas and management. We have declustered from the get-go without knowing it. First, in Chattanooga, which was our first big group. That was in '93. Now, we are only learning this. But once I met the cluster manager and then I met managers, I'm going -- I think the managers are sharper than the cluster manager. Why do we need a cluster manager? That's how simple this started. Then we declustered Roanoke, Virginia so there were 4. We declustered later California -- in Northern California, Richmond, California, we declustered Springfield Massachusetts, bigtime, a couple of times. We declustered here. We declustered Naples, Florida more recently. Every time we do that, it leads to organic growth, and over time, margins that come up into the range of the margined that I explained in the Standards Operating Model in the shareholder letter in that groupie. So there has been no exception or this has not worked over a year or 2 or 3, and it leads to more ownership mindset locally because these are subgroups. You got a major market, that's not a market in the funeral business. There's so many little subgroups. And if you can define a subgroup and focus single Managing Partner who owns it, sometimes they will be competing with others businesses of ours that overlap. It doesn't matter. This works. And the proof is in the pudding, in the history of the company over the last 5 years, not just the last 9 months. So what Mark has done recently is to do that again, and we will probably do that in one of the businesses we bought in '16, just not right now. We will probably do that in some of the businesses we are going to close in the next 90 days, but not in the next 60 or 90 days or maybe not in first year. You have to get acclimated in the framework with the ideas and concepts, and the owners have to see this is a better way. And so this is not going to change, and to have a deeper understanding of it by studying some of these ideas and concepts I highly recommend. It's all there.

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

I appreciate that color. That really helps. And it may answer my second question as well, just around the acquired funeral homes that there are some issues. I guess, one, is there anything specific that you can mention that you are changing there or implementing to help them in following to the standards or a grasp of the standards a little more easily? Or -- and then also thinking about it in terms of the LOIs you have with the 4 that are coming in. How do you better prepare them for the standards, following what happened with the 2016 acquisitions?

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

The biggest issue we have on any business, and this is true in the industry as well with people. We have 2 people standards. When I put those in '03, everybody thought I was crazy. It changed the company. It will change every business that we acquire. Right quality of staffing continuous upgrading of staff. That will happen. But that happens more slowly in some cases as the ownership -- home ownership and the managing partners realize that their peers of similar size businesses, similar average revenue profile, we call it client family revenue profile, run their businesses effectively. And it depends on full time, part time, how you schedule. There is so much to that, you can't then just go in with a SWAT team and say, fire Joe, been here 50 years; and Sue, been here 40. You can't do that. And you have to do it over time where the circumstances are such that if you did something stupid, you're going to make people mad and you lose market share. So this has to be an integration, that is why it's not just efficient soon.

We like wisdom from experience years, especially wisdom from experience where we made mistakes and did stupid things that hurt the business.

Operator

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

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

We thank you for your attention to our press release. We thank you for caring. We thank you for being a shareholder. We thank you for wanting to know more. We thank you for your questions. And we look forward to reporting our year-end and early part of next year. Thank you.

Operator

Ladies and gentlemen, this concludes today's conference. Thank you for your participation and have a wonderful day. You may all disconnect.
